

No. 7.

*Foreign Office to Lord Balfour of Burleigh.*

My Lord,

*Foreign Office, March 14, 1912.*

I AM directed by Secretary Sir E. Grey to acknowledge the receipt of the letter signed by the manager of the Eastern Bank and dated the 29th ultimo on the subject of loans to be made to the Chinese Government.

In regard to the first point raised in that letter, viz., the question of the advisability of internationalising loans in China, I am to inform your Lordship that Sir E. Grey is unable to concur in the statement that it is not in the interests of Great Britain to agree to such an arrangement. On the contrary, His Majesty's Government and the other Governments concerned have, from the experience of past years, come to the unanimous conclusion that, both in the interests of their own financiers and investing public, and also as a safeguard of China's credit, it is incumbent on them to prevent, as far as lies in their power, all possibility of a return to the former dangerous policy of unprofitable international competition in China, which only enabled the Chinese Government to obtain money without adequate guarantees, and rendered it impossible for the Governments interested to exercise the necessary control over the terms of any loans. There can be no doubt that the internationalisation of future loans would go far to secure this desirable end.

In regard to your suggestion that of any loan negotiated by the Chinese Government one-half should be allotted to the Hong Kong and Shanghai Bank and their foreign associates and the other half to the international syndicate to which your bank belongs, I am to point out that this suggestion appears to conflict with your protest against the internationalisation of loans to China. In any case, however, it would be an unjustifiable intervention on the part of His Majesty's Government and wholly outside their competence to take any action in the direction of indicating the proportion in which any particular loan under negotiation should be divided between two competing syndicates. If the Eastern Bank desire to participate in any loan negotiated by the Hong Kong and Shanghai Bank, it is for them, and not for this department, to approach the latter institution, and Sir E. Grey is of opinion that it would be advisable for your Lordship to follow the course thus indicated. Sir E. Grey has been in correspondence with the Hong Kong and Shanghai Bank on the subject of the participation of other British financial institutions in the loan to the Chinese Government, which is a present being negotiated by them, and he is fully in agreement with them that a *sine qua non* for the granting of such participation must be that the other financial houses should be in the position to prove that British capital would profit by such participation.

In regard to the loan which your syndicate is stated to have practically arranged with the Chinese Government, I am to state that this department has as yet heard nothing on the subject from Sir John Jordan, and this is probably accounted for by the fact, as stated by your Lordship to Mr. Max Müller on the 7th instant, that the negotiations were being conducted by the representatives of the Russo-Asiatic Bank.

At the same time, Sir E. Grey directs me to inform you that, while disclaiming any intention of giving a monopoly of support to the Hong Kong and Shanghai Bank in regard to loans in China, it is impossible for the moment for His Majesty's Government to support negotiations for a loan which might conflict with the terms or weaken the security of the large loan for reorganisation purposes, which is at present being negotiated in Peking by the four-Power combine, with the full knowledge of their respective Governments, and in regard to which advances have already been made to the Chinese Government by the banks interested, with the full approval of their Governments. Such advances, made without any proper security, have been authorised by His Majesty's Government and the other Governments concerned, under the conviction that the moment had come when it was politically expedient to strengthen the hands of the *de facto* administration in China against the forces of anarchy, and His Majesty's Government feel therefore that they are under obligations not only to the Hong Kong and Shanghai Bank, but also to the Governments and financial groups concerned in these advances, not to give their support to any other group in negotiating with the Chinese Government any loan as described above until the large loan, out of which these advances and the expenses of reorganisation are to be covered, has been successfully negotiated, and, above all, until the security on which it is to be issued has been definitely settled.