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FAR EASTERN (CHINA).

November 27, 1939.

CONFIDENTIAL.

SECTION 1.

[F 12177/4027/61]

Copy No. 036

Viscount Halifax to the Marquess of Lothian (Washington).

(No. 1295.)

My Lord Marquess,

Foreign Office, November 27, 1939.

THE United States Ambassador called to see me this afternoon. Mr. Kennedy began by speaking about the financial difficulties that His Majesty's Government might expect to encounter as the war proceeded, and said that he was anxious during his time in the United States to give any help in this respect that might be in his power. He said he felt very strongly, and had been impressing his view upon the Chancellor of the Exchequer, that we might be acting unwisely in attempting to impose too complete a prohibition upon imports from the United States if the result of this was likely to show itself in alienation of sympathy in the United States business world that would be very necessary to us at a later stage.

2. I took advantage of the Ambassador's visit to put to him as clearly as I could the considerations that we sought to have in mind in the pursuit of our policy in the Far East. I said that, in present circumstances, it was not possible, in my view, for this country to pursue a policy as logical and clear-cut as in other circumstances we might perhaps choose. We had constantly made it plain that we had no intention of deserting the general principles that had governed our policy *vis-à-vis* the Chinese Government, and we certainly had no intention of getting ourselves out of step with the United States Government, in regard either to general policy or to its particular application in spheres where the United States Government was itself directly interested. On the other hand, it was very important for us, if we could manage it within these limits, to avoid any worsening of our relations with Japan and, indeed, if this might prove possible, to try and improve them. It might perhaps not be possible to establish our relations with Japan on a basis of assured friendship; time alone would show. But even if we could secure some temporary improvement without the sacrifice of principle, it would, as things stood to-day, be well worth doing. We had found, since representatives of the Dominions had been with us, that, as we had always anticipated, the principal preoccupation of Australia and New Zealand in taking their decision to send troops to Europe was to appraise the prospect of trouble with Japan.

3. For this reason we had done our best to reach a settlement of the immediate issues that had arisen during last summer at Tientsin. We had succeeded in getting some way with these, but had then reached a point where progress was suspended on the two main issues of currency and silver. This suspension of progress had been, as he would recognise, due to the fact that we had been unwilling to give away causes in which the Chinese Government and, from a different point of view, the United States Government were directly interested. We had latterly, for quite other reasons, reduced our garrison at Tientsin, and this had apparently been taken in Japan as a gesture of friendliness. I was accordingly anxious, if there was anything to be done within the limitations I had mentioned above, not to let the opportunity slip.

4. There now seemed a possibility—how substantial I was not yet in a position to say—of resuming these conversations with some better chance of result. There was reason to hope that the Japanese Government were less anxious than they had been to press the question of currency, and on the silver issue it might not be impossible to secure some compromise settlement by way of sealing most of the silver in a neutral bank and using some portion of it for flood relief. On humanitarian grounds there was ample justification for such a proposal; and if in fact it proved to be possible to reach a settlement on anything like these lines, I should certainly wish not to let the occasion pass. I hoped, therefore, that he would explain to the President exactly what were the considerations

[758 dd—1]