

BRITISH EMBASSY,

WASHINGTON, D.C.

No. 429.

10th May 1940.

My Lord,

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I have the honour to acknowledge the receipt of your despatch No. 167 (F 1057/230/-10) of February 19th, and to inform you that enquiries have been made of various officials at the State Department and of Mr. Warren Pierson, President of the Export-Import Bank, regarding the negotiations conducted by the Chinese Government in connexion with the grant of a further export credit from the United States.

2. The original credit granted by the Export-Import Bank to the Universal Trading Corporation, which is in fact the agent for the Chinese Government, was for the sum of \$25 million. Very widely distributed purchases have been made by means of this credit and up to March 31st last some \$17½ million of the total credit had been disbursed. Of this \$17½ million some \$2½ million had been repaid, this sum representing half the proceeds of the sale of tung oil imported into this country from China.

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3. As reported in my despatch No. 275 of March 20th, a Bill was passed by Congress on March 1st increasing the lending authority of the Export-Import Bank from \$100 million to \$200

/million

The Right Honourable

The Viscount Halifax, K.G.,

etc., etc., etc.

million, and permitting fresh credits up to the amount of \$20 million - in addition to any credits in existence before the passage of the Act - to be made to any one foreign country. In accordance with this authority the Export-Import Bank granted a further credit of \$20 million to the Universal Trading Corporation early in March. The total credits granted to China by the Export-Import Bank therefore amount to \$45 million. The Chinese Government have expressed their intention of endeavouring if possible to amortize the new loan of \$20 million by deliveries of tin over the next seven years. No arrangements have been made for the delivery of any other commodities such as wolfram, copper or bristles in connexion with this new loan.

4. There is no evidence of any other negotiations on the part of the Chinese Government to obtain additional credits in this country. The Export-Import Bank is debarred by the recent Act from granting any further loan beyond the \$20 million credit, and officials of the State Department have disclaimed any knowledge of loans or projected loans to the Universal Trading Corporation from sources other than the Export-Import Bank.

5. Nor have the State Department been able to confirm the report from the French Ambassador in China that the Chinese Government were negotiating for the purchase of \$20 million worth of war material in the United States. The credits granted to China

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by the Export-Import Bank may not be used for the purchase of war material, though, as has been pointed out by officials of the State Department, there is nothing to prevent these credits being substituted for other available funds which in turn could be used for the purchase of arms in this country, while the definition war material does not, of course, include articles such as trucks and lorries. It is the fact, according to the State Department, that the issue of licences for the export of war material from this country to China has increased appreciably during the first three months of 1940. During this period licences up to the amount of \$7.3 million have been issued as compared with a total of \$5 million for the whole of 1939. The State Department do not however think that any special significance need be attached to this increase since there is normally a lag of anything up to twelve months between the issue of licences and exports. In the first three months of 1940 the exports only amounted to \$900,000. The State Department do not appear to think that there is any reason to believe that the Chinese Government are accelerating their purchases of arms in this country more rapidly than is indicated by the increase in the licences issued.

I have the honour to be,
with the highest respect,
My Lord,
Your Lordship's most obedient,
humble servant,

(Sgd.) LOTHIAN.