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#### IV. CONDITIONS FOR THE SETTLEMENT OF THE BORDER PROBLEM

The creation of a new situation resulting from the birth of Manchoukuo and the subsequent gradual strengthening of the New State's frontier defences along with its administrative readjustment gave Soviet Russia, which had hitherto virtually controlled the Manchoukuo-Soviet border regions with her military power, a pretext to concentrate a huge army in the Far East allegedly for the purpose of eradicating the so-called new menace in the Far East. The real purpose of the Soviet military concentration soon became apparent as Soviet troops began to bring pressure to bear upon Manchoukuo while committing one border violation after another. Statistics show that no less than three hundred frontier incidents have occurred since the foundation of Manchoukuo.

The press of both countries has widely reported these border incidents, but invariably with utterly conflicting versions, each side blaming the other for the occurrence of the incidents. Without going into the immediate cause of each incident, any disinterested third party should readily be able to realize that the root of the border disputes lies in the lack of equilibrium between the Soviet and Manchoukuo military strengths in the frontier regions. The atmosphere created by the frontier disputes seems so menacing as to subvert normal international relations from their very foundation. Among the incidents still fresh in the writer's memory are the Chinchangkou and Changlingtzu incidents.<sup>7</sup>

<sup>7</sup> Chinchangkou Incident: On January 29, 1936, 108 soldiers belonging to the Manchoukuo garrison stationed at Chinchangkou, west of No. 22 boundary-mark on the eastern Manchoukuo-Soviet border, rose in mutiny, and, after slaying three officers, looting Government property, and setting fire to the

The lack of a clearly demarcated boundary line between the two countries has been the direct cause of many border incidents. This may be proved by the fact that there are only about 10 boundary-marks along the eastern frontier between the Tumen River and Lake Khanka, a distance of 632 kilometres through dense forests and mountainous districts. Save for the ten frontier-marks which stand apart at an average distance of 63.2 kilometres, there is no landmark whatever to show the location of the boundary.

Motivated by a desire to put an end to these border incidents, which formed the chief obstacle to the establishment of friendly relations with Soviet Russia, the Manchoukuo Government last year proposed to Moscow the establishment of a joint Manchoukuo-Soviet border demarcation commission and another joint commission for the settlement of frontier disputes. Though once accepting Manchoukuo's proposal in principle, the U.S.S.R. virtually abandoned the negotiations thereon, avowedly because of the conclusion of the Japan-German Anti-Comintern Agreement. Such an attitude on the

barracks, fled into Soviet territory. Receiving a report of the mutiny the following day, a Manchoukuo-Japanese detachment stationed in the neighborhood, traced the path of the fleeing soldiers, to investigate the affair, and upon reaching a spot near the boundary line, 8 kilometres southwest of No. 22 boundary-mark, it was suddenly fired upon by deserters and Soviet soldiers numbering about 100 or more, who had made an illegal entry into Manchoukuo territory. In self-defence, the Japanese-Manchoukuo troops retaliated, and the fighting resulted in 12 deaths and 12 wounded on the Japanese-Manchoukuo side, and one death on the Soviet side.

Changlingtzu Incident: This incident was caused by the lawless firing upon a Japanese army surveying party by Soviet frontier guards on March 25, 1936, in the vicinity of Changlingtzu, Hunchun-hsien. The Japanese were subsequently reinforced by 90 Manchoukuo soldiers and the Soviets by 400 soldiers, and in the hectic fighting which ensued, 4 Manchoukuo soldiers were wounded and 20 Soviet soldiers were killed or wounded.



part of the Soviet Union obviously does not benefit either party; on the contrary it only tends to retard the restoration of peaceful conditions along the frontiers, upon which the future stability of the Far East largely depends.

In concluding this article, the writer wishes to enumerate, for the purpose of reference, the following conditions which he believes are necessary for an amicable settlement of the Manchoukuo-Soviet border issue:

1. Both countries must avoid resorting to force in an attempt to bring about a settlement of any disputes and should strive to readjust their relations through political negotiations, thereby paving the way for a solution of the vexatious border question.

2. Each country should refrain from adopting policies aimed at the attainment of its selfish ends and also measures which might serve to divert the attention of the other to its own advantage.

3. Through negotiations, any portions of the boundary which are not clearly defined should be immediately surveyed in order to determine the ownership of lands, rivers and islands along such sections of the boundary.

4. When former treaties and other data are used in frontier demarcation, both countries should look at matters from a broad standpoint and pass fair and appropriate judgment upon any controversial points instead of disputing about insignificant clauses and interests which have only a partial bearing upon the question as a whole.

Finally, Russia must realize the dangerous game she is playing by continuing her highhanded military measures along the frontier, which have a marked resemblance of her actions at the time of the conclusion of

the Aihun Treaty and which, unless abandoned, may eventually force Japan and Manchoukuo to adopt a firmer policy toward the U. S. S. R.





### A CHRONOLOGY OF THE NORTH MAN- CHURIA RAILWAY TRANSFER NEGOTIATIONS

The Soviet-Manchoukuo negotiations for the transfer of the ownership of the North Manchuria Railway, formerly the Chinese Eastern Railway, reached a happy conclusion on March 23, 1935. The passing from the Russian hands of the North Manchuria Railway, erstwhile the backbone of Czarist Russia's traditional policy of Far Eastern penetration and recently the chief medium of Red propaganda in Manchuria, clearly marks the end of an epoch during which the Western Imperialism, either openly or covert, had made an easy prey of the Far East, especially China. The event is necessarily epochal and bears a tremendous international significance.

#### I

The proposal for the sale of the North Manchuria Railway was first officially made by M. Maxim Litvinov, Soviet Commissar of Foreign Affairs, to the Japanese Government through Ambassador Tamekichi Ota on May 2, 1933. In the course of that historic interview, M. Litvinov proposed (1) that the best way to avoid all future difficulties concerning the North Manchuria Railway would be either for Japan or Manchoukuo to buy the said line, (2) that the Soviet Union is ready to recognize Manchoukuo should either Japan or Manchoukuo decide to buy the same, and (3) that the Soviet Union is willing to consider in principle the deferred payment for the payment of the agreed sale price. Count Yasuya Uchida, then Tokyo's Foreign Minister, believed that Manchoukuo within whose territory the railway

runs is better qualified to buy the said railway and immediately referred the Soviet offer to the Hsinking Government. Hsinking was quite willing to consider it. Consequently, the Tokyo Foreign Office replied to the Soviet Government on May 29: (1) that it would be better for Manchoukuo to buy the line on the basis of the Soviet-Mukden Agreement of 1924 and that Japan is prepared to offer her good offices to materialize such negotiations, (2) that the current value of the North Manchuria Railway should be first calculated and the method of compensation should be taken up in the negotiations thereafter, and (3) that Tokyo would be the most suitable seat for such negotiations. On June 3, M. G. J. Sokolnikov, then Moscow's Vice-Commissar of Foreign Affairs, assented to the offer in the name of the Soviet Union and suggested to begin actual negotiations at Tokyo on June 25.

For the purpose of the proposed historic negotiations, the Manchoukuo Government named as its representative Lieutenant-General Ting Shih-yuan, Manchoukuo Minister to Japan, assisted by Mr. Chuichi Ohashi, Vice-Minister for Foreign Affairs at Hsinking. The Soviet Union appointed as its chief delegate M. Constantine Yurenev, Soviet Ambassador to Tokyo, and as his assistants M. Vladimir Kozlovsky, Chief of the Far Eastern Division of the Commissariat of Foreign Affairs, and M. S. M. Kuznetsov, Vice-Director of the North Manchuria Railway. Count Yasuya Uchida, Foreign Minister, and Mr. Mamoru Shigemitsu, Vice-Minister for Foreign Affairs, were named to represent the Tokyo Government.

Previous to this, on May 9, just one week after Litvinov's proposal, the Nanking Government presented



its protest to Moscow against such a transfer of a Soviet-China joint property and announced that it can not be disposed of unilaterally under treaties without the concurrence of the Chinese Nationalist Government. Two days later, on May 11, M. Litvinov announced through the Tass agency that the Peking and Mukden Agreements of 1924 do not prevent the Soviet Government from selling the North Manchuria Railway to the *de facto* government in Manchuria which is actually exercising the rights according to those Agreements. Moreover, he insisted that the Nanking Government has completely neglected its responsibility as a joint manager of the line and forfeited the power to use that right by suspending the partnership for 18 months. By these events, he concluded, the Nanking Government had legally and morally nullified its treaty rights over the North Manchuria Railway.

Another interlude occurred on June 13 when Ambassador Yurenev suddenly called upon Mr. Shigemitsu at the Foreign Office and proposed that Manchoukuo, as a preliminary for the negotiations, should restore the through freight traffic on the eastern division of the North Manchuria Railway. Mr. Shigemitsu answered that the question would be solved automatically with the settlement of the alleged Soviet transfer of rolling stock and locomotives of the line beyond the Manchoukuo border and that Manchoukuo desires to settle this pending matter separately from the question of the sale of the North Manchuria Railway.

The last interlude which also had a direct bearing upon the historic negotiations about to begin occurred on June 26, the day when the negotiations were actually launched, when the French Ambassador called attention

of the Japanese Government to the French capital involved in the construction of the then Chinese Eastern Railway and reserved the right to use French shareholders' rights and privileges. Mr. Shigemitsu replied that the Japanese Government is not directly concerned with the question of the North Manchuria Railway deal and that it assumes no responsibility with regard to the execution of such matters.

With these preliminaries smoothly disposed of, the way was now clear for the epochal Soviet-Manchoukuo negotiations for the ultimate transfer of the North Manchuria Railway through the good offices of the Japanese Government.

## II

The first session of the official negotiations between Manchoukuo and the Soviet Union for the proposed transfer of the North Manchuria Railway was held on June 26, 1933, at the official residence of Japanese Vice-Minister for Foreign Affairs in Tokyo. There were present, in addition to the respective representatives already named, Mr. Haruhiko Nishi of the European and Asiatic Bureau of the Foreign Office and Colonel Sadaichi Suzuki of the Army Department, as observers. Count Uchida welcomed the representatives, expressed the hope for the successful conclusion of the negotiations, and affirmed the continued offer of the good offices of the Japanese Government. Lieutenant-General Tinge stated, among other things, that the North Manchuria Railway is the vestige of Czarist Russia's Far Eastern policy and is an unnatural existence to-day, that its continuation under the present status would merely supply the cause of future difficulties, and that Manchoukuo is willing to



consider any reasonable offer although the economic value of the line has become practically nil, and hoped for the successful conclusion of the deal for the peace of the Far East and in acknowledgment of Japan's good offices. Ambassador Yurenev in a lengthy statement assured the friendly relations, affirmed that the solution of the North Manchuria Railway question would have a tremendous significance upon the future development of Manchoukuo, recalled the Manchoukuo note of March 12, 1932, which assumed responsibilities appertaining to the Peking and Mukden Agreements of 1924 with regard to the North Manchuria Railway, and joined the others in wishing for the successful conclusion of the negotiations through Manchoukuo's sincerity and Japan's positive and friendly cooperation.

The second session was held on June 28, but it went no further than the organization of the conference and the discussion of the matters relating to procedure. It was agreed to begin the actual business of the proposed negotiations on July 3.

As the third session opened on July 3, the cards were laid on the table by the representatives of the Manchoukuo and Soviet Governments. The principal points of the Soviet proposals may be summarized as follows: (1) that the price of the transfer of the North Manchuria Railway, the property of which was carefully described, shall be 250,000,000 gold roubles; (2) that one-half of the said price may be paid in the form of goods which shall be delivered within two years and one-fourth of the remainder in cash and the balance in Manchoukuo securities, guaranteed by the Japanese Government, bearing 4 per cent interest and redeemable in three years; (3) that the freedom of transit shall be

guaranteed for the freight and passengers of the Soviet railways over the North Manchuria Railway free of customs duties and all other official fees, and that a definite amount of freight of the North Manchuria Railway shall be preserved for the Ussuri Railway; and (4) that the persons and properties of the Soviet employees of the North Manchuria Railway, including retirement allowances and dismissal at least after two years, shall be guaranteed by a separate agreement. Against these offers and proposals, the Manchoukuo spokesman proposed: (1) that Manchoukuo is willing to pay 50,000,000 yen for the line in question and all of its appurtenances, the method of the payment of which price shall be dealt with later; (2) that, upon conclusion of the transfer agreement, a Soviet-Manchoukuo Committee shall be named to effect the transfer within one month and the transfer shall be completed within three months; (3) that the Soviet Union shall assume all responsibilities concerning the liabilities of the North Manchuria Railway, including the demand of any third party concerning the transfer, both before and after 1917 up to the date of the transfer; and (4) that the Soviet Union shall surrender all papers relating to the North Manchuria Railway and its affiliated undertakings, including the share certificates, debentures, and claims certificates of the old Chinese Eastern Railway.

The Soviet contention was somewhat as follows: that the total investments in the railway up to 1932, including the construction expenses, exclusive of a sum totaling 178,570,000 gold roubles which were expended by the Czarist Government during the early years of the line for maintenance and operation and also for making



good the financial deficit, amount to 411,691,976 gold roubles; that the sale price of 210,000,000 gold roubles is proposed in due consideration of the depreciation of equipments and the decrease in the line's economic importance on account of the construction of various new lines; that the estimated value of the extensive railway and forest areas amounts to 40,000,000 gold roubles, making the total transfer value 250,000,000 gold roubles; and that the Soviet Union would transfer all assets and liabilities of the line to Manchoukuo under the proposed price.

Opposed to these views, Manchoukuo maintained: that the current economic value of the North Manchuria Railway is very small and is becoming smaller with the development of the Manchoukuo railway program; that the value of the railway property, largely consisting of deteriorated rails with rotting sleepers, the gauge of which must be completely renovated at a considerable expenditure, old and neglected rolling-stock, and antiquated equipments, is also very small; that the railway land had been originally offered by China without compensation; that the entire line could be built and equipped to-day for 130,000,000 yen and that, therefore, the line is worth 65,000,000 yen due to its decrepit conditions as described; that Manchoukuo has a rightful claim to one-half of the line's interests and that, naturally, Manchoukuo needs to pay only 32,500,000 yen; but that Manchoukuo is willing to pay 50,000,000 yen out of courtesy and for the benefit of future Manchoukuo-Soviet relations. In short, the Soviet Union made the amount of actual investments as the basis of fixing the transfer price, while Manchoukuo took into consideration the current value of the railway.

Furthermore, the gap between the two proposed prices was greater than as it actually appears as the Soviet price, in term of Japanese paper currency and its own proposed exchange rate, namely, 1.04 gold yen or 2.50 yen in paper currency, would become 650,000,000 yen or more than twelve times larger than the Manchoukuo price.

These opposing contentions naturally led to the question of ownership which became the chief subject of discussion during the fourth session on July 5. Ambassador Yurenev quoted all available documents to establish the Soviet claim. Among them were the Peking Agreement of 1924 (Article 9, Section 2, and Article 7), the Mukden Agreement of 1924 (Article 1, Sections 2, 7, and 12), the Manchoukuo Declaration of March 12, 1932, and the report of the Pacific and Far Eastern Committee of the Washington Conference in 1922 (presented on January 23, 1922). He also made implied references to the preliminary conversations for the same purpose. Against this contention, Mr. Ohashi maintained that there is no treaty provision whatsoever which clearly proves the Soviet ownership of the railway, that the mere provision of funds for the construction does not constitute the ownership of the lines built, that the Soviet Government in 1917 had renounced all secret agreements including the one which became the basis for the construction of the Chinese Eastern Railway, that the Karakhan declarations of June 25, 1919, and September 27, 1920, announced the Soviet intention to return to China without compensation the railway in question together with all other rights which the Czarist Government had extracted from China, and that China merely gave to Russia the right of joint management under the Peking and



Mukden Agreements. Even if the Soviet ownership is allowed to stand, such ownership was only partial since the Peking and Mukden Agreements of 1924 placed the line under the joint management of the Soviet and Chinese (now Manchoukuo) authorities concerned on an equal footing and on condition that the business proceeds of the line be divided equally between the two parties concerned, the Soviet Government promising to return it to China free of charge after thirty years. He also refuted several pertinent points in the Soviet statement previously presented. After heated discussions which saw no indication of a solution, Mr. Ohashi finally proposed to continue an exchange of views in an unofficial capacity.

The fifth official session was held on July 14. The Soviet delegate presented a lengthy and detailed statement in which the Soviet contentions, especially that of ownership, were reiterated and maintained, and the Manchoukuo representative refuted the general thesis, reserving the detailed rebuttal to the next meeting. The negotiations thus made no progress and the both sides agreed to supplement the official sessions by unofficial conferences.

The unofficial *ad interim* conference was held on July 25 between Mr. Ohashi and M. Kozlovsky, followed by another on July 28 between Mr. Ohashi and M. Kuznetsov, but nothing was accomplished.

Then came the sixth official session on August 4. Lieutenant-General Tinge presented a detailed statement as promised, refuting at length the ambiguous contentions of the Soviet delegation. M. Yurenev reserved comment on the Tinge statement but announced, for the purpose of pushing the negotiations, Moscow's wil-

lingness to reduce the price to 200,000,000 gold roubles. From that session, however, the negotiations were transferred to unofficial *ad interim* conversations. Thus the negotiations faced the first difficulty in connection with the question of Soviet contention relating to the ownership of the North Manchuria Railway.

### III

Since the opening of the negotiations in June, public opinion in Russia gradually stiffened with regard to the proposed sale of the North Manchuria Railway. This was largely due to the success of various Soviet peace moves in Europe which tremendously increased the Soviet prestige, the military preparations and propaganda of the Far Eastern Division of the Soviet Army under the leadership of General V. K. Blücher, and the belief that the sale price of the North Manchuria Railway will not materially help the second phase of the Soviet five-year plan, especially in view of Japan's weak economic position. Under such circumstances, the Soviet delegation was forced to proceed slowly and the *ad interim* conversations constituted a welcome medium to count the time.

The first *ad interim* session met on August 8. Mr. Ohashi and Mr. Mori represented Manchoukuo, while M. Kozlovsky and M. Kuznetsov represented the Soviet Union. The Soviet delegation urged the Manchoukuo delegation to raise its bid in response to the Soviet reduction and proposed the discussions of various points in the Soviet proposal. The Manchoukuo delegation, in reply, urged the Soviet delegation to reduce its offer further and indicated the uselessness of detailed discussions as the arguments are bound to flow on endlessly.



Both parties agreed to refer the matter to their respective home Governments.

The second *ad interim* session on August 12, saw no progress except the creation of a technical committee and an agreement to take up the rouble-yen exchange rate at the following session.

At the third *ad interim* session on August 17, the Manchoukuo delegation proposed the rate of 25 sen per gold rouble, but the Soviet delegation refused to divulge its offer under pretext of not yet receiving instructions from Moscow. M. Kozlovsky, in commenting upon the Manchoukuo proposition, insisted that it has no rational basis except in making the Manchoukuo offer of 50,000,000 yen the same as the Soviet offer. The discussions of technical matters by a committee created therefor were postponed until the Soviet offer was made on the exchange question.

The fourth *ad interim* session met on August 23. The Soviet delegation again failed to announce the Soviet offer for the proposed rouble-yen exchange rate but demanded, instead, the initiation of a simultaneous discussion of technical questions. The Manchoukuo representative pointed out the uselessness of technical discussions without reaching an agreement upon the exchange rate. Discussions of various subjects lasting for six hours gave no indication of progress whatsoever.

The deadlock was thus imminent as the month of August ended. On September 6, Mr. Ohashi and M. Kozlovsky in vain held a secret session at Kamakura for the purpose of speeding up the otherwise static negotiations. It was at this delicate juncture that Mr. Koki Hirota succeeded Count Uchida as Tokyo's Minister for Foreign Affairs. The negotiations continued

through Mr. Hirota's friendly interposition.

The fifth *ad interim* session was held on September 22. The Soviet delegation continued to withhold its proposal for the exchange question and again urged the Manchoukuo delegation to raise its offer. The Manchoukuo delegation insisted that the Soviet delegation should make its exchange proposal first and the discussions dragged on hopelessly. The presence of M. Baluy-sinikov, a technical expert just arrived from Moscow, naturally did not help the situation.

Two days later, on September 24, the Manchoukuo authorities caused the arrest of six Soviet employees of the North Manchuria Railway for flagrant misdemeanours, including responsibility for the illegal removal of North Manchuria Railway rolling stock into the Soviet territory and red propaganda. Moscow charged this event as a move to favorably affect the pending negotiations on the part of Japan and Manchoukuo and published through the Tass agency the alleged Japan-Manchoukuo plan to capture the North Manchuria Railway including the alleged communications between General Hishikari and the Tokyo Foreign Office. Thus, both the Soviet-Manchoukuo and Japanese-Soviet relations suddenly assumed a grave appearance.

#### IV

As a result of Hirota-Yurenev conversations, however, and following the release on February 14, 1934, of the arrested Soviet employees, the negotiations saw a new light of resumption. Among other things, Foreign Minister Hirota, in order to assure a smoother progress of discussions, persuaded Ambassador Yurenev to present the Soviet offer in term of yen. Thus, on February



26, the new Soviet proposals were communicated to Foreign Minister Hirota. Moscow now proposed that the transfer price shall be 200,000,000 yen; that the entire assets and liabilities of the Railway shall be transferred to Manchoukuo; and that Manchoukuo shall provide for the retirement allowances of the Soviet employees of the line. Upon further inquiry, the Soviet Ambassador announced that the Railway's responsibility for the retirement allowances of its employees total 16,780,000 yen, while the assets include 7,300,000 yen in cash and 23,000,000 gold roubles due from the Japanese Army, which total being enough to cover the liabilities. These proposals and figures were communicated to Hsinking which cast much doubt as to the figures relating to the retirement allowances but agreed to present its views thereon should the negotiations be resumed. Mr. Hirota relayed on April 21 Hsinking's desires to Ambassador Yurenev who, on April 24, acquiesced with the proposal for the resumption of the negotiations. With these preliminaries, the Soviet-Manchoukuo negotiations were resumed late in April, after an interval of almost six months.

At the sixth *ad interim* session on April 26, Mr. Ohashi for the Manchoukuo delegation proposed: that the transfer price shall be 100,000,000 yen, thereby doubling the original offer; that the Soviet Government shall provide for the retirement funds; that Manchoukuo shall pay 30,000,000 yen of the said price in cash and the remainder in goods to be delivered within an agreed period; that Manchoukuo shall not assume any responsibility for the Soviet liabilities except those contained in the Soviet statement of March 22, 1934. The Soviet delegation withheld its comment and promised to ask

for Moscow's instruction thereon before the next session.

On May 3, Ambassador Yurenev called upon Foreign Minister Hirota and disclosed Moscow's instructions which requested a more sincere and rational proposal on the part of the Manchoukuo Government. Mr. Hirota advised that the Ambassador should communicate such request directly to the Manchoukuo delegation and urged the continuation of the Soviet-Manchoukuo parley. To this Ambassador Yurenev agreed on May 7 and the *ad interim* session was resumed on May 9.

At the seventh *ad interim* session thus opened, M. Kozlovsky answered the Manchoukuo proposal by maintaining that Manchoukuo logically should be responsible for the retirement allowances and that the new proposed price is not a concession as it merely includes the retirement allowances. Mr. Ohashi, however, insisted that the retirement allowances should be taken care of by the old management and not by the purchaser; that, moreover, the inclusion of the retirement allowances in the transfer price in this manner would merely deter the negotiations; and that the new price proposed is more than the value of the existing railway as the new line with new equipment could be built for 130,000,000 yen easily.

The eighth *ad interim* session on May 14 failed to shed any new light on the dragging negotiations and the unofficial conferences also faced the stone wall of deadlock.

# V

The negotiations were thus transferred back to the arena of Hirota-Yurenev conversations. On May 18, when Ambassador Yurenev called at the Foreign Office



in connection with another mission, Mr. Hirota took the occasion to urge the Soviet Ambassador to make a new offer based upon further concessions. A week later, on May 25, Ambassador Yurenev called upon the Tokyo Foreign Minister, conveyed the Soviet willingness, for the sake of speeding up the transfer negotiations, to make an additional reduction of 19,000,000 yen, and asked him to induce Hsinking to make corresponding modifications of its stand. Mr. Hirota reminded the Soviet Ambassador that as yet there is a deep gap between the two opposing proposals even if Hsinking is willing to make further concessions, and advised Moscow to make decided reduction of its offer in order to expedite a happy conclusion of the deal. Mr. Hirota continued to uphold this position whenever opportunity presented itself.

In the meanwhile, a new factor entered in the form of a successful rapprochement between Japan and China with regard to the solution of various pending questions relating to North China and the general softening of the Chinese attitude toward Japan. This was auspicious for the deadlocked Soviet-Manchoukuo negotiations. Thus, on June 26, Ambassador Yurenev called upon Mr. Hirota again and communicated the new Soviet offer of 170,000,000 yen as the transfer price of the railway, provided Hsinking will take care of the retirement allowances. Mr. Hirota then advised the reopening of the Soviet-Manchoukuo negotiations on that basis. This proposal the Soviet delegation was somewhat reluctant to accept and a pessimistic atmosphere prevailed among them, M. Kuznetsov finally leaving Tokyo for Harbin.

Under the circumstances, the Manchoukuo delegation decided to continue the negotiation with 135,000,000 yen for the railway and 30,000,000 yen for the retirement

allowances as the final maximum goal. This decision was later modified, making 150,000,000 yen as the maximum total offer. Consequently, Mr. Hirota presented to Ambassador Yurenev on July 23 the first Hirota proposal. The chief points in the Hirota proposal were that the price of the railway shall be 120,000,000 yen, of which 30,000,000 shall be paid in quarterly installments in cash within three years and the balance in goods within six years, and that Manchoukuo shall assume complete responsibility with regard to the retirement allowances. To this proposal was attached the Manchoukuo conditions: that the railway shall be transferred simultaneously with the signing of the agreement; that the Soviet employees of the North Manchuria Railway shall be dismissed within six months from the conclusion of the deal and that the dismissed former employees shall return to Russia within two months after the dismissal; that Manchoukuo shall assume responsibility with regard to the liabilities of the North Manchuria Railway as per the Soviet statement of March 22, 1934, and that the Soviet Union shall assume all others not mentioned therein and contracted thereafter; and that the two countries shall conclude a new agreement concerning telegraphic communications at an earliest date. Manchoukuo, of course, readily accepted the new proposal but the Soviet Ambassador merely promised to refer it to Moscow.

This time, however, Moscow quickly acted. Three days later, on July 30, Ambassador Yurenev presented a fresh Soviet proposal to Mr. Hirota: that the transfer price shall be reduced to 160,000,000 yen on condition that Manchoukuo assumes the responsibility for the retirement allowances; that two-thirds of the price shall be paid