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*Report by a working group in response  
to SANACC 360/14*

**TOP SECRET**STATE-ARMY-NAVY-AIR FORCE COORDINATING SUBCOMMITTEE  
FOR THE NEAR AND MIDDLE EAST

31 March 1949

MEMORANDUM FOR THE: SUBCOMMITTEE FOR THE NEAR AND MIDDLE EAST  
SUBCOMMITTEE FOR REARMAMENT

The enclosure, a report by a Working Group in response to SANACC 360/10 is circulated for consideration by the Subcommittees for the Near and Middle East, and Rearmament.

It is requested that the comment or concurrence of the members thereof be transmitted to the Secretariat, SANACC, (Code 191, ext. 2163).

MAX V. BROKAW  
SecretaryEnclosure:  
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REPORT BY A WORKING GROUP  
IN RESPONSE TO SANACC 360/10

30 March 1949

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TOP SECRETENCLOSUREAPPRAISAL OF U.S. NATIONAL INTERESTS IN SOUTH ASIATHE PROBLEM

1. To re-examine U.S. national and strategic interests in the countries of South Asia (Afghanistan, Pakistan, India, Burma, Nepal and Ceylon), and to determine 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 political, economic and strategic importance of the emerging South Asian countries to the U.S. is such that our national interests require: (For statement by JCS of basic strategic considerations and objectives in South Asia, see pars. 5 and 6, Appendix "C")

a. The orientation of South Asia toward the U.S. and other Western democracies, and away from the USSR. To this end we should endeavor, through diplomatic channels and through the media of our cultural and informational programs, to convince the South Asian governments and peoples that our international objectives are compatible with their national interests and worthy of their support. We should also, whenever possible and consistent with our global policies, endeavor to cooperate with the South Asian governments in the achievement of their legitimate international objectives.

b. Economic development in South Asia of a type which would not only help to provide foundations for more stable and democratic governments, friendly to the U.S., but also assist these countries to contribute to economic recovery in

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the Far East and throughout the world. To this end we should ascertain, as specifically as possible, and as contemplated in point four of the President's inaugural address, the economic needs of South Asian countries and the extent to which our economic, technical and financial assistance to them can or should be broadened, with particular reference to increased food production, improved transportation facilities and additional exports of goods required for U.S. strategic stockpiling or to meet requirements for commodities in world short supply.

c. The maintenance of internal security within the countries of South Asia and their freedom from Communist domination. To this end we should re-examine our capabilities of providing military materiel to South Asia. At the minimum we should endeavor to meet the legitimate requirements of spare parts and replacements for military equipment of U.S. origin already possessed by South Asian countries. (See JCS comments contained in pars. 2 and 3, Appendix "C")

d. Collaboration with the British in South Asia. To this end after determining our capabilities to extend economic and military assistance to the South Asian countries, we should discuss with the British

(1) The economic position of South Asia, and the desirability and practicability of co-ordinated U.S. and U.K. economic policies with respect to the area, it being understood that no delimitation of spheres of influence or division of markets is contemplated.

(2) The military requirements of the South Asian countries for the maintenance of internal security, the extent to which the British can meet such of these requirements as must be provided from outside the area, and the implications for U.K. strategic interests in South Asia of possible U.S. military assistance to the countries of the area.

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e. Cooperation among the nations of South Asia for constructive purposes. To this end U.S. assistance which may be extended to the South Asian countries should be utilized as far as practicable as an instrument to effect cooperation within the region, and we should endeavor to guide any regional or Asian movement which may develop in the direction of constructive participation in UN activities.

\* JCS has expressed general agreement with those conclusions having military implications ie. 4 a., c. and d. See par 1, Appendix "C".

RECOMMENDATIONS

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

6. It is further recommended that the conclusions of this study be considered in conjunction with similar appraisals of U.S. national interests in other areas related to South Asia, particularly Southeast Asia.

TOP SECRETAPPENDIX "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, and U.S. national and strategic interests in the area were in some measure safeguarded by our close relations 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. However, through the continued membership of India, Pakistan and Ceylon in the Commonwealth, through specific defense provisions in the Anglo-Burmese treaty of October 1947 and through manifold economic and cultural contacts, 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 light industrial equipment and arms from Czechoslovakia.

3. Although the South Asian countries would like to maintain strict neutrality as between the U.S. and the USSR, the hard fact of Soviet inability to give them substantial material aid has caused them to look to the U.S. for economic and military cooperation. They have made numerous informal requests for our assistance, and although their wants are huge, their informal approaches, with some exceptions, have been realistic. We have at present an unusual opportunity to maintain and strengthen the

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Appendix "A"

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current anti-Soviet tendencies of South Asia with a limited immediate outlay of U.S. resources. We must recognize that, should we not provide at least the minimum assistance deemed essential by the countries of the area, South Asia might give effect to its predilection for strict neutrality vis-a-vis the U.S. and the USSR or, at worst, it might fall into the Soviet orbit. In either event we should find it difficult to prevent the countries of the area from developing political and economic principles incompatible with our own, and should war come, we might find ourselves denied access to the raw materials, manpower, limited industrial capacity and possible bases of South Asia.

4. We have accordingly recognized that the orientation of the governments and peoples 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 the area, and we have formulated, in general terms, a policy of economic and political cooperation with the South Asian countries.

5. Our basic strategic objectives with respect to South Asia have, however, not been clearly defined, and we have yet to make basic policy decisions on the desirability and practicability of military cooperation with the countries of the area.

6. Recent developments in China, which point to the probability that the greater part or even the whole of China may fall under the domination of the Chinese Communists, increase our interest in and possible future dependence on South Asia, particularly India and Pakistan. If we are to lose access to Chinese territory, it is the more important for us to prevent the extension of Soviet influence in South Asia and to retain this area as a Western salient on the Asian continent.

7. India's convocation of an Asian conference on Indonesia to be held in New Delhi in January 1949 may prove to be a significant step in the oft-rumored formation of an Asian bloc. Al-

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though such a bloc would provide a medium for the expression of opinions of a type subject to exploitation by Moscow and apt to exacerbate existing differences between the Orient and the Occident, attempts on our part to prevent its formation would probably be ineffective and would certainly intensify anti-U.S. sentiment in Asia. Our efforts would be more fruitful if directed toward impressing upon India, now in the leading position, and the other Asian nations the importance of acting within the framework of the UN and of avoiding immoderate emphasis on alleged racial issues.

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Appendix "A"

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APPENDIX "B"

DISCUSSION

1. 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 it; while at the same time Afghan leaders have raised issues regarding the status of the North West Frontier tribes which have adversely affected relations with Pakistan.

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 of Pakistan and, more particularly, India, in the Commonwealth will continue remains to be seen; but in any event this new balance of power is leading to new political and economic patterns and possibly to tacit military

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alliances outside the Commonwealth. 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 areas 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 economic and military importance of South Asia, that U.S. national and strategic interests in, and policy towards these countries should be critically re-examined. The concentration of 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 and implementing positions that will enable us to achieve our objectives and will assure us of their friendship and support.

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

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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 indicate that the Kremlin is at least preparing the way for greater Communist activity in South Asia. Within the past year the USSR has established an Embassy in New Delhi which is reported to have become a focal point of contact with subversive Communist elements in India. The Soviets have entered into agreements to establish diplomatic missions in Pakistan and Burma, and continue to maintain an active Embassy in Afghanistan. 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 recent years Soviet trade with South Asian countries has been confined to imports of such products as jute and jute manufactures, shellac, graphite, wool, tea and peanuts. Two trade agreements have been concluded between the USSR and Afghanistan since the war, and India and Pakistan have entered into commodity barter arrangements with the Soviets. The USSR has attempted, thus far without success, to make an agreement with Ceylon for the bulk purchase of that country's rubber production. A Czechoslovakian technical commission has visited India, Pakistan and Afghanistan to arrange for the setting up of Czechoslovak industries; a number of Czech nationals have recently been employed in Afghanistan and Pakistan; and there are indications that the South Asian countries have been encouraged to think that arms, ammunition and the machinery for

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their manufacture might be available from Czechoslovakia. Yugoslavia, Hungary, Poland and Rumania are other satellite countries which have shown an interest in developing diplomatic and trade relations with South Asia.

In various organizations of the United Nations, Soviet representatives have attempted, often with a degree of success, to 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 anti-foreign and anti-imperialist temper of the people which predisposes them to suspect the motives and objectives of the Western powers. Since there was no direct Soviet contact with any of these countries, except Afghanistan, prior to the withdrawal of the British, no disillusion or suspicion of Communist doctrine has matured

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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 until very recently taken with respect to 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 declared the Communist Party illegal and arrested Party leaders.

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

While it is beyond the scope of this paper comprehensively to estimate the economic and military potentials of the South Asian countries, we believe that their magnitude is such that the loss to the U.S. of access to the raw materials and present and possible productive capacity, manpower and military bases 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





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440,000,000 which is considerably greater than that of the USSR, the U.S. and the U.K. combined, it is estimated that upwards of 10,000,000 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 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."

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This appraisal was 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 it has 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 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:

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

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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 the 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. 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 Burmese rice exports are essential to the economies of India, Ceylon and Malaya. 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. South Asian

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exports provide Europe with several products of some importance to the success of European economic recovery, notably jute, tea manganese, oilseeds and rubber. 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 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.

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TOP SECRET(2) Labor Supply.

The large population of the region which affords so great a reservoir of military manpower 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 and uneconomical use of land, however, have prevented the area from becoming self-sufficient in food. Production may be increased to the point of self-sufficiency by the application of technology (particularly the use of chemical fertilizers, insecticides, and improved varieties of seed), by the completion of proposed

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irrigation projects and by more effective distribution (involving inter-country cooperation) between surplus and deficient areas. 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, furs (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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\* On current list of Strategic and Critical Materials, approved by the Munitions Board: Group 1 (for which stockpiling is necessary).

\*\* On current Munitions Board list: Group 2 (which present supply problems, but do not require stockpiling).

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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
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; known coking coal reserves are very limited, however, and may be exhausted in fifty years at the present rate of consumption. 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 development in

\* See footnote, page 419.

\*\* See footnote, page 419.

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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 military 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. India is the world's largest producer of ilmenite and monaxite\*, and has been 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 deposits of bauxite\*, feldspar, gold, tantalite-columbite\*, gypsum, magnesite, potassium nitrate, talc (steatite)\*, zircon\*, antimony\*, asbestos\*, barytes, beryl\*, calcite, corundum\*, graphite\*, and phosphates. 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 second largest producer of wolfram (tungsten)\* in the world, stood about eighth among the world producers of tin\*, sixth in the world in lead\*, and was an important world producer of zinc\*. Ceylon now produces annually 2,500 to 3,500 tons of 97-98% high carbon graphite\*. Nepal is reported to have deposits of quartz, beryl\*, corundum\* and other strategic materials, although the mineral resources of Nepal have been only cursorily explored.

\* See footnote, page 419.



TOP SECRET(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 (300,000 barrels in 1946) 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 Imperial gallons (about 2,430,000 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 Imperial gallons (about 8,000,000 barrels), may again become an important producer of petroleum as soon as conditions permit reconstruction and expansion of the Burmese oil fields.

(6) Industry and Manufacturing.

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

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\*\* See footnote, Page 419.

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machine tools, ships and miscellaneous war materials, and the assembly of aircraft and armored vehicles. 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 its own requirements of cloth, producing clothing from eleven factories to supply its own army, and contributing appreciably to overseas demands for cotton cloth, clothing and web 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 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, including semi-finished and finished steel, increased steadily during the war. The Tata steel plant is the second largest in the 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 production is about 1,000,000 long tons a year (capacity 1,264,000 long tons, as against 625,000 in 1930-31); and the industry now produces a long list of finished steel products

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including rails, locomotive wheels, etc., high-speed steel for machine tools, stainless steel, and special alloy-steel for armor plate, rifles, etc. Transport difficulties, obsolescence of equipment and labor troubles have kept Indian production below capacity in recent years. 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 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 livestock, 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

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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 was supplying most of her own requirements of tires for motor vehicles, utilizing imported and domestic rubber. During the war, production was expanded to meet a large part of 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.

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 and considerable material and technical aid will be required to set up and operate productive facilities for precision equipment, the war led to the beginning of this industry. By 1941 some 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.

Most of the 18 Indian shipyards are not yet equipped to build large vessels, but they have produced a large number of small craft (including trawlers, mine-sweepers,

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corvettes, etc.) and have fairly good facilities for all but major repairs. Two 8000 ton vessels have been launched from Vizagapatam shipyards in 1948.

The Hindustan Aircraft Ltd. factory in Bangalore, which is now controlled by the Government of India, has 252,000 square feet of floor space and auxiliary foundries and machine shops, and was completed in 1941 with an estimated capacity of 400 aircraft per year not including engine or instrument manufacture. During the war this plant was used to repair British Swordfish and Walrus seaplanes, and to assemble large numbers of U.S. aircraft. It is expected to produce airframes from domestic components in 1949.

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.

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SECRET4. 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 maintain, or in the case of Burma restore, law and order, and 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 would be necessary before the economic desires prevalent in South Asia could be formulated in terms of individual needs and projects arranged in accordance with practically conceived plans. Some assistance in this task may be 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 appraising the magnitude of the economic and financial requirements of the area in realistic terms. Furthermore, such an appraisal must include consideration of the practical bases on which economic cooperation can be carried forward, as the fear of foreign economic "domination" is widespread in this area, where U.S. private capital has found few favorable conditions for entry.

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

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policy is counter to our concept of expanding multilateral trade, and substantial drawings on the central dollar reserves of the sterling 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 development. As in the case of India, the practice of restricting imports and substantial drawing 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 informal 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

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and transport; several projects have already 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 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, 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 made. 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 - Burma might obtain additional dollars, if the U.S. were to purchase these materials.

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.

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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 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 needs. 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. We are endeavoring, however, to assist the South Asian countries by making available, from public and private sources, technical assistance for the improvement and rehabilitation of their economies.

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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 Secretary General of the Economic Commission for Asia and the Far East has been 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.

In formulating and carrying out any such assistance, we should avoid adopting procedures or imposing conditions which would afford our critics in and outside the area a basis for charging us with attempts at "economic domination". We should utilize to the fullest possible extent the facilities of the U.S. Information Service to explain to the people of South Asia the nature of our programs and objectives.

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 602,000 regular troops,

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plus various 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	137,000
India	317,690,000	310,000*
Burma	15,000,000	34,000**
Nepal	5,600,000	45,000
Ceylon	6,500,000	4,000

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 existing demands for the maintenance of internal security. It should be realized that a collapse of law and order throughout the area, similar to that already evident in large parts of Burma, would seriously affect our national interests. Exports of strategic materials might be drastically reduced or stopped altogether. Trade in general would be curtailed, and foreign investments in South Asia would be jeopardized. Progressive economic and political development in the area would cease, and the stage would be set for the seizure of power by extremist elements of the left or right. The impact would be felt not only on our own economy and strategic considerations, but also in the countries of the Commonwealth and Western Europe. Law and order need not collapse if the South Asian governments, which enjoy solid bases of popular support, have the military means to put down local disturbances and contain

\* Does not include princely state forces numbering some 110,000, and Territorials (National Guard) numbering approximately 120,000.

\*\* Does not include police levies, numbering some 18,000, raised by the Burma Government from its Socialist adherents.

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existing subversive elements and tribal groups. We should weigh carefully the possible consequences of withholding from these governments the minimum essential supplies of foreign military materiel required for the maintenance of internal security.

We should consider also the position of the South Asian countries vis-a-vis powerful aggressors from outside the area. It is evident that these countries, singly or jointly, could not in the foreseeable future effectively resist a full-scale invasion by the USSR. However, in view of the natural strategic advantages of the area, the military strength of Afghanistan, Pakistan and India might be built up to a point which would enable them to contain a small-scale attack designed to seize certain key points such as the port of Karachi and the airfields of northern Pakistan. This would have the negative virtue of requiring the USSR to make a major effort to achieve its objectives. In the light of the existing commitments of the U.S. and the U.K., and the strained relations among Afghanistan, Pakistan and India, it would be unrealistic to propose the necessary strengthening of the armed forces of the three South Asian countries at present. The possibilities should, however, be noted.

The considerations set forth in the two preceding paragraphs notwithstanding, the present trend, owing to the lack of replacement equipment, spare parts, etc., is toward a decrease of either the efficiency or the strength of the military establishments of the South Asian governments. None of the countries in the area is yet able fully to supply its own armies with equipment of its own manufacture. All are presently equipped with materiel formerly obtained from British and U.S. sources. To maintain their present strength, as their stores become exhausted, they are now turning to the U.S. as a primary source of supply. To the extent that the South Asian countries seek spare parts for and replacements of materiel of U.S. origin, their requests merit careful consideration in the light of SANACC 360/5, approved July 26, 1948, which points out the importance of recognizing the

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continuing spare part and replacement needs of countries which have obtained U.S. materiel. Should the cost of such spare parts and replacements be so great as to constitute a serious diversion from the recipient country's funds for economic development it might be necessary, as also contemplated in SANACC 360/5, to give consideration to extending U.S. financial assistance to the countries so affected.

6. Requests of South Asian Countries for U.S. Military Materiel and Assistance.

Requests thus far received from the countries of South Asia for U.S. Military materiel and assistance, and the action taken thereon, 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 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

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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 materiel, which would increase existing military strength, 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 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.

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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 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

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be used for training and would under no circumstances 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 materiel 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. They were informed in November 1948 that the export of spare parts for equipment of U.S. origin was not precluded. The Indians have stated that while the Government of India understands the U.S. position with regard to such temporary situations as the Kashmir 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.



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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.

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. Furthermore, it was

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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. The Pakistan Embassy was informed in November 1948 that the exports of spare parts for equipment of U.S. origin was not precluded.

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. 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

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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 retransfer 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 the other items were being supplied by the British. The British Ambassador supported this request. Our Embassy at Rangoon, on September 20, 1948, informed the Government of Burma that although we approve its efforts to quell the insurrection, we cannot supply the desired military equipment owing to the heavy requirements of the U.S. Army and previous commitments elsewhere. The Embassy mentioned that the desired equipment or suitable substitutes might be available by purchase from U.S. commercial sources, but pointed out that the issuance of export licenses would depend upon world conditions prevailing at the time the equipment might be ready for shipment.

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

7. Desirability of Consultation with the British.

The U.K. does not at present possess sufficient economic or military resources to supply South Asian countries with either substantial amounts of the capital goods and technical skills needed for their economic rehabilitation and development, or all the military equipment needed for the maintenance of their internal security. Despite this situation and a concomitant drastic reduction of British responsibilities in the area, British commercial and financial interests still constitute the leading foreign element in most of the economies of South Asia, and British advisers on military matters occupy important, though temporary, posts in former British possessions. Accordingly, it appears that an effective and economical U.S. policy should take into account the position of the British and that some form of consultation with them, on political, economic and military matters, should precede our own decisions. We have had informal indications from the British that they are interested in such discussions.

Consultation on economic matters appears premature until we have completed a re-appraisal of our ability to contribute to the economic and financial needs of the area; it should, of course, not leave the impression that we wish to de-limit spheres of influence or to divide markets with the British. Meanwhile, we should continue to keep abreast of developments affecting the area with respect to balance of payments problems, sterling balance releases, the effects of European recovery on South Asian trade, prospective treaty relations with the British, and British ability to furnish technical advice to these countries.

In the military sphere, we should wish to explore with the British the extent to which they can continue to assume responsibility for meeting the military requirements of the South Asian area. Bearing in mind our commitments elsewhere, it would

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appear to be in our interest for the British to bear as great a share of this burden as they possibly can. Moreover, we should wish to make certain that materiel supplied by the U.S. and the U.K. would be complementary and related both to the specific justifiable needs of the area for internal security and to the broader requirements of global strategy.

8. Necessity for Regional Approach by U.S.

We may defeat our own purpose if by extending 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. assistance is made available to one the others will increase their pressure for comparable aid. In considering any program of assistance to the area, therefore, a regional approach 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.

9. 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. 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 cooperation or greater chaos remains to be seen. The possibility of it leading to greater chaos must now be

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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 within the region.

TOP SECRETAPPENDIX "C"MEMORANDUM FROM THE JOINT CHIEFS OF STAFF

24 March 1949

Subject: Appraisal of United States National Interests in South Asia.

1. As requested in your memorandum dated 8 February 1949, the Joint Chiefs of Staff have reviewed the report forwarded therewith entitled "Appraisal of United States National Interests in South Asia" (Afghanistan, Pakistan, India, Burma, Nepal, and Ceylon), and submit the following comments from the military point of view:

With reference to those conclusions in the basic paper having military implications (briefed below for convenience), the Joint Chiefs of Staff are in general agreement that the following would be in our national interests:

- a. Orientation of South Asia toward the United States and other Western democracies and away from the USSR;
- b. An endeavor by the United States to meet the legitimate requirements for spare parts and replacements for military equipment of United States origin already possessed by South Asian countries to assist those countries in the maintenance of internal security and freedom from Communist domination; and
- c. United States collaboration and consultation with the British to determine the military requirements for internal security, the extent to which the British can meet such requirements, and the implications to British strategic interests in South Asia if United States military assistance were provided to the countries of that area.

2. In agreeing that the furnishing of military equipment for maintenance and replacement of items of United States origin now

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in the hands of the South Asian countries would be in the United States interest, the Joint Chiefs of Staff would point out that such equipment, if provided, should preferably be made available on a reimbursable basis and, further, that such aid must be considered in connection with over-all requirements for United States military assistance.

3. Current United States policy with respect to Western Union and the proposed North Atlantic Pact can be expected to result in heavy demands on the United States for military strengthening of the Western European countries. These, together with current commitments designed to counter active Soviet encroachment in other areas, will have high priority and will probably tax United States capabilities to the utmost. Any provision of military aid to countries of South Asia would, therefore, of necessity be extremely limited. Policies and priorities for the implementation of foreign military assistance programs are in process of formulation by the Foreign Assistance Correlation Committee (FACC) which, when approved, will govern.

4. Paragraph 5 of Appendix "A" of the basic study states, "Our basic strategic objectives with respect to South Asia have, however, not been clearly defined, and we have yet to make basic policy decisions on the desirability and practicability of military cooperation with the countries of the area."

5. The Joint Chiefs of Staff, therefore, submit the following brief summary of strategic considerations and a statement of basic military strategic objectives applicable to the countries of South Asia:

From the military point of view, the countries of South Asia excepting Pakistan have, under present and prospective conditions, little value to the United States. Their remoteness from the United States, their difficult terrain, and the lack of communications and other essential facilities required by modern combat forces would pose a difficult logistical problem if military operations of consequence



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by either Western or indigenous forces were to be supported in the South Asia area, particularly in the light of probable heavy commitments elsewhere. The South Asian countries contiguous to the USSR, however, do offer the possibility of ideological and intelligence penetration of the USSR because the peoples of Soviet Central Asia have national and personal affinities with the peoples of the South Asian countries and those of the Near and Middle East rather than with those of the USSR.

The Karachi-Lahore area in Pakistan may, under certain conditions, become of strategic importance. In spite of tremendous logistic difficulties, this area might be required as a base for air operations against central USSR and as a staging area for forces engaged in the defense or recapture of Middle East oil areas.

While the countries of South Asia, excepting Pakistan, are of negligible positive strategic importance to us, encroachments by the USSR would endanger our national policy of Communist containment. Furthermore, domination of the area by the USSR would deny to us and make available to the USSR certain sources of raw materials and would threaten sea routes which are now relatively safe. On the other hand, the inaccessibility of the area from the north and the fact that more remunerative objectives exist in Europe, the Middle East, and the Far East, make it unlikely that, in the event of war, the USSR would expend any substantial military effort in South Asia, particularly if these countries had the means to maintain their internal security and stability.

6. In the light of the above considerations, our basic strategic objectives relative to South Asian countries are as follows:

- a. Prevent Soviet encroachment or domination;
- b. Prevent the USSR from obtaining military support or assistance from these nations either directly or through the use of their facilities;

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c. Develop, without commitment to military action on our part, a cooperative attitude in these countries which would facilitate obtaining the use of areas or facilities which might be required by the Western democracies for possible covert operations in time of peace and for military operations against the USSR in the event of war; and

d. With reference to Pakistan, endeavor to make commercial arrangements which would, in emergency, facilitate development for operational use of base facilities in the Karachi-Lahore area.