

# An Unfinished Dream: Yoshisuke Ayukawa's Economic Diplomacy Toward the U.S., 1937-1940

(鮎川義介の対米経済外交：  
1937年～1940年)

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SUMMARY IN JAPANESE: 日中戦争勃発後、日米関係は急速に悪化していったが、日産財閥の創始者で満州重工業の総裁でもあった鮎川義介は、日米経済相互依存を通じた日米戦争回避の試みを太平洋戦争勃発前まで続けた。本論文は、1940年までの彼のそのような活動のなかで重要なエピソードを3つ紹介し、考察する。最初のエピソードは、極東におけるユダヤ人難民問題を関連づけながら2人のユダヤ系アメリカ人のビジネスマン(マックスウェル・クライマンとクーン・ローブ商会パートナーのルイス・ストロース)と米国資本の対日本・満州導入について交渉した話である。次のエピソードは、フランツ・モーデルハンメルというオーストリア人のビジネスマンを介して推進した米国資本の対日満導入交渉についてである。最後に取り上げるのは、重機械の製造会社メスタ社と満州重工業との提携交渉である。本論文は、これらの紹介を通じて、鮎川の抱いていた日米経済提携構想の実現の可能性が、1938年から1939年においては比較的高かったことを示し、前述の3つのエピソードの失敗要因を分析する。

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## Introduction

In 1936 Kanji Ishiwara, the instigator of the Manchuria Incident, had envisioned building a self-sufficient military industry in Manchukuo by creating heavy industries and their basic industries based on a comprehensive, planned economic program. Both the Five Year (Original) Plan and the Revised Five Year Plan assumed that material resources, capital, labor, and technology could all be easily acquired. Unfortunately, Manchuria faced inadequate supply in all four areas. Particularly noteworthy was the fact that in spite of the goal to create a self-sufficient military industry in Manchuria, the Original Plan did not bother considering the nurturing of a machine tools industry, the industry most necessary to create other industries. The Plan incorporated a major assumption of Yoshisuke Ayukawa, president of the Manchuria Industrial Development Corporation (*Manshu Jyukogyo* or Mangyo) and founder of the Nissan conglomerate, that machine tools would be imported from Japan and Western countries, notably from the U.S. and Germany. In the Revised Plan the machine tools industry was included as one of the industries to be created in Manchuria, but no serious consideration was made until 1942. By then the economic difficulties were too great to make any substantial progress. Both Japan and Manchukuo were heavily dependent on imported machine tools as well as other sophisticated technology from Europe and the U.S.<sup>1</sup> Because economic recovery in Japan decreased Japan's ability to meet Manchukuo's industrial needs, the latter became much more dependent than Japan on imports from Europe and the U.S. for its accelerating industrialization after 1937, the year Manchukuo launched its five year plan. Between 1938 and 1940 Manchukuo was much more dependent on capital and technology from America than it was dependent on Germany or any other European country.<sup>2</sup> America's exports to Manchukuo were booming during that time at levels much higher than those between 1932 and 1937.<sup>3</sup> After the outbreak of World War II, Japan and Manchukuo became even more dependent on American capital and technology.<sup>4</sup>

Although Japan and Manchukuo seemed to be in an economically disadvantageous position in their relations with the U.S., that was not necessarily the case. At the time Ayukawa embarked on his mission to bring American capital into Manchukuo, the United States was in the midst of the so-called "Roosevelt Depression." This recession was viewed by President Franklin Roosevelt and

many other observers at the time as the direct result of cutting government expenditure in the midst of an economic recovery. Although the national economy had recovered close to the level shortly before the 1929 crash, the industrial production index fell from 117 in August 1937 to 76 in May 1938. As William E. Leuchtenburg describes, “[i]ndustrial activity fell off with the most brutal drop in the country’s history. By December [1937], *The New York Times* Business Index had plunged from 110 to 85, wiping out all the gains made since 1935. In the three months, steel fell from 80 per cent of capacity to 19 per cent.” By March 1938, unemployment from the recession reached four million and the Federal Board index, at 79, was only 10 points higher than in 1932.

Because of the sluggish state of the economy for almost a decade, one body of opinion at the time, a pessimistic one, was that the American economy, now without an underdeveloped West, no longer had an opportunity for limitless economic expansion. In spite of this pessimism, the underdeveloped regions of America, including the Western states, particularly California, and the Southern states, namely Texas, underwent rapid industrial transformation in the 1930s. They were one of the primary beneficiaries and targets of massive public investment projects under the New Deal. In the 1930s the New Dealers had built roads, irrigation, and dams and pursued government financing and other public works projects at a greater scale than the previous administrations. As they built these infrastructures, the New Dealers promoted industries in these regions.

But in 1937 these regional developments did not stop another terrible recession. Faced with this downturn, the New Dealers of the late 1930s decided to pursue programs to increase government spending and increase state regulation of the economy that included anti-monopoly measures to realize “efficiency in production and distribution” so that mass consumption could be stimulated by keeping consumer prices from inflating.

Although another depression after the aforementioned one could have finished the New Dealers politically, the outbreak of World War II saved them. The war boom which became apparent in 1940, coupled with increased government spending, allowed an end to a slow and painful recovery since the summer of 1938 and ultimately pulled America out from the Great Depression by the middle of 1941.<sup>5</sup>

When considering the American export boom to Japan and Manchukuo and

the severe recession in the U.S. in the late 1930s, it was natural that some major American business interests between 1937 and 1939 incorporated into their business risk calculations for the Far East the fact that Japan might succeed in subjugating the Nationalist regime. If Japan seemed to gain full control over China, should not American business be "realistic" and pursue greater economic cooperation with Japan? The outbreak of World War II gradually drew away the attention of American business interests from considering U.S.-Japan economic cooperation because the war stimulated gradual economic recovery. This trend was further enhanced after Japan signed the Axis Pact in September 1940.

In his economic diplomacy, Ayukawa ultimately aimed to avoid a U.S.-Japan war through greater economic interdependence between America and Japan's formal and informal empire. Ayukawa's business negotiations show that between 1937 and 1939 the chances of successfully negotiating with American economic interests depended on how these interests perceived the direction of the Sino-Japanese War and the American government's regulation on trading with Japan and Manchukuo. Furthermore, as discussed in the next section, the Jewish refugee question in the Far East provided an opportunity for a possible business arrangement that might partly solve the needs in Japan's war economy and the plight of the European Jews, a major concern for many influential Americans, notably Jewish-Americans. As demonstrated below by Mangyo's business dealings related to the activities of Maxwell Kleiman and Franz Moedlhammer and Mangyo's negotiations with Mesta Machine, at times Ayukawa faced the possibility of success, partly because major American firms and banks entertained quite seriously closer economic cooperation with Japan and Manchukuo in 1938 and 1939, and partly because of the Jewish refugee question in the Far East.

### **Japan and Kuhn, Loeb & Co.: Lewis Strauss, the Maxwell Kleiman Project and the Jewish Refugee Question in the Far East**

Around December 1937 or January 1938, Kuhn, Loeb & Co., a major Wall Street investment bank, was approached by Maxwell Kleiman, a New York businessman whose successful consulting work in 1933 for the Japanese shipping company, N.Y.K., won the trust of its president, Kenkichi Kagami. His

affiliation with Kagami created many opportunities to establish contacts in the Japanese business world, including Ayukawa.

Kleiman was a self-made man. Shortly after his birth near Kiev in 1904, Kleiman's parents, in order to escape Russia's anti-Semitic persecutions, moved the family to New York's Lower East Side in 1910. After becoming a naturalized American citizen in 1921, economic hardship befell his family from the mid-1920s. In spite of this situation, Kleiman, without a high school degree, succeeded under the tutelage of a Jewish businessman, David Kamerman, at Kamerman & Witkin, a major tax consulting firm in New York. Kleiman knew and was apparently trusted by Chairman Walter P. Chrysler of Chrysler Motors and executives at Hudson Motors Corporation and International Minerals & Metals Corporation. It was in the midst of this successful career that Kleiman departed for Tokyo and met Finance Ministry officials who in turn introduced him to Ayukawa. Kleiman told Ayukawa of his aforementioned American business connections and argued that he could mediate loans to Mangyo from Kuhn Loeb and other Jewish financial institutions if Manchukuo would agree to open up its doors to Jewish refugees from Germany.

Ayukawa showed much interest in Kleiman's proposal not only for economic reasons but also because of its possible positive influence on American foreign policy towards Japan and Manchukuo by Jewish-Americans. Ayukawa believed in Jewish economic power, particularly in the U.S. and Britain, and he wanted to use it for Manchukuo's industrialization.

On the latter point, the Japanese authorities were aware that many of the Jewish refugees from Europe had relatives in the U.S. and were seeking their assistance to obtain permission from the U.S. government; they were also aware that many grants-in-aid came from various organizations in the U.S. to these refugees in Shanghai. The Japanese authorities thought that helping the Jewish refugees might bring financial and material support for Japan's industrialization and war effort against China. Even if this failed, at least the measure might help alleviate the rising tensions with the U.S. through the goodwill of American Jews who represented a very influential voting bloc in American politics. By October 1938 there were moves in Shanghai to coordinate the activities of such groups as the Navy, Army, South Manchuria Railway, and the Consul General so as to conduct feasibility studies of winning Jewish capital, such as the one from the Sassoons in Shanghai, and of using Jews to help Japan's industrialization.

As with many other Japanese, the image of a Jewish-American investment banker at Kuhn, Loeb & Co. persisted in Ayukawa's mind; Jacob Schiff during the Russo-Japanese War had helped finance a major portion of Japan's war against Russia. Ayukawa was also aware that many of the Jewish refugees seeking help possessed knowledge and skills which would benefit Manchukuo's industrialization; he himself had letters and documents of those who were asking their relatives and Jewish friends working in Japan at the time for a special permit from the Japanese authorities. He had to act very cautiously, however, since Germany had recently recognized Manchukuo, and Germany and Japan enjoyed amicable relations.<sup>6</sup>

Since Japanese policy was sympathetic towards the plight of the Jews, Ayukawa's opinion was shared by the Japanese leaders. In Manchukuo, the Kwantung Army pursued a policy since 1933 of treating Jews well for pragmatic reasons. After Mangyo was established, the Kwantung Army ordered the S.M.R. to do research on the Jews because the army supported the policy of bringing in Jewish refugees and use Jewish economic power for Manchukuo's industrialization.<sup>7</sup> In Japan, this policy received official recognition on December 6, 1938 at the Five Ministers Conference attended by Prime Minister Fumimaro Konoe, Finance Minister Shigeaki Ikeda, Foreign Minister Hachiro Arita, Navy Minister Mitsumasa Yonai, and Army Minister Seishiro Itagaki. The Conference concluded that though Japan's "diplomatic ties with Germany and Italy . . ." created difficulty in "embracing the Jewish people," Japan had a "declared policy of racial equality, and their rejection would therefore be contrary to our spirit." Above all, Japan needed foreign capital and wanted to avoid alienating America. Therefore, Japan will treat "the Jews presently living in Japan, Manchuria and China . . . equally with other foreigners." Japan will also treat the Jews entering the country as any other foreigner visiting Japan. Finally, though Japan "will not extend a special invitation to Jews . . .," it will emphasize welcoming capitalists and engineers.

According to Kranzler this meeting "set the tone for the Japanese relations to the Jews for the next three years, and was to have a great effect on the flow of refugees from Austria and Germany." Kranzler argued "[t]he policy owes its creation not to the refugee influx, which by December of 1938 had hardly reached the 1,000 mark, but to the earlier Jewish residents of the Far East . . . because plans for it were developed and formulated when the number of refugees entering was hardly more than a trickle." Consequently, "the beneficia-

ries of this benign policy” were “the large contingent of refugees streaming into Shanghai during the first half of 1939, and the smaller group that came through Japan in 1941.”<sup>8</sup> Shanghai eventually had more Jewish refugees during World War II than their combined total in Australia, New Zealand, Canada, South Africa and India. Although Japan did promote anti-Semitism, it did not persecute the Jews but instead pursued an amoral, self-interested approach to use the alleged economic power of the Jews for Japan’s industrialization and political advantage in the U.S.<sup>9</sup>

In March 1938, Kleiman “received a request from Japanese friends in Tokyo,” presumably Ayukawa’s group, “to study the possibilities of arranging credits [of 30 to 40 million dollars] either on a short or long term basis” for Japan’s economic programs. Kleiman was aware that the State Department could pose an obstacle to a credit plan for Japan but he was also aware the Soviet Union had received American credits to purchase U.S. machinery and equipment during the years that the U.S. maintained a non-recognition policy of the Soviet state; and in spite of that country’s poor record in paying back foreign debts compared to the Japanese who were prompt in repayment, and in spite of the general tendency of Americans to dislike Communism, the U.S. recognized the Soviet Union in 1933. When considering this history, Ayukawa and Kleiman believed that they had a chance to secure American capital for Manchukuo.

Kleiman decided to approach Kuhn, Loeb & Co. through a friend, a banker by the name of Weiss whose father-in-law worked for Kuhn Loeb. Through his friend, Kleiman found out that it was impossible to float a Japanese or Manchukuo bond because of the current negative American sentiment towards Japan’s aggression against China. On the other hand, Kuhn Loeb was willing to discuss Kleiman’s proposal on the possibility of the investment bank extending credit for Japanese purchase of machines and equipment.<sup>10</sup>

Kuhn, Loeb & Co. seemed to have been interested in indirectly pursuing business with Japan, even though the company’s partner and *de facto* head, Lewis Strauss, clearly thought that it was impossible to do direct financial business with the Japanese. When Strauss received a letter in September from Tadao Wikawa, a Finance Ministry official and a good friend, he was not thrilled to hear that “the fall of Hankow would be the turning point of the present troubles” in the Far East and “[a] new born China, remodelled after U.S.A., will come into existence before long.” Although Wikawa asked Strauss to visit

Japan to discuss business, Strauss replied, as he had so often attempted to explain to Japanese envoys and financial commissioners, "Japanese public relations have not been successfully handled here" compared to the Chinese. Unless Japan could secure peace with the Chinese, Strauss stated his firm was unwilling to discuss business with the Japanese government.<sup>11</sup> Officially, Strauss undoubtedly supported the view of not providing Jewish support for Japan argued by Rabbi Stephen S. Wise, the president of the American Jewish Congress, a very influential organization in American politics.

Strauss had praised Japan's modernization of its leased area in Manchuria after his direct observations there in 1926. During his visit to Japan, Manchuria, and China in 1926, Strauss was deeply impressed by the industrialization in areas leased by the Japanese in Manchuria. In an internal report to his Kuhn Loeb partners in December 1926, Strauss had stated Japanese firms such as S.M.R., Mitsubishi and Okura had "simply transfigured the country and . . ." emphasized "[t]he remarkable contrast between living conditions in the Japanese Zone and outside of it in Manchuria proper . . ." as "the most convincing evidence of the desirability of Japanese control in that country." During this trip Strauss had met Ayukawa's brother-in-law, Fusanosuke Kuhara.

In spite of his positive view of Japan's modernization of Manchuria in 1926, why was Strauss willing to pursue informal talks with Ayukawa's group in 1938 when he was officially unwilling to discuss business with Japanese interests because of Japanese aggression in China? He was not motivated by profits but by his wish to save the European Jews from Nazi persecution. In the spring of 1938, meetings were held at the White House on the Jewish refugee question, but these ended with only expressions of concern; the U.S. at that time was in a severe economic depression and policymakers had to concentrate on other political priorities. Jewish business leaders such as Bernard M. Baruch and Lewis Strauss were part of an active movement in trying to find a homeland for these Jewish refugees.<sup>12</sup> China, including Manchuria, was one of the considered areas.

Kleiman went back to Japan in September, after spending many months in New York to work on a credit plan for Japan. Kleiman got in touch with Vice Finance Minister Sotaro Ishiwatari and through him got back in touch with Ayukawa. Kleiman now had a credit proposal that Kuhn, Loeb & Co. was willing to use as a guide to discuss business with the Japanese, though the company did not make any advance commitment. Kleiman, in his memoran-



dum submitted to Ishiwatari on September 22, stated that after numerous talks with Kuhn Loeb through Weiss between May and August, he and the investment bank agreed to start discussions. The guideline for this was that the Japanese side would designate or create a clearing house, preferably a prominent Japanese bank, to take orders from Japanese companies for machinery and other goods needed for Japan's industries. This clearing house would approach Kuhn, Loeb & Co. and submit the needed items. A prominent Japanese bank had to guarantee the ability of this house to pay back, and Kuhn Loeb would then approach the relevant American companies and explain to them the requests were from Japan and that the order was guaranteed by a Japanese bank. While asking these companies to possibly provide credit for the Japanese requests, Kuhn Loeb would discount the guaranteed notes offered in payment by Japan.<sup>13</sup>

By the end of 1938 Ayukawa was very interested in using Kleiman,<sup>14</sup> who continued his discussions with Kuhn Loeb because these were tied to the issue of the Jewish refugee question. Kleiman reported his preliminary meeting with Kuhn, Loeb & Co. in a letter to Ayukawa on February 7, 1939. He stated that though there was "a keen sympathetic interest on Kuhn, Loeb & Co.'s part," "the actual arrangement of the credit" will face "many barriers to overcome and of course many hurdles to jump."<sup>15</sup>

In April, Kleiman wrote to Ayukawa of his meetings with Strauss and other Jewish leaders. Kleiman "was quite surprised to have . . . Strauss . . . ask me as to the intention of the Japanese Government with regard to Jews" and "whether or not Japan would follow Germany in her stand towards Jews." In reply, Kleiman referred to the report by *The New York Times* on Foreign Minister Arita's February 27 speech in the upper house that declared Japan's non-discrimination of the Jews and their equal treatment with other foreigners. Kleiman informed Ayukawa that he was in the midst of talking with and contacting other Jewish leaders, and therefore he had yet to conclude on the feasibility of gaining support among American Jews for the economic development of Manchukuo in exchange for support by Japan and Manchukuo for accommodating to Jewish refugees from Europe.

Unfortunately for Mangyo, nothing substantial came out of its secret negotiations with Kuhn Loeb. Because there are no documents in the Ayukawa papers after the above letter, except a statement in the July 20, 1939 progress report on foreign capital that Mangyo was still pursuing talks with Kuhn Loeb

through Kleiman, Mangyo's relations with him seemed to have faded with the outbreak of World War II. The fact that Strauss had gradually become suspicious of Kleiman's credibility did not help change this situation.<sup>16</sup>

### **The Franz Moedlhammer Project**

Ayukawa's dealings with Kleiman were paralleled by his use of an Austrian named Franz Moedlhammer, a man involved mainly in heavy and munitions industries who claimed to have strong business connections in the U.S. and Germany. Ayukawa hired the Austrian in May 1938 to carry out secret business negotiations in Mexico, the U.S., and Germany. In retrospect, it was the Moedlhammer mission which proved more promising than the Max Kleiman project. Although Ayukawa's hiring of Moedlhammer potentially contradicted using Kleiman because it indicated that Ayukawa by the middle of 1938 was desperate enough to start cultivating possible business deals with German capital, the Moedlhammer project demonstrated that his priority was negotiating with American interests, including Kuhn, Loeb & Co.

Like Kleiman, Moedlhammer's life centered on the Far East. Born on July 29, 1895, he had fought for the Austrian Army during World War I and was a prisoner of war in Russia from 1916 to 1921. After 1922 he went into business. From 1923 to 1931 he represented various German industries in Manchuria and North China and from 1933 to 1934 Moedlhammer represented Dutch aviation interests in North China and Manchuria.

Given his professional interests, he also became interested in the foreign relations of the Far East and had written a book called *Moscow's Hands in the Far East* in Germany at the request of a German anti-Comintern group. Introductions to the book were written by the Japanese Ambassador to Germany, Count Kintomo Mushanokoji, and by German Foreign Minister Joachim von Ribbentrop. This book received some attention from the Japanese military and Major Saigo, a Japanese General Staff officer, ordered the translation and publication of the book.

Moedlhammer first met Ayukawa in 1936 to discuss purchasing goods from Henschel, the only company the Austrian represented at the time in the Far East. Then in 1938 when he was about to leave Germany for Japan, Moedlhammer met an acquaintance of Ayukawa, Prince Urach, in Germany.

Moedlhammer informed Ayukawa that he could serve as an intermediary between Mangyo and his American and German business connections which consisted of powerful financiers and industrialists; in Germany he was using Prince Urach as a contact person and proposed a complicated financial scheme that he argued could succeed in Germany. At the time Moedlhammer contacted Ayukawa, he was conducting business for five German firms and one American firm.

After receiving positive confirmation from President Oskar Henschel, who was Moedlhammer's former employer, Minister Eugen Ott in Japan, Director of Commercial Affairs Shikao Matsushima of the Japanese Foreign Ministry, Kiichiro Higuchi in the Chief of Staff, and others about Moedlhammer's background, Ayukawa on September 26 finally permitted Moedlhammer to act as a mediator for six months to organize a credit syndicate in Germany and stated this in his authorization letter. He did not comment, however, on Moedlhammer's role in carrying out businesses in the U.S. in this letter. Ayukawa wrote that Moedlhammer was not a legal representative of Mangyo or any of its subsidiaries and that he was to avoid publicity. He also stated that Moedlhammer had to follow the arrangements prescribed by the Japan Mining Company regarding a Mexican oil deal.<sup>17</sup>

### **Unsan Gold Mines**

Before the planned visit to Germany, Moedlhammer negotiated with American and Mexican business interests. Although he failed in his negotiations to import Chrysler vehicles and Mexican oil, Moedlhammer's work led to the purchase in 1941 of Unsan gold mines in Korea owned by the Oriental Consolidated Mining Company. This American company wanted to sell its 600 square mile property before the termination of the concession on March 27, 1939, partly because Japan's strong foreign exchange control made it impossible to send the profits to the U.S. This company not only owned the largest gold mine in Korea but also was owned by prominent families affiliated with the Republican party and often closely associated with Herbert Hoover: Ogden Mills Jr., Secretary of Treasury in the Hoover Administration and his family; J. Sloat Fasset and his family; and William Randolph Hearst and his family.

Gold provided an invaluable means of purchasing foreign goods much needed

by Ayukawa's business interests and the Japanese empire. Producing about 30% of gold in the Japanese Empire during 1931-1941, Ayukawa's Japan Mining Company owned the second largest gold mine in Korea. Japan Mining was one of Ayukawa's most profitable firms and he used it as one of the main financial pillars for establishing and operating Mangyo; Ayukawa wanted to make his company more profitable. Furthermore, his personal motive was closely tied to meeting the government drive to boost gold production because of dwindling foreign reserves. As Japan experienced a worsening trade deficit in 1936 and 1937, it began to ship gold in March 1937 as a means of alleviating further depreciation of its currency and deterioration of its trade balance. After the outbreak of a full-fledged Sino-Japanese War in July, it became imperative to increase gold output in the Japanese Empire. In 1938 Japan implemented a five year plan to increase gold output in Japan, Korea, and Taiwan; primarily undertaken by the Japanese government and the colonial government in Korea, this plan sought to boost gold production from 50 tons in 1937 (26 tons in Japan and 24 tons in Korea) to 131 tons (56 tons in Japan and 75 tons in Korea). Under this plan Korea was going to play the most important role in alleviating Japan's troubled trade account and in purchasing desperately needed goods for Japan's heavy industries; Japanese leaders wanted Korea to become the Transvaal of the Far East. Provided with government incentives such as loans and subsidies, the main beneficiaries were the six major gold mining companies in Japan--Nissan, Mitsubishi, Mitsui, Sumitomo, Furukawa, and Fujita (run by Ayukawa's younger brother who was adopted by the Fujita family)--and five major gold mining companies in Korea--Nissan, Mitsui, Mitsubishi, Furukawa, and Noguchi.

The initial talks went well. On October 18 Moedlhammer cabled to Ayukawa that the President of the Oriental Consolidated Mining Company, Lewis Henry, was willing to negotiate with him in New York City in November. To this Ayukawa responded positively on October 24. He wanted to buy the mines at a "reasonable price" and told Moedlhammer to ask his New York business contacts to arrange a credit deal over several years for the purchase; Moedlhammer responded in a cable on the same day that his New York financial contacts might offer finance depending on, most notably, how much Ayukawa was willing to pay for the mines. Ayukawa later offered six million dollars for the purchase if a satisfactory credit deal could be arranged for that. He was thinking of using the Yokohama Specie Bank in New York to conduct

research on the American company and he considered secretly sending a representative from the Japan Mining Company to meet Henry.

On November 12, 1938 Moedlhammer reported that his "finance group" planned to purchase the mines and then transfer all mining rights to Mangyo. (Ayukawa later learned that one of Moedlhammer's "finance group" was the main contact person, a businessman named H. Otto Schundler, who was acquainted with numerous influential businessmen in New York, including Lewis Strauss of Kuhn Loeb.) The group wanted Mangyo to initially pay two and a half million dollars in cash to the finance group. Afterwards the group planned a credit arrangement for the remaining amount under the following conditions: three years credit balance, five percent annual interest, and a Yokohama Specie Bank guarantee.

Mangyo responded two days later, saying it was willing to pay six million dollars for the whole deal. It was willing to pay two million dollars in cash upon the registration of transfer of rights from the finance group and willing to agree to the finance group's conditions for the remaining four million dollars. Mangyo stated the whole transaction was subject to government approval, but it was confident of obtaining this upon the conclusion of the contract and expected Moedlhammer to finalize his talks on Unsan by the end of the year.

However, the Oriental Consolidated Mining Company wanted more than six million and stated that if the total amount could be agreed on, it would follow the remaining conditions already presented by Mangyo.<sup>18</sup>

Before Mangyo could respond to this, a grave illness suffered by one of the leading members in the American company suspended the talks after December 22. On January 23, 1939 Mangyo informed Moedlhammer that he need not concern himself about this since Ayukawa was sending a representative from the Japan Mining Company to directly negotiate with the Oriental Consolidated Mining Company. As the termination date approached and no business with Ayukawa's interest could be finalized, the company exercised the right to extend the contract for fifteen more years.<sup>19</sup>

### **U.S. Steel, Bethlehem Steel, Crucible Steel and American Financial Institutions**

In addition to pursuing the purchase of gold mines, the Moedlhammer project

sought the purchase of metals, namely iron and steel products. Upon consulting with the Manchukuo Government and the Japan-Manchuria Trading Company (Nichiman Shoji), Mangyo instructed Moedlhammer on November 22 to purchase two tons of copper and about 20 tons of iron and steel products under a credit arrangement. Although no progress seemed to have been made regarding the purchase of copper, on November 27 Moedlhammer informed Mangyo that with the help of the "finance group" he was going to organize a group of steel companies including U.S. Steel. Among the three companies, the President of the Crucible Steel Company of America, Raoul E. Desvernine, evinced strong interest in doing business with Ayukawa's Mangyo. Similar enthusiasm was expressed by U.S. Steel and Charles Schwab, the President of Bethlehem Steel. Schwab had tried without success to help Moedlhammer and his "finance group" organize a financial syndicate that included National City Bank, Chase Manhattan Bank, Bank of Manhattan, and Manufacturers Trust to finance the export of steel for Mangyo shortly before his death in 1939. Overall, the scheduled amount of purchase for iron and steel products was about 15 million dollars on credit with a three-year-deferment period and, afterwards, a two-year-installment payment.<sup>20</sup>

While the negotiations to purchase iron and steel took place, Moedlhammer and his "finance group" tried to organize a finance company with the help of J. & W. Seligman & Co; Moedlhammer's group initially considered using this firm to finance the purchase of iron and steel products and they later thought of using it as a general purchasing agent for Mangyo. In spite of this seemingly positive development cultivated by Moedlhammer, Ayukawa began to increasingly doubt Moedlhammer's ability to handle sensitive business negotiations and sent his aide, Genshichi Asahara, to supervise him.

Although the steel executives and bankers were interested in realizing the business opportunity offered by Mangyo because of the stagnant American economy, they in the end decided not to commit themselves to Mangyo's business proposition because they could not obtain the tacit approval of a government branch that exerted influence over foreign trade, the State Department. The House of Seligman informed Moedlhammer on February 8 that the banks rejected Mangyo's counterproposal; one contributing factor was Henry Breck, an executive at Seligman, who had received a negative reaction on January 27 from his discussion with the State Department's Maxwell Hamilton regarding the possibility of selling and financing goods to Mangyo. The steel executives

and bankers discussing business with Moedlhammer feared retaliation by the government which could cut them off from much more lucrative U.S. government defense contracts that seemed to be coming after the government decided in May 1938 to significantly expand the number of naval ships and upgrade the army's equipment. Given this shift in the government's defense spending and the economic rewards that could ensue from this, though American businessmen were interested in finding ways to conduct business with Japan because of the continuing economic depression in the U.S., they became more sensitive to the rising tensions between the U.S. and Japan and began to take their cue from the State Department. Ayukawa was well aware of this situation because Asahara during a February international phone conversation told him that the Seligman case, like in the iron and steel proposal, probably had to win the tacit approval of the government which it could not; this was Asahara's conclusion after talking to H. Otto Schundler and learning that this German-American and Moedlhammer had visited Washington D.C. two or three times regarding this matter.

But given America's economic depression, both Ayukawa and Asahara believed that Moedlhammer could have managed to reach a business agreement with the House of Seligman for the 20 million dollar loan financed by banks such as National City, Manufacturer's Trust, Bank of Manhattan, and Kuhn Loeb under the counterproposal Ayukawa had sent him; Asahara argued that Moedlhammer had blundered in his tactics. On the other hand, both Moedlhammer and Schundler thought that Ayukawa did not move fast enough. Ayukawa took about a week to consult with officials--such as leading members of the Japanese Finance Ministry, the Yokohama Specie Bank President, and the Vice Governor of the Bank of Japan--after hearing from Moedlhammer on January 13 about the proposal from Seligman and before sending a counterproposal to him on January 21. Moedlhammer and Schundler thought that this one week had contributed to the failure. Although Ayukawa wanted to visit Washington to find ways to win America's tacit approval of trade with Japan and Manchukuo, Asahara advised against this because he was told by a man from Kuhn Loeb that no prominent Japanese should surface in the Seligman deal because this might cause publicity and public protest. Because Ayukawa was dissatisfied with Moedlhammer's performance, he did not renew the contract with the Austrian. Mangyo no longer saw the need for Moedlhammer to seek credit and purchasing arrangements in Germany since Manchukuo and

Germany now made inter-governmental credit arrangements based on a German-Manchukuo treaty signed recently. Embittered by Mangyo's unwillingness to listen to and quickly follow his advice during the previous three months, Moedlhammer filed a law suit in New York in the spring of 1939; in a short time the two sides reached an out-of-court settlement.

### **The National City Bank, U.S. Steel, and the State Department**

In spite of this legal fiasco, Ayukawa's dealings with Moedlhammer and Schundler had an unintended repercussion. During the first half of 1939, in spite of the State Department's interferences and in spite of Japan's quagmire in China, the depression in America permitted Ayukawa to maintain his hope for possible business deals with American firms. Indeed, during the first three months in 1939, U.S. Steel and the National City Bank, initial participants in the Seligman proposal, left the group involved in that proposal and seemed to have been willing to discuss business with Mangyo on their own. Ayukawa first learned about this from Asahara who cabled him on February 1 that U.S. Steel had ordered its representative in Tokyo, Barton, to start talks with Mangyo, and that the National City Bank was sending its Vice President Boies Hart who was in charge of the bank's Far Eastern operation.

Then, Moedlhammer, in a February 10 letter to Ayukawa, stated he and his "finance group" thought that the National City Bank left the financial syndicate organized by Seligman because the bank judged that it would profit more by solely negotiating with business interests in Japan, possibly including Mangyo. They also thought that U.S. Steel decided to directly negotiate with Japanese interests because until then it, "the Bethlehem Steel Corp. and Crucible Steel Co. assured . . ." them "that the deal [wa]s of highest interest for any steel industry in this country and that they need[ed] this deal." Moedlhammer and his group also knew that Bethlehem's "President Charles Schwab personally made the strongest effort to induce the bank[s] connected with group [sic] to finance this deal and still continue[d] his efforts."

Furthermore, Schundler in his letter to Moedlhammer on February 11, 1939 revealed his thought that Seligman had probably rejected Mangyo's counterproposal which he thought was a reasonable formula because the National City Bank withdrew from the group. Mangyo was puzzled by this rejection and



thought perhaps Moedlhammer and Schundler were correct in their reasoning; before the National City Bank left the Seligman plan, Seligman & Co. had remarked that the counterproposal was reasonable and businesslike. Schundler was fairly sure that Hart was on his way to Japan to discuss business with Mangyo.<sup>21</sup>

It is highly probable that in February the National City Bank was seriously considering business with Mangyo. Since 1933 the bank had been supporting the recognition of Manchukuo and Japan as a suitable business partner in the Far East. It regarded China as economically unstable, a point clearly indicated in the bank's internal reports by its Shanghai branch regarding the Chinese financial market situation. In a report from James A. Mackay, Assistant Vice President in charge of the bank's Shanghai office, to Vice President Boies C. Hart of the Far Eastern Division in New York, Mackay discussed the terrible financial positions of Chinese commercial banks, corruption in the Chiang family, economic mismanagement of their banks, and internal political struggle centering on T. V. Soong and H. H. Kung regarding the political pressures for the former to take over the latter's position as Finance Minister.

In March 1939, however, the bank ran into trouble with the State Department. As Japan began implementing new economic policies to establish a new local currency and new central banks in North China and in Shanghai, the Department pressured the National City Bank and the Chase Bank to comply with its policy; the Department suggested that the two banks cooperate with the British and the French banks in those areas to refuse Japanese demands to support their new economic measures in the two occupied areas. While the two banks seemed to have cooperated in North China, the State Department remained suspicious of National City's activities in Shanghai. During a discussion in March with Stanley Hornbeck and other State Department officials, Guy Holman, Assistant Vice President of the bank, hinted that the Department should suspend its application of the Open Door principle in China and avoid opposing Japan.

Given the increased tension between the bank and the State Department, when Hart saw Ayukawa in late April he could not discuss any substantive offer; the banker only indicated his bank's interest in doing business once the Far East situation stabilized.<sup>22</sup>

After his talk with Ayukawa, in June Hart wrote a letter to Hornbeck from Shanghai. He stated the U.S., provided that it was prepared with a proper

economic strategy, would enjoy tremendous economic benefits in the Far East even if Japan won. Hart argued that when peace arrives, "the trade possibilities to this area of the world are stupendous--it is entirely too much for Japan to handle by herself if she wins a complete victory . . . ." Hart was "confident that potentially China will offer us all and more than it has to date" because "[t]he war has brought commerce and industry to areas of China that were practically untouched territories before." He suggested the government to advance "credit facilities to our traders . . . through some form of government insurance rather than government financial help" so that American firms could "meet the low cost advantages of Great Britain, Germany and Japan." Hart thought "Government financing would be slow and cumbersome and . . . would not benefit American industry and banking as quickly and as effectively as credit insurance . . ." and he wanted "75 percent of the eventual risk . . . underwritten by the Government, the cost of such insurance being a share of the profits on the sales insured . . ." Although the American government had to "eventually do a lot of loaning for currency stabilization," he wanted to confine "commercial long term credit . . . to projects that are in themselves self liquidating and can be most effectively and properly handled by experienced traders on the ground who can work in cooperation and partnership with Chinese bankers and industrialists to see that credit is given where it will do the most good and be most likely paid back."

Apparently amused by Hart's opinion, Hornbeck introduced this letter to Secretary of State Cordell Hull on August 1 with a note attached stating "I am sure that you will find it interesting." This letter seemed to have irritated these two senior officials and probably prompted Gordon S. Renschler, President of the National City Bank, to send his men to Washington in mid-September for a discussion over the Far Eastern situation with Hornbeck and Ambassador Joseph C. Grew. It seems after this meeting the National City Bank was much more in accord with State Department policy; in a letter to Hornbeck on October 20, Hart praised Ambassador Grew's denunciation of Japan's "new order" in the Far East.<sup>23</sup>

Just as Mangyo's talks with National City hit a dead end, nothing seemed to have developed between Mangyo and U.S. Steel. However, the episode concerning U.S. Steel had another interesting twist. Around the time Moedlhammer and his "finance group" in New York negotiated with steel executives from U.S. Steel, Crucible Steel, and Bethlehem Steel and bankers from the National

City Bank, Kuhn Loeb, Manufacturers Trust, Chase Bank, and the Bank of Manhattan, Thomas W. Lamont of J. P. Morgan & Co. was contemplating financing 11 million dollars through the Guaranty Trust Company for Manchukuo's purchase of steel manufactured by U.S. Steel. It is possible that Lamont and the Guaranty Trust Bank may have heard about Moedlhammer's and Schundler's activities because the House of Morgan, which included the Guaranty Trust Bank as part of the Morgan group, had directors in U.S. Steel and the National City Bank. Lamont told his business agenda to Hornbeck, who in turn expressed his opposition. A week later Lamont told him the project had been "sidetracked" but "[it] might come up at a later date."

Was Lamont's and Guaranty Trust's proposal to finance U.S. Steel products to Manchukuo related or unrelated to National City Bank's break away from the Seligman group and the decision by U.S. Steel to act on its own instead of cooperating with Bethlehem Steel or Crucible Steel? While Lamont was very critical of Japanese aggression against China, he also believed the U.S. and Japan should try to live peacefully. He was aware that many of his colleagues thought that the trade embargo against Japan would cause war between the two countries, and he himself did not advocate an embargo, at least publicly, until the autumn of 1940. Regardless of his personal feelings about the Sino-Japanese War, in early 1939 Lamont probably found it difficult to oppose business by the House of Morgan's business interests with the Japanese Empire because America was still in a severe recession, unless the State Department expressed opposition.<sup>24</sup>

### **Mesta Machine**

Did Ayukawa achieve a better result than the cases already mentioned? Mangyo managed to sign a contract in January 1940 with Mesta Machine for a joint venture to manufacture heavy machinery. In retrospect, among the 12 American and European companies Mangyo negotiated with in establishing a joint venture company--four American (Ford for automobiles, Harbison Walker for magnesite processors, United Engineering for heavy machinery, and Mesta for heavy machinery), six German (Daimler-Benz for automobiles, Buessing for diesel cars, Henschel for diesel cars, Reichmetal for light metal alloys, B.M.W. for aviation engines and Heinkel for airplanes), one Swedish (SKF for

high-grade ball bearings) and one Italian (Fiat for automobiles)--Mesta was the only case in which Mangyo managed to sign a contract.<sup>25</sup>

In April 1939 Mangyo began negotiating with Mesta whose head office was located in West Homestead, Pennsylvania. This followed right after Mangyo failed in its talks with United Engineering; that firm chose Shibaura Seisakusho as a partner for a joint venture whereby United Engineering was to own 49% of the joint venture company and Shibaura 51%. Up to that point Mesta had been doing "considerable business with Japan and 'Manchukuo' in steel works equipment." The relations with Mangyo were important for this company to the extent that an executive of the company named Powell in January had visited Joseph Ballantine, Assistant Chief of the Division of Far Eastern Affairs, and told him that the U.S. should assist American companies such as his in competition against German exports to Manchuria; he claimed his company was losing to German companies as a result of the barter agreement between Germany and Manchukuo. Although Ballantine believed otherwise, Powell argued that the U.S. should stop antagonizing Japan, recognize Manchukuo, provide it with credit for the purchase of American goods, and facilitate trade with Manchukuo.

Mangyo negotiated with Mesta to buy rolling mills and other heavy machinery for one million dollars and this progressed to a point where Mesta sent a representative to Manchukuo to prepare for the specific conditions of the purchase and a joint venture. Mesta sent its board member Powell to Manchukuo in late June 1939.

On January 18, 1940, Yoshiaki Yano, director of Mangyo, and L. Iverson, president of Mesta Machine, signed the "Fundamental Agreement" in New York. Under this and other legal arrangements the Heavy Machinery Manufacturing Company was established in June 1940; Mesta was a minority shareholder of this company, possessing 10% of the non-assessable stocks. Mangyo assured Mesta that at least two of Mesta's men would be on the board and the 6% dividend paid in New York in U.S. dollars each year. Mangyo also looked forward to obtaining from Mesta a blueprint to produce machines. In the end, though negotiations with Mesta went much better than Mangyo's other negotiations, Mangyo neither succeeded in moving the joint venture out of the planning stage nor obtained the blueprint because of worsening bilateral relations after the summer of 1940.<sup>26</sup>

## Conclusion

As demonstrated by Kleiman's and Moedlhammer's projects, and by Mangyo's negotiations with Mesta, American interest in economic cooperation with Japan and Manchukuo diminished in 1939 not only because the outbreak of World War II signaled domestic economic recovery through increased American exports to Europe but also because Congress decided to terminate the bilateral trade treaty with Japan in July. Japan's quagmire in China did not help this situation because the U.S. State Department became more vocal in condemning Japanese aggression in China and violations of American rights there. The purchase in 1941 of Unsan gold mines was the exception to this failure but this did not involve obtaining American technology or capital. After the summer of 1939, Ayukawa's business proposals to American business interests became increasingly harder to realize because of further American economic recovery through exports to Europe and government spending, increased U.S.-Japan tensions over China, and the State Department's influences over American trade in East Asia.

## Notes

- 1 Hideo Kobayashi, *Daitoakyoeiken no Keisei to Hokai* (Tokyo: Ochanomizushobo, 1975), pp. 197, 200, and 364-65.
- 2 Manshu Teikoku Seifu, *Manshu Kenkoku Junenshi* (Hsinking: 1941; rpt. Tokyo: Hara Shobo, 1969), p. 634.
- 3 Manshu Teikoku Seifu, pp. 634-38. Although Manchukuo's exports to the U.S. were 5.1 million yen in 1932, 7.6 million yen in 1933, and 6.0 million yen in 1934, they surged to 15.6 million yen in 1935 and the increase continued until 1937, 16.4 million yen in 1936 and 18.7 million yen in 1937, because of the economic recovery from the Depression and the abolition of the Foreign Exchange Control Acts in November 1934 in the U.S. The American economic downturn in 1937 contributed to the drop in exports to 11.4 million yen in 1938, but it recovered to 15.4 million yen in 1939 and reached the all-time high of 21 million yen in 1940. Imports from the U.S. increased between 1932 and 1934: 20.1 million yen, 29 million yen, and 35.3 million yen. Probably because the initial phase of economic modernization in Manchukuo reached a transition period in 1935 and in 1936, import figures dropped to 24.9 million yen and 23.7 million yen respectively. Then, with the implementation of the Five Year Plan and the massive need for American capital, technology, and equipment, the import figure jumped to 57.9 million yen in 1937 and 93.1 million yen in 1938. Although imports from the U.S. went down to 80.2 million yen in 1939 and 71 million yen in 1940, they remained much higher than the 1932-1937 levels. Finally, Manchukuo's trade with the U.S. constantly showed trade deficits between 1932 and 1940. Manchukuo's primary export items were soybean oil, wool, pig hairs, bean cake, and leather. As for the U.S., it exported to Manchukuo such items as iron and steel, machine tools,

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freight cars, ships, petroleum, lubrication oil, crude oil, and naphtha.

- 4 Manshu Teikoku Seifu, pp. 635-36.
- 5 Alan Brinkley, *The Unfinished Nation: A Concise History of the American People* (New York: Alfred A. Knopf, 1993), pp. 699, 703, 729-30; William E. Leuchtenburg, *Franklin D. Roosevelt and the New Deal: 1932-1940* (New York: Harper Torchbooks, 1963), pp. 243-44 for the quote, and pp. 245-52, 256, 259, 263-66, 271-74, 290-94, 303, and 307-24; Alan Brinkley, "The New Deal and the Idea of the State" in *The Rise and Fall of the New Deal Order, 1930-1980*, eds. Steve Fraser and Gary Gerstle (Princeton: Princeton University Press, 1989), pp. 86-91, 91-99, 102, and 108-12; and Jordan A. Schwarz, *The New Dealers: Power Politics in the Age of Roosevelt* (New York: Vintage Books, 1994), pp. xi-xii, xvi, 41-43, 45-47, 203-8, 297, 300-2, 306-13, 315-28, 330, 335-42, and 344-45 for Henry Kaise's background, for the significance of New Deal state capitalism, and for the meaning of various public investment projects in the Western and Southern states during the New Deal in comparison to before and after that period.
- 6 With regard to the views on European and American Jews by Japanese authorities, see David Kranzler, *Japanese, Nazis & Jews: the Jewish Refugee Community of Shanghai, 1938-1945* (New York: Yashiva University Press, 1976), pp. 210-11, 222, and 609-19. For Ayukawa's dealings with Kuhn Loeb in 1938-1939, see the following microfiches in the Yoshisuke Ayukawa Papers, the National Diet Library, Tokyo: in Microfiche Number 516.3, January 30, 1939 report on the Moedlhammer project; and the record of phone conversations between Ayukawa in Tokyo and Director Genshichi Asahara in New York City, February 3, 1939; and in Microfiche Number 922.22, "Gaishi Mondai Keika Hokoku (Report on the Problems concerning Foreign Capital, Equipment, and Technology)," July 20, 1939, p. 13. Asahara, Moedlhammer and Schundler were meeting somebody from Kuhn Loeb about Mangyo's business proposal. In addition, see the following in Microfiche Number 517.2, Yoshisuke Ayukawa Papers: The Parlophone Company to H.A. Straus, October 21, 1938; a letter to the Japanese Ministry of Interior for permission to allow the entrance to Japan of a person's parents from Europe for an indefinite period, November 26, 1938; and "Immigration of German Jews into Japan." Howard Schonberger (Rinjiro Sodei trans.), *Japanese Connection: Kaiunou K. Sugahara Gaiden (Nissei Entrepreneur: A Political Biography of Kay Sugahara)* (Tokyo: Bungeishunju, 1995), pp. 127-28. Furthermore, see Kranzler, p. 224. On the relations between Japan and Jacob Schiff, see Akira Iriye, *Pacific Estrangement: Japanese and American Estrangement, 1897-1911* (Chicago: Imprint Publications, 1991), p. 113, 203, and 225. For Japan's idealistic view of its relations with the Jews, see Ben-Ami Shillony, *The Jews and the Japanese: The Successful Outsiders* (Rutland, Vermont: Charles E. Tuttle Company, 1991), pp. 127-28.
- 7 Shillony, pp. 178-79; Goodman and Miyazawa, pp. 112-13; and Chunichi Shinbun Shakaibu ed., *Jiyu e no Toso: Sugihara Biza to Yudayajin* (Tokyo: Chunichi Shinbunsha, 1995), pp. 127-28 and 200-1.
- 8 For the quotations, see Kranzler, pp. 232-33. In addition, see Goodman and Miyazawa, pp. 111 and 114.
- 9 See Goodman and Miyazawa, pp. 110-11 and 113-14.
- 10 For Mangyo's relations with Kleiman, see the following microfiches in the Ayukawa Papers: in Microfiche Number 922.22, p. 176, "Gaishi Mondai Keika Hokoku (Report on the Problems concerning Foreign Capital, Equipment, and Technology)," July 20, 1939, p. 18; and in Microfiche Number 517.2, Kleiman to Kishimoto, February 4, 1938, and Kleiman to Ishiwatari, September 22, 1938 (including "Memorandum with Respect to Projected Credit Arrangements between Japanese Industry and American Banks").

- 11 For Strauss's correspondences with Wikawa (Ikawa), see "Widk-Wilb: 1928-1938," Box 86, Lewis L. Strauss Papers, Herbert C. Hoover Presidential Library, West Branch, Iowa. Wikawa explained his friendship with Strauss from the 1920s to Pearl Harbor in Ikawa, *Nichibei Kosho Shiryo* (Tokyo: Yamakawa Shuppansha, 1982), pp. 412-16.
- 12 Strauss, who was very loyal to Herbert Hoover, became the youngest partner of the company in the late 1920s, because of his ability and the fact that he had married a daughter of his company's senior partner, Jerome Hanauer. See the following in the Strauss Papers: Keizo Obata to Strauss, November 2 and November 3, 1926, "Japan Trip of 1926: Masuda -Osborne," and "Japan: 1918-1938 & Undated," Box 44; and "Hanauer, Jerome J. and Mrs.: Death of Jerome, Estate etc.," Box 31. For Baruch's involvement in finding a safe haven for the European refugees, see Jordan A. Schwarz, *The Speculator: Bernard M. Baruch in Washington, 1917-1965* (Chapel Hill: The University of North Carolina, 1981), pp. 563-64. For Strauss's activity to save the European refugees, see Lewis L. Strauss, *Men and Decisions* (Garden City: Doubleday & Company, Inc., 1962), pp. 109-20. The friendship between Hoover and Strauss is discussed in Richard Norton Smith, *An Uncommon Man: The Triumph of Herbert Hoover* (Worland, Wyoming: High Plains Publishing Company, 1984). Wise's negative opinion on Jewish-American economic cooperation with Japan is described in Kranzler, pp. 227-28 and 244; and Shillony, p. 184.
- 13 Kleiman to Ishiwatari, September 22, 1938 (including "Memorandum with Respect to Projected Credit Arrangements between Japanese Industry and American Banks"), Microfiche Number 517.2, the Ayukawa Papers.
- 14 See the following in Microfiche Number 517.2 of the Ayukawa Papers: Kleiman to Kishimoto, December 23, 1938; and Mangyo to Ives, December 23, 1938. Mangyo to Ives, December 23, 1938.
- 15 Kleiman to Aikawa (Ayukawa), February 7, 1939, Microfiche Number 517.2, the Ayukawa Papers.
- 16 For Mangyo's relations with Kleiman, see the following in Microfiche Number 517.2 of the Ayukawa Papers: Mangyo to Kleiman, April 20, 1939; Kleiman to Aikawa (Ayukawa), April 20, 1939; and Kleiman to Aikawa (Ayukawa), April 25, 1939. The quotes taken from Kleiman's activities in New York between March and August 1938 are in his memorandum which was attached to the September 22 letter to Vice Finance Minister Ishiwatari. Kleiman is discussed in Schonberger, p. 132. For Arita's speech on February 27, 1938, see Shillony, p. 184.
- 17 See Moedlhammer to Ayukawa, May 11, 1938 in Microfiche Number 516.1 of the Ayukawa Papers. For Moedlhammer's financial scheme in Germany, see the following microfiches in the Ayukawa Papers: on pp. 168-70 in 922.22, "Gaishi Mondai Keika Hokoku (Report on the Problems concerning Foreign Capital, Equipment, and Technology)," July 20, 1939, pp. 10-12; and in 516.1, a May 28, 1938 memorandum in Japanese concerning Moedlhammer's proposed financial scheme, Moedlhammer to Aikawa (Ayukawa), June 8, 1938, Moedlhammer to Kishimoto, June 28, 1938, Moedlhammer to Aikawa (Ayukawa), June 28, 1938, and Moedlhammer to Aikawa (Ayukawa), June 29, 1938, Moedlhammer to Aikawa (Ayukawa), August 17, 1938, Moedlhammer to Kishimoto, August 13, 1938, Moedlhammer's September 11, 1938 progress report to Aikawa (Ayukawa), Moedlhammer to Aikawa (Ayukawa), September 15, 1938, Moedlhammer to Aikawa (Ayukawa), September 20, 1938, Ayukawa's cable to Oscar Henschel, President of Henschel, to check Moedlhammer's credibility, September 26, 1938, and Henschel's favorable reply regarding Moedlhammer, September 28, 1938, Moedlhammer to Kishimoto, September 26, 1938, Prince Urach to Moedlhammer,

September 25, 1938, Moedlhammer to Aguilar, September 25, 1938, Memorandum in Japanese from Ayukawa to Assistant Director Hisatsune Sakomizu of the Japanese Finance Ministry regarding Moedlhammer's credibility and regarding Moedlhammer's plan to form a German financial syndicate, September 23, 1938, Aikawa (Ayukawa) to Moedlhammer, September 26, 1938 (longer version), Moedlhammer's own biographical sketch, September 22, 1938, Moedlhammer to Aikawa (Ayukawa), September 27, 1938, negative credibility report regarding Moedlhammer's German credit syndicate from the Deputy Director of Foreign Exchange, the Yokohama Specie Bank, to Assistant Director of Finance Hisatsune Sakomizu, Ministry of Finance, September 30, 1938, Moedlhammer to Kishimoto and Moedlhammer to Aikawa (Ayukawa), September 29, 1938, October 2, 1938 cable to Ayukawa from Germany, and Memorandum from Mangyo to General Secretary Hoshino of Manchukuo's General Affairs Board, October 4, 1938 regarding Moedlhammer and his credibility. When Moedlhammer saw Ayukawa in May 1938, he was conducting business for the following six firms: Henschel & Sohn, a manufacturer of trucks; Deutsche Waffen & Maschinenfabrik A.G., an armament machinery and ammunition manufacturer; Wumag, Goerlitzer Waggon & Maschinenfabrik, a manufacturer of railway wagons, hydraulic presses, and marine engines; Carl Walther Waffenfabrik, a manufacturer of pistols; T. Bergman & Co., a manufacturer of submachine guns; and the American Armament Corporation of New York, a manufacturer of armaments and ammunition in the U.S.

- 18 Bruce Cumings, *The Origins of the Korean War: the Roaring of the Cataract, 1947-1950* (Princeton: Princeton University Press), pp. 99 and 141-45; and Kobayashi, pp. 253-60 and 266-70. Kobayashi mentions on p. 266 that gold output in Korea in 1942 diminished as the result of the Pacific War; there was no longer the need for Japan to export gold to buy imports from the U.S. For Moedlhammer's negotiations to acquire Unsan gold mines from the Oriental Consolidated Mining Company, see the following in Microfiche Number 516.2 of the Ayukawa Papers: Mitsui & Co., Ltd., New York, "Re: Oriental Mining Company," November 16, 1938, and its attached report about the Oriental Consolidated Mining Company copied from a report in Dun & Bradstreet. While Cumings writes that this company sold its mines to Japanese interests in 1939, Hideo Kobayashi writes that Japan Mining Company purchased this in 1941. Although the Mitsui report indicate that this company had not yet exercised its right to extend the concession, the attached report copied from Dun & Bradstreet states that it had already exercised this option. In an undated report whose author is unidentified in Microfiche Number 516.1 of the Ayukawa Papers, it reports that the Oriental Consolidated Mining Company's concession expires on March 26, 1954 and afterwards the treatment of the mine was subject to Japanese laws. This report states that the American company approached the author's organization to sell the mining rights. The report states that Unsan is the last, the largest and the richest gold mine in Korea held by foreign interests; it speculates that since the American company had operated only a small part of the whole concession, at least three times the current annual production was possible with an additional investment of 10 or 20 million yen. The company was trying to sell the Unsan mines between 20 to 30 million yen (at \$29/100 yen, between \$5.8 and \$8.5 million). Ayukawa in a cable to Moedlhammer on October 31, 1938 instructed him to arrange a six-million dollar credit arrangement with his New York "finance group"; see Mangyo to Moedlhammer, October 31, 1938, 7.p.m. (Japanese translation), Microfiche Number 516.1, the Ayukawa Papers. The report states that the Japan Mining Company purchased the following foreign concessions until 1938: the Kapsan Copper Mine from the Colbran Bostwick Development Company (an American company under an Anglo-American joint venture) in 1916; the Suian Gold Mine from Fraser and Folks (an



Anglo-American joint venture) in 1937; and the Taiyudo Gold Mine from Nurupi Mine Company (British) in 1938. See also the following in 516.1: Moedlhammer to Mangyo, October 18, 1938; Mangyo to Moedlhammer, October 24, 1938; Moedlhammer to Mangyo, October 24, 1938 (Japanese translation); Moedlhammer to Mangyo, November 1, 1938 (Japanese translation); Memorandum on Plans to Purchase Unsan Gold Mine (Undated); Moedlhammer to Mangyo, November 7, 1938 (Japanese translation); Moedlhammer to Mangyo, November 12, 1938; Mangyo to Moedlhammer, November 14, 1938; Moedlhammer to Mangyo, November 14, 1938 (Japanese translation); and Moedlhammer to Ayukawa, November 20, 1938 (Japanese translation). Mangyo sent a cable on December 9 to Moedlhammer to pursue talks with the Oriental Consolidated Mining Company based on its November 14 instructions; see the Japanese translation of the cable in Microfiche Number 516.2. Mangyo initially planned Moedlhammer to proceed immediately to Germany after the Mexican oil deal. Strauss had met Schundler some time between 1917 and 1938; I found Schundler's name card in "Schn - Schurm, 1917-1938," Box 69, Lewis L. Strauss Papers. See footnote 21 for documents concerning Schundler and his acquaintance with Strauss.

- 19 See the December 22, 1938 cable from Moedlhammer to Mangyo and the January 23 cable from Mangyo to Moedlhammer in Microfiche Number 516.3.
- 20 In the fall of 1941 Desvernine played an important role in helping Ambassadors Kichisaburo Nomura and Saburo Kurusu negotiate with officials in Washington. He was by then in frequent contact with former President Herbert Hoover regarding this diplomacy; see Haruo Iguchi, "Behind-the-Scenes: Herbert C. Hoover's Involvement in and Account of U.S.-Japan Diplomacy Right before Japan's Pearl Harbor Attack," *Doshisha American Studies*, No. 35 (March 1999). This article is in Japanese. With regard to American steel companies, see one report and the cables in the following microfiches in the Ayukawa Papers: in Microfiche Number 922.22, pp. 168-72 and 179, "Gaishi Mondai Keika Hokoku (Report on the Problems concerning Foreign Capital, Equipment, and Technology)," July 20, 1939, pp. 10-14 and 21; in Microfiche Number 516.2, Mangyo to Moedlhammer, November 25, 1938 (Japanese translation); Moedlhammer to Mangyo, November 27, 1938 (Japanese translation); Moedlhammer to Mangyo, November 29, 1938 (Japanese translation); Moedlhammer to Mangyo, December 2, 1938 (Japanese translation); Moedlhammer to Mangyo, December 8, 1938; Moedlhammer to Mangyo, December 10, 1938 (Japanese translation); Moedlhammer to Mangyo, December 12, 1938 (Japanese translation); Moedlhammer to Mangyo, December 18, 1938 and its Japanese translation; Moedlhammer to Mangyo, December 20, 1938; Moedlhammer, December 28, 1938 (Japanese translation); Moedlhammer to Mangyo, December 29, 1938 (Japanese translation); Moedlhammer to Mangyo, January 6, 1939 (Japanese translation); Moedlhammer to Mangyo, January 7, 1939 (Japanese translation); Moedlhammer to Mangyo, January 11, 1939 (Japanese translation); Moedlhammer to Mangyo, January 13, 1939 (Japanese translation); Moedlhammer to Mangyo, January 15, 1939 (Japanese translation); Mangyo to Moedlhammer, January 16, 1939 (Japanese translation); and Moedlhammer to Mangyo, January 16, 1939 (Japanese translation); in Microfiche Number 516.3, Moedlhammer to Mangyo, January 7, 1939; Moedlhammer to Mangyo, January 11, 1939 (Japanese translation); Moedlhammer to Mangyo, January 16, 1939; Moedlhammer to Mangyo, January 21, 1939; a cable from New York to Mangyo, January 30, 1939 (Japanese translation); and Director Asahara to Mangyo, February 1, 1939 (Japanese translation).
- 21 See the following in Microfiche Number 516.3 of the Ayukawa Papers: J. & W. Seligman & Co. to Moedlhammer, February 8, 1939; Moedlhammer to Aikawa (Ayukawa), February 10, 1939; H. O. Schundler

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to Moedlhammer, February 11, 1939; the record of a phone conversation between President Ayukawa in Tokyo and Genshichi Asahara in New York City, February 3, 1939; and Moedlhammer to Aikawa (Ayukawa), February 10, 1939. See also the following in Microfiche Number 516.4: "Plan A and Plan B" that was attached in a letter from Schundler to Moedlhammer, February 11, 1939 in Microfiche Number 516.3; the record of a phone conversation between President Ayukawa and Director Genshichi Asahara, March 14, 1939; and telegram from Moedlhammer to Ayukawa, March 27, 1939. Moedlhammer's letter to Ayukawa on February 10 covers the major points up to then regarding Moedlhammer's pursuit of business talks on credit and on steel exports as revealed in the telegrams and their Japanese translations. Moedlhammer states in this letter the steel executives' interest in the business, provided that the government gave a tacit approval so that their business with Manchukuo would not be a cause for denying them the much more lucrative defense contracts. During their phone conversation on March 14, 1939, Asahara and Ayukawa reveal that Moedlhammer's "friend" who is serving as an intermediary with influential bankers and businessmen is H. O. Schundler; this is also confirmed by the Austrian's March 27 cable to Ayukawa. Schundler claimed in his February 11 letter to Moedlhammer that the financial consortium organized by Seligman had planned to finance 20 million dollars for Mangyo's planned purchase of iron and steel products from U.S. Steel and Bethlehem Steel. On the other hand, the July 1939 report by Mangyo stated that the Seligman project and the steel project were separate business negotiations. "Gaishi Mondai Keika Hokoku (Report on the Problems concerning Foreign Capital, Equipment, and Technology)," July 20, 1939, pp. 13-14, Microfiche Number 922.22 p. 171-72, the Ayukawa Papers. With regard to Ayukawa's firing of Moedlhammer, see the following record, letters and cables in Microfiche Number 516.4: Ayukawa's phone conversations with Asahara on March 14, 1939; two cables from Moedlhammer to Mangyo, March 21, 1939 (Japanese translation); Moedlhammer to Mangyo, March 23, 1939 (Japanese translation); Moedlhammer to Mangyo, March 24, 1939 (Japanese translation); two cables from Mangyo, one to Moedlhammer and one to Asahara, March 23, 1939 (Japanese translation); Moedlhammer to Mangyo, March 25, 1939; Moedlhammer to Mangyo, March 27, 1939; Mangyo to Moedlhammer, March 28, 1939; Moedlhammer to Mangyo, April 6, 1939; Moedlhammer to Asahara, March 28, 1939; Forrest F. Single to Asahara, March 31, 1939; Schundler to Asahara, March 30, 1939; The National City Bank of New York to J. W. Murray, April 4, 1939; Murray to Single, April 12, 1939; and Murray to Schundler and Moedlhammer, April 13, 1939. The Seligman Company's view on Mangyo's counterproposal is found in Moedlhammer to Mangyo, January 22, 1939 (Japanese translation); and Mangyo to Moedlhammer, February 13, 1939, Microfiche Number 516.3, Ayukawa Papers. For the discussion between Breck and Hamilton, see *Foreign Relations of the United States, 1939, Volume III: The Far East* (Washington, D.C.: GPO, 1955), pp. 494-95.

- 22 See the following in "China and Japan Trip File," Box 17, John Foster Dulles Papers, Seeley G. Mudd Manuscript Library, Princeton University, Princeton, N.J.: James A. Mackay to Boies C. Hart, February 10, 1938; John B. Grant to John Foster Dulles, February 10, 1938; Mackay to Dulles, February 28, 1938; and "Trip to Hankow," p. 13. For the National City Bank's support for the recognition of Manchukuo since 1933, see Mira Wilkins, "The Role of U.S. Business," *Pearl Harbor as History: Japanese-American Relations, 1931-1941* (New York: Columbia University Press, 1973), p. 360. For the State Department's view of the National City Bank's activities and the developments in the Department's policy to request American banks in China to cooperate with British and French banks to oppose Japanese monetary and banking policy in

- North and middle China, and for Guy Holman's comment regarding China to State Department officials on March 10, see the following pages in *Foreign Relations of the United States: The Far East, 1939, Vol. III* (Washington: GPO, 1955), pp. 376-81, 397-401, 404-5, 408-9, 412-15, 420-21, 424-25, and 441-42.
- 23 Hornbeck to Hull, August 1, 1939 and Hart to Hornbeck, October 20, 1939, "Hart, Boies," Box 199; and Renschler to Hornbeck, September 12, 1939, "National City Bank," Box 305, Stanley K. Hornbeck Papers, Hoover Institution on War, Revolution and Peace, Stanford University, Palo Alto, California. The National City's executives who met with Hornbeck and Grew were Joseph H. Durrell, Senior Vice President of overseas operations, John L. Curtis, Supervisor of Japanese branches, John T.S. Reed, Manager of Shanghai branch, and Guy Holman, Assistant Vice President of the Far Eastern Division.
  - 24 *Foreign Relations of the United States* (Washington, D.C.: GPO, 1955), p. 482; and Memorandum for Mr. Lamont, September 1, 1938, Lamont to Count Ayske Kabayama, September 8, 1938, and Lamont to Richard J. Walsh, October 16, 1939, Box 188, Thomas W. Lamont Papers, Baker Library, Harvard University, Boston, Mass..
  - 25 See "Gaishi Mondai Keika Hokoku (Report on the Problems concerning Foreign Capital, Equipment, and Technology)," Microfiche Number 922.22, the Ayukawa Papers.
  - 26 Ayukawa mentioned in his interrogation record during the preparation for the war crimes trial that Mangyo's Manchuria Heavy Industry and Mesta signed an agreement for a joint venture in which Mesta planned to finance one million dollars; see Microfiche Number 163.1, pp. 40-41, Ayukawa Papers. In addition, see "Gaishi Mondai Keika Hokoku (Report on the Problems concerning Foreign Capital, Equipments, and Technology)," pp. 4-7, Microfiche Number 922.22, pp. 162-65, the Ayukawa Papers. For Powell's talk with State Department officials see *Foreign Relations of the United States*, pp. 488-89. For Yano's involvement in negotiations with Mesta, see Tatsunosuke Takasaki, *Manshu no Shuen* (Tokyo: Jitsugyo no Nihonsha, 1953), p. 132; and Naoki Hoshino, *Mihatenuyume: Manshukoku Gaishi* (Tokyo: Daiyamondosha, 1963), p. 289. For the legal documents agreed between Mesta and Mangyo see Microfiche Number 511.2 of the Ayukawa Papers. For telegrams between Mangyo and Mesta, see the following in Microfiche Number 517.2: Powell to Ives, April 21, 1939; Kohiyama to Ayukawa, April 22, 1939; and Fukutomi to Kohiyama, April 22, 1939 (Japanese translation). As for the information on the joint venture between United Engineering and Shibaura Seisakusho, see Masaru Udagawa, "Business Management and Foreign-Affiliated Companies in Japan before World War II," in *Foreign Business in Japan before World War II*, Takeshi Yuzawa and Masaru Udagawa eds. (Tokyo: The University of Tokyo Press, 1990), pp. 12-13.

