

however, considered that the time was appropriate for a transaction of this nature. Further, if at some later date the Communist regime were recognized, there would undoubtedly be a demand for return of this property by the Canadian Government.

14. The Cabinet, after discussion, agreed that the Secretary of State for External Affairs inform the U.S. Ambassador that no transfer of property in Ottawa of the Chinese Nationalist Government to the U.S. Government could be permitted at the present time.

Chinese loan; application of deposit in Imperial Bank of Canada against arrears

15. The Minister of Finance said that the Chinese Nationalist Government had defaulted on recent payments on their Canadian loan. The Nationalist Government had on deposit with the Imperial Bank of Canada \$872,000 earmarked for the purchase of arms and ammunition by China and for which authorization had later been withdrawn by Cabinet. The Minister of Finance had written to the Chinese Ambassador proposing that the deposit with the Imperial Bank be applied against the amount of Chinese arrears on her Canadian loan. To date, no reply had been received. Under the terms of the letter of credit, the Chinese Government were entitled to withdraw their money, but consideration might be given to requesting the Bank to withhold payment until some agreement had been reached. There was little doubt that the Bank would be willing to do this if the Canadian Government guaranteed them against any claims that might result from such an action.

16. The Secretary of State for External Affairs felt it would be unfortunate if there were any public controversy with the Chinese Nationalist Government at the present time.

17. The Prime Minister suggested that the Bank might be informed that any request for return of the money should be communicated to the Minister of Finance in view of present correspondence with the Chinese Ambassador concerning this matter.

18. The Cabinet, after discussion, agreed that the Imperial Bank of Canada be informed that any request by the Chinese Nationalist Government for the return of the \$872,000 on deposit with it, in connection with the sale of arms to China, should be referred to the Minister of Finance who was in negotiation with the Chinese Ambassador about this matter.

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