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APPRAISAL OF U. S. MILITARY, POLITICAL
AND ECONOMIC INTERESTS IN SOUTH ASIA

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E N C L O S U R E

APPRAISAL OF U. S. MILITARY, POLITICAL
AND ECONOMIC INTERESTS IN SOUTH ASIA

THE PROBLEM

1. To re-examine the U. S. national and strategic interests in the countries of South Asia (Afghanistan, Pakistan, India, Burma, Nepal, and Ceylon); and to determine the means which are available, and the measures which should be undertaken in the implementation of established U. S. foreign policy for cooperating with these countries.

FACTS BEARING ON THE PROBLEM

2. See Appendix "A".

DISCUSSION

3. See Appendix "B".

CONCLUSIONS

4. The foregoing appraisal of the strategic, political and economic importance of the emerging South Asian countries to the U. S. national interest indicates that their over-all potential is so great, and political developments in these countries are moving so swiftly, that our basic objectives in the area should be fully defined and vigorously pursued by all the means at our disposal consistent with our commitments in other theaters. At present, although the orientation of the governments and people of South Asia toward the U.S. and away from the USSR is an essential element of our political and economic objectives with respect to these countries, the basic policy decisions as to the material means at our disposal, and the measures other than moral and diplomatic support which we are prepared to undertake in achieving this orientation, remain to be determined. Moreover, our strategic and military objectives in South Asia do not seem to have been clearly defined.

5. In these circumstances, and in view of the approaches that have been made to us by the South Asian countries for military and economic aid, it is imperative that our interests in the South Asian area be thoroughly and urgently reappraised along the following lines:

a. Thorough urgent consideration particularly should be given to the strategic and military objectives of the U.S. in South Asia in the foreseeable future, to assist in determining the essential criteria for U.S. military support to the South Asian countries, and to indicate such other cooperation as may be necessary to promote the realization of these objectives.

b. At an early date an exchange of views should take place between U.S. and British military authorities to ascertain the extent to which the British may be able to furnish future military aid to the South Asian countries and their attitude toward any U.S. program of military assistance to these countries.

c. The extent of U.S. military assistance to these countries should be determined on the basis of their requirements for internal security and elementary defense against external threats, their ability to help themselves, the extent to which the British may be willing or able to support them, and our ability to help them in view of our own requirements and commitments in other theaters.

d. In entering into any commitments for providing military equipment the U.S., in line with presently approved policy, should clearly recognize the continuing need of the recipient countries for military replacement equipment.

e. In addition to military assistance we should at an early date appraise more specifically the economic needs of South Asia, and the extent to which the scope of our economic and financial assistance to these countries can and should be broadened, taking into account, also, the fact that in the case of certain of these countries the

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financial burden for essential U.S. munitions may be so great as to retard economic development which in our own interests should continue.

f. To promote greater regional solidarity, which is essential both for the economic health and military defense of the region, plans should be formulated to use as far as is practicable any U.S. assistance that may be extended to these countries as an instrument to effect cooperation and solidarity within the region.

RECOMMENDATIONS

6. It is recommended that SANACC approve the foregoing conclusions and transmit them to the National Security Council for consideration.

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Enclosure

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APPENDIX "A"

FACTS BEARING ON THE PROBLEM

1. Until very recently the military and other requirements of the South Asian countries were either the direct or indirect responsibility of the British Government. Direct British control of most of these countries assured the British Commonwealth of Nations of access to the military potentials of the area; and the British-controlled Indian Army provided for its defense. Soviet influence was negligible in all the countries of South Asia, except Afghanistan where Russian pressure had been traditionally held in check by the balance of British military power in India. U.S. national and strategic interests in the area were in some measure safeguarded by our close relation with the British.

2. With the transfer of British power to independent regimes in India, Pakistan, Burma and Ceylon during the past year direct British control of, and responsibility for the South Asian countries was eliminated; although through the continued membership of India, Pakistan and Ceylon in the British Commonwealth of Nations, and through specific defense provisions in the Anglo-Burmese treaty of October 1947, the British continue to play an important role in South Asia. Since the reduction in British control and the consequent weakening of the safeguards upon which the U.S. formerly relied, Soviet influence has increased in these countries and the USSR is offering some of them opportunities of purchasing arms and light industrial equipment from Czechoslovakia. The leaders of South Asia have, however, turned mainly to the U.S. for support in their military planning and have consistently indicated, in general terms, their desire to obtain a greater share of capital goods from the U.S. and other Western countries than is now available to them. Accordingly, as a matter affecting

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the maintenance of friendly relations with those countries and to serve our national interests, it is clear that we must take serious account of their claims to our assistance, both economic and military.

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SECRETAPPENDIX "B"DISCUSSION1. Effects of the British withdrawal.

The deep-rooted political uncertainties which effected the British withdrawal of power from the South Asian countries have led to an over-all situation of near-chaos in many parts of the area. Burma is presently embroiled in civil strife. India and Pakistan have just passed through unparalleled communal disorders and are still engaged in undeclared warfare in Kashmir. Pakistan has inherited responsibility for the defense of the strategic North West (Afghan and Iranian) Frontier, but is without the military means of providing an adequate defense. Afghanistan, whose position has always rested on the balance of Russian and British power, has been left isolated on the Soviet frontier without the counterbalance of British power behind her; while at the same time Afghan leaders have raised issues with Pakistan, regarding the status of the North West Frontier tribes, which may well invite Soviet claims to Afghan territory.

In the process of this political upheaval the economies of these countries have been seriously set back, recovery is handicapped by the resulting trade dislocations, and the need for outside assistance in many fields has become strikingly apparent.

Concurrently with this political and economic deterioration the nationalist movements in the South Asian countries have grown strong enough to make it clear that the British will probably never again attempt to impose their will by force. In a negative sense, therefore, these nationalist movements must be considered the military equals of British power within this area, since they can deny access to their territory and resources. Whether the present membership in the British Commonwealth of Pakistan and, more particularly, India, will continue remains to be seen; but in any event this new balance of power is leading to new

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political and economic patterns and possibly to tacit military alliances outside the British Commonwealth of Nations. Old values are being changed and new ones sought. New friendships are being formed. The new political leaders are seeking assistance and support and it is largely on the basis of the responses which they receive that friendship is being measured, and that new alliances will come into being. Some of the leaders of the South Asian countries have assumed, unrealistically, that their power to force the British to negotiate with them was proof they could stand alone as independent states and discharge all their national and international obligations. The past year has shown, however, that they must of necessity either turn for assistance to the Western powers, of which they now accept the U.S. as leader, or that eventually they might be drawn into the Soviet orbit. Even if they were to create the regional bloc for which there is some popular demand in South Asia, and attempt to adhere to a neutral course between the U.S. and the USSR, such a regional organization would probably in time be drawn into the orbit of either the Western or the Soviet power groups. As in other theaters of the world, therefore, whether we will or not, we are here becoming engaged in a competition with the USSR for the favor and resources of South Asia. The leaders of the South Asian countries are presently looking in both directions. It is in the light of these developments, and of the very considerable military potential of South Asia which is now at stake, that U.S. national and strategic interests in, and policy towards these countries should be critically re-examined. The concentration of considerable power in the hands of inexperienced leaders in these countries demands of us the greatest wisdom and forbearance in dealing with them. The great danger to us is in not taking a clear-cut position that will assure us of their friendship and support.

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2. Soviet Interests in South Asia

In telegram No. 3304 of December 1, 1947 the Embassy in Moscow, in discussing a lengthy lead article in the important Soviet publication "World Economics and World Politics", highlighted the possibilities with respect to Soviet interests in India and South Asia as follows:

" This authoritative restatement of Communist ?
doctrine may well portend a shift in major ?
Kremlin efforts towards the East. It seems
to reflect loss of confidence in imminence of
an economic crisis in USA and in possibilities
of further Soviet gain in Europe in the face
of Marshall Plan developments and growing
European antagonism to Soviet aggressive
tactics. If Europe can indeed be held firm
and if we become deeply committed on the
continent in the process, we may then see
the Kremlin turn to direct development and
exploitation of what Stalin termed the 'great
reserves of the revolution in the colonies
and dependent countries'".

More recent developments tend to bear this out. Within the past year the USSR has established an Embassy in India, and has entered into agreements to establish diplomatic missions in Pakistan, and Burma. It continues to maintain an active Embassy in Afghanistan. Trade and barter agreements have been concluded between the USSR and Afghanistan, a Czechoslovakian technical mission has visited India, Pakistan and Afghanistan to arrange for the setting up of Czech industries, and a number of Czech nationals have recently been employed in Afghanistan and Pakistan. Accounts have reached the Department of State indicating ?
that Moscow has set up a Cominform branch for Southeast Asia, ?
and that the Soviet Embassy in New Delhi has become a focal point of contact with subversive Communist elements in India. Soviet provocateurs have been intermittently active in northern Afghanistan, and agents of the Soviet Embassy in Kabul reportedly have been in contact with the Afghan tribes of the North West Frontier.

In various organizations of the United Nations, Soviet representatives have attempted, often with a degree of success, to

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create an alignment between the USSR and the South Asian countries on various UN questions pertaining to racial discrimination, imperialism, trusteeship, etc.

Through its instruments, the various Communist Parties in the South Asian countries, the USSR has concentrated its efforts in South Asia on a campaign of virulent anti-Western propaganda aimed particularly against the U.S. and Great Britain. This propaganda is widely circulated in South Asia and appears in various expressions of public opinion, ranging from the extreme left to considerably right of center. All possible means have been utilized to build up popular support among workers, peasants, and communal refugees to achieve Communist objectives and discredit political leaders not amenable to Soviet aims. In India, industrial strikes and unrest, coupled with increasingly hostile attacks on the Nehru Government, have been manifestations of Communist activity; while in Burma the Communists are engaged in open insurrection against the Government of Burma.

The Soviets have advantages over us in this developing struggle for South Asia. The political foment and economic distress obtaining in most of the South Asian countries, combined with their weak military defenses, make this area particularly susceptible to Communist penetration. Soviet authorities are keenly aware of the issues involved and of the temper of the people. Since there was no direct Soviet involvement in any of these countries, except Afghanistan prior to the withdrawal of the British, no disillusion or suspicion of Communist doctrine has matured among the people. To most of these people, therefore, Communist propaganda still glitters untarnished and attractive.

We also have advantages over the Soviets. Among the more enlightened of these peoples our traditional sympathy for dependent countries has left a legacy of trust and good will, though the positions we have found it necessary to take with re-

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spect to recent national movements in Indochina and Indonesia have weakened the effectiveness of this legacy. Among the educated classes, particularly in India, many of the younger leaders were educated in the U.S. and have retained an affection for this country. The U.S. is at present the outstanding or only source of the capital goods, technical know-how, and financial support which these countries desire for their economic development. In the military sphere the principal armies of South Asia are now equipped largely with British and U.S. material, thus having effected military standardization with the Western democracies; and so long as they remain dependent upon us for their continuing requirements it is unlikely that they would or could turn against us. Due to their traditional religious-social order, which is the antithesis of Communism, many of the peoples of South Asia are naturally resistant to the Communist doctrine. This influence is being revealed in India where some of the provincial governments have recently declared the Communist Party illegal and arrested Party leaders, and in Burma and Pakistan where recent government pronouncements have taken a more anti-communist turn.

3. Importance of South Asia to U.S. National Interest.

While it is beyond the scope of this paper comprehensively to estimate the military and economic potentials of the South Asian countries, we believe that their magnitude is such that the loss to the U.S. of access to the military bases, manpower, raw materials and present and possible productive capacity of this area, or Communist control of the area and its vast population, would gravely affect the security of the U.S. Such an eventuality would prevent the development in these countries of political and economic principles compatible with our own and would thus adversely affect our future trade and investment relationships with these countries. The following facts appear to support this generalization.

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a. Strategic Importance.

The geographical position of South Asia is such that, if the military and economic potentials of the area were more fully developed, it could dominate the region of the Indian Ocean and exert a strong influence also on the Middle East, Central Asia and the Far East. The Indian subcontinent, with its several good ports in India and Pakistan, is readily accessible to us by sea. The sea lanes leading to these ports are through waters which are presently presumably fairly safe to us from attack by Soviet air or naval forces. The best rail, motor and air transport system in Asia leads from these ports and serves the zone of the interior. The defensive position of the interior, against ground movement of Soviet forces from Central Asia, is relatively secure behind mountain ranges which form one of the most formidable natural barriers on Earth. The strategic passes through these mountains, most of which occur in Afghanistan, are presently controlled by an armed population which alone is capable of creating some delay against Soviet military penetration. During the recent war the air bases of eastern India and Burma proved of importance in carrying the war to the enemy in the Far East; and so long as the defense of the Afghan Frontier remains secure to us the air bases at Karachi, Lahore, Rawalpindi and Peshawar might prove equally important in conducting air operations against the industrial areas of the Soviet Heartland, or in defending Middle East oil.

b. Military (Manpower) Potential.

The South Asian countries provide a great reserve of military manpower. Out of a total population of more than 440,000,000 which is considerably greater

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than that of the USSR, the U.S. and the U.K. combined, it is estimated that upwards of 20,000,000 recruits are available. Many sections of this population have a strong military tradition. During World War II the Indian Army alone, with more than 2,000,000 troops was the greatest single military manpower component in the British war effort; and since before the First World War India alone provided the essential military manpower reserve of the British Empire. Regardless of the technological developments of modern warfare, the friendship and availability of this manpower reserve may well prove a critical factor in any future conflict requiring the eventual employment of large ground forces.

c. Economic Potential.

Unlike the more highly-industrialized nations of the West the productive capacity of the South Asian countries remains largely undeveloped. As indicated below, however, the actual productive facilities of the area are of substantial importance to the U.S. and world economy, and will naturally acquire greater significance as means can be found to increase them. With reference to the economic potential of (undivided) India alone, the Board of Economic Warfare in March, 1942 estimated its importance in the following terms:

"India has become a vital and possibly indispensable factor in the strategy of the United Nations. India is the largest Asiatic arsenal of the (Democracies), and enjoys better access to petroleum supplies than any other Far Eastern base. India has already become a great supply base for the Allies because of her vast resources in raw materials and manpower. Since the outbreak of war she has made great strides in adjusting her economic systems to the production of war materials. Her factories have contributed large amounts of war equipment and general stores to the armies

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in the Middle and Far East even as they were meeting to a considerable extent the needs of her own continually expanding military forces. Some items essential to modern armies (e.g., heavy ordnance) she will probably not be able to fabricate for the duration of the war. But India could increase considerably the volume of military equipment she could produce internally if she were able to secure from outside sources such material and technical assistance as would permit her to exploit further her great reservoir of natural and human resources."

The Department of Commerce Economic-Strategic Study of India, also prepared in March, 1942, concludes in part: "No one can deny that India's resources are potentially great and therefore worth fighting for. These resources, when developed after the war, may make India perhaps the leading industrial nation in the Far East."

These appraisals were made two and a half years before the end of World War II, and therefore before India's greater industrial and economic contribution to the U.S. war effort in the CBI Theater; and they have not taken into account the added resources of the other South Asian countries peripheral to India. Since the war, despite the serious economic setback resulting from political unrest, India remains, with the possible exception of Japan, the most highly-industrialized non-Soviet nation in Asia and the Far East, and presently ranks eighth in the world. Moreover, since the war, the South Asian countries have assumed a new importance as the source of strategic materials which are in short supply from other regions. On this subject the Working Group on Strategic Materials of the Executive Committee on Economic Foreign Policy, in a recent study (SM D-15/48, September 7, 1948) of 22 materials urgently needed for stockpiling, lists the following which are available from South Asia:

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Manganese	India
Mica	India
Beryl	India
Kyanite	India
Talc	India (Afghanistan)
Chromite	Pakistan, (Afghanistan), India
Graphite	Ceylon
Asbestos	(Afghanistan)
Tin	Burma
Lead, zinc, cadmium	Burma
Rape seed or oil	India
Castor beans or oil	India
Coconut oil	Ceylon

Considering the region as a whole, and looking at it broadly from the point of view of what it could contribute to us in a future world conflict, or what it could contribute to our enemies if we lost it, the economic potential of South Asia assumes an even greater importance. The leading factors that go to make up this potential are summarized below.

(1) General Commercial and Financial Importance of the Area

Although American trade with South Asian countries has historically constituted only a small part of the total commerce of the U.S., the volume of this trade increased during the war. The highest percentages of total U.S. foreign trade reported for these countries were 5.97 for 1944 U.S. exports (including lend-lease items and exports) and 6.6 for 1945 U.S. imports; this compares with 1.5% of U.S. exports and 3.5% of U.S. imports on the average, from 1936-1940. It is possible that future U.S. trade with the countries will remain at higher levels than before the war, both because of the increased raw material imports required by the expanded postwar U.S.

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economy and because the demand for many products, especially capital goods obtainable only in the U.S., will persist in South Asian countries in order to provide consumer goods, replacements and equipment for development projects. For supplies of specific commodities, these countries have always been of greater importance in U.S. trade than the relative total volume of trade would indicate.

Countries of this area also make important contributions to the economic stability of other nations and regions to which the U.S. has specific commitments and in which U.S. interests are greater than in South Asia. Burma has contracted to provide substantial amounts of rice to China and both India and Pakistan are negotiating with SCAP to provide Japan with raw cotton, jute, iron ore and even coal (already in short supply in both Dominions) in exchange for machinery, cotton yarn, and various textiles. With the exception of Afghanistan (which is not a sterling country), these countries carry on a great part of their foreign commerce with the UK and other members of the sterling group. Most of this trade is not intra-regional, except in the case of Burma, which carries on almost 60% of its total foreign commerce with India. Though Imperial preferences apply to most of the foreign trade of the South Asian countries, and though restrictive import policies have been found necessary in order to reduce the hard currency trade deficits prevailing for

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the last few years, it is possible that these countries will provide larger markets than in the past for American products, as indicated above. Future U.S. economic relations with these newly independent countries will, in any case, involve more direct dealing with them which cannot be based solely on sterling area issues. Most of the air and sea traffic between the countries of South Asia and the rest of the world is handled by European and American carriers.

From the financial standpoint, India, Pakistan and Ceylon hold approximately one-third of the sterling balances owed to foreign countries by the U.K. and thus these countries have a particular interest in British financial stability, also of primary concern to the U.S. British investments in India, Pakistan, Burma and Ceylon are still very large (possibly totaling the equivalent of \$2 billion) despite some transfers of capital to local private investors and governments within the last few years. According to the most recent detailed survey by the U.S. Treasury (1943), American investments in South Asia amounted to \$87.9 million; almost all of this amount represents investments in distributing or assembly units of U.S. automobile and petroleum companies in India and Pakistan, accounting for approximately 11.5% of U.S. investments in Asia as a whole and less than 1% of our total foreign investments of \$18.5 billion.

(2) Labor Supply.

The large population of the region which affords so great a reservoir of military manpower

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provides also an abundant source of labor for economic mobilization. Most of this labor force is presently engaged in agriculture. In India, which is practically the only partially industrialized country in South Asia, pre-war estimates were that about 75% of the total population were engaged in agriculture, about 15% were in some form of other industrial activity, while only about 2% were factory workers. This reservoir of unskilled manpower, however, may well provide a labor supply adequate for the demands of expanding economies, as many of the South Asian peoples readily adapt themselves, when properly trained, to technical skills and industrial work. After an extensive study of this question in India in 1942 the Grady Mission reported that:

"The Mission was impressed with the good qualities of Indian labor. The Indian is skilled with his hands and, given satisfactory working conditions with security of employment, is dependable and industrious. The Mission believes that India can rapidly develop a body of skilled labor adequate for the expanding program of war production."

This has been borne out by the records of existing industry in India, and by the experience of the U.S. and British Armies in the employment of Indian industrial labor during the war.

(3) Agriculture

Agricultural raw materials are among the principal products and exports of South Asia. Primitive methods of cultivation, population pressure, and waste of land, however, have prevented the area from becoming self-sufficient in food. Production may be increased to the point of self-sufficiency when modern techniques are employed, proposed

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irrigation projects are completed, and more effective distribution (involving inter-country cooperation) between surplus and deficient areas can be organized. The main food crops of the region are rice, wheat, millet, barley, maize, gram, sugar, and fruits and vegetables, in approximately that order. In war, if the normal production and distribution of these crops is maintained, large imports of food would not be necessary unless large numbers of troops were moved into the region. With regard to other agricultural and related products the region now supplies most of its own needs and provides important exports of textile materials (jute, short-staple cotton, wool, coconut fiber), oil seeds and vegetable oils (peanut, sesamum, cotton seed, linseed, rape and mustard seed, castor seed, coconut, cinnamon, citronella), raw hides and skins, fur (karakul), tobacco, coffee, tea, rubber, teak, nuts, spices and other items. Important items which do not appear among the listed exports are various forest products and silk. Forests cover about one-third of India and over one-half of Burma, and provide an abundant source of timber and other materials. (Burma alone produces over three-quarters of the world's teak.) India produces about 1,600,000 pounds of silk annually, and during the war was an important source of silk for parachutes. The importance to the present U.S. national economy of those items which are exported is indicated by the table below which shows the percent of our total imports during 1946 of some of the agricultural products we obtained from (undivided) India alone.

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	<u>Per cent of total U.S. Imports in 1946</u>
Jute and jute products	94.8
Short staple cotton	89.4
Cotton waste	61.4
Rattan articles	100.00
Cocoa-fiber mats	99.8
Sunn fibers	100.00
Coir yarn	100.00
Carpets, rugs, mats	48.6
Carpet wool	25.3
Animal fiber	30.1
Shellac, unbleached	100.00
Lac, crude, seed	100.00
Kadaya and talka	96.3
Myrobalans fruit	100.00
Psyllium seed	96.0
Cashew nut oil	87.9
Sandlewood oil	81.0
Lemon grass oil	78.9
Sheep and lamb skins	52.4
Goat and kid skins	45.3
Cashew nuts	93.0
Celery seed	89.4
Tea	52.9
Black pepper	24.7

(4) Minerals and Mines

The mineral resources of South Asia are rich in variety, and as these countries become more fully developed and their mineral resources more fully explored the volume of their minerals production may be expected to contribute increasingly to world requirements. Economic surveys prepared during the war show that by 1942 India (then including Pakistan) was mining more than 40 different kinds of minerals and ores. India's coal reserves are estimated at about 77,000,000,000 tons, of which more than 25,000,000,000 are considered workable, and 28,000,000 tons are being produced annually. India's iron ore reserves are estimated at 10,000,000,000 to 20,000,000,000 tons within the producing areas, while extensive deposits await de-

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velopment in other areas. Its known reserves of iron ore are about three-quarters of those of the U.S. and they include ores of better quality; annual production is about 3,000,000 long tons, or second highest in the British Empire. India furnishes about three-quarters of the world's supply of sheet and block mica, and during the war was the world's greatest producer of mica suitable for munitions purposes. With an annual productive capacity of nearly a million tons of manganese ore India has accounted for about one-third of the world's production of manganese, and is the world's second largest producer of manganese. India is the world's largest producer of ilmenite and monazite, and is the world's principal source of strategic grades of kyanite. Pakistan is one of the important producers of chromite; and India (with Pakistan) has important sources of bauxite, feldspar, gold, gypsum, magnesite, potassium nitrate, steatite, zircon, antimony, asbestos, barytes, beryl, calcite, corundum, graphite, and phosphorus. Afghanistan has no important development of industrial minerals, but recent surveys have disclosed deposits of chromite which may rival the Pakistan deposits; and promising prospects of high-grade talc, asbestos, lead, zinc and copper ores have been recently discovered in Afghanistan. Burma, before it was ravished by war, was the largest producer of wolfram (tungsten) in the world, stood about fifth among the world producers of tin, sixth in the world in lead, and was an important world producer of zinc. Ceylon now produces 2,500 to 3,500 tons of 97-98% high carbon graphite. Nepal is reported to have deposits

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of quartz, beryl, corundum and other strategic materials, although the mineral resources of Nepal have never been fully explored.

(5) Petroleum

While the South Asian countries remain almost totally dependent on outside sources of petroleum, they are more strategically located with respect to the rich Persian Gulf and East Indies fields than any other region in Asia, and geological exploration may yet reveal important petroleum reserves in their own territory. In Afghanistan, where there is yet no petroleum production, reliable surveys have revealed a petroliferous province of upwards of 35,000 square miles with an estimated capacity of 10,000,000 barrels annual production. In Pakistan where the only production at present comes from the Attock field (330,082 barrels in 1937), Burma Shell is now actively engaged in oil exploration and drilling over a wide area in West Pakistan. In India, where about 85,000,000 gallons (over 3,000,000 barrels) now comes from the Assam fields, Burma Shell is also now hopeful of expanding production. Burma, which before the war stood first in the Eastern Hemisphere part of the British Empire with an annual production of about 276,000,000 gallons (over 10,650,000 barrels), will again become an important producer of petroleum when political conditions permit a reconstruction and expansion of the Burmese oil fields.

(6) Industry and Manufacturing.

Except for the wide variety and distribution of cottage industries, handicrafts, etc.,

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which contribute importantly to the internal economy and trade of these countries, the principal organized industry and manufacturing of South Asia centers in India. This, in addition to the mining and plantation industries already referred to, includes the production of textiles, iron and steel, chemicals and medical supplies, electricity, leather goods, rubber products, sugar, cement, paper, machine tools, ships, aircraft, armored vehicles, and miscellaneous war materials. These factory industries employ a labor force of about 3,000,000 not including about 15,000,000 employed by the cottage industries, and perhaps 11,000,000 employed in other industrial work.

Since modern cotton, jute and woolen mills were introduced about the middle of the last century the textile industry has become the most important in India. The cotton industry during the early part of the war was turning out about 4,000,000,000 yards of cloth annually from 389 mills, and about 2,000,000,000 yards from the hand loom industry, and war production was increased until India was supplying her own requirements of cloth, producing clothing from eleven factories to supply her own army, and contributing appreciably to overseas demands for cotton cloth, clothing and webb equipment. India's present (1947) productive capacity is about 4,800,000,000 yards of cloth from the mills, and 1,500,000,000 yards from the hand-loom industry. The Indian jute industry has always held practically a world monopoly. The Indian woolen industry, which normally produces blankets, rugs, carpet and felt for export, was

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taken over by the Government during the war and by 1942 had dispatched overseas 4,200,000 pairs of socks and 2,050,000 blankets. India's production of iron and steel has increased steadily in recent years, and the production of semi-finished and finished steel has also been increasing. The Tata steel plant is the second largest in the British Commonwealth. Present total Indian production of pig iron is about 150,000 long tons in excess of that used for steel production; the present steel capacity is 1,264,000 long tons, as against 625,000 in 1930-31; and the industry now produces a long list of finished steel products including rails, locomotive wheels, etc., high-speed steel for machine tools, stainless steel, and special alloy-steel for armor plate, rifles, etc. During the war India's steel industry met nearly all the requirements of India's defense force and supplied 600,000 tons of pig iron a year to the UK.

The chemical industry is one of the most promising of India's recent developments. Although the heavy chemical industry, production of dyes, fertilizers, etc., still lags, the pharmaceutical branch is well advanced. About 300 drugs and medicines previously imported are now produced locally, and India has become nearly self-sufficient in medical stores. Of the chemical enterprises recently introduced the most important are those for the manufacture of caustic soda, chlorine, sulphuric acid, ammonia and ammonia sulphate.

According to a semi-official American estimate (1947), India and Pakistan, with an estimated total

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of 2,700,000 kilowatts, stand half way among the countries of the world in the order of their hydro-electric power potential. The topography and climate of these Dominions provide excellent opportunities for increasing their installed hydro-electric capacity, which totaled 1,300,000 kw in 1946. Plans to effect an increase of half a million kw in India alone are going forward, and the other South Asian countries are also contemplating similar developments.

Since India possesses a considerable portion of the world's live stock, and also has large selections of tanning materials, the production of leather and leather products has always been an important industry. During the war, in addition to large supplies of military harness, saddlery, etc., this industry produced upwards of 3,000,000 pairs of army shoes and 4,000,000 pairs of half-soles annually.

India, Burma and Ceylon produce annually about 119,000 tons of rubber. By 1941 India's rubber industry supplied most of her own requirements of tires for motor vehicles and permitted the export of several thousand tons of raw rubber. During the war production was expanded to meet largely the requirements of her armed forces, and the industry was developed to manufacture many other items of industrial rubber.

India leads the world in the production of sugar cane, and since the early 1930's sugar production has become one of the leading industries in India and now supplies most of the domestic requirement.

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The capacity of India's cement industry was estimated at 1,000,000 tons a year at the beginning of the war, and expansion since then has increased this by an estimated 25%.

India's prewar production of paper was about 64,000 tons annually, or about one-third of her own requirements. By 1941 this industry had expanded to produce 92,000 tons, a 42% increase over 1939. The possibilities of further increase are extensive.

Although the manufacture of machine tools in India is still negligible, the war led to the beginning of this industry, and by 1941 such items as gauges, lathes, drilling, shaping, planing, slotting, and sawing machines, furnaces, power blowers, presses, thread millers, tool grinders, optical and precision instruments, etc., were being manufactured.

Indian shipyards are not yet equipped to build large vessels, but they have produced a large number of small craft including trawlers, mine-sweepers, corvettes, etc.

The Hindustani Airplane Factory in Bangalore, with 252,000 square feet of floor space and auxiliary foundries and machine shops, was completed in 1941 with an estimated capacity of 400 new fighter aircraft per year not including engine manufacture. The company's first contract was for 74 Vultee bombers, 48 Curtiss-Hawk fighters and 30 Harlow trainers for delivery in 1942. During the war this plant was also used to repair British Swordfish and Walrus seaplanes, and to assemble large numbers of U.S. aircraft.

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While automobiles have not been manufactured in India, Ford, Studebaker and General Motors have important assembly plants there; and during the war General Motors, in cooperation with the U.S. Army, installed at Karachi a two-unit truck and car assembly plant to turn out 6,000 units per month, a truck and body plant to turn out 6,000 units per month, and facilities for engine and general overhaul.

In 1941 India began the production of armored cars and wheeled carriers built on imported Ford chassis and armored with 6 mm to 14 mm plate produced in India. By middle 1942 production schedules called for 600 armored vehicles per month, the limiting factor being availability of chassis.

Of other war materials, by 1942 Indian industry is reported to have been producing over 200,000 different military items in quantities sufficient to supply the Indian army of about 1,000,000 men with 90% of its requirements, and provide large quantities of rifles, machine guns and ammunition of all categories up to 6 inch shells to the British armies outside of India.

4. Present Economic and Financial Requirements of South Asia

The hope of economic progress in the countries of South Asia is generally related to their ability to mobilize their own resources, and to their further needs for capital goods, technical skills, and dollars. These needs cannot yet be described in detail in terms of the volume of imports or of the outside financing required. The hopes and plans of these countries appear greatly to exceed the realities of early accomplishment. More investigation and evaluation is necessary before the

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economic desires prevalent in South Asia can be formulated in terms of individual needs and projects arranged in accordance with practically conceived plans. Assistance in this task is being provided by various working parties of the Economic Commission for Asia and the Far East, of which the U.S. is a member. Until this and related work is completed, there are inadequate bases for determining the magnitude of the economic and financial requirements of the area.

In the case of India, in addition to the primary need for capital goods, the most serious problem impinging directly upon economic relations with the U.S. is the deficit which the Indian economy is experiencing in its transactions with the dollar area. Although historically India has exported more to the U.S. than it has imported from the U.S., the post-war demand for consumer and capital goods has reversed the pre-war trade pattern to the point where India suffered an adverse balance of payments with the U.S. in 1947 amounting to approximately \$200,000,000. India has attempted to meet this problem by restricting imports, by drawing on the central dollar reserves of the sterling area, and by drawing against its International Monetary Fund quota of \$400,000,000. Of these practices a severely restricted import policy is counter to our concept of expanding multilateral trade, and substantial drawings on the central dollar reserves of the area are opposed to our desire to maintain the financial stability of the U.K.

In Pakistan, as in India, dollar requirements are met out of earnings plus drafts on the sterling dollar pool. In its trade with the U.S., Pakistan is presently earning a small dollar surplus; but this is due to import restrictions on all non-essential goods, and this surplus would soon turn into a serious deficit should Pakistan purchase more of the capital goods so badly needed for essential developments. As in the case of India, the practice of restricting imports and substantial draw-

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ing on the sterling dollar pool is contrary to our concept of expanding multilateral trade and maintaining the financial stability of the U.K. Pakistan's requirements differ from India's in that Pakistan is primarily agrarian and its basic industry has yet to be established. Pakistan's need for capital goods, therefore, is proportionately greater. This, plus its military requirements, and the urgent desire to place their new country on a firm over-all financial footing was the basis of the Pakistan Government's request in late 1947 for a U.S. Government loan of some \$2,000,000,000. Pakistan's economic position, being unbalanced as between industry and agriculture, also more clearly emphasizes the need for inter-regional cooperation and especially for Indo-Pakistan economic cooperation.

In Afghanistan, also, there is the problem of financing the essential imports of consumer goods and military stores while proceeding with development plans. Afghan consumer goods are normally imported largely from India and Pakistan, where they are now being procured and balances settled through the sale of dollars because poor transport and marketing facilities have recently impeded the sale of Afghan products and the accumulation of adequate rupee exchange. Present development plans call for an increase of agricultural output, establishment of light industries, development of natural resources, and improvement of communications and transport; and several of these projects have been undertaken by an American firm which requires dollar payments. Nearly 95% of Afghanistan's dollar earnings is derived from the sale of karakul furs in the U.S., and this fluctuates with the fur market. In 1946 they received from this source \$34,000,000; in 1947 less than \$2,000,000; and in the first half of 1948 about \$29,000,000. Their main economic requirements, therefore, are for better inter-regional economic cooperation, to provide the rupee exchange necessary to obtain consumer goods in India and Pakistan with local currencies; and

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for some U.S. financial assistance to insure completion of their development projects. It is mainly for this latter purpose that the Afghan Government has approached us to determine the prospects of a U.S. loan.

Since Burma has become so embroiled in civil strife resulting from the armed revolt of its Communist parties, the trend in that country has been more toward economic disintegration and requests for military supplies, than for the means of economic rehabilitation and development. Pending the outcome of this conflict, therefore, an appraisal of Burma's economic and financial requirements, and of our interest in furnishing them, cannot well be estimated. As a member of the sterling area Burma now obtains most of its dollars from the central reserves of the U.K. Since Burma is normally the largest world exporter of rice, and may again become an important world source of tungsten, tin, lead and zinc - all of which are now in short supply - this drain on U.K. dollars might be stopped if the U.S. were to supply dollars for the purchase of these materials by some suitable procurement method.

Nepal has announced its intention to develop local industries and agriculture, and is negotiating with American firms for an economic survey of the country as the first step toward such development. Nepal's principal economic requirement is for the dollar exchange needed to carry out this program. Currently, Nepal is dependent on India for such limited dollar exchange as it obtains; and Nepal now wishes to enter into an arrangement whereby all foreign exchange arising out of the export of Nepalese products through India would accrue to Nepal.

Ceylon's present dollar position is comparatively good, and this country has requested several types of U.S. technical assistance.

In accordance with our general policies of promoting an expanded multilateral world trade, of recognizing the world-wide

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need for accelerated economic development, and of upholding the principles of international cooperation, this Government desires, within the limits of its resources, to assist the countries of South Asia to raise their standards of living and to increase their productive capacities. This desire is consonant with one of the principal elements of our objectives in this area: to maintain the orientation of these countries towards the U.S. and western democracies and away from the USSR. It is likewise consistent with our interest in obtaining, within the next few years, maximum supplies of strategic materials from South Asia and it reflects the belief that capital exports to these countries can in some measure prove to be a stabilizing influence on the level of U.S. production and employment by increasing or retaining foreign markets for U.S. goods.

As yet we have not included the South Asian countries in that limited group to whose needs we are giving specially favorable consideration, because the development needs of all areas now carry a lower priority for short supplies than do reconstruction and rehabilitation areas. Until now we have held that private investment should be the principal means of U.S. financial assistance to these countries for the further development of their economy. We have held that, when private capital is not available, we should lend support to their applications for loans from the International Bank or the Export-Import Bank for individual development projects, but that our interests in South Asia, in view of our broader commitments in other theaters, do not warrant special treatment with respect to the supply of capital goods or direct U.S. Government credits which require Congressional approval.

It is present U.S. policy to permit the export of goods subject to official quotas (none of which represents an obligation on suppliers) in the largest possible quantities consistent with the effective functioning of our domestic economy. The

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Secretary General of the Economic Commission for Asia and the Far East will be informed of this policy, in answer to the recent appeal by a majority of the Commission to make available to Asian countries "an adequate share" of our production of capital goods and basic materials. Furthermore, an increased world production of essential commodities (including capital goods) is expected to result from the rehabilitation and recovery of Europe and certain Far Eastern countries, to which the U.S. is now contributing an unprecedented volume of financial assistance, and such an increase will materially help to establish the basis in South Asia for economic progress. This progress, in turn, may result in improved conditions that will provide foundations for stable democratic governments, friendly to the U.S.

Meanwhile, as U.S. resources are limited, it is urgent that we reappraise the existing financial and other means at our disposal and explore the possibilities of utilizing additional methods of economic assistance to the area, in order to determine the extent and character of the aid which is consonant with our own interests.

5. Present Military Requirements of South Asia.

Out of a total population of more than 440,000,000 the total strength of the ground forces of all the South Asian countries has recently stood only at about 526,000 regular troops, plus various small irregular security forces. By countries these forces are distributed approximately as follows:

	<u>Population</u>	<u>Ground Forces</u>
Afghanistan	11,000,000	72,000
Pakistan	75,000,000	141,000
India	317,690,000	241,000
Burma	15,000,000	23,000
Nepal	5,600,000	45,000
Ceylon	6,500,000	4,000

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Due to the political unrest which now pervades the area and to the presence of militant forces within the area (Afghan tribal forces, Indian States forces, Gurkha warrior castes, etc.), which are not yet fully welded to the merging national authorities, these military forces of the South Asian countries are barely sufficient to meet the existing demands for internal policing and maintenance of security. Yet the present trend, due to lack of replacement equipment, spare parts, etc., is toward a decrease of either the efficiency or strength of these forces. None of these countries is yet able to fully supply its own armies with equipment of its own manufacture. All are presently supplied with material formerly obtained from British and U.S. sources. To maintain their existing strengths, as their stores become exhausted through normal attrition, the South Asian countries are now turning mainly to the U.S. as the natural source of supply. The requests so far received by us are as follows:

a. Afghanistan

For all practical purposes Afghanistan is almost totally dependent on foreign sources for its military requirements. Up to now the Afghan Army has obtained from the U.S. only surplus hospital and non-combatant equipment, through the purchase for cash of U.S. surplus property in India in 1945. In June of 1946 the Afghans approached the U.S. for other military supplies. A further approach was made in 1947, at which time we were told in no uncertain terms by the Afghan Prime Minister that unless his government could be given some assurance of at least token assistance from the U.S., which would indicate that we had an interest in Afghanistan, they would be forced against their will to turn to the USSR. In April 1948 they informally requested a U.S. loan of \$100,000,000 to finance a 12-year economic development program and to provide for

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their military requirements, and although this figure has since been reduced the request is still pending. As to their military requirements alone, they informed our Embassy in Kabul on July 29, 1948 that for internal security they were presently in need of approximately 24 to 36 light tanks, 120 4.2 inch mortars, 40 AT-6 type aircraft, and materiel to equip one motorized division of 4,000 to 6,000 men. Since none of these Afghan requirements has yet been presented to us as formal requests, no positive action has been taken on these approaches.

b. India

At present India is able to produce large quantities of small arms and ammunition, uniforms and leather equipment, but is largely dependent on foreign sources for planes, tanks, ships, heavy ordnance, etc. Of these latter categories the Indian Army is partly equipped with U.S. lend-lease and surplus property material. During 1948 the Indian Military Attache, Col. Kaul, approached the Departments of State and Army to obtain medium bombers and other military equipment for the Indian armed forces. He wished to order 12 B-25 Mitchell bombers for delivery in May 1948 and 31 additional B-25's for subsequent delivery. He also informally indicated the interest of the Government of India in Long-term military collaboration between India and the U.S.

At the time of Col. Kaul's approach the Department of State was in the final stage of reaching its determination, subsequently approved by the President, that in view of the threat of war between India and Pakistan over Kashmir it was not consonant with the foreign policy of the U.S., while this issue was under review by the UN, to authorize the sale or transfer of combat material to either India or Pakistan pending a clarification of the situation. At the same time the Department of State was advised by the Department of the Air Force that no medium bombers of the

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type desired by India were then available as surplus to the needs of the U.S. military establishment. It was accordingly decided to discourage Col. Kaul from making further requests of this nature.

On April 2 the Deputy Foreign Minister of India, Sir Girja Bajpai, called at the Department of State and stated that, with the full knowledge and authority of Prime Minister Nehru, he would like to propose the sending of an Indian military mission to the U.S. at an early date to explore the possibilities of obtaining military equipment in this country. In making this request he gave assurances that the principles for which the U.S. and India both stand are identical and that India would under no circumstances align itself with the Soviet Union in a war between that country and the U.S. Sir Girja was informed that the proposal would be considered; but he was reminded that, not only because of the present U.S. arms policy with respect to India and Pakistan but also because of our own present arms requirements, it might not be feasible to do very much for India.

Recently members of the Indian Embassy, including the Indian Military Attache, have informally approached the State Department to express a desire for a greater exchange of military information between the two countries. This problem has been partly met by: (1) Having India classified upwards to the category of countries receiving "restricted" U.S. military information; (2) Making a deliberate effort to furnish the Indian Military Attache here with relatively harmless but somewhat impressive military information; and (3) urging the U.S. Army to continue Indian officer students in U.S. Army Service Schools.

On June 7, 1948, Mr. Chopra, First Secretary, Embassy of India, requested informally the probable reaction of the

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U.S. Government to a formal request from India to import arms and ammunition from the U.S. to be used exclusively in the Indian military training program. He stated that the Government of India would be prepared to give formal assurance that the arms and ammunition imported would in fact be used for training and would under no circumstance be employed in Kashmir. The items requested included:

75 mm. how.	209,000 rounds
75 mm. gun.	100,000 "
75 mm. gun, smoke.	46,000 "
37 mm. HE.	150,000 "
37 mm. Canister.	32,000 "
30 cal. Browning (mixed belts)	12,000,000 "
Grenade, rifle, practice.	17,000 "

The Department of the Army has determined that these quantities are completely reasonable and that they represent on a per capita basis approximately 75% of the amounts normally required by U.S. troops for training purposes. In reply to this request representatives of the Indian Embassy were informed on July 29 that the supply of this ammunition from U.S. sources could not be approved because it would be in violation of the U.S. policy not to supply war material to either India or Pakistan until the situation in Kashmir had clarified.

On July 30, 1948 the Indian representatives inquired whether the U.S. included spare parts for out-dated Stewart tanks among those items which were excluded for export from the U.S. to India. In reply they were informed on August 17 that these items were no longer available. During the discussion which followed the Indians stated that while the Government of India now understood the U.S. position with regard to such temporary situations as the Kashmir

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problem, it was also faced with long-range as well as short-range military planning, and the time was coming when India, in order to evolve its long-range planning, would have to know "where it stood" with the U.S. Government in the over-all evaluation of what international contribution might be made by India in the event of further deterioration in international relations in general.

c. Pakistan

The new Government of Pakistan, which came into being with no munitions industry and only a modicum of equipment from Indian stores, approached the Department of State in October-November 1947 with the request for U.S. financial aid over the next 5-year period to include, inter alia, the following defense items:

Army - \$170,000,000. To provide for a regular army of 100,000 to consist of one armored division, five infantry divisions partly motorized, and a small cavalry establishment; and to provide for replacement and remodeling of existing arms and equipment, supplies and ammunition, equipment for ordnance factories, raw materials and payment of personnel.

Air Force - \$75,000,000. To provide for twelve fighter squadrons (150 planes), four fighter reconnaissance squadrons (70 planes), three bomber squadrons (50 planes), four transport squadrons (50 planes), four training wings (200 planes), together with necessary replacements, ground facilities, and payment of personnel.

Navy - \$60,000,000. To provide for four light cruisers, sixteen destroyers, four corvettes, twelve coast guard gunboats, three submarines, 120,000 tons miscellaneous facilities with necessary ammunition, base equipment, etc.

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It was obvious from this approach that Pakistan was thinking in terms of the U.S. as a primary source of military strength, and that this would involve virtual U.S. military responsibility for the new dominion. Since no legal authority existed for granting U.S. financial aid to Pakistan for this purpose, and since the time was not considered opportune for seeking such authority, our reply to this Pakistan request was negative. The military items contained in this request were not considered because it was not yet clear what role the British were to fulfill in the military affairs of the new Dominions, nor what U.S. military policy toward South Asia would eventually be. Of the other requests received at that time for financial aid, however, a WAA credit of \$10,000,000 was granted Pakistan for medicine and other material for refugee relief.

Since that time we have received requests from the Pakistan Embassy for 30 AT-6 training planes, spare parts for AT-6 planes already possessed by the Pakistan Air Force, and for information regarding sources in this country where the Government of Pakistan might obtain maintenance spares for Stewart tanks, Sherman tanks, and tracked carriers which are now possessed by the Pakistan Army. After considerable deliberation, it was finally determined that, provided suitable guarantees were given, the sale of training planes and parts of the type requested was not incompatible with the informal embargo mentioned above in connection with India, and accordingly the Department of State has approved export licenses for these items. Action on the inquiry for maintenance spares for tanks and tracked carriers is pending.

In May 1948 the British Government requested that the U.S. approve the transfer, from British Lend-Lease stores to the Government of Pakistan, of 5,198,000 rounds of .30 caliber and 1,091,000 rounds of .50 caliber ammunition.

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This request was refused because it was considered that such a transfer would violate the informal arms embargo mentioned above.

d. Burma

Burma has no munitions industry, and the Burmese Government recently found itself lacking adequate supplies of automatic weapons, small arms, ammunition, communications equipment, and aircraft for its campaign against insurgent Communists. In his telegram No. 130 of April 3, 1948, Ambassador Huddle informed the Department of State that the Burmese Foreign Minister had requested U.S. assistance to the extent of providing six fighter bombers, 400 field wireless sets, 1,000 Thompson sub-machine guns or Sten guns, and 30 armored cars. The Ambassador suggested that the Foreign Minister try to obtain these supplies through the British Defense Mission before calling upon the U.S. for aid. The Foreign Minister followed this advice and was successful in obtaining some of this equipment, at which time, also, we consented to the British request to re-transfer to Burma 12,000 rounds of .50 caliber Lend-Lease ammunition. Since then, however, our Military Attache in Burma reports that on August 18, 1948, our Embassy in Rangoon was again informally approached by the Burmese with the request that the U.S. supply the Government of Burma immediately 10,000 carbines, 1,000 sub-machine guns, 1,000 Bren guns or equivalent, 1,000 light machine guns, and 300 heavy machine guns. The British were also being asked at that time to supply additional arms and equipment. On September 4, 1948, in an official note to our Embassy in Rangoon, the Government of Burma requested to buy from the U.S. 5,000 carbines with 2,250,000 rounds of ammunition and 150 jeeps, stating that of their long list of essential needs these items were available only from the U.S. and that most of

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the other items were being supplied by the British. The British Ambassador supported this request.

e. Nepal and Ceylon.

There have been no requests by either Nepal or Ceylon for military assistance from the U.S.

6. Inability of the British to Meet Military Requirements

Bearing in mind the commitments which the U.S. has made elsewhere, it would appear to be in our national interest that the British continue to bear the major responsibilities for meeting the military requirements of the South Asian countries. It is doubtful, however, whether Great Britain can do this. Uncertainties prevail with respect to the political relations between Great Britain and her former dependencies which may seriously limit the extent to which military cooperation between them could take place. We gravely doubt whether the British alone possess sufficient economic and military resources for this task. In view of the actual requests which have come to us in recent months from the South Asian countries for military assistance and guidance, therefore, it is necessary in our own self-interest now to determine what part of this responsibility should be borne by the U.S. when the informal embargo now in effect against India and Pakistan is eventually lifted.

7. Necessity for Regional Approach by U.S.

We may defeat our own purpose if by extending military assistance to any one country in this area we alienate the friendship of one or more of the other South Asian powers. Certain of these countries, particularly India and Pakistan, do not yet enjoy good relations with one another. If U.S. military assistance is made available to one the others will increase their pressure for comparable aid. In considering any program of military assistance to the area, therefore, a regional ap-

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proach is necessary, keeping in mind, of course, that internal conditions in individual countries must always be taken into account.

On the other hand, India is the natural political and economic center of South Asia and aid given to the peripheral countries would have to be adapted to conditions in India.

8. Desirability of Regional Cooperation.

Even if U.S. aid is extended to the South Asian countries on a regional basis there remains the possibility, due to continuing internal and inter-regional conflicts, that the combined power potential of South Asia may never develop in the foreseeable future if the individual countries are left to their own devices. U.S. military assistance to these countries may not contribute to our own national interest unless it contributes to the improvement of their internal stability and better relations with each other. Due to the momentum of movements which are already set in motion in South Asia, a period of internal and inter-regional conflict is perhaps inevitable. Whether this will eventually lead to greater regional solidarity or greater chaos remains to be seen. The possibility of it leading to greater chaos must now be accepted as a calculated risk. To minimize this risk and thereby promote our own objectives, any plan for U.S. assistance should be used as far as practicable as an instrument to effect cooperation and solidarity within the region.

9. Importance of Recognizing Continuing Need for Military Replacements.

SANACC 360/5 (approved on July 26, 1948) points out that U.S. foreign policy may be seriously impaired in some of its principal objectives if the result of U.S. military assistance should be the alienation of the recipient countries through the breakdown of that assistance. This could come about by not considering the future need for replacement and spare parts. After a foreign country receives U.S. munitions

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applies them to equip units, and employs these units in operations or training, there comes a time when spare parts which originally came with the equipment are in the hands of troops or exhausted. At this point there arises a stringent and legitimate demand for replacements and extra spare parts which usually are to be had only from the U.S. If in response to this demand the U.S. offers nothing but sympathy, the foreign government will be forced either to reduce its military establishment, attempt local manufacture, or turn to some other country for help. Any one of these alternatives would inevitably create ill will toward the U.S.; while the latter, if the only choice is to turn to the Soviet countries, would defeat one of the most cherished long-range aims of the U.S. by defeating the concept of tacit military alliances, and military standardization, between these foreign countries and the non-Soviet powers.

We now face this situation with respect to India and Pakistan. As a result of Lend-Lease and surplus property transfers the armies of these countries were partly equipped with U.S. materiel. The point of exhaustion of that materiel is now approaching, and India and Pakistan are turning to the U.S. for replacements and extra spare parts. Due to the dangerous political unrest in South Asia their requirements for internal and regional security are too great to permit a reduction of the military establishments at this time--nor would it be in our interests that they do so. They are not in a position fully to supply themselves by local manufacture. Unless they receive replacement equipment from us, therefore, their only alternative will be to turn to some other country for help, and recent reports (Praha A-610, August 2, 1948) indicate that they are now considering accepting the offer of this help from Soviet-dominated Czechoslovakia.

10. Financial Considerations.

It would oppose a fundamental objective of U.S. policy

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if the financial burden for U.S. munitions was so great on the recipient countries as to retard the progressive development of the resources and economic potential of South Asia (SANAOC 360/5). When a foreign nation now attempts to secure replacements of U.S. materials it usually receives a psychological shock occasioned by the present high cost as compared with the original cost of the same materials under Lend-Lease or surplus property settlements. The tendency may be strong, therefore, to retard or sacrifice essential economic development to the needs of the military. If military assistance to the South Asian countries is as important to the national interests of the U.S. as we believe it is, and if it is determined that some of these countries cannot wholly or partly support the required program, financial support of military assistance measures for these countries through U.S. means should be given policy consideration. The extent of U.S. financial assistance should be balanced, however, to prevent any unremunerative dissipation of U.S. resources.