

EXHIBIT No. 3262

(15)



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AN OUTLINE REGARDING THE SETTLEMENT OF THE CHINA INCIDENT

(Note on the margin: Oct. 1 - Signatures of Premier, Army, Navy and Foreign Ministers)

General Provisions

1. General Policy:

The present incident will be brought to a speedy conclusion through the efforts of armed forces combined with timely diplomatic action and with making China abolish her anti-Japanese and pro-Communist policy, and establishing a truly bright and lasting friendship between Japan and China. We will make the realization of bringing about harmony and co-prosperity between Japan, Manchuria and China our main objective. In order to withstand lengthy use of military force, depending upon the situation, necessary measures will be taken to meet the need.

2. Military Operations:

Military operations will have China's speedy relinquishment of her hostile intention as their objective and the exercising of military force, the occupation of key points, and other various operations that become necessary for this objective, shall be taken as the occasion calls.

3. Diplomatic Measures:

The objective of the diplomatic measures will be to urge China's reconsideration of her hostile attitude towards Japan and induce her into a position that we desire. With China and third Powers, opportune negotiations and operations will be carried out. On concluding the incident, China will be made to give up her anti-Japanese and pro-Communist policies, and diplomatic negotiations will be conducted along lines of epoch-making diplomatic readjustment, unbiased by the past circumstances between Japan and China.

4. In employing military and diplomatic measures and other necessary steps involved in this operation, utmost care should be exercised not to overstep the limits fixed by international law.

CRITERION

1. Use of Military Force:

(1) The principal areas where land forces will operate are mainly Hopeh-Chahar and Shanghai.



(2) In areas where it is necessary, sea and air operations be conducted.

2. Preparations for total national strength:

To make the conducting of operations smooth and to cope with the possibility of a change for the worse in the international situation, various national functionary facilities such as, enforcement of nationwide mobilization, enactment of wartime laws, realization of durable national unity - will be resorted to, as it becomes necessary.

3. Plans to be taken in regard to North China:

The solution of the North China problem aims at the realization of co-existence and co-prosperity among the three countries - Japan, China and Manchuria, - its major objective being to truly make North China a bright and cheerful district under the Chinese Central Government.

4. Plans to be taken in regard to Central and South China:

In Central and South China, we look forward to a situation suitable for the advancement and development of Sino-Japanese trade and commerce.

5. Measures to be taken in regard to the rear-operation zones of North China:

Measures to be taken in regard to the rear-operation zones in North China during the incident will shake off the idea of its being occupied enemy territory, and for the most part the zone will be governed as follows:

(1) No administration will be conducted in the occupied territory; security will be maintained, however, under the leadership of military forces.

(2) The administrative organ will be left to independent organization by the natives; however, proper guidance will be given so that it may be made a bright institution.

(3) The management of a communication and exploitation of natural resources necessary for military purposes will be carried out under necessary control.

However, Items (2) and (3) above will not affect readjustment talks on diplomatic relations which take place after the amicable settlement.

6. Economic, Finance and Foreign Trade:



Matters relating to commerce, economics and finance between Japan, China and third Powers will be regulated with making China give up her hostile attitude as the main objective.

7. Relations with Third Powers:

Diplomatic policies towards third Powers and various operations connected with it will, along with having the third Powers entertain goodwill towards us on their own accord, be executed so as not to brew a conflict with them or invite their interference. In carrying out military operations and other measures involved therein, utmost care should be exercised so that they are in compliance with the main objective stated above.

8. Measures re (Japanese) Residents:

Relief will be administered to (Japanese) residents.

9. The concrete plans for the foregoing provisions will be decided separately.

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CONCRETE PLANS FOR THE OUTLINED  
POLICIES RE THE INCIDENT

The conditions for the settlement of the situation are for the most part as follows:

I North China:

(a) Establishment of demilitarized zones.

A designated area (probably a line linking the area adjacent to the Yungtinghe with Changkiakow) will be established as a demilitarized zone, where the maintenance of public peace and order will be entrusted to restrictedly-armed Chinese police.

(b) The minimum of the Japanese demands in North China.

(1) If necessary, Japan will reveal her intentions to voluntarily reduce, as much as possible, the number of our occupation troops and limit it to the number at the time of the outbreak of the incident.

(2) The Tangku Truce (Including the various arrangements concluded in accordance with this agreement. However, those arrangements concluded in accordance with the Peking (local) arrangements, such as, (1) the seizure of the Gateways of the Great Wall; (2) through traffic of railway; (3) establishment of custom houses; (4) mail service; and (5) air service,



will be excepted) and the Doihara-Chin-T-Chen Agreement, and Umezu-Young-Chin Agreement will be dissolved. (The Central Forces in Hopei will, of course, be withdrawn from the province.)

However, it is to be pledged that control over anti-Japanism and prevention of Bolshevization in the above-mentioned demilitarized areas will be strictly enforced.

(3) It is to be agreed that Hopei-Chahar and Eastern Hopei (Councils) will be abolished and that the administration of these areas will be conducted by the Nanking Government as she pleases. However, it is desirable that the administrative leaders of this area be influential for bringing about proper suitable the realization of Sino-Japanese friendly relations.

In connection with the above, Japan will make an agreement with China, aiming at Sino-Japanese economic collaborations. This, of course, is a collaboration depending upon joint management by the two countries on an equal footing.

## II Shanghai:

Establishment of demilitarized zone in Shanghai.

(1) A designated area around Shanghai will be established as a demilitarized zone, where the international police or the restrictedly-armed Chinese police will be responsible for maintaining peace and order; they will be assisted by the Settlement Municipal Police.

(2) With the above measures, it will become unnecessary for each country to retain their land forces in the settlement. (The anchorage of war-ships is not included in this)

## III The general readjustment of Sino-Japanese Relations.

Simultaneously or subsequently to the truce parleys stipulated in I and II, negotiations regarding the readjustment of Sino-Japanese relations will be conducted without being influenced by the past state of affairs between the two countries. The outline for the readjustment plan is as follows:

Upon the successful conclusion of the intended truce parley, the two countries shall issue a statement stating that they have entered upon a "New Deal" for the purpose of bringing about close friendship between the two countries.

### 1. Political side:

(1) China will grant formal recognition to Manchukuo.



(2) An anti-Comintern Pact will be concluded between Japan and China (anti-Comintern movements in the North China demilitarized zone will naturally be brought about by this Pact, but especially strict control will be enforced in this area).

(3) In addition to the abolition of the Hopoh-Chahar Council and Eastern-Hopei Regime as it is stipulated in the truce pact, Japan will, with regard to Inner Mongolia, also try to persuade China, through negotiations, to concede to Japan's righteous demands (provided in Item (2) ) in that area. (China will recognize the present status of Prince Teh in the SI and CHA Banners and they will be made a mutual zone between China and Manchukuo, the preservation of which both Japan and China will respect.

(4) China will undertake to exercise a strict nationwide control over anti-Japanism and to effect completely the Ordinance of Friendly Relations with Powers. (Naturally, especially rigid control will be taken over anti-Japanism in the demilitarized area in North China.)

2. Military Matters:

Free serial flights will be abolished.

3. Economic Matters:

(1) Reduction of custom tariffs on specific goods.

(2) Abolition of Eastern-Hopei special trade and restoration to the Chinese the freedom to control smuggling in the sea off the demilitarized areas.

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VARIOUS MATTERS TO BE TAKEN UP FOR  
NEGOTIATION SIMULTANEOUSLY WITH THE  
READJUSTMENT OF DIPLOMATIC RELATIONS

The plan regarding the settlement of the aforesaid situation is:

(1) to minimize the danger of future armed conflict between China and Japan by establishing demilitarized zones and so forth, along with,

(2) removing deep-rooted causes for clashes by general readjustment of diplomatic relations, and thus establish a truly bright friendship between China and Japan, based on newly-built-up diplomatic relations. Consequently, to solve the pending issues between the two countries amicably through normal conversations after establishment of a bright cheerful diplomatic relationship and to more strongly promote mutual understanding between Japan and



China, will be our goal. But along with the expansion of the aspects of war, the people's expectation of the fruits of war will grow larger and they will not be content with merely the normal and ordinary things but will be anxious to secure conditions of a more tangible nature, such as indemnities and so forth. Accordingly, in considering the internal situation, we must be consistent as much as possible in the spirit of being broad-minded in the settlement of the situation as stated above, and at the same time that we negotiate on the readjustment of diplomatic relations, we will take up the various conditions stated below:

#### Special Conditions

##### (A) Indemnities:

(Indemnities for the direct damages done to the Japanese owned properties and rights, which China has assumed the responsibility of protecting, and for the direct damages due to illegal use or disposal by China of Japanese owned properties and rights, and similarly caused damages.)

(b) Formation and operation of a large-scale Sino-Japanese joint syndicate which engages in the following enterprises:-

(1) Marine transportation: Merger of the China Merchants Navigation Company with the Nisshin Kisen (Sino-Japanese Steamship Co.) and Dairen Kisen (Dairen Steamship Co.)

(2) Aviation: (a) Operation of the Shanghai-Fukuoka, Tsingtao-Fukuoka, Fukien-Taipai (T. N. Northern Formosa) and Kwantung-Taipai lines. (b) Sino-Manchurian air service (with which are to be merged the lines under the management of Hwei-Tung Co.)

Whether the air service between Asia and Europe is to be operated as a joint enterprise by the syndicate, and whether this is to be dealt with in a special negotiation, - requires further study, but for the present the following items will be considered:

(c) The Asia-European Air Service Company will be amalgamated into the syndicate (German holdings in the company will be bought up by Japan).

(3) Railroads: (a) Construction and management of the Shantung Railroad and its branch lines. (b) Construction and management of the Tsingshih Railway. (c) Construction and management of the Chengtch-Peiping Railway.

(4) Mining: Gold, iron, coal mines in North China.



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(5) Agriculture and other suitable enterprises.

(C) Settlement of pending issues (the numbers at the head of the clauses show the order in which the issues will be settled):

(1) Conclusion of a Sino-Japanese tariff treaty, (the particulars are mentioned on separate list A.)

Reduction or removal of import and export duties.

(2) Removal or modifications of the ban and restrictions on import and export (for the particulars, refer to the separate list B.)

(3) Removal of restrictions on the production and export of salt.