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On instructions from his Government the First Secretary of the United States Embassy in London enquired on November 3rd what further measures His Majesty's Government might think suitable in the event of the Japanese Government replying unfavourably to the parallel approach which it was proposed to make in the matter of the navigation of the Yangtze.

2. His Majesty's Government thereupon undertook a detailed study of the whole question of the feasibility of instituting measures of retaliation against Japan, a matter to which they had already given much thought during the preceding twelve months, without however finding it possible to devise any measures on the part of the United Kingdom which could be relied upon with any real certainty to achieve the objects desired within a reasonable period of time.

3. Their earlier examination of this subject in November 1937 had led them to conclude (a) that Japan would be able to continue military operations for some months without further importation of essential war supplies except possibly certain mechanised transport and aviation spirit: (b) that an embargo by the British Empire and the United States of America on selected commodities required by Japan would cause her serious difficulty, but
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that in the absence of a world-wide scheme of international retaliation Japan could not without a state of war between her and the retaliating countries be prevented from acquiring supplies from alternative sources in non-retaliating countries and by means of entrepôt trade through these two countries: (c) that an embargo by the British Empire and the United States on all Japan's export trade would be highly embarrassing for her and might in the long run prove decisive owing to her inability to pay for imports; but that no decisive effect could be expected for a considerable period: (d) that a refusal by the British Empire and the United States of bunker facilities and of use of their ports to Japanese shipping would increase economic pressure on Japan although it would not prevent the conveyance of goods to and from Japan: that Japan would however probably regard action directed against her shipping as especially provocative and might well retaliate against United States and British shipping in the Far East: (e) that the cooperation of other countries with the United States and the British Empire would intensify to varying extents all the different forms of pressure: but that as regards Japanese imports, the participation of any number of countries conceivable in present circumstances could not entirely prevent Japan from acquiring necessary supplies of raw materials. Their participation would, however, increase the temporary dislocation of/

of Japan's trade and force her to pay higher prices for her supplies: and the effect on Japanese exports would be more pronounced if the Netherlands, France, Egypt, Belgium, the U.S.S.R. and the Argentine cooperated: (f) that as regards the counter effect on those, by far the largest part of the loss of trade would fall on certain overseas countries, notably India and Australia: (g) that the adoption of measures sufficiently drastic to have any prospect of achieving the results desired would involve the risk of grave counter-measures by Japan and may lead to war. The foregoing conclusions related particularly to the imposition of formal sanctions as a political weapon for the arrest of Japan's aggression in China. They would apply, however, with approximately equal force to economic reprisals designed as a measure of defence against injury by Japan to specific interests in China.

4. The reconsideration which His Majesty's Government in the United Kingdom have given to this subject since the United States' inquiry in November has confirmed their view that the above conclusions were well founded and still hold, although, of course, the deterioration in the economic position of Japan since November 1937 has shortened the period in which an embargo on Japan's export trade might now be expected to have a decisive effect.

5. Indeed, His Majesty's Government in the United Kingdom are advised by His Majesty's Ambassador

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at Tokyo that the placing of an embargo on imports from Japan by the British Empire and the United States would in present circumstances have an immediate and disastrous effect on her whole economy and that the present moment is particularly favourable for action, when the Japanese army are so deeply involved in China and when the prospect of future economic and financial difficulties is beginning at last to be present to the minds of competent Japanese leaders.

It may be added that British business firms in China, who would undoubtedly be the first victims of Japanese counter measures, are of the opinion (in which His Majesty's Ambassador in China entirely concurred) that retaliation in some form (e.g. denunciation of the Anglo-Japanese Commercial Treaty) is the only effective method of countering Japanese designs.

6. Denunciation of the Anglo-Japanese Commercial Treaty would not enable immediate action to be taken owing to the period of notice required. In the meantime the restrictions which might be placed on Japanese imports into British Colonies or into, say, the Philippines could not be made effective, while reprisals not involving the infringement of Commercial Treaties would necessarily be very limited in scope.

But the giving of such notice would in any event be a very serious warning to Japan, and His Majesty's Government in the United Kingdom will be glad to know whether the United States Government consider that denunciation or the threat of denunciation

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in itself would produce a deterrent effect.

7. If, as is only too likely during the period of notice fresh action were taken by Japan to infringe the treaty rights of His Majesty's Government or of the United States Government, it would be a matter for consideration whether in view of Japanese action we could take retaliatory measures before the stipulated notice had expired.

Whether notice of denunciation had been given or not, it may be possible to argue that the material damage to United States and British interests resulting from Japan's disregard of her obligations under the treaties to which we are all three parties has been such that Japan has no right to complain if we act in a manner incompatible with other treaty obligations between Japan and ourselves or if, as a measure of retaliation or as a means of obtaining redress and reparation, we take action against her which would otherwise be illegal, so long at any rate as the retaliatory action is in proportion to the wrong and, as near as may be, similar in kind. If such action were legitimate it would obviate the need to await the expiration of the notice of denunciation before putting into effect any retaliatory measures, at least of proportionate extent and approximately similar in kind, which may have been decided on.

8. His Majesty's Government in the United Kingdom will welcome the views of the United States Government/

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Government on this point, and any indication they see fit to furnish as to the conclusions to which their own consideration of the whole matter has so far led them. If the United States Government has found it possible to formulate any definite proposals, His Majesty's Government in the United Kingdom will, of course, be happy to examine them with a view to possible parallel action. Any proposals, however, would have to be referred by His Majesty's Government in the United Kingdom to the Dominions and to the Government of India and the Government of Burma on whom, as stated above, by far the greatest part of the loss of trade would fall. The United Kingdom Government might also have to introduce special legislation if effective measures of retaliation were to be instituted against Japan. Should it be found possible to reach agreement on these points it would be necessary for all the governments concerned to consider what Japanese counter-measures, economic or military, e.g. against shipping or other interests accessible to Japanese action were to be apprehended and what contributions to the common defence each of the governments concerned would be prepared to guarantee.

9. A policy of retaliation cannot be embarked upon without a clear realisation as to what it will lead to if pursued to the end - and the objections to embarking on such a policy and then being forced to retract are self-evident. Whatever may be the initial

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step in a policy of retaliation the real problem is the political dilemma that non-retaliation may involve failure to protect treaty rights and the legitimate interests of British and American nationals against discrimination and the danger of eventual elimination by Japanese aggressions, while retaliation involves the danger of counter-measures and of war.

His Majesty's Government in the United Kingdom have hitherto been disposed to think that in the present state of Europe the right policy for the present is not to embark on retaliation.

But His Majesty's Government in the United Kingdom have not reached any final conclusion and it would greatly assist them to do so if the United States Government could inform them of any conclusions at which they themselves have arrived.

BRITISH EMBASSY,

WASHINGTON, D.C.,

January 25th 1939.