

not easily prevent the shipments of goods already paid for out of the credits such as the Ming Sung ships.

To do so might imperil whatever chances we may have of ultimately collecting the amounts already advanced.

Yours sincerely,  
L.S. ST. LAURENT

1115.

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*Note du sous-secrétaire d'État par intérim aux Affaires extérieures  
pour le secrétaire d'État par intérim aux Affaires extérieures*

*Memorandum from Acting Under-Secretary of State for External Affairs  
to Acting Secretary of State for External Affairs*

SECRET

[Ottawa], December 15, 1948

## CANADIAN CREDITS TO CHINA

The current crisis in China makes desirable a review of the position of the Canadian credits to China to determine

A. the likelihood of goods purchased with these credits, and which have not yet left Canada, being used for the purpose intended in the original agreements, i.e. will the munitions be used to stabilize the position of the National Government of China and the civilian goods for reconstruction purposes or are they likely to fall into the hands of a Communist dominated Popular Front Government; and

B. the prospects for repayment from a weakening National Government or from a Communist dominated Popular Front Government.

These questions were raised in a letter of December 6 from the Minister of Finance to the Prime Minister (attached Annex A) and were discussed briefly in Cabinet on December 8.

2. The items to be considered are the following:

A. Under the \$35 million portion of the \$60 million 1946 loan to the Government of China available for the purchase of civilian supplies.

(1) about \$2½ million of non-military commodities as set forth in Annex B. Funds for their purchase have been encumbered but not yet paid. The steel railway bridges and telecommunications equipment totalling nearly \$2 million likely would not be ready for shipment until next year.

(2) about \$27 thousand balance not yet encumbered.

B. Under the \$25 million portion of the \$60 million 1946 loan that was to be used for the completion of the Mutual Aid programme and other purchases from War Assets Corporation.

(1) about \$3,500 of ammunition not yet shipped but for which the money has been encumbered