

D R A F T

My dear Mr. Clayton:

The Export-Import Bank has given serious consideration to your letter of October 29, in which you report that General Marshall considers that the rehabilitation of the Hankow-Canton-Kowloon Railroad is urgent from an economic point of view, and that this project and the first year's requirements for the Yellow River Bridge project cannot be confused with general restrictions on aid to the Chinese Government at this time. You indicate that the Department of State is in agreement with these views and you recommend that the Bank consider these projects and make clear to the Chinese that it is doing so at this time because of their special character.

As you are aware, the Export-Import Bank Act of 1945 states it as the policy of the Congress that the loans of the Bank should, in the judgment of the Board of Directors, offer reasonable assurance of repayment. Although press reports on the politico-military situation in China inevitably cause one to reflect on the bearing of that situation on the prospects of repayment of credit to that country, I shall confine myself in the comments which follow to the economic and financial aspects of the projects.

The Hankow-Canton-Kowloon Railroad has already been put in operable condition and traffic is moving over it, although the road is far from being in first-class shape. The Yellow River Bridge is of comparatively little value to the economy of China so long as, for whatever reason, traffic

cannot be maintained over the length of the Peiping-Hankow Railroad. There is thus ground for the belief that these projects are perhaps of lesser immediate importance to the economy of China than certain others might be-- such, for example, as rehabilitation of coal mines; for there is an acute shortage of coal for both household and industrial purposes. These two railway projects could make little contribution to the meeting of that prime need.

Moreover, the Export-Import Bank authorized a credit of \$16,650,000 last February for railway and bridge repair materials and equipment. That credit was not drawn upon until mid-September and over \$7,000,000 still remain unutilized. UNRRA has also furnished a very considerable amount of materials as well as rolling stock for the rehabilitation of China's railways, of which relatively little appears yet to have been put to effective use.

It is, as you know, the practice of the Export-Import Bank to require from prospective borrowing governments a statement of their foreign exchange assets and obligations, and a forecast of their balance-of-payments position, in order that the Board of Directors may have an informed judgment of the prospects of repayment of the credits which they may grant. Other countries have supplied information of this character and the Chinese representatives have been repeatedly requested to supply it but have not done so. Until such information is supplied, we feel that the Bank would not be justified in opening additional credits for China.

On the basis of information available to the Bank, it is estimated that the foreign indebtedness of China is now of the order of \$800,000,000, not including about \$100,000,000 of available but unused credits, nor credits only provisionally arranged. This amount is exclusive of the Boxer indemnities cancelled under the treaties relinquishing extraterritoriality, of debts to the Axis countries and of obligations held by their nationals (which are expected to be assumed by those countries), and of accrued interest on obligations in default; as well as of an indeterminate amount of domestic obligations issued in terms of foreign currency. The service of this indebtedness would inevitably constitute a heavy burden on China's balance of payments even if conditions in that country should permit an early restoration of her trade to pre-war levels.

In addition to the problem presented by China's existing heavy indebtedness to foreign countries, note must be taken of the rapid dissipation of her foreign exchange balances. In seven months following the attempted stabilization of the exchange rate, the gold and foreign exchange resources of the Central Bank of China have decreased nearly \$250,000,000 and the rate of depletion has been increasing in the later months.

In view of the foregoing considerations, both economic and financial, the Board is not disposed to feel that the opening of a new credit to China at this time for these two railway projects would be in the best interests of China or of the United States and the Export-Import Bank. You may be assured, however, that the Bank will continue its consideration of these projects in the light of any new and pertinent information.

I am very much disturbed by the implication in the final paragraph of your letter that there is not complete liaison between the Bank and the Department of State on request for credit received from the Chinese. If you will indicate more precisely the respects in which you feel that your information is inadequate, I shall be glad to remedy the deficiency.

Sincerely yours,

Wm. McC. Martin, Jr.
Chairman