

mainly intended as a means of enabling Canada to sell to China surplus goods of the types described above. In view of the unsatisfactory political and economic conditions in China and the general policy being followed by the United States in regard to credits to China, the Sub-committee did not consider that any action increasing the amount of credit which Canada will make available for new purchases would be justified. Consequently the Sub-committee decided it should recommend that this request of the Chinese Government should not be granted. The Sub-committee does recommend, however, that any unexpended portion of the \$25,000,000 should be made available for the purchase of any surplus supplies, equipment or materials offered for sale by the War Assets Corporation. This involves a slight extension of the restrictions imposed in the original understanding.

The Sub-committee also gave consideration to the question of policy as to whether additional guaranteed credits should be extended to China similar to that which has been granted to the Ming Sung Industrial Company for \$12,750,000. The Minister of Finance in writing to the Director of the Chinese Government Supply Agency, December 28th, 1945, had stated that the Canadian government was prepared to consider the provision of Guaranteed Credits for the financing of specific industrial projects. Up to date, only one such guaranteed credit has been granted, that to the Ming Sung Industrial Company, and this was not put forward on the initiative of the Chinese Government.

The Sub-committee agreed to recommend to the Cabinet Committee that, apart from the already completed Ming Sung credit arrangement, no approval should be given at present for the extension of guaranteed credits to other projects.

In this connection, Mr. Pearson referred to the letter received from the Honourable T.C. Davis, Ambassador Designate to China. In this letter Mr. Davis requested that the Government give careful and sympathetic consideration to the request of the Taiwan Power Company for a guaranteed credit for the following reasons:

(a) the extension of credit to this company would give Canadian business a bridgehead in the strategic island of Formosa where a return to economic health and advances in industrialization are likely to take place before they do on the mainland;

(b) Aluminium Limited is likely to conclude an agreement with the Chinese National Resources Commission for operation in Formosa;

(c) Noranda Mining and Smelting Corporation are considering loaning the Chinese a million dollars to rehabilitate the gold and copper mines in Formosa in return for an option on certain important copper deposits on the mainland;

(d) the Chinese might now be prepared to accept some form of foreign management during the period of amortization of the loan.

Colonel Cosgrave, Commercial Counsellor of the Canadian Embassy in China, has just returned from a visit to Formosa and strongly recommends the extension of a guaranteed credit to the Taiwan Power Company. Mr. T.Y. Liu, President of the Company, will be coming to Canada about March 10 to make cash purchases of certain items immediately required by the company. He will wish to have conversa-