

tional relief and aid programmes for China, and (d) so far as Canada is specially concerned, because we could bargain with them over release by the F.E.C.B.⁶ of about \$10 million annual remittances from Overseas Chinese in Canada and \$1-2 million in missionary and charitable remittances. No obligation would be recognized for military or semi-military equipment. Wheat and other non-military items that had been consumed would be in a doubtful position, particularly since it is thought that some or all of the foodstuffs were used for provisioning the Nationalist army. Provided the Ming Sung vessels were still afloat at the time the Popular Front Government took over they would fall within the category of permanent assets that the Communists might permit payments to be made on, particularly since they will be looking for additional shipping to be built abroad.

5. The Chiefs of Staff have approved a Joint Intelligence Committee paper dated December 10 (attached) with the following conclusions:

"It is considered doubtful whether the Chinese National Government will remain in effective existence until 15 June, 1949, unless:

(i) Nanking can be held for a period of not less than three months to allow a successful military withdrawal to the South. On present information it seems unlikely that Nanking can withstand a well prepared assault.

(ii) Chiang Kai-shek retains the loyalty of the principal southern Generals.

(iii) Military morale is maintained. It is possible that it may improve if effective forces can be withdrawn to South China from which most of the troops were originally recruited.

(iv) Civilian morale can withstand the shock of further military disaster or the defection of some of the important members of Chiang's régime."

6. There would be the following disadvantages to withholding at this time promised military and civilian supplies from the National Government of China:

(a) It would seem undesirable for Canada to take the lead in withholding supplies from the National Government of China, thereby indicating that we had lost all confidence in it.

(b) If information that the Canadian Government was withholding promised supplies became public — and it would be difficult to prevent this — it would strike a further blow at Chinese morale at this critical time.

(c) It would also chill relations between the Canadian and Chinese Governments and make more difficult Ambassador Davis' position in Nanking, for instance in requesting police protection for the Embassy as the situation deteriorates and the danger of rioting increases.

(d) It is in the Canadian interest to support the National Government in its resistance to the Communist bid to dominate all China. Even if this resistance is only a delaying action in South China it would be useful in that it would postpone the establishment of direct and easy contacts between the Chinese Communists and the Communist movements of Southeast Asia.

⁶ Foreign Exchange Control Board.