

NIE 61-56
10 April 1956

~~SECRET~~

hls-006

NATIONAL INTELLIGENCE ESTIMATE

NUMBER 61-56

PROBABLE DEVELOPMENTS IN BURMA

DOCUMENT NO. 1
NO. QUARTERMASTER REG. I
 DECLASSIFIED
CLASS. AUTHORITY: TS S C
NEXT REVIEW DATE:
AUTHORITY:
DATE: 7 Jul 81 REVIEWER: 6574

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

The following intelligence organizations participated in the preparation of this estimate: The Central Intelligence Agency and the intelligence organizations of the Departments of State, the Army, the Navy, the Air Force, and The Joint Staff.

Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 10 April 1956. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

fld. 3

COPY NO. 246
ASSISTANT DIRECTOR, ONE

~~SECRET~~

CENTRAL INTELLIGENCE AGENCY

DISSEMINATION NOTICE

1. This estimate was disseminated by the Central Intelligence Agency. This copy is for the information and use of the recipient indicated on the front cover and of persons under his jurisdiction on a need to know basis. Additional essential dissemination may be authorized by the following officials within their respective departments:

- a. Special Assistant to the Secretary for Intelligence, for the Department of State
- b. Assistant Chief of Staff, Intelligence, for the Department of the Army
- c. Director of Naval Intelligence, for the Department of the Navy
- d. Director of Intelligence, USAF, for the Department of the Air Force
- e. Deputy Director for Intelligence, Joint Staff, for the Joint Staff
- f. Director of Intelligence, AEC, for the Atomic Energy Commission
- g. Assistant Director, FBI, for the Federal Bureau of Investigation
- h. Assistant Director for Central Reference, CIA, for any other Department or Agency

2. This copy may be retained, or destroyed by burning in accordance with applicable security regulations, or returned to the Central Intelligence Agency by arrangement with the Office of Central Reference, CIA.

3. When an estimate is disseminated overseas, the overseas recipients may retain it for a period not in excess of one year. At the end of this period, the estimate should either be destroyed, returned to the forwarding agency, or permission should be requested of the forwarding agency to retain it in accordance with IAC-D-69/2, 22 June 1953.

WARNING

This material contains information affecting the National Defense of the United States within the meaning of the espionage laws, Title 18, USC, Secs. 793 and 794, the transmission or revelation of which in any manner to an unauthorized person is prohibited by law.

DISTRIBUTION:

White House
National Security Council
Department of State
Department of Defense
Operations Coordinating Board
Atomic Energy Commission
Federal Bureau of Investigation

REGURD COPY

~~SECRET~~

329

TO ALL HOLDERS OF NIE 61-56: PROBABLE DEVELOPMENTS IN BURMA,
published 10 April 1956

The footnote on page 9 of the published estimate should be corrected to read as follows:

- 3/ This projection includes a supplementary arrangement with the USSR, signed in April 1956, which raises Burmese rice exports to the USSR from 150-300,000 tons to 400,000 tons for each of the next four years, and a 3-year agreement with Rumania, signed in February 1956, for around 20,000 tons of rice annually.

CENTRAL INTELLIGENCE AGENCY
4 May 1956

~~SECRET~~

~~SECRET~~

PROBABLE DEVELOPMENTS IN BURMA

THE PROBLEM

To analyze recent trends in Burma and to estimate probable developments over the next few years, with particular emphasis on Burma's international orientation.

CONCLUSIONS

1. The political life of Burma is and will probably continue for the next few years to be dominated by a handful of leaders who share a common outlook based on Marxist economics, Western political principles, and Burmese nationalism. Although in terms of basic values Burma identifies itself with the free world, residual anticolonial sentiment and fear of provoking Communist China have led it to adopt a neutralist position. (*Paras. 9, 11, 53, 64*)
2. Both the current stability and the future growth of Burma's economy are heavily dependent on the export of rice. The world price of this commodity has fallen substantially in the last couple of years and Burma has had difficulty in marketing its rice. Burma's economic development will remain limited not only by the price of rice, but also by the lack of competent administrators and trained technicians and by the internal disturbances which hamper transportation and disrupt agricultural production. However, it is unlikely that economic conditions will seriously affect political stability during the next year or so. (*Paras. 34, 38, 42, 52, 67-68*)
3. Although Burma's need for markets for its rice has provided the basis for a significant expansion in Bloc-Burmese relations, particularly in the trade and technical assistance fields, Burma will almost certainly try to continue to balance its economic and political relations between the West and the Bloc. While trade with the Bloc will account for a large share of total Burmese trade and carries potential dangers, Burma's economic involvement alone will not, at least for the next year, be so great as to destroy Burma's freedom of maneuver. (*Paras. 49-50, 70*)
4. However, Burma is now a major Bloc target, and over the longer run there is danger of a substantial increase in Bloc influence as a result of economic arrangements already concluded or under negotiation and Burma's likely receptivity to further Bloc offers of trade and technical

~~SECRET~~

~~SECRET~~

assistance. Other factors which may increase Burma's vulnerability are: (a) the probable susceptibility of Burmese students and other potential leadership groups to the current pattern of Communist propaganda; (b) Communist China's ability to exert diplomatic or if necessary military pressures on Burma; and (c) U Nu's apparent belief that he can deal with the Bloc without losing his freedom of action. (*Paras. 69, 71-73*)

5. The extent to which the Communists realize their potential in Burma will depend in part on the actual economic gains realized by the Burmese and in part on

the skill and restraint with which the Communists comport themselves; premature efforts to apply pressure could result in alarming Burmese leaders. The Burmese have been disturbed by Communist China's sale of rice to Ceylon, and this concern would be intensified should the Bloc re-export increasing amounts of Burmese rice to traditional Burmese markets. But to a major extent, Burmese receptivity to Communist offers and influence will depend on the ability of Burma to dispose of its export commodities, especially rice, in non-Communist markets. (*Paras. 75-77*)

DISCUSSION

6. For several years after its peaceful transition to independence in 1948, the Union of Burma maintained a precarious and uncertain existence. Following the assassination in 1947 of Burma's strongest leader and popular national hero, Aung San, there was danger that the small leadership group would fall apart in personal struggles for power. Due to the almost complete wartime destruction of Burma's small modern industrial sector and to the widespread disorders that hindered agriculture and transport, production fell to less than half of prewar levels. The ethnic minorities which constituted one-third of the total population of 19 million posed serious problems of control. Insurgency was rife, and for a time Communist and other rebel forces frequently operated within sight of Rangoon.

7. Despite these handicaps and the reluctance of the strongly nationalist government to seek major assistance from the West, the government has retained its cohesion and has made steady progress in rehabilitation and internal security. Although insurgency and chronic banditry are still serious, the government's major concern is to develop economic stability. The failure to dispose of a heavy rice surplus in traditional non-Communist markets led to a considerable budget deficit, balance of pay-

ments difficulties, and curtailment of the large economic development program to which the leadership had committed itself.

8. These circumstances have provided an opening for the economic, political, and propaganda tactics of the Bloc. Over the past year, the Bloc has agreed to take large amounts of Burmese rice in exchange for Bloc goods and technical advisors, and Burma is being subjected to various Bloc political and propaganda moves designed to reduce western influence, to increase the acceptability of Communism, and to prepare the ground for an increase in direct Bloc influence. In this situation, the key question is the extent to which Burma will be responsive to Bloc offers and susceptible to Bloc pressures and propaganda.

I. PRESENT SITUATION

The Political Situation

9. The political life of Burma is dominated by a handful of top leaders in the Anti-Fascist People's Freedom League (AFPFL), the war-born coalition of nationalists that in 1946 threw off Communist attempts to control it, in 1947 negotiated the country's independence and drafted Burma's constitution, and in 1948

~~SECRET~~

formed the provisional government. Since the first election in 1951-1952, the AFPFL has enjoyed a parliamentary majority of about 80 percent.

10. The stability of the government since independence has been made possible not only by the commanding majority of the AFPFL, but also by the strength and discipline of its principal component, the Burma Socialist Party (BSP), which controls nearly half of the seats in parliament. Most of the important Burmese political leaders, except Prime Minister U Nu, are BSP members. Ba Swe, Minister of Defense and Minister of Mines, is a member of the party presidium and leader of the influential Trade Union Congress (Burma), which has successfully kept most union locals from affiliation with the Communist controlled Burma Trade Union Congress. Kyaw Nyein, Minister of Industries and oftentimes acting Foreign Minister, is the party's secretary-general and the leading party theoretician and planner. U Nu, the most important member of the coalition, remains the best known and most popular leader in Burma. His prestige among Buddhist circles and minority peoples has served to offset some of the distrust which these groups feel towards the dominant BSP.

11. Most of the AFPFL leaders share a common outlook based on Marxist economics, Western political principles, and Burmese nationalism. They worked together in the nationalist movement at the University of Rangoon during the 1930's and through study groups came to accept Marxist-Socialist ideas on imperialism and economic development. However, in large measure because of British influence and in part by reason of their own Buddhist heritage, Burmese leaders tended to reject Leninist-Communist concepts of party organization and political struggle. Although the constitution is based on doctrinal socialist provisions for state ownership or regulation of most of the economy, Burmese socialism has in practice resembled the more pragmatic approach of the British Labor Party. Finally, the peaceful granting of independence weakened the extremist influence in nationalist circles. However, anticolonial sentiments con-

tinued to exert a significant influence on foreign policy, and have contributed to the development of neutralist attitudes.

12. The AFPFL has no significant conservative opposition, and the attitude of the majority of the Burmese toward the government is one of passive acceptance. The weak and inexperienced civil administration is gradually being improved through technical training, strengthened central control, and the reduction of insurgency.

13. Administration of the ethnic minorities, who were given special protection by the British and who fear loss of their cultural identity in a Burman¹ state, has posed the most serious political problem. To mitigate the fears of these groups and to win their loyalty to the Union the constitution provided special administrative regions for the largest of the minority groups: Shan, Kayah (Karenni), Karen, and Kachin States, and the Chin Hills Special Division (see map). Moreover, the constitution gives to the first three of these states the right to secede from the Union after January 1958, though the procedure prescribed would be complicated and time consuming. The powers of the states are limited to those specifically granted in the constitution, and the Union Prime Minister appoints the state executives. In practice, the AFPFL has been able to insure the protection of national interests in the minority states by securing the election of acceptable candidates to important state offices and to the central parliament.

14. Although there have been personal frictions and differences on tactics, the leaders generally share the same concepts and beliefs. Kyaw Nyein has been more inclined to take a hard line with domestic Communists than Ba Swe, and is reported to question some of U Nu's arrangements with Moscow. There have also been differences within the coalition on the pace of economic development, on minority policies, and on U Nu's lavish use of

¹ Throughout this estimate the term Burman is used to describe the majority ethnic group; the term Burmese is used to describe all nationals of the Union of Burma.

~~SECRET~~

~~SECRET~~

government funds to foster a Buddhist revival. Although these issues are not likely to split the AFPFL before the national elections scheduled for April-May 1956, or even to attain the level of major intraparty disputes, they could become significant issues in the future if economic progress were stalled. They also provide an opening for possible Communist efforts to split the coalition.

15. *Communism as a political force.* The Communist movement in Burma has been divided since 1946 into two main factions. The smaller and less important group—Communist Party, Burma (CPB)—led by Thakin Soe, split off at that time over personal and tactical issues and has since operated primarily as a minor guerrilla movement. The Burma Communist Party (BCP), led by Than Tun, is primarily a guerrilla organization. It also has links into a legal political front, the Burma Workers and Peasants Party (BWPP). The BWPP membership and the Communist insurgent groups combined probably number no more than 10,000. The BCP and the BWPP have been responsive to the international Communist line on all important issues.

16. During the prewar period Burma's Communists worked within the nationalist movement and, until Burma entered negotiations for independence in 1946-1947, nationalist leaders were generally unaware that the Communist leaders had separate political aspirations. Some of the key present-day Communists played leading roles in forming the wartime resistance movement which in 1944 evolved into the AFPFL. Than Tun was the first secretary-general of the AFPFL, and was at one time acclaimed by U Nu to be the most able man in Burma. Nationalist suspicions were aroused by Communist activities within the AFPFL, however, and by 1947 all important Communist leaders had been expelled. Following the call to armed insurrection issued by the Communist Asian Youth Conference in 1948, Than Tun and his BCP went underground. Communist attempts to overthrow by violence the anticolonial, newly independent government had a profoundly disillusioning effect on non-Communist leaders. Poorly planned and harshly executed attempts

by the Communists to conduct "land reform" and their continued raiding for supplies alienated much of the peasantry. These tactical blunders, together with government measures to safeguard peasant ownership of land and to improve peasant welfare, and possibly the influence of Buddhism, have combined to deprive the Communist movement of mass appeal.

17. Although the government has conducted a continuing campaign against the Communist insurgents, it has permitted the Communist-front BWPP to operate as a legal political party since its formation in 1950. The BWPP has an estimated membership of 4,500 and controls several minor peace, cultural, and labor fronts. It has a nine-man parliamentary delegation. The BWPP is strongest in Rangoon, where it receives guidance and support from the Chinese Communist and Soviet embassies.

18. The Communists also control the Rangoon University Students Union and other student groups throughout Burma. Although we have no evidence that Communist electoral successes within the Student Union indicate more than student protests against specific situations on the campus, the government is concerned about Communist influence on the campus. The BSP students on the campus have been unable to displace Communist control of the students' organization. Because of the shortage of trained Burmese, students assume positions of relatively great importance almost immediately upon graduation. The Communist line as it develops in the current phase of Sino-Soviet Bloc tactics may have a more profound influence on the students. Khrushchev's speech at Rangoon University and his offer to build and staff a technical institute in Burma are indicative of Communist efforts to exploit their already favorable situation among the students.

19. The BCP and the BWPP have been demanding a "coalition" government for several years. In the past few months the BCP has intensified its efforts to obtain recognition as a legal party in return for cessation of guerrilla activity. These recent maneuvers, which may have included direct contact with some

~~SECRET~~

SECRET

5

AFPFLL leaders, are consistent both with the current Bloc emphasis on united front tactics and with a realistic appraisal of the diminishing fortunes of the guerrilla movement. The Communists probably hope to promote a united front movement and to split the AFPFL, thus opening the way for eventual Communist participation in a new coalition government.

20. The Communist efforts to obtain more liberal terms for surrender have achieved some success, but the government still insists that the insurgents must give up their arms and renounce the use of force, terms which the guerrilla leaders have been unwilling to meet. Although the government's surrender offer expired March 31 and the government is maintaining heavier pressure than heretofore on the Communist guerrillas, it may be willing to moderate its terms, since U Nu appears to believe that Communism as a legal political movement would be less troublesome than the costly insurrection.

21. *Overseas Chinese.* The integration into the Burmese community of the 300,000 Chinese who reside in the country is further advanced than elsewhere in Southeast Asia, and the majority of the Chinese appear at present not to be concerned with politics. However, the Chinese press in Burma generally reflects pro-Communist sympathies, and Communists hold influential positions among the Chinese organizations in Rangoon and other cities. Chinese Communists control a large number of the Chinese schools. In addition some 4,000 young Chinese have gone to Communist China to attend school, although the rate of departures has declined since 1952 following Burmese government action to deny re-entry.

Problems of Internal Security

22. Communist rebels, minority dissidents, and Chinese Nationalist irregulars continue to place a serious burden on government resources, to frustrate rehabilitation and development in important areas, and to complicate Burma's foreign relations. However, insur-

gent strength has declined by two-thirds since 1949 and in total probably does not now exceed 15,000.

23. *Communist insurgents.* Over-all Communist rebel strength is about 5,500, of which the 3,000-man BCP is the most important group. Efforts to weld Communist insurgent unity during the past several years have achieved only limited success because of personal rivalries and doctrinal differences. Although skilled in guerrilla tactics, the Communist rebels are handicapped by a paucity of arms and supplies, and have been dispersed into small groups by the government forces. They apparently have not received significant assistance from the Chinese Communists. The BCP leadership probably has little expectation of receiving such support during the current phase of Sino-Soviet tactics.

24. *Minority insurgents.* Dissatisfaction with the dominant Burman character and policies of the National government has produced armed rebellion among certain ethnic minorities and has prompted rumors that Shan State and Kayah State, both located in east-central Burma, may attempt to secede from the Union in 1958. The Karen National Defense Organization (KNDO), with about 4,500 armed men, is the most important minority insurgent group. With the passive or active support of many of the estimated 2,000,000 Karens, the KNDO has carried on a guerrilla struggle to attain greater autonomy for the Karen people. The KNDO has been weakened by the loss of its major centers, by the dispersion of its armed forces, by personal rivalries, and by discord over the issue of collaboration with the Communists. However, it continues to hamper government administration and economic development in southern and eastern Burma.

25. The government also has a difficult task with the frontier tribesmen who cross the poorly demarcated boundaries to mingle with their ethnic kin in Yunnan, Laos, and Thailand. The movement of the north Burma tribes complicates the government's problem of extending its control over the border areas which Peiping considers are part of China.

SECRET

SECRET

6

26. *Chinese Nationalist irregulars.* After the Communist victory in China, some 12,000 Chinese Nationalist troops entered Burma under Nationalist General Li Mi. Following a Burmese appeal to the UN for relief, some 7,000 of these troops were evacuated to Taiwan in 1953-1954 under the auspices of a joint US-Thai-Chinese Nationalist committee and with Burmese cooperation. Another 2,000 are in agricultural settlements in Thailand under surveillance by the Thai government, and several hundred are believed to have crossed into northern Laos.

27. Burmese military operations against the remaining 3,000 irregulars who are scattered in small pockets along the Thai border and in the southern Shan State have not been very successful, and the government now appears willing to negotiate with them. The Burmese apparently have no objection to the Chinese staying in their present areas if they give up their arms, but so far they have refused to do so.

28. The partial evacuation of Chinese Nationalist troops has largely eliminated the once heated question of US assistance to these troops as a complicating factor in Burmese-US relations. Burmese-Thai relations have also been improved by cooperation along the border during Burmese army operations against the Chinese forces. Nevertheless, their presence in Burma provokes continued fears of possible Chinese Communist pressures and of internal meddling by Taiwan and the US.

29. *Security forces.* Since 1948 the Burmese armed forces have been committed almost entirely to the restoration of internal security. During the past three years Burmese armed strength has increased from about 60,000 to about 78,000 men (including an estimated 60,000 in the army, 14,000 in the National Union Military Police, about 2,200 in the navy, and 1,900 in the air force), but the army still lacks sufficient strength to mount simultaneous offensives against all the insurgent forces in Burma. Funds allocated to defense have averaged 30 percent of government expenditures in the past several years, and in fiscal

1956 defense funds account for 35 percent of the total budget.

30. The morale and prestige of the army have improved over the past five years largely because of operational successes which reflect a greater degree of combat effectiveness. However, poor training and lack of equipment continue to handicap the army. It has the capability gradually to reduce the insurgent menace, but could offer no serious resistance to a Chinese Communist invasion.

31. The Burmese navy, with 29 miscellaneous small ships, is capable only of support operations in coastal and inland waters. The air force of 86 aircraft (including 33 old piston fighters, 16 transports, and 8 jet trainers) provides fairly effective support to the ground forces in operations against insurgents.

32. Burma depends almost completely on foreign sources for its military equipment. Until 1954 Burma obtained such equipment entirely from the UK. In that year the Burmese, uneasy at the degree of British influence implicit in this situation and dissatisfied with the rate of British deliveries, terminated the exclusive arrangements. Burma has since purchased arms from Italy, Switzerland, Israel, and Yugoslavia, as well as from the UK. These purchases have further diversified the arms supply and have complicated training, maintenance, and operations.

33. The Burmese would like to modernize their armed forces. However, Burma has insufficient funds to support simultaneously a major modernization program of its armed forces and a modest rate of economic development. As the government is probably unwilling to accept a substantial cut-back in its economic program, Burmese military leaders are likely to seek arms on a credit or a reduced-price basis from the US. If this approach fails the Burmese may turn to the Bloc, if necessary using a portion of the credits accumulating under existing rice barter agreements for military rather than consumer goods.

The Economic Situation

34. The Burmese economy fits the general pattern of an underdeveloped country: agri-

SECRET

SECRET

7

culture is the primary occupation, the export of a single commodity — rice — provides the main source of foreign exchange and government revenues, and per capita income is well below \$100 per year.

35. Burma suffered heavy damage during World War II. The rail system was wrecked, most of the oil installations (including all five refineries) were destroyed, and the principal mines which produced lead, zinc, silver, tin, and wolfram were heavily damaged. Much rice land reverted to jungle. In the postwar period, widespread civil strife and banditry has handicapped efforts to restore transportation and communications facilities and has continued to disrupt agricultural production. Rehabilitation has been further retarded by the lack of incentive for foreign private capital.

36. As a result, Burma has not been able to restore its economy to prewar levels — the gross national product of about \$1 billion in 1955² was roughly 12 percent below pre-World War II. Burma's foreign trade, which provides between 60 and 70 percent of Burma's central government revenues, was in calendar 1954 still only about two-thirds of the prewar level. Rice production in 1955 was about 15 percent below the prewar average of 7.4 million tons, and the export of 1.6 million tons of rice was only half what it had been in prewar years. Moreover, because exports of raw materials such as timber and minerals have not been restored, rice now accounts for nearly 80 percent of total export earnings compared to a little above 40 percent before the war.

37. Burma has a considerable potential for increasing the living standards of its people. Population density is low (less than one-fourth that of India and only one-third greater than that of the US), and population is increasing at an annual rate of only one percent. In lower Burma, the principal agricultural area, the land under cultivation could probably be doubled. Although known

² Data series, unless otherwise specified, are based on the Burmese fiscal year, 1 October-30 September.

reserves of minerals and petroleum were seriously depleted in prewar years, geological formations suggest the existence of undiscovered subsoil deposits. Timber reserves are large. Hydroelectric potential is considerable. The country has excellent natural harbors, extensive inland waterways, and a basic rail and highway network.

38. However, Burma's ability to exploit its potential is hampered by the primitive nature of its economy, a lack of capital and particularly a stringency in foreign exchange resources, a lack of competent administrators and trained technicians, and continued civil disorder. Moreover, the bulk of the Burmese people has by tradition and by temperament been relatively uninterested in material progress.

39. *Economic development program.* In 1952 the government initiated an eight-year \$1.6 billion development program. The over-all goal of the program was to raise Burma's national product from about \$780 million to about \$1,500 million in 1960 in constant prices. However, the program goals would raise per capita output only four percent above prewar levels. Formulated with the aid of American consultants, the program envisaged the development of a more balanced agricultural economy reinforced by a modest industrial sector.

40. Increased output was to be sought primarily through investment in agriculture, mining, and forestry, with supplementary investment in transport, communication, and power facilities. Crude petroleum output was to be only one-third of prewar production, railways were to equal prewar levels, and production in forestry, electric power, and crops like cotton and peanuts were to exceed prewar levels. The plan also called for fairly heavy investment in health, housing, and education, including technical training. However, the various parts of the plan have never been fully coordinated.

41. The government hoped that about a third of the total planned investment would be undertaken entirely by private enterprise.

SECRET

SECRET

8

The government was to be responsible for the remainder either alone or in partnership with private enterprise. The government was counting on its sizeable foreign exchange reserve and the earnings of government enterprises, particularly the rice monopoly, to provide its share of investment capital and to finance necessary imports. Foreign exchange requirements of the plan were estimated to be about \$575 million over the eight-year period. The estimates of domestic capital and foreign exchange resources available to support the program were based primarily on the assumption that international rice prices would remain at about the 1951 level.

42. *Burma's economic crisis.* In 1953 the price of rice declined sharply. As a result, the value of Burma's rice exports fell from \$214 million in 1953 to \$169 million in 1954. Moreover, even though the volume of rice exports increased slightly in the latter year, a surplus of rice began to accumulate as Burmese production rose. The volume of exports was probably less than it might have been because of the government's reluctance to adjust its prices to the market.

43. As a result of the sharp decline in export earnings and a rising level of imports, Burma in 1954 suffered a balance of payments deficit of about \$87 million, the first since 1948. Moreover, the steady growth of GNP was drastically checked.

	GNP in current prices (US \$ millions)
1951	775
1952	858
1953	970
1954	962
1955	1,016 (estimated)

44. The Burmese government, apparently hoping that the price trend would be reversed or that substantial foreign capital could be obtained, took no action until mid-1955 to reduce nonessential imports or the rate of domestic investment. Indeed, domestic investment continued to increase:

	Investment as percentage of GNP
1952	18 percent
1953	19 percent
1954	22 percent
1955	27 percent

To maintain this rate, the government resorted to deficit financing, which created a serious budgetary situation. Government financial transactions for the first 11 months of FY 1955 (exclusive of borrowing from the banking system) showed a deficit of about \$65 million compared with a surplus of about \$29 million for the first 11 months of FY 1954. Moreover, the government depleted its foreign exchange reserves, which fell from \$272 million in June 1953 to the critically low level of \$76 million in July 1955.

45. During 1955 and early 1956 the Burmese government took a series of actions to meet the foreign exchange crisis. For immediate relief it: (a) negotiated with India a \$42 million-equivalent rupee credit, convertible into sterling; (b) obtained from the International Monetary Fund a \$15 million foreign exchange credit; (c) concluded negotiations with the US for \$21 million in surplus agricultural products under PL 480; and (d) reduced consumer goods imports. Burma is negotiating with the IBRD for loans of \$21-24 million covering a series of projects, and some of this assistance is likely to materialize this year. Burmese officials have also approached the US for loans.

46. In addition, under the terms of the 1954 reparation agreement with Japan, Burma will receive some \$20 million worth of goods in each of the next ten years. The Japanese have also agreed to invest up to \$50 million in joint undertakings in which the Burmese are to have a 60 percent interest. To improve its internal finances the Burmese government has, in the 1956 budget, reduced the investment item to about one-third below the 1955 level, and has raised excise taxes.

47. The Burmese government has given some encouragement to domestic and foreign private investment. Except in the sectors reserved for public ownership, the government will give a ten-year guarantee against nation-

SECRET

SECRET

9

alization, equitable compensation in the event of nationalization after the agreed period, permission to remit current earnings and repatriate investment, and other privileges. With respect to foreign private investment, the government appears to be interested primarily in joint ventures on an operating contract basis. Most significant instances of private participation thus far are in joint ventures for the exploitation of lead, silver, zinc, and petroleum.

48. Burma has also taken action to increase the quantity and quality of its agricultural production and to develop new markets. It has made plans to obtain Israeli and Soviet agricultural advisors, and is seeking technical assistance from the International Bank. Most importantly, the government took steps to ease its rice surplus situation and its foreign exchange shortage by the conclusion of government-to-government barter agreements. In addition to agreements with Yugoslavia, Israel, Indonesia, Japan, and India, major deals were concluded with the Sino-Soviet Bloc. However, Burma in March 1956 still had a surplus of some 600,000 tons of rice.

49. *Economic relations with the Communist Bloc.* Beginning in November 1954, Burma entered into a series of barter agreements with Communist China, the USSR, East Germany, Czechoslovakia, Poland, and Hungary. As a result, Burmese exports to the Bloc, which had previously averaged about one percent of Burma's total trade, and most of which went to Communist China, rose during calendar 1955 to around \$45 million, or almost 20 percent of total Burmese exports. If all agreements with the Bloc which have been concluded or are pending are fully implemented, Burma's annual rate of exports to the Bloc could reach a level of \$70-90 million, or equivalent to a quarter to one-third of Burma's estimated 1956 exports.³

³This projection includes a supplementary arrangement with the USSR, signed in April 1956, which raises Burmese rice exports to the USSR from 150-300,000 tons to 400,000 tons for each of the next four years, and a 3-year agreement with Rumania, signed in February 1956, for around 200,000 tons of rice annually.

50. These deals with the Bloc have substantially boosted the immediate prospects for the export of rice, but the total gain to Burma is not yet clear. Some skepticism has been voiced in Burma over the quality, price, and delivery schedules of Bloc goods. Moreover, since the Bloc countries offered capital equipment and the services of technicians in return for the rice, the Burmese are having to modify various programs to fit the types and kinds of Bloc equipment available to them. Concern is also felt regarding the re-export of rice to Burma's traditional markets.

51. *Burma's economic prospects.* The volume of production in all fields on which statistical information is available has been climbing steadily since 1950, and there are a number of factors which favor continued economic progress. These include a steady growth of fixed capital formation, some recognition that private enterprise or investment has a role to play, employment of skilled foreign technical advisors, the gradual training of Burmese technicians, increasing experience in management, the Japanese reparations agreements, and the financial assistance which is available or probably will be forthcoming from India, the United States, and the IBRD.

52. However, there are a number of obstacles to continued economic progress: continued insurgency in many parts of the country, and the lack of experienced government officials, capable managers for industrial enterprise, and skilled workers. Finally, Burma's economic progress will remain dependent on the export of rice at a time when the world market price for rice remains depressed.

Foreign Relations

53. In terms of basic values, Burma remains oriented toward the free world and the West, but a fear of provoking Communist China, and residual anticolonial sentiment, have led to the adoption of a foreign policy position independent of the major power blocs. Although the AFPFL leadership is united on the basic objectives of Burma's foreign policy, its direction and moralistic tone are often attributable to Prime Minister U Nu. He has increasingly sought an active role in world affairs, in the

SECRET

SECRET

10

belief that Burma can act as a mediator between the great powers. His apparent willingness to accept Sino-Soviet pledges at face value while questioning the motives of the Western powers frequently has led U Nu to take positions favorable to the Bloc. Within the past year, moreover, Burma's economic difficulties have provided the basis for a significant expansion in Bloc-Burmese relations.

54. *Relations with the West.* Because independence was achieved without violence, Burma's anticolonialism has lacked the virulence exhibited in some former colonies. The majority of Burmese prefer the democratic system as developed in the West, and several Burmese have publicly described the Soviet system as a new form of imperialism. Burmese-British relations, in particular, have been cordial and the Burmese government gives a respectful hearing to official British opinions.

55. All Burmese state scholars and virtually all private students (except overseas Chinese) going abroad for study still go to the US or to other free nations. The great majority of printed and visual information media are non-Communist in nature. The government sanctions the anti-Communist publishing program of the Burma Translation Society, and several of the lay Buddhist societies have anti-Communist overtones. Some responsible officials frequently reiterate a preference for Western rather than Bloc economic and technical assistance, were it possible to pay for it with surplus rice and to avoid political commitments.

56. Anticolonialist attitudes persist, nonetheless, and to a considerable degree the United States has inherited Britain's former position as the principal "imperialist" threat. While no responsible Burmese suspects the US of coveting Burmese territory, there has in the past been considerable apprehension lest Burma and other weak nations fall victim to some new and perhaps unintended form of economic imperialism. Moreover, US-Burmese relations have been strained by the activities of the Chinese Nationalist irregulars, and more recently by US sales of rice in Asian markets. The Burmese are critical of the US

position on such matters as trade controls, Taiwan, and disarmament, and they feel that US policy in general is too inflexible and too narrowly centered on the military aspects of the Communist threat. The Burmese also fear that too close alignment with the US or the West might provoke Communist China or lead to involvement in war. These fears and irritants account in large measure for Burma's reluctance to undertake not only the pledges required in US legislation but even implied political commitments in return for the receipt of economic and military assistance.

57. Despite these complications, the Burmese recognize the need for good relations with the US. Although Burma felt obliged to cancel the US technical assistance program in 1953 when it brought the Chinese Nationalist troops issue to the UN, the government retained private US firms to fulfill some of the projects. Under appropriate conditions, the Burmese would probably like to obtain US arms and economic and technical assistance.

58. *Relations with non-Communist Asian states.* Since independence, Burmese-Indian relations have been close, and Burma's international policy has been similar to that of India. Burma's ties with other Asian neighbors were slow to develop, but the increased importance of these relations has been reflected in membership in the Arab-Asian group in the UN, planning of the Bandung Conference, and participation in the Colombo Plan. In addition, Burma was the prime mover in staging the Sixth World Buddhist Council in Rangoon, and in organizing the Asian Socialist Conference. Past relations with Thailand and the Philippines have been minimal, due to the feeling that these countries were tied too closely with the US, and, in the case of Thailand, because of the long history of conflict. Relations with Thailand have improved greatly during the past year, but Burma has no interest in following Thailand into such direct relationships with the US as SEATO provides.

59. Despite the bitterness caused by wartime occupation and destruction, Burmese-Japanese relations have developed on an increasingly friendly basis since the conclusion of a

SECRET

~~SECRET~~

reparations agreement in September 1954. The Burmese appear to welcome Japanese participation in Burma's economic development.

60. *Relations with the Bloc.* Burma was the first non-Communist nation to extend recognition to the Peiping regime, acting from a combination of: (a) fear of possible encroachment by a powerful neighbor which historically had shown expansionist tendencies whenever unified and strong; (b) vicarious pride in the emergence of a strong Asian nation; and (c) distaste for the Chinese Nationalist government. Since 1952, relations with Communist China have grown steadily closer. Burmese interest and admiration has been aroused by the Chinese Communist economic development program, and Burmese distaste for the ruthlessness of Chinese methods is tempered by an uneasy awe of Chinese material accomplishments. A series of cultural, religious, and athletic missions have been exchanged, a major bilateral trade agreement was signed in April 1954, and U Nu made an official visit to Peiping in December 1954. Burma favors the admission of Communist China to the UN and during the past year has publicly supported Peiping's claims to Taiwan.

61. As a result of U Nu's visit to Peiping, the large Chinese Communist embassy staff in Rangoon has been supplemented by a consulate at Lashio, which could further facilitate Chinese contacts with Burmese Communists as well as with Overseas Chinese. The re-opening of the Burma road and agreements on postal facilities and air transport will increase direct contact and permit Chinese flights into Burma. The 1955 renewal of the trade agreement again permits Chinese Communist purchases of commodities which, if shipped, could create a barrier to US assistance through conflicts with provisions of the Battle Act.

62. Chinese governments have long claimed — at least through official maps — considerable territory the Burmese consider theirs, and the agreement concluded during U Nu's visit to Peiping in 1954 called for negotiations to settle these boundary questions. If these negotiations eventuate, Burma's stand on the

border issue may provide a test of Burmese readiness to resist Chinese Communist encroachment.

63. Until the past year, Burmese-Soviet relations had not been close. Although the USSR recognized Burma soon after independence, the official line followed by most Communist parties until 1951-1952 was that the Burmese government was a surviving "tool of the imperialists." However, in July 1955 a barter agreement was concluded in which the USSR agreed to exchange industrial equipment for surplus Burmese rice. Soon afterwards Bloc leaders began to praise Burma for its independent status and its posture of neutrality. The growing rapprochement was highlighted by an exchange of visits — U Nu journeying to Moscow in October and Khrushchev and Bulganin touring Burma for nine days in December. In the joint communiques issued in conjunction with these visits, Burma endorsed many of the major themes in Soviet propaganda, and agreements were made for Burma to obtain Soviet technical assistance, in addition to capital equipment, in exchange for its rice.

II. PROBABLE DEVELOPMENTS

Internal Developments

64. The AFPFL will almost certainly win the elections in the spring of 1956 with a large majority because of its control of the election machinery, the lack of an effective opposition, and the general acceptance of AFPFL policies. The new government will probably again be a broad coalition, and U Nu will probably remain as Prime Minister because of his national prestige and because he serves as a unifying force in the AFPFL. It is possible that the Socialists will feel themselves well enough organized to form a government which did not include U Nu. Such a development, however, would probably not result in major changes in Burma's domestic and foreign policies.

65. The BWPP may increase its representation slightly in the parliament, but its over-all position will probably not be greatly strengthened in the short run by the increase in Burmese-Bloc relations. The organizational strength of the BWPP would be improved if

~~SECRET~~

the BCP guerrilla cadres should obtain an amnesty. The Communist insurgents are unlikely to accept present terms for surrender, but will continue to maneuver for a cease-fire on terms that provide them some credit for making peace and some provision for resuming overt political activity.

66. Ethnic minority dissatisfaction with government policies will continue, but the government will probably be successful in preventing secession. The strength of the insurgents will probably be further weakened, but dissident and bandit activity will continue to place a heavy burden on government finances and to hamper economic development.

67. During the next year or so Burma will confront the same economic problems that have impeded its progress for the last two years. At the same time, it will probably have larger resources at its disposal, chiefly from deliveries under Sino-Soviet commitments and assistance from non-Communist sources. Balance of payments and fiscal problems will continue as long as the price of rice remains depressed and the availability of other export commodities does not materially increase. Production from new projects will not begin to save significant amounts of foreign exchange for at least the next two or three years. To carry out even its recently curtailed development program, Burma will have to be successful in disposing of its increasing rice production. Unless free world markets increase substantially, Burma will remain susceptible to Bloc barter agreements. Burma will probably receive sizeable amounts of aid from the US and UN agencies, and may draw upon a large credit from India and from Japanese reparations. The government is unlikely further to relax current restrictions on foreign private capital.

68. It is unlikely that economic conditions in themselves will affect internal stability during the next year or so. The increase in national output is expected to continue at a sufficiently high rate to permit a steady growth in per capita consumption. Judging by the general apathy of the population thus far towards

government economic policies, it is unlikely that the state of the economy will become a popular political issue.

Probable Trends in Burma's Orientation

69. Burma is now a major target of Bloc efforts to extend its influence by political, economic, and psychological means. During the short run, the Bloc will probably attempt only to reinforce Burma's tendency to adopt positions similar to the Communists on certain international issues and to establish conditions favorable to the increase of Communist influence within Burma. In the long term, Bloc leaders may hope to reduce Burma to a virtual captive of the Bloc through a combination of economic pressures and united front maneuvers, which could be reinforced at any time by the application of military threats along Burma's long frontier with China.

70. During the next year or two Burma, despite Bloc tactics, will almost certainly try to continue to balance its economic and political relations between the West and the Bloc. There will probably be no important internal pressures for closer political alignment with the Bloc, and Burma will continue to have a variety of economic ties with the West and non-Communist Asian countries, including the Japanese reparations agreement, the US PL 480 program, the Colombo Plan, and the sale of rice in traditional markets. On the other hand, Burma's economic relations with the Bloc will probably increase, and Bloc trade may account for 30 percent of total Burmese trade. While trade of this magnitude with the Bloc carries potential dangers, the Burmese government will continue to have room to maneuver to avoid Bloc political pressures for at least the next year.

71. However, in the longer run the situation in Burma, combined with Bloc capabilities, offers the Bloc important advantages in pursuit of its long-range objectives. Because of its political organization, the Bloc can negotiate economic agreements quickly. It offers long term credits at low interest rates, and can accept agricultural and other raw materials in payment for capital goods or as

service on credits. It is able to exploit Burma's anticolonial sentiments and desire to remain free of foreign entanglements by offering economic arrangements on the basis of "mutual self-help" with "no strings attached." Burmese receptivity to Bloc offers has been increased by the continuing decline in the world market price for rice, the complexities of economic negotiations with the US, and the disposition of some Burmese leaders to take Bloc assurances at face value while remaining distrustful of Western intentions.

72. If the Bloc exercises skill and restraint, and if non-Communist markets for Burmese rice do not expand, the situation favors a considerable growth of Communist influence in Burma. Economic commitments already made will tend to increase Burmese-Bloc economic intercourse. Accordingly, Burma is likely to become dependent on the Bloc in many instances for maintenance and repair, supplies, and servicing. There will probably be a relatively heavy influx of technicians and experts accompanying this equipment, assisting in agricultural development, and staffing the new technical institute. To some extent these people will encroach on the area in which non-Bloc assistance is being or may be offered.

73. In the resulting atmosphere of increased goodwill towards the Bloc, the BWPP might be strengthened by adding BCP cadres and by luring additional independents and some socialists into a new opposition group. The appeal of Communism, and particularly the attraction of Communist methods of building an industrial economy, would probably increase among students. Direct Communist influence in the government would probably be increased.

74. If the Bloc were able to convince the Burmese that it should accept a large credit in order to accelerate its economic development, the Bloc's opportunity for exercising influence in Burma would expand significantly. Such credits in addition to the existent level of trade with the Bloc would orient the

Burmese economy toward the Bloc on a long term basis, and Western influence would be sharply curtailed.

75. However, there are also obstacles to the success of Bloc tactics in Burma. There is no significant political pressure on the government to drop its present pay-as-you-go policy on development, and, unless it does so, Burma is unlikely to increase greatly its present degree of economic dependence on the Bloc. Burmese economic ties with the West are substantial; Burma's leaders have no desire to become economic dependents of any bloc; and Burma will prefer to export to the maximum extent possible to markets where it can earn convertible currencies. Despite increases in economic and cultural relations with the Bloc, Burmese nationalism, Buddhism, and memories of past Communist intrigues will tend to discourage the development of a strong domestic Communist movement.

76. The actual course of events in Burma will also be influenced by a number of contingencies, particularly Communist conduct and Western courses of action. Communist prospects would be adversely affected if Bloc representatives appeared to meddle in domestic Burmese affairs or if the Bloc moved too soon to extract concessions. Kyaw Nyein and important army leaders are believed to be concerned that Burma is already too dependent on the Bloc. Sharp increases in Bloc influence might lead them to pressure U Nu for a change or even to remove him. Burmese vigilance would also be increased by Chinese Communist aid to dissident or Overseas Chinese elements in Burma, or by excessive Chinese claims during boundary negotiations. Moreover, Burmese distrust of the Communists would also be stimulated by clear-cut Communist aggression in Laos, and possibly Vietnam or even Taiwan.

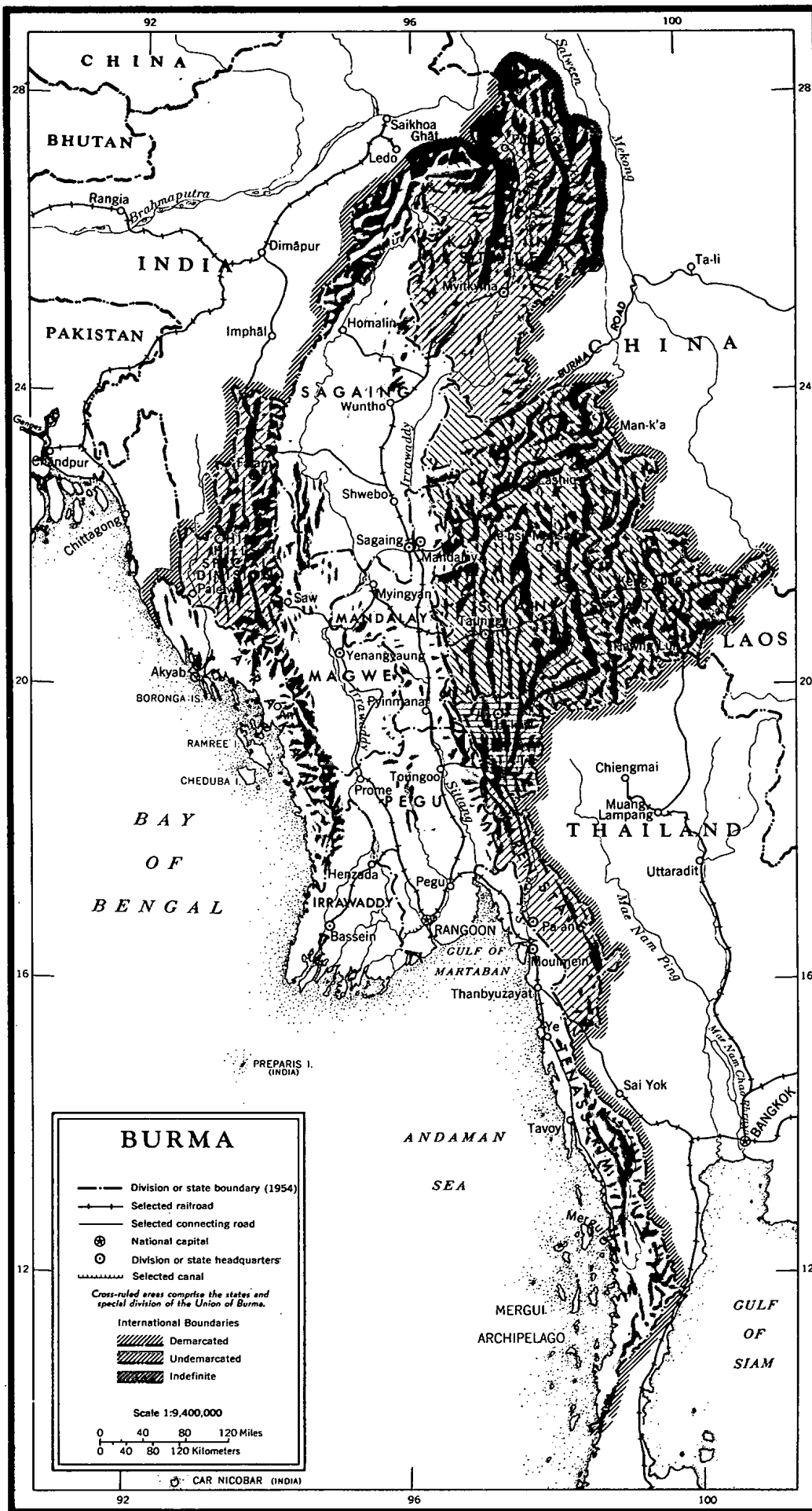
77. Communist prospects would also be affected adversely if Bloc economic performance falls seriously short of expectations, or if Burmese economic relations with the non-Communist countries expanded significantly. The delivery schedules and quality of Bloc capital

~~SECRET~~

goods may suffer in comparison with Western performance. Communist China has already evidenced difficulty in providing more than nonessential consumer goods in return for Burmese rice and rubber. The Burmese have

been disturbed by Communist China's sale of rice to Ceylon, and this concern would be intensified should the Bloc re-export increasing amounts of Burmese rice to traditional Burmese markets.

~~SECRET~~



25301 2-56

~~SECRET~~

~~SECRET~~