

In reply refer to.
CA

March 15, 1949

My dear Senator Connally:

The following comments on S. 1063 are offered in response to your request as conveyed by Mr. O'Day, Clerk of the Committee on Foreign Relations, in his letter of February 28, 1949. It is the Department's view that the Bill proposes aid of a magnitude and character unwarranted by present circumstances in China.

Despite the present aid program authorized by the last Congress, together with the very substantial other aid extended by the United States to China since V-J Day aggregating over \$2 billion, the economic and military position of the Chinese Government has deteriorated to the point where the Chinese Communists hold almost all important areas of China from Manchuria to the Yangtze River and have the military capability of expanding their control to the populous areas of the Yangtze Valley and of eventually dominating south China. The National Government does not have the military capability of maintaining a foothold in south China against a determined Communist advance. The Chinese Government forces have lost no battles during the past year because of lack of ammunition and equipment, while the Chinese Communists have captured the major portion of military supplies, exclusive of ammunition, furnished the Chinese Government by the United States since V-J Day. There is no evidence that the furnishing of additional military materiel would alter the pattern of current developments in China. There is, however, ample evidence that the Chinese people are weary of

hostilities

The Honorable
Tom Connally,
Chairman, Committee on Foreign Relations,
United States Senate.

hostilities and that there is an overwhelming desire for peace at any price. To furnish solely military materiel and advice would only prolong hostilities and the suffering of the Chinese people and would arouse in them deep resentment against the United States. Yet, to furnish the military means for bringing about a reversal of the present deterioration and for providing some prospect of successful military resistance would require the use of an unpredictably large American armed force in actual combat, a course of action which would represent direct United States involvement in China's fratricidal warfare and would be contrary to our traditional policy toward China and the interests of this country.

In these circumstances, the extension of as much as \$1.5 billion of credits to the Chinese Government, as proposed by the Bill, would embark this Government on an undertaking the eventual cost of which would be unpredictable but of great magnitude, and the outcome of which would almost surely be catastrophic. The field supervision of United States military aid, the pledging of revenue of major Chinese ports in payment of United States aid, United States administration and collection of Chinese customs in such ports, and United States participation in Chinese tax administration, all of which are called for by the Bill, would without question be deeply resented by the Chinese people as an extreme infringement of China's sovereignty and would arouse distrust in the minds of the Chinese people with respect to the motives of the United States in extending aid. While the use of up to \$500 million in support of the Chinese currency, as proposed in the Bill, would undoubtedly ease temporarily the fiscal problem of the Chinese Government, stabilization of the Chinese currency cannot be considered feasible so long as the Government's monetary outlays exceed its income by a large margin. After the first \$500 million had been expended, the United States would find it necessary to continue provision of funds to cover the Chinese Government's budgetary deficit if the inflationary spiral were not to be resumed. That China could be expected to repay United States financial, economic and military aid of the magnitude proposed, which the Bill indicates should all be on a credit basis, cannot be supported by realistic estimates of China's future ability to service foreign debts even under conditions of peace and economic stability.

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The United States has in the past sought to encourage the Chinese Government to initiate those vital measures necessary to provide a basis for economic improvement and political stability. It has recognized that, in the absence of a Chinese Government capable of initiating such measures and winning popular support, United States aid of great magnitude would be dissipated and United States attempts to guide the operations of the Chinese Government would be ineffective and probably lead to direct involvement in China's fratricidal warfare. General Marshall reflected these considerations when he stated in February 1948 that an attempt to underwrite the Chinese economy and the Chinese Government's military effort represented a burden on the United States economy and a military responsibility which he could not recommend as a course of action for this Government.

Despite the above observations, it would be undesirable for the United States precipitously to cease aid to areas under the control of the Chinese Government which it continues to recognize. Future developments in China, including the outcome of political negotiations now being undertaken, are uncertain. Consideration is being given, therefore, to a request for Congressional action to extend the authority of the China Aid Act of 1948 to permit commitment of unobligated appropriations for a limited period beyond April 2, 1949, the present expiration date of the Act. If during such a period, the situation in China clarifies itself sufficiently, further recommendations might be used^{made}.

Because of the urgency of the matter this letter has not been cleared by the Bureau of the Budget, to which copies are being sent.

Sincerely yours,

DEAN ACHESON