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By MMK NLDDE Date 7/16/10

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from
State
Dept
1/15/54*

MEMORANDUM FOR THE OCB WORKING GROUP, NSC 5405

SUBJECT: Suggested Policy on Sale of Arms and War Materials to Burma

PROBLEM

In pursuance of NSC 5405, a) to establish the desirability of supplying arms and war materials to Burma on a basis intermediate between full-price purchase and outright gift, and b) if this is established, to recommend ways and means for so doing.

BACKGROUND (*)

Item 35, NSC 5405, reads as follows: "Implement promptly and effectively the recent agreement to furnish Burma with military equipment and supplies on a reimbursable basis."

Burma became eligible for Reimbursable Military Assistance in June, 1953, after having given the assurances requisite under the then Sec. 408(e) of the M.D.A.A. Act as amended (now Sec. 106(b), M.S. Act of 1954). An "approved list" of items available for purchase in the US, concurred in by the UK, was handed the Burmese Government by Embassy Rangoon on March 24, 1954 (see Appendix B), but to date the Burmese have made no formal request to buy. A principal reason for their failure to act is that they consider US prices out of reach. For political reasons the Burmese cannot accept grant military aid, but they hope for an arrangement whereby they can purchase "at a very reasonable price."

At the OCB meeting of July 21, 1954, the following was recorded in the Minutes, Report Item 3(c): "With regard to Burma, noted a statement by FOA of the desirability of introducing more flexibility whereby the US could supply MDAP material on some basis intermediate between cash purchase at full market price and outright gift."

DISCUSSION

The FOA statement quoted above is fully consonant with the views of the Department of State, which believes it in the US interest to supply arms and military equipment to Burma in a manner acceptable to the Burmese both politically and financially -- within the framework of

current policy

(*) Summary of negotiations follows as Appendix A.

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current policy vis-a-vis the British (see below). Since Reimbursable Military Assistance prices cannot be cut to an appreciable degree, and since Burma is politically unable to accept outright gift, it is hoped that a way may be found discreetly to help the Burmese Government finance the purchase of US arms and equipment at current US prices. A discussion of the factors involved follows.

A. POLITICAL FACTORS

1. General Political Considerations

Department of State thinking on the Burma problem is based on the premise not only that the present Burmese Government is worth supporting and strengthening but that any regime which might supplant it would almost certainly be less favorable to free world interests. Prime Minister Nu has commented that every Burman knows the Communists through bitter experience, and has also said that to his knowledge Burma is the only country in Asia which through its own resources and without outside help has been combatting Communism for the last six years.

The Burmese Government's internal control has progressed to the point of firmness and it has given increasing indication, with changing conditions in Southeast Asia, of its resolve to combat external Communist aggression to the best of its ability. A "national service plan" of compulsory military training was announced last June 16, to be put into effect over the next two years: the Acting Foreign Minister has told us that while the Burmese have no illusions regarding the permanency of the U Nu-Chou En-lai statement of June 29, they believe it should give them a reprieve of several years from Chinese aggression. The Acting Foreign Minister also indicated that while the Burmese could not join a SEATO -- the Government must not get too far ahead of deep-seated neutralist and anti-colonialist public opinion -- they would adopt a benevolent neutral attitude toward it. Burma has, moreover, confidentially promised Thailand its full support for the Thai appeal to the UN, feeling that it might find itself in the same position before long. In telling us these things the Acting Foreign Minister once more begged the US not to "embarrass the Burmese Government by publicly associating Burma with American policies," as local considerations make it inexpedient for Burma openly to become too friendly with the West at this time. As another prominent official put it, Burma must be a tight-rope walker between two powerful neighbors (West and Soviets).

Embassy Rangoon has commented that the Burmese are fighting Communism in their own manner, as they have done for the past six years, and that they seek a respite of several years to set their house in order. Leading officials believe it almost inevitable that Burma will eventually

become a target



become a target for Chinese aggression (*), but assure us that the US need not worry about Burma when "the chips are down."

2. US-UK Relationship

Item 38, NSC 5405, reads as follows: a) exchange views with the UK regarding policy for Burma, avoiding indications of any desire to supplant the British, but making clear that it is undesirable for the British to maintain a monopoly over military assistance to Burma; b) urge the British to expand their military mission, insofar as possible, to meet Burmese requirements.

With respect to subsection b) above, it should be noted that the functions of the British Service Mission were officially terminated as of January 4, 1954. However, negotiations for a basis of continued UK supply are still going on and it appears not unlikely that Great Britain will remain the principal, though no longer the sole, supplier of Burmese arms.

Burmese dissatisfaction with UK supply performance is however no secret, and one primary purpose in their seeking to buy arms from the United States was to reduce their dependence on the British. When it became evident that the approach to us would have no immediate or large-scale results the Burmese made purchases in Yugoslavia (howitzers) and Israel (reconditioned Spitfires), and have dickered with Greece (Spitfires) and West Germany (small arms factory to be set up in Burma).

It has been made clear to the Burmese that our policy is to supplement rather than supplant the British supply effort to Burma, and it was on this basis that the UK agreed to our offering the Burmese a limited list of equipment. The policy has been consistently explained to the Burmese on the basis of our need to coordinate the supply of arms and equipment throughout the free world, that supply being not inexhaustible. Unfortunately, UK delay in the matter of what we might offer the Burmese so prolonged negotiations, and resulted finally in such a limited US "approved list," that the net effect on the Burmese was that of a polite brush-off on our part. This effect was heightened considerably by the level of US prices, which the Burmese looked upon as inordinately high despite our previous attempts to disabuse them of the idea that they could buy in the price-range of surplus material.

It is not here intended to suggest a change in the basic US-UK relationship with respect to Burma's arms supply. Action requested is limited to the question of helping Burma finance the purchase of such

US arms and

(*) In 1952 during his trip to Washington the Burmese Supreme Commander, General Ne Win, asserted he wished to bring the armed forces to a strength of four divisions, maintaining that with such strength he could resist a Chinese Communist invasion for at least 60 days.



US arms and equipment as the British may agree to. If the financing question can be satisfactorily resolved, however, it is to be hoped that the British may be prevailed upon to liberalize their position on what we shall offer the Burmese (see wording on British monopoly, item 38a of NSC 5405, above). This is especially advisable in view of the recent termination of the British Services Mission.

3. Recent Burmese Approach

On July 14, 1954, before Ambassador Sebald left for home leave, he was given a small "family" luncheon by Acting Foreign Minister Kyaw Nyein, who speaks with authority for his Government and is strongly anti-Communist. Kyaw Nyein raised the question of arms procurement and said he was thinking, not of a gift but of some arrangement which would enable Burma to "purchase arms at a very reasonable price." The Foreign Minister complained that despite British promises the Burmese were not getting the equipment they needed, and said it was his impression that the United States was supporting the British "sphere of influence" policy in Burma. Sebald denied we were supporting the UK in the sense suggested but pointed to our need to coordinate the supply of arms throughout the free world.

In commenting on Kyaw Nyein's informal approach Embassy Rangoon has asserted that the changing situation in Southeast Asia, and the Burmese Government's attitude toward Communism, appears to increase the urgency of strengthening Burma's defensive position. However, the residual Burmese anti-colonial phobia and their policy of neutrality would make it impossible for the Government to accept MSA commitments or any formal arrangement for advice or training to overcome their own general inefficiency (*). Realistically speaking we could not expect that the material supplied would be used with full effectiveness according to our standards; nevertheless, increased supplies in some categories of arms and equipment would improve Burma's ability to defend itself.

According to Embassy Rangoon the US Attaches are satisfied that the Burmese Armed Forces could effectively use much more equipment and supplies than the British are allowing them to have, and it is the opinion of the Embassy and the Attaches that strengthening these forces would add to the defensive capacity of the free world; also that Burma would fight against any aggressor to maintain her independence. Moreover, with the US and the UK as principal suppliers Burma would not only be dependent on free world sources for ammunition and spare parts, but her pro-West orientation would be encouraged.

B. ACTION FACTORS

There are suggested below for OCB consideration several alternatives for helping Burma finance the purchase of US material in the event the

political desirability

(* See below under Training (Action Factors).



political desirability of such a course is established. These alternatives are not, of course, exclusive, and any further suggestions would be welcomed. Certain other factors which would need to be considered in going ahead with such a program are also discussed.

1. Estimated Burmese Position

As mentioned above the Burmese were appalled at the prices quoted in our lists submitted March 24. The Chief of Air Staff told our Attache that the quotation on Corsairs was nine times as high as that for a similar British plane (*), and the Army Attache has heard similar remarks on the Army items. When General Ne Win returned from the States he seems to have brought away the impression that he could get reimbursable assistance at ten cents on the dollar; and despite all our efforts to disabuse him, at the time and subsequently, this impression has apparently remained.

It is, moreover, not certain how much of the "approved list" would be of interest to the Burmese, as some of the items are not urgently required. They probably would not consider they needed isolated items -- for example, rocket launchers -- and they may or may not wish to buy them. Nevertheless, for present purposes it should be assumed that Burma will wish to purchase at least some of the approved items provided the price is right; and it is to be hoped that in view of changing conditions the UK may be disposed to liberalize its position with respect to some other items the Burmese may want from the US.

It is now understood that the Burmese will not wish to make a formal request to buy any equipment until they can be reasonably assured -- albeit informally -- of considerably more favorable prices (and, possibly, a quicker delivery commitment in some cases). It should moreover be stressed that no further US approach to Burma should be made at any level until it is certain that we are willing and able to make a suitable offer and go through with it; a second false start would have a most unfortunate effect on US-Burma relations. On the other hand, US plans cannot progress far beyond principles until it can be ascertained a) how much the Burmese may wish to spend in US dollars over the next few years, and b) what percentage of the full price they would be prepared to bear (e.g., 25%, 33 1/3%, 40%, 50% (**)). The timing of an initial approach,

and whether it should

(*) The Department of State cannot, of course, vouch for the accuracy of this statement.

(**) Ambassador Sebald, now in Washington, favors an offer of 25% or even lower, believing the best approach, if legally feasible, would be to tell the Burmese in effect: this material is worth \$100, but certain legislation makes it possible to give it to you for \$25 with no political strings attached.



and whether it should be made in Rangoon or in Washington (through the Burmese Embassy), will have to be decided in conjunction with Embassy Rangoon and the Attaches; it appears certain, however, that before any negotiations can be started the US government will have to decide a) whether discreet financial help may in fact be given, and b) if so, approximately what amount can be made available for the purpose. In the meantime, Embassy Rangoon and the Attaches will be apprised of the matter and their views informally solicited for interim guidance.

It might be noted that the material on the US "approved list" submitted March 24 totalled roughly \$45 million, not counting unpriced items, training and assessorial charges (freight, et cetera). The total figure would thus exceed \$50 million plus any further items which might subsequently be added. There are no naval items on the present "approved list," nor any real prospect of their being included.

2. Suggestions for Financing

The following possibilities have been suggested for helping finance Burma's purchases on a basis intermediate between full price and outright gift:

a. Sec. 401: Seek a Presidential determination for the use of up to \$20 million in the current fiscal year (without prejudice to succeeding years) for the purpose under discussion, under the authority provided by Sec. 401, SPECIAL FUND, Mutual Security Act of 1954 (successor provision to Sec. 513(b)). This makes available up to \$150 million in any fiscal year for uses deemed important to the security of the nation, not more than \$20 million to be allocated to any one nation in any fiscal year. It is the Department of State's understanding that Senators Smith and Green, who in 1952 sponsored the 513(b) amendment to the Mutual Security Act of 1951, had assistance to Burma and/or Indonesia specifically in mind.

b. Sec. 121: Seek authorization for a similar or greater amount (*) under the authority provided by Sec. 121, Mutual Security Act of 1954, which makes available to the President not more than \$700 million for security purposes in the area of Southeast Asia. To the extent he may deem necessary in the national interest to carry out the purposes of the Act, the President may waive specific provisions of Sec. 142 (eligibility conditions) with respect to an aggregate of ten percent of the above amount made available to other nations than the Associated States. The following is quoted from the explanation to Sec. 121: "... It may be undesirable to require mutual defense agreements from certain other governments [than the Associated States] in the area which have only recently attained independence, but which need help in resistance to Communism [e.g., Burma]. Therefore, provision was made that up to an

aggregate of

(*) To be determined when Burma's intentions are more clearly known: \$20 million for each of two succeeding years might be a suitable working figure.



aggregate of 10 percent of the funds made available in this section can be made available to such other nations not complying with all the conditions of section 142."

e. Loan Assistance: Sec. 505(b) of the Mutual Security Act of 1954 requires that of the funds made available not less than \$200 million shall be used to make loans. It is not believed that Burma would be interested in a loan for military equipment -- although there are strong indications that she would be for economic technical assistance. If, however, the idea of a loan is considered preferable to other alternatives, Embassy Rangoon can be queried as to possible Burmese reactions.

d. Strategic Materials: It has been suggested that an arrangement might be sought under which Burma could in effect barter a small quantity of strategic materials for a larger quantity of arms and equipment. It is noted, however, that the Mutual Security Act of 1954 has dropped the section on strategic materials, since prospects for use of the small sum unobligated for the purpose were so vague and indefinite that a continuing authorization did not seem justified. In any case, although Burma has strategic materials -- notably wolfram and other minerals -- the conditions of insurgency have been such that pre-war production has never really got going again.

3. Training

At the OCB meeting of July 21 the following was also recorded in the Minutes, Report Item 3(d): "Noted FOA view that in certain areas, Burma for instance, it would be desirable to send a few military training personnel on a minimum token basis for political and psychological purposes even though it is not yet feasible to establish a regular MAAG operation in the area. State and CIA agreed to look into the possibilities in this regard for Burma."

Two paramount considerations bear upon this question: 1) the Burmese, on grounds of the neutrality position gone into above, are fearful of a MAAG as they are of an MDAP commitment; they have terminated the British Training mission because they are unwilling to have foreign groups other than diplomatic within their country enjoying extraterritorial privileges; 2) the US Department of Defense would normally expect that at least a minimum of technical advice would be provided with any equipment it might sell to Burma.

These two considerations are not necessarily contradictory. Although anything resembling a MAAG would certainly be unacceptable, it is the opinion of Embassy Rangoon that the Burmese would be willing to employ foreign military "technicians" who were under Burmese policy direction -- if only to protect their investment. Although the Burmese do not fully appreciate the necessity for training and maintenance according to US

standards, our



standards, our Attaches believe they would seek technical advice and training on an ad hoc basis, being careful to avoid any arrangement which might permit foreigners to exercise influence on military planning and policy. General Ne Win has stated he prefers to hire military instructors on an individual basis rather than submit to an agreement which would provide for a service mission of any particular country (*).

It has been suggested that a limited "Military Aid Section" might be added to the Attache staff, as was done in Yugoslavia; also, that civilian "factory technical representatives" might be furnished by the principal manufacturers of equipment. It is doubtful whether the Burmese would want an Attache aid section, although the Yugoslav precedent might be helpful in view of Burma's admiration for and tendency to emulate the example of that country. Civilian technicians would be politically acceptable, but would probably be more expensive than their military counterparts. It therefore appears, on both political and financial grounds, that the best solution would be US military advisers who were nominally employed by the Burmese Government.

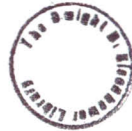
But although training would have to be paid for, and would have to be considered in the total figure of expenditure, a way should be found to offer it on reduced terms comparable to those for arms and equipment. The training prospects can best be determined through the Attaches, but it appears that a limited program would be feasible provided the arrangement were such as to be both politically and financially acceptable.

RECOMMENDATIONS

1. That if the Working Group agrees with the proposal to help Burma finance the purchase of US arms it make the necessary recommendations to obtain OCB approval of the principle.
2. That if the Working Group approves Recommendation 1. it discuss the suggested ways and means, or other alternatives, and make the pertinent recommendations to the OCB.
3. That the Department of State be kept informed of successive stages of action, so that it may make the necessary approaches to Embassy Rangoon at the proper time.

- APPENDIX A - Summary of Negotiations.
APPENDIX B - Summary Outline of "Approved List."

(*) It might be noted that Burma has recently sent a number of military technicians to the States for training at Burmese expense.



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SUMMARY HISTORY OF US NEGOTIATIONS WITH BURMA AND THE UK
FOR PROCUREMENT OF US MILITARY EQUIPMENT BY BURMA

There follows the full text, without enclosure, of Report R-90-54 dated 25 June 1954, of the U.S. Army Attache at Rangoon. It will be noted in paragraph 16 that a Burma Army officer who was actively involved in the negotiations is quoted to the effect that no purchase would be made from the US. While the Department of State does not contest the bona fides of the statement at the time it was made, the subsequent informal approach to the Ambassador by the Acting Foreign Minister on July 14 must perforce be considered to supersede the remark in question. (It will be recalled that the Acting Foreign Minister, who enjoys the Prime Minister's confidence and speaks with authority for the Government, broached the subject of arms procurement "at a very reasonable price.")

R-90-54, 25 June 1954:

1. The purpose of this report is to review, in summary form, the military procurement negotiations with Burma Army, from their beginning to the present.
2. The first significant step occurred during Ne Win's visit to the USA in November 1952. At that time he and his staff informally discussed procurement with OMA. Five months later, in March 1953, the War Office relayed to ARMA its desire to purchase artillery, tanks, etc. from America.
3. On 17 March 1953 a Joint State-Defense cable directed procurement be handled by this Embassy in phases as follow:
 - a. Signing of 408E (State cable 1459)
 - b. Discussion with Burmese, British and Americans
 - c. Procurement request through diplomatic channels
4. On 30 March 1953, Embassy telegram to State Department recommended procurement discussion be postponed due extraneous complications between Burma and US (this was at the time of cancellation of TCA). Ne Win separately suggested to ARMA that negotiations be temporarily shelved due cloudiness of Burma-US relations.
5. On 28 April 1953, Embtel 2065 to State Department, Kyaw Nyein and Ba Swe both suggested procurement discussions be reopened.
6. On 30 April 1953, representatives of this Embassy and Foreign Office discussed phases of procurement as outlined in joint State-Defense message of 17 March.
7. On 5 June,



7. On 5 June, Embassy received note from Foreign Office making 408E commitment.

8. On 9 June, Embassy note to Foreign Office requesting discussions between War Office and Service Attaches with view formulating list.

9. On 16 June, Army, Air and Navy Attaches were invited to Luncheon at the War Office. The purpose of this affair was to commence informal procurement discussions. ArMA recommended, in general, items to be included in request to the US.

10. On 24 July, the War Office had prepared a list of Army items, which ArMA felt was unsound as it was considerably much too ambitious and, furthermore GUB could not possibly pay for it.

11. On 26 July, discussion was held with British Service Mission and copies of the list were furnished to them.

12. On 28 July, a series of meetings commenced with ArMA and representative of War Office, with a view of paring down list to reasonable limits. Concurrent, but separate, discussions were conducted with BSM. (WO absolutely refused to sit with British and allow them "to veto" any of their desired purchases.) These discussions culminated in transmittal of informal list by ArMA to G2 on 26 August. (The Embassy also forwarded list to State at this time.)

13. On 31 July (see my S-2-53), in discussion with British, it developed that BSM lacked authority to recommend whether Burma Army items requested were considered reasonable. Subsequently London was queried by BSM several times, but reply was not immediately forthcoming.

14. On 25 August, the State Department directed that we ask British:

- a. What items the British would be prepared to supply;
- b. What items the British are not willing to furnish, but has no objection to USA doing so.
- c. What items Britain considers should be denied Burma and whether in the present or permanently, and for what reasons.

This was answered 30 November 1953 to the effect that US could furnish machinery lorries, 155 howitzer battalion, rocket launchers, and ammunition for above items. The BSM was not able to clarify items to be included in "machinery lorries". It was not until 9 February 1954 that British finally received a clarification from London. Machinery lorries was defined as 10 trucks, field lighting and 3 trucks, surgical.

15. This Embassy received prices and availability dates of equipment in March 1954 from Washington.

16. On 24 March 1954,



16. On 24 March 1954, an Embassy memorandum to the Foreign Office forwarded the list with prices and dates of availability. To date no official reply has been received from the Foreign Office. About a month ago, a Burma Army officer, who has been actively involved in procurement negotiations, commented to ARMA that the high prices quoted by the US evidently was a back door means of refusing to sell Burma arms. He further indicated that no purchase would be made from the US, and that War Office had prepared their recommendations to that effect to their Foreign Office. However, as stated above, this Embassy has received no official reply from the Foreign Office.

17. At present, negotiations of British-Burma procurement agreement have been temporarily shelved by Burmese even though London has agreed to practically all Burma stipulations. On the other hand, British are continuing to supply Burma Army, in spite of the lack of a formal agreement. Attached, as inclosure 1, is a summary of major items of British supplies and equipment being furnished Burma Army from 1950 to 1954. Inclosure is headed "Defense Procurement" because it includes small arms for civilian police, Army, Navy and Air Force. The great bulk of arms, ammo and equipment was ordered and procured for Army needs. This list was furnished to ARMA by the British Military Attache. No breakdown of specific quantities delivered, by Service or for civilian police, is available, either to this office of British Military Attache.

18. A Burmese military mission, composed of six (6) Army, two (2) Navy and two (2) Air Force officers, plus three (3) civilians, departed for Israel 19 June 1954. Ostensibly the primary purpose of this mission is to study Israel's National Service program. However, the mission will observe training and organization with a view of, possibly, eventually purchasing additional military arms and equipment. (BA F has recently purchased 20 Spitfire planes from Israel.)



APPENDIX B

SUMMARY OF "APPROVED LIST" OF WAR MATERIALS
OFFERED FOR SALE TO BURMA

(The following is a highlighted summary, for handy reference, of the items agreed upon with the UK and offered for sale to Burma. For full details see Rangoon's despatch 376, March 29, 1954.)

<u>ITEM</u>	<u>QUANTITY</u>	<u>APPROXIMATE TOTAL COST</u>	<u>APPROXIMATE AVAILABILITY</u>
3.5" Rocket Launcher.....	1,050.....	\$87,507.....	9 mos.
plus spare parts			
3.5" Rockets.....	244,600 rds.....	\$3,571,160.....	12 - 18 mos.
155 mm. Howitzer			
plus spare parts.....	18.....	\$610,914.96.....	13 mos.
Tractor.....	22.....	\$446,006.....	3 mos.
Truck, various.....	28.....	\$120,248.....	3 mos.
Truck, various.....	91.....	not quoted.....	not quoted
Trailer.....	24.....	\$30,960.....	3 mos.
Trailer, various.....	38.....	not quoted.....	not quoted
Radio sets, various.....	37.....	not quoted.....	not quoted
Machine guns, .50 cal.....	20.....	\$13,900.....	3 - 6 mos.
Machine guns, .30 cal.....	10.....	\$4,286.....	3 mos.
Assorted Portable Barracks and Sheds.....	400.....	\$1,056,700.....	180 days
Plywood.....	2,000.....	\$10,560.....	90 days
Mules.....	300.....	not quoted.....	not quoted
(Also a number of instruments and various equipment such as altimeters, compasses, lighting equipment, etc.)			
Corsair Fighters.....	50.....	\$14,650,000.....	9 - 12 mos.
Crumman Amphibians.....	6.....	\$4,170,000.....	6 - 9 mos.
2-place Fixed Wing.....	2.....	\$40,000.....	12 - 18 mos.
Air Training Devices.....	-.....	-.....	-
Air Bombs.....	3,000.....	\$294,000.....	30 - 60 days
Air Ammo.....	1,200,000 rds.....	\$708,000.....	30 - 60 days
Air Rockets.....	8,000.....	\$1,028,000.....	30 - 60 days

As mentioned in the memorandum to which this is an appendix, the above material totals roughly \$45 million plus unpriced items, training and assessorial charges.