

16. Later on, the Foreign Office modified this proposal to the extent that no change should be made in the system of collection and custody of the existing revenues (the proceeds of the 5 per cent. flat rate), but that the commissioners should hand over to their Chinese colleagues the whole proceeds of the surtaxes. All questions with regard to custody and ultimate disposition of these new revenues would thus be matters for the Central and Provincial Governments to settle between them without foreign interference or intervention.

17. The British delegation objected to any surrender of customs revenues to local administrations on the following grounds:—

- (a.) Provincial leaders in control of treaty ports would not surrender any part of the revenue to interior provinces, and this might precipitate local civil wars centring round treaty ports.
- (b.) Decentralisation would be a greater danger to the Customs Administration than the danger we were trying to avert.
- (c.) Such surrender of revenues would dissolve the whole structure of centralisation of China's finance and destroy the only foundation on which fiscal unity could be built up.
- (d.) Imposing further charges on the customs revenues for the service of the unsecured debts would increase the foreign financial interest in the customs and therefore give the Powers an excuse for intervening by force in case of attacks upon the Customs Administration.

18. The Foreign Office, realising that any policy in China was a choice of evils, agree that there is some force in these objections. China, however, is inevitably tending towards a loose federation of five or six different regions and it was felt that we should not attempt to check this evolution, but adapt our policy to it.

19. With regard to local civil wars, these might, of course, occur but were, it was thought, a lesser evil than the large scale wars now being waged with Peking as a prize. Sun Chuan Fang has recently appropriated the enormous opium and salt revenues of Kiangsu without precipitating a local civil war. Further, it is believed by many authorities that centralisation of finance forced upon China by foreign pressure was the cause of the fall of the Manchu dynasty, and has been the cause of the growing disruption of the republic. Finally, with regard to (d), the Foreign Office are of opinion that His Majesty's Government cannot join in any policy committing us to the use of gunboats and international naval demonstrations in order to maintain intact China's customs revenues for the benefit of foreign financial interests.

VII.—*Attitude of Canton.*

20. The Foreign Office and the delegation are agreed that if provincial opposition develops, the lead will be given by Canton. The Foreign Office believe that Canton will certainly claim and may possibly seize the surtax revenues. We think that we should at all costs avoid a customs crisis at Canton and that we should, therefore, allow the local administration to have the proceeds of these surtaxes.

21. The delegation are not satisfied that Canton will necessarily claim the surtax revenue. If the political situation developed favourably they thought that Canton might accept a treaty giving them one-fourth of the total import duties as *li-kin* compensation, and in any case that we ought to wait until Canton claimed the revenues and then insist on a satisfactory arrangement being come to between Canton and Peking before any treaty is concluded.

VIII.—*Provincial Concurrence.*

22. The Foreign Office have always feared that the provinces would not accept the arrangements made by the conference, and the delegation have met this by taking up the position that, before any treaty is concluded or carried into effect, they must be satisfied that the proposals will be accepted by the provinces. In the opinion of the Foreign Office there is, however, no practicable method of making certain in advance that the provinces will accept arrangements made in Peking. Moreover, in the case of the Washington surtaxes, the levy of these will be authorised by resolution of the conference without further reference to the Home Governments. There will, therefore, be no such safeguard as delaying ratification pending provincial concurrence. The Foreign Office feared that to insist upon provincial concurrence as a condition precedent to the grant of surtaxes would be, in effect, to impose a condition impossible of fulfilment.

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