

by units, the Chinese Communists evidently intend to try to capitalize on their successes by striking hard at the centre of Nationalist power, the lower Yangtze valley. Reports from China do not lend encouragement to hope that the Communists can be stopped short of the Yangtze. Speeding up of military supplies from the United States is not likely to affect the issue as the Nationalist forces are off balance and low in morale.

3. The military reversals brought on a collapse of the August economic reform measures in Nationalist China. The new gold yuan is slipping badly, with prices doubling daily. Rice riots have occurred in the larger cities. There is an atmosphere of panic. Premier Wong Wen-hao tried to resign but the Generalissimo would not accept his resignation. No political reforms have been announced. Chiang Kai-shek has just grimly announced that the Government will fight to the last.

4. It is difficult to predict developments in China in the next few months. All reports indicate that the Government of Generalissimo Chiang Kai-shek is in grave jeopardy. If the Communists break through to the Yangtze the Government may retreat to the South or the Generalissimo may be forced into retirement with men willing to negotiate with the Communists taking power. The United States is now considering what further aid can be sent to the National Government or provincial governments prepared to resist the Communists. Such aid could hardly affect the immediate crucial struggle now in progress in Central China. In addition the United States is reported to have proposed to Chiang Kai-shek that he take China's case to the United Nations. It is not known how the National Government will react to this proposal. It is evident, however, that Communist control is being rapidly extended over a great area of Northeast Asia. This development will have grave implications for the world.

5. On November 10th the Ambassador reported that there were 843 Canadians in China distributed as follows:

Manchuria	—	3
Peking — Tien-Tsin Area	—	42
North China — Kiangsu Area	—	105
Shanghai-Nanking Area	—	358
West China	—	201
South China	—	<u>134</u>
Total	—	843

6. The Communists are now in a position to dominate all China north of the Yangtse River. The probability of this situation arising was foreseen and as early as January 28th last Canadian missionaries were advised by the Ambassador that it might become increasingly difficult for them to work in the territory, and consequently they would be wise to withdraw. Further warnings were given to Canadians in the Peking — Tien-Tsin Area on November 1st and in the Nanking-Shanghai Area on November 11th.

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