CABINET COMMITTEE ON BRITISH SHIPPING IN THE FAR EAST.

REPORT.

AT their Meeting on the 8th September, 1937 (Cabinet 34 (37) Conclusion 2) the Cabinet agreed inter alia that a Cabinet Committee composed as follows:—

The Home Secretary (in the Chair),
The Secretary of State for Foreign Affairs,
The Secretary of State for Dominion Affairs (or Representative),
The President of the Board of Trade,
The First Lord of the Admiralty,
The Minister for Co-ordination of Defence, and
The Attorney-General,

should meet to examine the question of the Japanese taking further steps against British shipping than the mere verification of the right of British shipping to fly the British flag, and the measures to be adopted in that event. The Committee should also consider the possible reinforcement of British naval forces in the Far East and, should it be thought necessary or desirable to send such reinforcements, to advise as to the kind of reinforcement which could be contemplated.

Reinforcement of British Naval Forces in the Far East.

2. In pursuance of the latter part of our terms of reference we invited the Admiralty to furnish us with the views of the Naval Staff as to the possibility of reinforcing our naval strength in the Far East by two capital ships, bearing in mind the state of preparedness of the Singapore base and the effect of such reinforcement on the British naval forces in other parts of the world. We suggested that the question should be considered by the Naval Staff in the following circumstances:—

(1) On the assumption that the situation in the Mediterranean remains as at present; and
(2) In the event of a new situation arising in the Mediterranean with the discontinuance of piracy, as a result of the successful issue of the Nyon Conference.

3. We attach (Appendix I) a Note by the First Lord of the Admiralty covering a Memorandum by the Chief of the Naval Staff from which it will be seen that in Lord Chatfield’s view if a reinforcement of capital ships is to be sent to the Far East such a reinforcement must be in sufficient strength to defeat the full strength of the Japanese Navy, and that he is therefore of opinion that a reinforcement of two capital ships only should not be despatched to the Far East in either of the contingencies contemplated in (1) and (2) above. As will be seen from paragraph 8 of his Memorandum, Lord Chatfield states that so far as assistance to British nationals in China is concerned the naval forces already stationed in the Far East are adequate at the present time, and no suggestion has been made by the Commander-in-Chief in China that they should be reinforced. Moreover, should reinforcement for this purpose be desired such reinforcement could be better effected by cruisers and/or destroyers or escort vessels than by capital ships.
4. We are in full agreement with these conclusions of the Chief of the Naval Staff and we recommend the Cabinet to approve them.

Export of Munitions to China through Hong Kong.

5. The position in regard to this question is set out in a Note by the Colonial Office and a Memorandum by the Secretary of State for Foreign Affairs (attached as Appendices II and III to this Report), and may be briefly summarised as follows. Now that the transit of arms via French Indo-China and Macao has ceased, Hong Kong has become the only effective channel by which China can import the arms and munitions of which she is in extreme need. Moreover, in the events which have happened, Hong Kong is for the time being the only important channel for China's ordinary exports and imports. Hong Kong itself is choked with stores of arms and explosives and storage accommodation for the latter is very short. Such stores must be a temptation to saboteurs and the Acting-Governor has from this point of view characterised the position as one of embarrassment to the Colony.

6. Owing to great congestion in Hong Kong itself, and the constant interruption of the Kowloon–Canton railway by Japanese air action, the munitions which reach China from Hong Kong are a mere trickle compared with China's vast requirements. Anti-British agitation in Japan is rapidly increasing in strength, and is largely based on the fact that China is obtaining munitions through Hong Kong, quite irrespective of the quantity of munitions or their country of origin. The state of public opinion in Japan may at any time lead to some dangerous incident or to a decision by the Japanese Government to intensify the blockade, even if this involves a declaration of war on China. The existence of a state of war would have the most serious repercussions on British shipping in the Far East, and would be gravely disadvantageous to China—in all probability it would mean the complete cessation of her remaining export and import trade.

7. There seem only three courses of action open to us:

   (1) An embargo on the export of arms and munitions from Hong Kong;

   (2) An approach to the Chinese Government as contemplated in paragraph 4 of Appendix III, with a request to that Government to choose which they regard as the lesser of two evils—an embargo on the passage of arms through Hong Kong, or a Japanese blockade;

   (3) The maintenance of the present arrangements.

8. The adoption of (1) above might ease the position vis-à-vis Japan, though even so the Japanese Government might still decide on a formal declaration of war with China, and the intensification of the blockade. It seems clear, however, that an embargo on the export of the munitions from Hong Kong would be very much in favour of Japan and totally illogical if the policy is to be maintained of permitting the export of munitions from this country both to Japan and China. Moreover, it would be at variance with the League Resolution against weakening China's power of resistance and increasing her difficulties. British public opinion would no doubt be very strongly critical of an embargo on the export of munitions from Hong Kong in present circumstances, and on these grounds we are unable to recommend the Cabinet to entertain this proposal.

9. The second possible course, namely consultation with the Chinese Government, also appears to us to be open to grave objection. It seems very doubtful whether the Chinese Government would be willing to express a definite and unconditional preference for one or other of the two alternatives.

Even if that Government did express such a preference it would be very difficult for us to refuse to implement China's choice, although this might not be in our own best interests. There would be considerable risk of leakage, in which case our action might be regarded as an encouragement to Japan to intensify her blockade. Moreover, the Government would no doubt be severely criticised for passing on to China the responsibility for a decision which they themselves should take. We accordingly cannot recommend the Cabinet to entertain course (2).

10. The third course, namely, that we should for the present maintain the existing policy, appears to us to be open to less objection than the other two
alternatives. Accordingly we recommend the Cabinet to approve the maintenance for the present of the existing arrangements for the export of arms and munitions to China from Hong Kong.

The Supply of Arms and Munitions to Japan.

11. At their Meeting on the 6th October, 1937 (Cabinet 36 (37), Conclusion 7), the Cabinet agreed, inter alia, that the President of the Board of Trade should refer to the Cabinet in the event of any applications for licences to export arms to Japan. We are informed by the President of the Board of Trade that he has received three applications for licences to export arms to Japan, that in each case the munitions covered by the application are insignificant in amount, and that it would be contrary to our Treaty obligations to refuse. In due course the President of the Board of Trade will submit recommendations to the Cabinet regarding the three applications in question. It may be noted, however, that it would be much easier for us to answer Japanese complaints about the passage of arms and munitions into China from Hong Kong if we could point out that we had raised no difficulty in granting applications for licences to export arms and munitions to Japan.

The Assembly of Aeroplanes for China in Hong Kong.

12. The facts in regard to this matter are set out in the attached Memorandum by the Secretary of State for Foreign Affairs (Appendix IV) and in the telegram dated the 23rd October, 1937, from Mr. Howe (Appendix V).

13. The suggestion of the Chinese Government is that the Government of Hong Kong should allow the assembly, within the territory of the colony, of aircraft shipped thither in parts and for such aircraft when assembled to be flown from Hong Kong to Chinese territory.

14. We think that this proposal is open to grave objection. If agreed to, we should run a serious risk of getting involved in difficulties with Japan. The Japanese would be able to claim, with considerable justification, that, by giving facilities for the assembling of Chinese aircraft on aerodromes belonging to the British Government, we were directly assisting China in hostile action against Japan. Moreover, by assembling their aircraft on British territory, the Chinese Government would be safeguarding them to an extent that would be impossible if the assembling was carried out on Chinese territory. We agree with the Secretary of State for Foreign Affairs that there would be a serious risk of incidents in and over British territory if the Hong Kong land frontier with China was to be subjected to a close patrol by Japanese aircraft.

15. We also doubt whether, in the long run, the proposal would be advantageous to China. It might, in fact, result in fewer, and not more, aircraft reaching her owing to the counter-measures which Japan might take against aircraft as soon as they had left British territory. Apart from this, Japan might feel impelled to declare a formal state of war and resort to more intensive blockade and contraband measures, affecting trade by ships of all nationalities. Besides, in all probability, preventing any aircraft from reaching Hong Kong by sea, such measures would have wider harmful effect on Chinese interests.

16. We accordingly recommend the Cabinet not to entertain this suggestion of the Chinese Government, but to maintain the present arrangements, under which any aircraft reaching Hong Kong in parts and destined for China are forwarded in unassembled condition by such means of transport as are available. If this recommendation is adopted by the Cabinet, we suggest that it should be communicated to Mr. Howe by a telegram, the text of a draft of which will be found in Appendix VI to this Report.

17. Our conclusions and recommendations are as follows:—

(1) **Reinforcement of British Naval Forces in the Far East.**

We recommend the Cabinet to approve the conclusions of the Chief of the Naval Staff mentioned in paragraph 3 of this Report, viz., (a) that if a reinforcement of capital ships is to be sent to the Far East, such a reinforcement must be in sufficient strength to defeat the full strength of the Japanese
Navy, and that, accordingly, a reinforcement of two capital ships only should not be despatched to the Far East, either on the assumption that the situation in the Mediterranean remains as at present, or in the event of a new situation arising in the Mediterranean with the discontinuance of piracy, as a result of the successful issue of the Nyon Conference, and (b) that should reinforcement of the British Naval Forces in the Far East be found necessary for the purpose of assisting British nationals in China, such reinforcement could better be effected by cruisers and/or destroyers or escort vessels than by capital ships.

(2) Export of Munitions to China through Hong Kong.

We cannot recommend the Cabinet to entertain the suggestion that an embargo on the export of arms and munitions from Hong Kong should be imposed, or an alternative suggestion that an approach should be made to the Chinese Government with a request that that Government should choose between an embargo on the passage of arms through Hong Kong or a Japanese blockade. We accordingly recommend the Cabinet to adopt the only other alternative open to us, namely, that we should for the present maintain the existing arrangements for the export of arms and munitions to China from Hong Kong.

(3) The Assembly of Aeroplanes for China in Hong Kong.

We recommend the Cabinet not to entertain the suggestion of the Chinese Government that the Government of Hong Kong should allow the assembly, within the territory of the colony, of aircraft shipped thither in parts, and that such aircraft, when assembled, should be flown from Hong Kong to Chinese territory. We recommend the maintenance in this respect of the present arrangements under which any aircraft reaching Hong Kong in parts and destined for China are forwarded in unassembled condition by such means of transport as are available.

If this recommendation is adopted by the Cabinet, we suggest that the Secretary of State for Foreign Affairs should be authorised to communicate it to Mr. Howe by telegram, the text of a draft of which is given in Appendix VI to this Report.

Signed on behalf of the Committee:

SAMUEL HOARE,
Chairman.

2 Whitehall Gardens, S.W. 1,
November 12, 1937.
APPENDIX I.

(Most Secret.)

F.E.S. (37) 4

REINFORCEMENT OF BRITISH NAVAL FORCES IN THE FAR EAST.

Note by the First Lord of the Admiralty.

The attached memorandum on the Reinforcement of British Naval Forces in the Far East has been prepared by the Chief of Naval Staff for the information of the Cabinet Sub-Committee on the Far Eastern Situation, in accordance with Conclusion (b) of the First Meeting.

(Initialled) D. C.

2 Whitehall Gardens, S.W. 1,
September 23, 1937.

REINFORCEMENT OF BRITISH NAVAL FORCES IN THE FAR EAST.

Memorandum by the Chief of Naval Staff.

The Naval Staff have been directed to furnish the Cabinet Sub-Committee on the Far Eastern Situation with their views as to the possibility of reinforcements of British naval forces in the Far East by two capital ships, bearing in mind the state of preparedness of the Singapore Base and the effect of such a reinforcement on the British naval forces in other parts of the world.

2. The Naval Staff have been directed to consider the question in the following circumstances:

(i) On the assumption that the situation in the Mediterranean remains as at present, and

(ii) In the event of a new situation arising in the Mediterranean with the discontinuance of piracy as a result of the successful issue of the Nyon Conference.

3. It is presumed that the object of reinforcing our Far Eastern naval forces would be:

(a) Protection of British interests.

(b) The maintenance of British neutrality.

4. Under (a) may be classed the protection of British shipping at sea and the provision of such help as may be possible to British nationals resident in China.

5. So far as the protection of British shipping is concerned, the Japanese have, as yet, shown no intention of interfering beyond stopping merchant vessels if suspected of not being entitled to fly the British flag. This point has been conceded them, but there remains the possibility that the Japanese may later attempt to prevent the entry of contraband into China by applying their blockade to ships of other nations beside Chinese or by setting up a contraband control organisation. In either event, in the opinion of the Naval Staff, the correct policy for Great Britain to adopt would be to admit belligerency, declare our neutrality and instruct British merchant ships that they carry contraband at their own risk. There would no doubt be disputes with the Japanese over what articles should be included in the list of contraband, and there might be claims presented to the Japanese Government for unnecessary delays to shipping, &c., but these disputes and claims would best be dealt with by diplomatic action.

6. Naval Action would only be required if the Japanese greatly exceeded their rights under International Law, or used unnecessary force to exact obedience from a merchant ship. It would be, in the opinion of the Naval Staff,
a mistaken policy to use our naval forces in a manner comparable to that in which they have been used in Spanish waters, i.e., to give protection on the high seas against interference by the naval forces of a nation obviously actually at war whether or not a state of war had been admitted or declared to exist.

7. Moreover, the situation in the Far East differs widely from that obtaining on the North Coast of Spain, where a single British battleship can exercise a dominating influence, since she is, in herself, more powerful than the whole of the naval forces by which British shipping in those waters might be threatened. In the Far East, however, any Japanese threat to British shipping which might arise could be backed by the strength of the Japanese fleet. The value of a reinforcement of two capital ships as far as the security of British shipping is concerned can, therefore, be equally considered under (b) above.

8. So far as assistance to British nationals in China is concerned our naval forces are mainly able to render such assistance by their presence, if geographically possible, where the threat of danger arises, and, in the last resort, in their employment to evacuate British nationals to a place of safety. For this purpose it would appear that the naval forces already stationed in the Far East are adequate at the present time, and no suggestion has been made by the Commander-in-Chief, China, that they should be reinforced. Moreover, should reinforcement for this purpose be desirable, such reinforcement could be better effected by cruisers and/or destroyers or escort vessels than by capital ships.

9. It is, therefore, in connection with the maintenance of British neutrality in its broadest sense that the despatch of two capital ships to the Far East should be considered. The object of their presence would be, in fact, to serve as a deterrent against any Japanese tendency to commit an act of aggression against the British Empire. The extent to which the presence of such a force would act as a deterrent requires careful consideration.

10. It may be argued that we have recently recommended Australia to build a capital ship for this very reason, but this is not, in fact, the case. The argument used was that the presence of a Capital Ship in Australian waters would serve as a powerful deterrent against raids on Australian territory and commerce in the event of war, because the ever-present threat of the arrival of our Main Fleet in the east would prevent the despatch of superior Japanese forces to an area so far distant from Japan. It may be thought that the Japanese, already deeply committed in China, are unlikely to antagonise us and so increase their difficulties. The Sino-Japanese conflict, however, is primarily a matter for the Japanese army, whereas war with the British Empire would be, in the main, a war at sea to which Japan could apply her full naval strength unhampered to any real extent by her Chinese adventure.

11. Should Japan feel that the outcome of this adventure was prejudiced by the attitude of Great Britain, her decision whether to force matters to the point of war with us would be dependent on her anticipation of the final outcome of such a war, and not on the initial naval situation prevailing in the Far East.

12. Looked at from this angle the attitude of Japan towards Great Britain will be swayed only by their view of our ability to despatch a fleet to the Far East capable of meeting and defeating the Japanese fleet in battle. Just so long as the Japanese believe that we are not tied by our European commitments to a point at which we are unable to send such a fleet to the Far East, so long may we anticipate that Japan will hesitate before pressing any quarrel that may arise between us to the point of war. The moment that, in their opinion, we become so tied, the reverse might obtain.

13. It is from this, the broadest angle, that the proposal to despatch a reinforcement of two capital ships to the Far East must be judged. From this angle the division of our limited force of capital ships between Eastern and Western hemispheres, far from acting as a deterrent to the Japanese, might even present a temptation to Japan in offering them at least a possibility of defeating the divided British forces in detail. It is true that at one time it was the intention, on the completion of the Singapore base, to station our battlecruiser force in the Far East, based on Singapore. This intention was, however, abandoned, partly for political reasons and partly owing to the disadvantage now adduced, i.e., the division of a small capital ship force. Moreover, the stationing
of the Battlecruiser Squadron at Singapore was never intended as a deterrent to Japanese aggression in the China Seas; the object was to add to the security of the Singapore base and the prevention of raids on our shipping in the Indian Ocean.

14. Pursuing the argument to its logical conclusion, therefore, it becomes clear that if a reinforcement of capital ships is to be sent to the Far East, such a reinforcement must be in sufficient strength to defeat the full strength of the Japanese Navy.

15. The various factors upon which our ability to despatch such a fleet to the Far East depends were fully examined by the Chiefs of Staff’s Committee in the Far East Appreciation, 1937 (C.O.S. 596).

16. In the light of the foregoing, I am of opinion that a reinforcement of two capital ships only should not be despatched to the Far East in either circumstances (i) and (ii) envisaged by them.

17. Since the Naval Staff have been directed to bear in mind the state of preparedness of the Singapore base, it should perhaps be stated that, although the work on the base is not yet complete (C.O.S. paper No. 596, paragraph 316 and page 80, gives details of the state of development in June 1937), the Chiefs of Staff’s Committee, in the above-quoted paper, have made it clear that, in the event of war, the Fleet must be despatched to the Far East irrespective of the state of development of Singapore.

(Signed) CHATFIELD.

APPENDIX II.

[F.E.S. (37) 6.]

EXPORT OF MUNITIONS TO CHINA THROUGH THE COLONY OF HONG KONG.

Note prepared in the Colonial Office.

THE export of arms to China from Hong Kong is controlled by the Colonial Government in conformity with the policy of His Majesty’s Government in the United Kingdom in the following way:

The Colonial Government requires the production of a Chinese Government permit before issuing a licence for the export of arms to China, and a notification of authorisation is obtained by Hong Kong from the Chinese Foreign Office at Nanking before the export of any consignment is permitted. The same procedure applies also to the export of arms imported into Hong Kong on consignment. Before the outbreak of the present disturbances the Colonial Government adopted the further precaution of requiring the authentication by His Majesty’s Representative at Nanking in the case of re-exports carrying the Chinese Government’s permit, but on the 27th September the Acting Governor telegraphed that, subject to the approval of His Majesty’s Government, he had acceded to the urgent request of His Majesty’s Chargé d’Affaires at Nanking to release munitions in future without his individual authentication of “huchao.” He reported that he was satisfied that the Chinese agents in Hong Kong whose names were given by His Majesty’s Chargé d’Affaires were genuinely accredited by the Chinese Central Government.

Arms in transit through Hong Kong in the course of a complete journey beginning and terminating beyond the Colony’s frontiers are in practice treated in accordance with the provisions of the Barcelona Convention and the Statute on Freedom of Transit, according to which goods so consigned are entitled to “in transit” status and to uninterrupted passage. The Hong Kong Government has laid down special requirements for the proof of “in transit” status claimed for any consignment of arms.

Exports of war materials from Hong Kong to Macao are only permitted when the exports are to the Government of Macao or to its accredited agent.
In maintaining British rights, especially in trade, in the present conflict in the Far East, it is desirable to avoid as far as possible either causing offence to China or, on the other hand, unpleasant incidents with Japan. British trade and shipping would suffer in either eventuality.

The Chinese protest against the recent decision of the United States Government to prohibit the carriage of arms by Government ships and the reports of Chiang Kai-shek’s own apprehensions as to British policy regarding the export of war material for China suggest the degree of resentment which the Chinese authorities would feel at any official decision by His Majesty’s Government to place an embargo on the export of munitions to China from British territory.

The Japanese blockade of Chinese shipping and their interference with the trade of Chinese ports has given Hong Kong a very special importance for China in the present emergency. It is apparent that China is becoming increasingly short of war material, and it has been reported that this shortage may result in the early collapse of her organised resistance to Japanese military effort. According to a Tokyo telegram, there is even an expectation in Japanese military circles that the fighting may be over before the end of the year. The attainment by the Japanese of their objective of a “special position” in North China would presumably result in a deterioration in British trade in that area, and it is difficult to believe that a Japanese victory would be compatible with a full maintenance of the British trading position in Shanghai and the Yangtse ports. Chinese nationalist feeling would then probably be concentrated in the South and West of China.

If these are likely results of Japanese success, then on a long view it would seem that British trade with China would tend to find its chief channel through Hong Kong, and its chief Chinese contacts with the south-west provinces for which area Hong Kong is the natural ocean sea port. The desirability of emerging from the present situation without having caused any unnecessary offence to Chinese patriotic sentiment is therefore of great importance to British trade in general. It is of even greater importance to Hong Kong, for if there were in control in South China a Government hostile to Hong Kong and Great Britain, and if Chinese sentiment generally were unfriendly, Hong Kong must then lose a great deal of its importance as a commercial and financial centre. Past experience has shown how dependent is the prosperity of Hong Kong on friendly relations with the neighbouring provinces of China.

As regards the desirability of avoiding in the process unpleasant incidents with Japan, the present circumstances are outlined in paragraph 2 of the Foreign Office memorandum, namely, that, according to statements made by Japanese authorities, neutral ships would not be interfered with even if known to be carrying munitions. The Japanese Government have declared, however, that they would have to verify the nationality of ships flying foreign flags, and there is further warning that, if importation of munitions in foreign vessels increased, the Japanese Government might be compelled to devise more effective measures to stop the importation of munitions and arms into China. They have, in fact, urged the desirability of imposing some restrictions on the export of munitions from Hong Kong, and suggested that, if these were not imposed, Japanese forces might be compelled in the not distant future to destroy the Kowloon-Canton Railway at places outside British territory. No such step has yet been taken, but the Japanese are pressing for an early reply to their suggestion.

In the absence of such an embargo, it might be possible to avoid unnecessary Japanese interference with British shipping by ad hoc measures, such as a scheme of certificates as was recently under departmental discussion. The measure of participation in such a scheme by His Majesty’s Government might be expected to have a large influence on the decision not only whether Japan would accept it, but also whether China would regard it as an unfriendly act of assistance to the aggressor against herself. It is possible that such an arrangement would be less damaging to British trade interests in China than an official embargo on the export of war munitions.

The local position in Hong Kong, which has caused the Acting Governor, while opposed to a formal embargo, to describe the imports into the Colony of munitions of war for China as an “embarrassment,” is that the port of Hong Kong, affected by the refugee problem, by the recent devastating typhoon and by the interruption of coastal and river traffic with Canton, is choked with
stores of arms and explosives, and storage accommodation for the latter is particularly short. Such stores must be a temptation to saboteurs, and their obvious destination must invite military action, which has already been threatened by the Japanese against the Kowloon–Canton railway, and which would interrupt all rail-borne traffic from the Colony. The Acting Governor, while maintaining his view that an embargo locally on the export of munitions is undesirable, has forbidden the use of British section rolling-stock, including engines, for the conveyance of munitions over the Chinese section of the railway in view of the danger of air action by the Japanese against freight trains on the Chinese section. The volume of exports of arms and explosives to China by rail from Hong Kong are reported by the Acting Governor in the following telegram of the 11th October:

No. 229.

Your telegram No. 200. Following are statistics required, figures in all cases tons, descriptions as declared at Kowloon. First half of September: gun parts 98, safety cartridges 40, gunpowder 10, detonators 10, rifles 20, ammunition unspecified, 46, total 224 tons. Second half of September gun parts and accessories 828, safety cartridges 116, trinitrotoluol 226, dynamite 10, total 1,180 tons. October figures will follow.

Certain munitions are now reported being landed at Singapore owing to difficulty of finding ready cash demanded by suppliers.

Colonial Office, October 15, 1937.

APPENDIX III.

[F.E.S. (37) 8.]

TRANSIT OF ARMS THROUGH HONG KONG.

Memorandum by the Secretary of State for Foreign Affairs.

It will be seen from the two attached telegrams* from Tokyo that Sir P. Craigie suggests (1) an attempt on our part to moderate the tone of the British press, (2) that further consideration should be given to the stoppage of the passage of arms through Hong Kong, and (3) that every endeavour should be made to improve relations between the British and Japanese authorities in Shanghai.

2. Of these, (2) is clearly the most important. Now that the carriage of arms (except apparently consignments already ordered) for China over the French Indo-Chinese railways and the transit of arms through Macao has been stopped, Hong Kong is left as the one effective neutral channel through which munitions can reach China. Every effort has been made to induce the French to keep open the Indo-Chinese railways, but with no result. This being so, it would be useless to press the Portuguese to re-open Macao, even if there were facilities there for passing any considerable consignments through. The canalisation of the traffic through Hong Kong naturally concentrates the Japanese animus on us, and, as Sir R. Craigie points out, there is a danger that Japan will now intensify her blockade, even if this involves a formal declaration of war on China. The existence of a state of war would cause serious disturbance to British shipping in the Far East, and no doubt would result in endless bickering with the Japanese Government over questions of contraband, search and so on. Indeed, not only would British interests suffer, but it might be of advantage to China herself that there should be simply a prohibition on the export of arms from Hong Kong rather than that war should be declared. The arms which the Chinese are now receiving through Hong Kong are relatively insignificant in quantity, and delivery is at best precarious, owing to the continued air attacks on the railway by the Japanese. If war were to be declared, not only would the Japanese be in a position equally well to stop these arms from reaching China, but they would also be able to cut off supplies of many things which are now being carried to China in vessels belonging to third Powers simply by drawing up a wide contraband list.

* Nos. 628 and 632 (not printed).
3. Against this, it may be argued that an embargo on the export of munitions from Hong Kong would be very much in Japan's favour, and totally illogical if the policy is to be maintained of permitting the export of munitions from this country, both to Japan and China. It would, moreover, be at variance with the League Resolution against weakening China's power of resistance and increasing her difficulties. Not only that, but there is no guarantee that Japan, even then, would refrain from declaring a state of war and claiming full belligerent rights.

4. It has been suggested that we might explain the position, frankly and fully as we see it, to the Chinese Government, and ask them to choose which they regard as the lesser of the two evils, an embargo on the passage of arms through Hong Kong or a Japanese blockade. It could be pointed out to them that if the Colonial Government forbade the passage of arms through Hong Kong, the Japanese would have little or no excuse for intensifying the blockade, and Hong Kong would remain the surest channel for Chinese exports, the maintenance of which is of vital importance to the Chinese, as well as being a safe port for the admission of imports not covered by the present Japanese blockade measures. On the other hand, to maintain the present arrangement, in our view, is extremely likely to lead the Japanese to declare war, exercise full belligerent rights, and prevent the importation of many other things besides arms and the exportation of all Chinese goods from Hong Kong. If China chooses the closing of Hong Kong to the traffic in arms, a fairly strong argument will be afforded with which to answer those who will accuse us of having aided the aggressor. Objections to closing Hong Kong will, however, still remain, and when the decision is stated publicly, as it will have to be, the Government may well have to face awkward criticism.

5. In short, the Chinese have to choose between the drying up of the thin stream of arms now trickling through Hong Kong and the almost complete cessation of their import and export trade through the operation of a blockade. We have to choose between the criticism to which stoppage of arms through Hong Kong will expose us and the serious material loss which we should inevitably suffer if Japan instituted a full blockade.

6. Sir R. Craigie's suggestions (1) and (3) are of less importance. As to the British press, it is an exaggeration to say that they have lost all sense of proportion; the papers here have given the Japanese case a full hearing; the fact is that it is a very bad case and it has so far been very ill-stated at that. Any effort by the Government to restrain criticism would almost certainly meet with a very unpleasant reaction. And it must be remembered that His Majesty's Government have themselves subscribed to the League Resolution declaring Japan's action to be unjustified.

7. As regards the relations between the British and Japanese military authorities in Shanghai, nothing is known here to support the view that our soldiers and sailors in Shanghai have been guilty of partiality or lack of restraint. They have more difficulty with the Japanese than with the Chinese, but that is simply due to the fact that the Japanese are bombastic and aggressive and make more trouble. So far as the Foreign Office are aware, our authorities would seem to deserve praise and not criticism. In any case, His Majesty's Chargé d'Affaires at Nanking during the last few days has discussed this question with the Commander-in-Chief, Major-General and Consul-General and they are satisfied that relations, anyhow with the higher Japanese authorities, are now much easier. The situation has been further improved by the appointment of a Japanese liaison officer with our headquarters. The main difficulty, however, remains: junior Japanese officers are imbued with anti-British feelings not derived from recent incidents and it is they who really represent the danger at the present juncture. Unfortunately it does not appear to be possible for their superiors to influence or control them and they are quite impervious to the opinions and arguments of foreigners.

Foreign Office, November 5, 1937.
THE ASSEMBLY OF AEROPLANES FOR CHINA IN HONG KONG.

Memorandum by the Secretary of State for Foreign Affairs.

THE Chinese Government desire the Government of Hong Kong to permit within the borders of the Colony the assembly of aeroplanes, admittedly destined for military use, which are being shipped thither, and for such aeroplanes, when assembled, to be flown from Hong Kong to Chinese territory. They are willing that the machines should be flown to China without armaments, if this will save the Colonial Government embarrassment. The following considerations are relevant in deciding what answer should be returned to the Chinese Government.

(1) In peace-time there is nothing to prevent the transaction, in the case of civil aircraft, although foreign military aircraft would need to be so authorised by the Government of the Colony before they could fly over Hong Kong. It can be regarded as probable that, if the Chinese Government were suddenly during peace-time to order a large number of aeroplanes and desired speedy delivery, they would endeavour to make use of the technical facilities, skilled labour, &c, available in Hong Kong.

(2) If a state of war is in existence, it is the duty of a neutral Government to prevent the departure from its territory, inter alia, of aircraft which could, prior to their delivery to the belligerent purchaser, be used for the purpose of hostilities. (This, in effect, means that the aircraft must not only leave without arms or ammunition, but also without any fittings or mountings.)

(3) There is at present no formal state of war between China and Japan, and from a legal point of view this leaves us free to allow this type of transaction or not as we please, and technically we might allow aircraft to fly off even fully armed.

(4) At the end of August the Chinese Government were reported to have evolved a scheme for an aeroplane assembly depot in the Hong Kong New Territories; the proposal was that a company should be registered in Hong Kong ostensibly for training air mechanics, but in reality for receiving and erecting new aeroplanes destined for the Chinese air force. It was in practice to be wholly controlled and operated by the Chinese Government. It was proposed that the company should have an assembly depot near the frontier with a runway in Chinese territory from which the actual take-off would be made. The Acting Governor of Hong Kong was strongly opposed to the scheme. The German Officer Commanding agreed with the Acting Governor and the Executive Council unanimously approved his attitude. Instructions were sent to Hong Kong to conform their action to one which would be appropriate to a neutral vis-à-vis belligerent Powers, and later in the same message we said that the particular project was to be regarded as incompatible with the "neutral position which the Colony should desirably maintain at present and which it would be obliged to maintain were the existence of a state of war to be recognised in the future," and the instructions were so worded as in effect to preclude the aeroplanes being flown off even unarmed, having regard to the admitted purposes of the scheme. In this matter, therefore, we may be said possibly to have acted in a sense detrimental to China's interests without necessity under international law.

(5) This raises the question of the League Resolution, which recommended that members "should refrain from taking any action which might have the effect of weakening China's power of resistance... and should also consider how far they can individually extend aid to China." This, according to legal advice, is to be interpreted as meaning that members of the League should not take any action to cut China off from normal and usual facilities, and, as shown above, our instructions to Hong Kong can possibly be held to have restricted such facilities.

(6) The question is, therefore, whether those instructions should be reversed or modified. It has to be remembered that if effective supplies of aircraft and other war material are seen to be passing through Hong Kong, it is likely that the Japanese will tighten their blockade measures. The proclamation by Japan of
a state of war, to which she might be driven in the circumstances, and the arroga-
tion to herself of belligerent rights, would be a serious matter not only for Hong
Kong, but also for British shipping in the Far East. The point is dealt with in
the penultimate paragraph of C.P. 212 (37).

(7) We therefore have to balance the desirability of retaining Chinese good-
will against the risk of seeing ourselves involved in difficulties with Japan and
restriction on British shipping. If we do not agree to what the Chinese want,
the aircraft now at Hong Kong and shortly to arrive there can presumably be
forwarded in unassembled parts, provided that the railway is not cut by Japanese
air operations. No doubt fewer aeroplanes could be got through to China by
this means than by the method of assembly in British territory and flight thence.
On the other hand, it might be within the power of the Japanese to station aircr-
aircraft near by, which would intercept and destroy the Chinese aeroplanes as soon
as they left British territory. This operation, if feasible, might prove sufficient
from the Japanese point of view to enable them to dispense with the exercise of
belligerent rights against shipping, but it cannot be said to offer an inviting
prospect to Hong Kong if their land frontier with China is subjected to a close
patrol by Japanese aircraft and the risk of unfortunate incidents in or over
British territory, having regard to our experience of Japanese aircraft com-
miders, may well be increased.

*Foreign Office, November 5, 1937.*

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**APPENDIX V.**

Decipher of Telegram from Mr. Howe.

(No. 602.)

*Nanking, October 23, 1937.*

ADDRESSED to Hong Kong, No. 83, 22nd October.

*Your* telegram No. 169 to Colonial Office.

Malley has asked me informally to ascertain position of individual assembly
of an Italian S 81 aeroplane ordered by Aeronautical Commission which had
arrived in parts at Kaitak aerodrome by 21st September last. He states that
when in Hong Kong he was given to understand unofficially that no objection
would be raised to it being assembled at the aerodrome and subsequently flown into
China. Since his return to Nanking nothing has been heard of this aeroplane.
I should be grateful to learn what reply I should return.

Meanwhile I am aware from [two groups undecypherable] that Chinese
Government are becoming increasingly anxious over the situation created by
Japanese naval and air action in the neighbourhood of Canton and on Canton–
Hankow Railway which is seriously interfering with importation of war
materials. Although never encouraged to do so by this Embassy, they still hope
that the Government of Hong Kong will turn a blind eye to assembly on Hong
Kong territory of aeroplanes destined for military use in China, particularly with
regard to a consignment of Gloster Gladiator machines now on their way to
Hong Kong. Malley informs me that Aeronautical Commission are willing that
any machines ordered by them should be flown into China without armaments if
in this manner they can be brought into the category of commercial machines thus
easing the position for Government of Hong Kong.

I am of the opinion that time has now come when a definite ruling on this
question should be given for information of the Chinese Government and I should
be grateful to learn whether statement in your telegram under reference that you
would oppose assembly of aeroplanes in Hong Kong if this were suggested is
considered the view of the Government.

(Repealed to Foreign Office, No. 602; Air Attaché, Peking, and Commander-
in-Chief.)
APPENDIX VI.

Draft Telegram in reply to Telegram No. 602 from Nanking, November, 1937.

YOUR telegram No. 83 to Hong Kong of 22nd October: Assembly in Hong Kong of aeroplanes arriving there for China.

His Majesty's Government are opposed to assembly in British territory of aeroplanes for delivery to China, in view of the serious complications to which it might give rise. It will be better that you should not say anything to the Chinese Government, unless and until it becomes necessary, but confine yourself to advising Malley not to raise the matter formally since the greatest difficulty would be found in giving a favourable reply. In actual fact, it seems to us that a favourable decision would not benefit China, but might result in fewer, and not more, aeroplanes reaching her, owing to the counter-measures which Japan might take against assembled aircraft as soon as they left British territory; apart from this, Japan might be impelled to declare a formal state of war and resort to a more intense blockade and contraband measures affecting trade by ships of all nationalities; besides in all probability preventing any aircraft from reaching Hong Kong by sea, such measures would have wider harmful effect on Chinese interests. The upshot must be that any aircraft reaching Hong Kong in parts and destined for China will have to be forwarded in unassembled condition by such means of transport as may be available.