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C A B I N E T.

ASSISTANCE TO CHINA.

Note by the Chancellor of the Exchequer.

The Foreign Office memorandum on assistance to China contains paragraphs which put very forcibly the considerations which may be urged in favour of affording such assistance, but in my view it does not bring out with corresponding emphasis the considerations in the other direction which must be fully weighed before so grave a decision is taken. I must therefore ask leave to supplement the memorandum by calling specific attention to the following points.

1. Sir A. Clark Kerr originally urged that His Majesty's Government should give their backing to a scheme which would secure credits for China on a commercial basis and he himself ruled out the possibility of a political loan, doubtless on the ground that this would be regarded as throwing our weight on the Chinese side in the war against Japan. Sir R. Craigie commented (telegram No. 582 of 10th May) that if the granting of such credits would really have the effect of insuring our future position in the Far East, the proposal for commercial credits would deserve the most careful consideration "for no one can guarantee our future if Japan's victory were to be complete and overwhelming". But Sir R. Craigie went on to warn us that in his view, if we intervened to

this extent, this "would lead to an overwhelming outburst of fury against Great Britain, the ultimate consequences of which it is difficult to predict. If the gamble came off we should earn undying hatred of these people; if it failed, the fact that we should have made the attempt will never be forgotten and we should moreover have set the seal upon our losses in China".

2. The Foreign Office memorandum refers in paragraph 9 to a modification of the view held by Sir R. Craigie as I have quoted it in paragraph 1 above. But I must remind my colleagues that his acquiescence in a credit for currency purposes (see telegram No. 730 of 14th June) is qualified by two main conditions.

He says:-

(a) That it would be desirable to show that the Chinese Government would not be enabled on the receipt of the new credit to release for other purposes a portion of reserves now kept as backing for currency.

(b) That the credit should not be "too extensive".

I am advised as regards the first condition that it is impossible to devise an arrangement which would effectively satisfy it. The Foreign Office memorandum itself admits that the purpose and the effect of financial assistance to China, however described, would be to sustain the Chinese resistance. Must it not also be conceded that the Japanese would so regard it?

As regards the second condition, we cannot pretend that a loan of £20 millions is not "extensive" in amount, however insufficient for the major political purpose. If, however, Sir R. Craigie's condition that the credit should not be "too extensive" means that we ought not to do enough to affect Japan's chance of winning, why give a credit at all?

I share to the full the view that right in this matter is on the side of China and that Japanese resentment would be ethically unjustified. But I think it is necessary to draw my colleagues' special attention to the serious nature of the warning addressed to us as to the possible consequences to ourselves of intervening in the conflict.

3. The proposal to secure assistance for China through the City of London on a commercial basis was fully investigated, both in connection with proposals for acquiring wolfram and in connection with other forms of security, and the conclusion was reached that, as a commercial proposition, it was so unattractive as to be impracticable. It is only because the hope of getting assistance for China through non-Governmental channels has been dashed that the suggestion now comes forward (which was at first treated on all hands as impossible) that Government credit should be provided. This requires an Act of Parliament, and the Bill would be necessarily the subject of public debate. No doubt it would be warmly supported in indiscreet speeches by Members of the Opposition, and I find it difficult to believe that, if Japan would have resented British assistance provided through the City of London, she would not regard a Government guaranteed loan, authorised by a special Act of Parliament, with even greater resentment. Whether it is right or wrong to do these things, it would certainly be wrong to decide to do them without maturely measuring this risk.

4. We have just decided to find £16 millions as an exceptional measure to cement our attachments to Turkey. It is a serious matter, on the financial side, to follow this up by deciding to give £20 millions away in the



Far East, unless we are confident that we shall gain political advantages of at least equal value. I fully realise that even this wholly exceptional process would stand us in good stead if thereby we saved the whole Far Eastern situation and restore British interests there on a secure basis, and I do not minimise the serious consequences to British trade and prestige in the Far East which are likely to follow from a Japanese triumph. But we must ask ourselves whether we can rely on the calculation that £20 millions given away now can really be expected to secure that China will win the war within twelve months, and we must consider what we are going to do if at the end of twelve months these hopes are not realised.

5. The financial and commercial considerations, serious as they are, do not constitute the crux of the matter. The main anxiety seems to me to be whether the action now proposed is one to which we can commit our country having regard to the dangerous state of Europe. If, in spite of the "hint" which Sir R. Craigie thinks we could safely give to the Japanese (paragraph 9 of the Foreign Office memorandum), we take the proposed step and it does not secure China's victory within twelve months but incurs the continuing hostility of the Japanese have we not greatly increased the danger of being engaged at some time in the future in simultaneous hostilities in Europe and the Far East? Our military advisers have consistently urged that it should be a prime object of our foreign policy to avoid that possibility.

6. There are thus considerations of the utmost gravity

and importance on the other side in this matter, and I am circulating this note to make sure that my colleagues have the above considerations fully before them at the same time as the powerful and persuasive arguments which lead the Foreign Office to urge that we should take the risk and act as proposed.

J.S.

Treasury Chambers, S.W.1.

1st July, 1938.