

A direct Government credit, totalling \$60 million, was extended to the Government of China by an agreement entered into in February 1946 under the authority of The Export Credits Insurance Act. Under supplementary arrangements set forth in an exchange of letters at the time of signing this agreement, \$35 million of this credit was to be used to purchase Canadian goods and services for reconstruction and other general post-war purposes in China, and the use of the remaining \$25 million was limited to supplies originally requested by China under Mutual Aid and other surplus war supplies, this being broadened later to include any surplus supplies purchased from War Assets Corporation.

Advances may be made under these credits up to the end of December this year, and are repayable in thirty equal annual instalments, the first instalment falling due December 31st this year, at which time approximately \$2.3 million is due on principal and interest. Almost the whole of the \$35 million portion and more than half of the \$25 million portion of this credit has been advanced or committed. At the end of last month approximately \$31.5 million had been advanced under the \$35 million portion and an additional \$3.5 million committed against outstanding orders placed by the Chinese Government through the Canadian Commercial Corporation; at the same date, advances under the \$25 million portion amounted to approximately \$16 million with additional commitments of approximately \$10,000. Because most of the general credit has already been utilized and the Chinese have purchased most of the items they wish from War Assets stores under the \$25 million portion, new applications for credit now being received from the Chinese from time to time by my Department are few and usually do not involve large amounts. Because the credit expires at the end of this month the Chinese Government, however, will undoubtedly wish to utilize as large a portion of the balance as possible and I have decided to withhold approvals on applications which involve additional commitments under this credit until this matter has received your attention.

A second and more involved aspect of our financial arrangements with China, is the Canadian Government Guarantee to a group of Canadian banks in respect of a credit provided by them to the Ming Sung Industrial Company, Ltd., a private Chinese company, and used by that company mainly to purchase specially designed ships built in Canada for use in its shipping operations on the Yangtze River. This credit, not to exceed \$12,750,000, was guaranteed by the Government of China as a condition of the Canadian Government giving its guarantee and as required by The Export Credits Insurance Act under which the Canadian Government Guarantee was given. The Chinese company agreed to put up 15% in cash and to that extent have a direct equity in the total program of \$15 million which has already been fully committed. The banks have to date established credits in favour of the Ming Sung Company totalling approximately \$12.2 million and approximately \$10.5 million of these credits have already been disbursed. Repayments on these credits are to be made in ten annual instalments commencing on June 30, 1951.

The most important purchases made by the Ming Sung Company under this program are six small (160-foot) and three larger (270-foot) passenger and cargo vessels specially designed for shallow water operation on the Yangtze River, constructed by two Canadian shipyards near Quebec City. The six smaller vessels have been completed and are being ferried to China, four of which have recently