

NO CHANGE in Class.

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Auth: DDA [redacted] Apr 77

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**CENTRAL INTELLIGENCE GROUP
INTELLIGENCE REPORT**

This document is hereby regraded to CONFIDENTIAL in accordance with the letter of 15 October 1978 from the Director of Central Intelligence to the Archivist of the United States.

DATE: [redacted]
Next Review Date: 2008
INFO. As stated

COUNTRY China

SUBJECT Economic Information: Sino-French Railroad Negotiations

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ORIGIN [redacted]

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DIST. [redacted]
PAGES 2 25X1X6
SUPPLEMENT

25X1A6a [redacted] Note: In late 1945 and early 1946 the French in Indo-China were faced with the problem of persuading the reluctant Chinese to withdraw their occupying forces from northern Indo-China. In February 1946, Clarac, Diplomatic Adviser to the High Commissioner of France in Indo-China, flew to Chungking to discuss the subject. He offered a high price, which included the following inducements: (a) equal privileges for Chinese business in Indo-China; (b) surrender of extraterritoriality; (c) the giving up of Fort Bayard; (d) the opening of Haiphong as a free port to Chinese commerce; and (e) joint Sino-French cooperation on the Haiphong-Yunnan Railway.)

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1. It is believed that no publicity was ever given to these terms in connection with the withdrawal of Chinese troops. At the time of the agreement (March 1946) it was implied that secret monetary considerations on a handsome scale were bestowed on Chinese officials and military commanders. A French businessman in Shanghai stated on 10 January 1947 that he believed one such secret provision may have been a French promise to complete the Szechuan Railway.

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2. Yunnan Railway

In the wake of the Chungking agreement, negotiations were opened concerning the details of revival and joint operation of the Haiphong-Yunnan Railway, but little progress was made. They are now completely stalemated, for reasons which are not clear. The portion of the road in Indo-China is being operated by the French, but on a somewhat limited scale because of the poor condition of the road and equipment.

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[redacted] Note: A report on this railway prepared by the Morrison-Knudsen Consulting Group in China, 12 July 1946, includes the following pertinent data: 450 kilometers of mainline meter-gauge track from Chanyi (103-48, 24-38) through Kuming to Pisechai (103-24, 23-26) is operating on a limited basis. The line from Pisechai to Hokow (103-58, 22-25) on the Indo-China frontier (177 kilometers) was dismantled in 1940. Damage caused by military activity along the remainder of the line was comparatively light, affecting

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only two steel bridges and one tunnel, which were blown up. The original section of 464 kilometers from Hokay to Kunning was built by the French in 1910. The section from Kunning to Chanyi was constructed during the war with materials from the dismantled section. The Morrison-Knudsen Report gives fairly complete information on the condition of the portion of the railway in Chinese territory. It provides no information on the section of the road in Indo-China.)

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3. Szechuan Railway

This railway, between Chungking and Chengtu, was begun before the war by a French syndicate. All the preliminary engineering work was completed, one half the tunnels and grading were finished, and an unstated amount of ballast had been laid down. However, less than ten percent of the actual construction of the road had been finished when operations were suspended because of the war. Negotiations for its completion were initiated not long ago between the French and the Chinese. It is estimated that the construction required will cost in French francs 1,800,000,000. The Chinese Government will issue fifteen-year notes for this amount, with proper provisions for amortization. These notes will then be guaranteed by the French Government and certain large French banks, and consequently will be rediscountable at the Bank of France. The banks concerned are the Banque de l'Indochine, Banque Franco-Chinoise, and the Banque de Paris et des Pays Bas. (Note: It is not known whether Lazard Freres, which was in the original syndicate, still has an interest.) The notes will therefore be acceptable as payment to the French suppliers of machinery and equipment. The method of paying the French technicians who will be employed is not yet determined. In view of the Chinese Government's past record of default, this might be considered a risky financial venture for the French Government, especially at a time when French finances are shaky. On the other hand it cannot involve a realized loss to the French in less than about five years, at which time it is hoped that French finances will be in better shape. It is believed that the real reasons the French Government is backing this scheme are (a) to give an impetus to French heavy machinery business and (b) to reestablish a foothold for French capital and technical ability in China. Negotiations between the French and Chinese had nearly reached a satisfactory conclusion, but have recently been suspended. It is believed that the reason for this is the current Chinese prejudice against foreign ownership of assets in China, and possibly a demand for "squeeze" by Chinese officials. It is thought, however, that the French will succeed in reaching an agreement, probably using as an excuse the "moral obligation" resulting from the commitment made as part of the agreement on the withdrawal of Chinese troops from Indo-China (see paragraph 1).

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