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Left with L. S. Welles
3 pm. Jan 6. He 24
promised to convene
Treasury - no President
but no reply before
next week
Valley

AIDE MEMOIRE

His Majesty's Government in the United Kingdom have now decided to introduce legislation that would enable them to support the Chinese currency by proceeding with the proposal outlined in paragraph 1 of the Aide Mémoire left at the State Department on the 7th December, provided that the United States Government are prepared to take parallel action to support the Chinese currency at the same time.

The United States Government are aware that His Majesty's Government have already allocated to China about £500,000 of credits which will become available when the Export Guarantee Bill is passed. In addition to this it is proposed to earmark further substantial amounts to assist Chinese Government purchases in the United Kingdom though this must of course on no account be disclosed to the Chinese at present. His Majesty's Government consider that this should be regarded as their counterpart to the commercial credits granted by the United States Government last month.

The Chinese Government meanwhile continue to press His Majesty's Government on the proposal for a guaranteed contribution of £3,000,000 to the projected currency stabilisation fund and attach particular importance to this form of assistance. From information now in their possession His Majesty's Government think the time has come when action of this kind might have the maximum of effect with the minimum of risk. Already the tone of the United States note and the decisions to give credits have

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produced a salutary effect on the Japanese who have shown signs recently of being more accommodating, but the effect produced by parallel action of the two governments on the lines of simultaneous contributions to the currency stabilisation fund might, in the view of His Majesty's Government, be expected to be much greater. Moreover, the confidence of the Chinese in their ability to hold out and their morale generally would be enormously strengthened by such a gesture which might indeed prove the turning-point in the whole struggle and lead to the salvation of United States and British commercial interests. Furthermore, the psychological effect of this move might well show itself in an increased resiliency of the Chinese dollar, thus reducing the risk of the contributions to the stabilisation fund being lost.

Nor can the fear of the real danger be excluded lest, if nothing on these lines is done, the Chinese might be tempted to despair and make terms with the Japanese at United States and British expense. His Majesty's Government are accordingly anxious to take this action but they could not act alone. If the United States and His Majesty's Government act in harmony the danger of adverse Japanese political reactions affecting foreign interests in China would be minimized and the possibility of maintaining the "open door" would be increased.

His Majesty's Government are fully aware that the United States contribution in the form of (a) silver purchases and (b) the recent twenty-five million dollars credit far exceeds the contribution which His Majesty's

Government/

Government have so far been able to make in support of the Chinese currency structure but His Majesty's Government hope, for the reasons explained above, that the United States Government may nevertheless be prepared to participate in the currency stabilisation loan now proposed.

The procedure being considered by His Majesty's Government is to guarantee the Hong Kong and Shanghai Bank against loss but His Majesty's Government recognise that any parallel action by the United States Government might have to take a different form. His Majesty's Government do not regard it as essential that the amount of assistance granted by the United States Government should be identical with the amount which His Majesty's Government propose to guarantee. The essential points, in the view of His Majesty's Government, are that it should be made clear that the action is being taken by both governments to maintain their respective interests in China which would be seriously threatened by a collapse of the Chinese currency, and that the proposed assistance and encouragement should be given to China at a very early date.

His Majesty's Government hope that the United States Government may feel able to take parallel action of the kind suggested. They would, moreover, be grateful for a very early reply.

BRITISH EMBASSY,
 WASHINGTON, D.C.,
 January 6th, 1939.