

ARCHIVES PROCESSING NOTE

You will find two versions of the document withdrawal sheets in this file. The original document withdrawal sheets were completed in the 1970s and early 1980s. Since that time, many of the documents have been declassified. In an effort to make the withdrawal sheets easier to use, we have updated the withdrawal sheets, listing only the documents that are still closed. Use these updated withdrawal sheets to request Mandatory Declassification Review of closed security classified documents.

The original withdrawal sheets are in a mylar sleeve in the front of the folder. We have retained them in the file so that you can see the status of the documents when the folder was opened and the history of their declassification. Please replace the sheets in the mylar sleeve when you have finished examining them.

December 1, 2011

LBJ LIBRARY DOCUMENT WITHDRAWAL SHEET

Page 1 of 1

Doc #	DocType	Doc Info	Classification	Pages	Date	Restriction
01d-1	cable	New Delhi 2311 more info released 10/11/11 per NLJ 11-78 Dup. #54, NSF, Country File, "India, Volume 7" Box 130	S	4	05/24/66	A
02	memo	to Robert Komer from Deputy Director for Plans exempt 6/16/11 per NLJ 11-79 exempt 1/13/16 per NLJ 97-217 ISCAP Appeal	S	1	06/17/66	A
16	memo	to the President from Komer same sanitization 9/26/11 per NLJ 11-80	TS	2	03/18/66	A
17a	cable	USIB 85799 sanitized 6/16/11 per NLJ 11-79 same sanitization 1/13/16 per NLJ 97-217 ISCAP Appeal	S	3	03/16/66	A
20	cable	New Delhi 4218 sanitized 6/16/11 per NLJ 11-79	TS	2	03/11/66	A

Collection Title National Security File, Files of Robert W. Komer

Folder Title "India"

Box Number 1

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NATIONAL ARCHIVES AND RECORDS SERVICE
WITHDRAWAL SHEET (PRESIDENTIAL LIBRARIES)

183

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
#1 memo	to RWK from Saunders		
#1a-1 memo	Secret <i>open 7-26-94 NLS 94-179</i> to the President from WW Rostow confidential	1 p 06/17/66 A	
#1a-2 memo	to the President from David E. Bell confidential <i>open 5-12-95 NLS 94-182</i>	4 p 06/11/66 A	
#1a-3 memo	to the President from Charles L. Schultze confidential	2 p 06/11/66 A	
#1a-4 memo	to the President from Fowler confidential	3 p 06/11/66 A	
#1a-5 cable	New Delhi 3339 secret <i>open 10-5-94 NLS 94-180</i>	2 p 06/04/66 A	
#1a-6 cable	New Delhi 3353 secret " " "	3 p 06/06/66 A	
#1a-7 cable	New Delhi 3384 secret " " "	2 p 06/08/66 A	
#1a-8 cable	New Delhi 3381 confidential " " "	5 p 06/08/66 A	
#1a-9 cable	New Delhi 3379 Confidential " " "	2 p 06/08/66 A	
#1a-12 cable	New Delhi 2477 <i>(sanitized 10-5-94 NLS 94-180 (same sanitization))</i> secret <i>open 3-13-09 NLS 97-220</i>	3 p 06/14/66 A	
#1b-1 report	re: India and Pakistan secret <i>open 9-18-97 NLS 97-219</i>	15 p 06/03/66 A	
#1b-2 cable	New Delhi 3281 secret <i>open 10-5-94 NLS 94-180</i>	4 p 05/31/66 A	
#1b-3 cable	Deptel 2404 to New Delhi secret <i>open 10-5-94 NLS 94-180</i>	4 p 06/07/66 A	
#1c-1 cable	New Delhi 3275 confidential <i>open 10-5-94 NLS 94-180</i>	5 p 05/31/66 A	
#1d-1 cable	New Delhi 2311 <i>more info released 10/11/11 per NLS 11-78</i> secret <i>(dup. #54, NSE Country File India Vol. 3)</i>	4 p 05/24/66 A	
FILE LOCATION	NATIONAL SECURITY FILE, Files of Robert W. Komer Miscellaneous Komer File India Box 1		
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NATIONAL ARCHIVES AND RECORDS SERVICE

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283

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
#1d-2 cable	New Delhi 3319 confidential open 10-5-94 NLJ 94-180	2 p 06/03/66	A
#1d-3 cable	New Delhi 3472 secret open 10-5-94 NLJ 94-180	5 p 06/15/66	A
#2 memo	to Robert Komer from Deputy Director for Plans secret exempt 10-25-94 NLJ 94-183 exempt 6/16/11 NLJ 11-79	1 p 06/17/66	A
#5 report	re: economic aid secret open 5-12-95 NLJ 94-182	1 p undated	A
#6 memo	to the President from Komer confidential open 7-26-94 NLJ 94-179	3 p 03/27/66	A
#6b memo	for the President from Dean Rusk confidential open 8-1-94	2 p 03/26/66	A
#6d memo	for the President from Wm. Gaud confidential open 8-1-94	1 p 03/25/66	A
#7 memo	to the President (Karachi 1804) secret open 7-26-94 NLJ 94-180	3 p 03/26/66	A
#8 memo	to Califano from Wm. Gaud confidential open 5-12-95 NLJ 94-182	2 p 03/25/66	A
#8b memo	to SecState from Komer confidential open 3/25/94	1 p 03/23/66	A
#8c memo	to the President from Komer confidential open 7-26-94 NLJ 94-179	2 p 03/21/66	A
#9 memo	to RWK from HHS confidential	1 p 03/24/66	A
#15a memo	for the record by Komer confidential	3 p 03/21/66	A
#16 memo	to the President from Komer top secret sanitized 7-26-94 NLJ 94-179 2 p	03/18/66	A
#17a cable	USIB 85799 secret sanitized 6/16/11 NLJ 11-79 3 p	03/16/66	A
#19 cable	New Delhi 2387 secret open 10-5-94 NLJ 94-180	10 p 03/13/66	A

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373

FORM OF DOCUMENT	CORRESPONDENTS OR TITLE	DATE	RESTRICTION
#20 cable	New Delhi 4218 top secret Exempt 3-13-09 NLJ 97-220 Exempt 10-5-94 NLJ 94-180 11-19-03-001-4 Sanitized 6/16/11 NLJ 11-79	2 p 03/11/66	A
#21 letter	to John Lewis from Walter G. Parr confidential open 5-12-95 NLJ 94-182	2 p 03/11/66	A
#22a letter	to the President from Chester Bowles secret open 7-26-94 NLJ 94-180	11 p 03/04/66	A
#23 letter	to Chester Bowles from Komer secret open 7-26-94 NLJ 94-179	2 p 03/10/66	A
#23a letter	to Robert Komer from Chester Bowles secret open 10-5-94 NLJ 94-180	2 p 03/03/66	A
#24 cable	New Delhi 2354 secret Sanitized 10-5-94 NLJ 94-180	8 p 03/09/66	A
#28 letter	to Robert Komer from Chester Bowles confidential open 3/25/94	1 p 03/02/66	A
#28a letter	to Dean Rusk from Chester Bowles Confidential open 10-5-94 NLJ 94-180	2 p 3/2/66	A
#30a memo	to the Secretary from Hughes secret Sanitized 10-5-94 NLJ 94-180	16 p 02/28/66	A
#30b memo	to the Secretary from Hughes secret open 12-5-94 NLJ 94-180	22 p 03/02/66	A
#17 memo	transmittal memo open 10-25-94 NLJ 94-183 possible classified information	1 p 10/03/66	A
#25a cable	WU - 27, INTBAFRAD from New Delhi possible classified information Exempt 10-5-94 NLJ 94-180 open 3-13-09 NLJ 97-220	3 p 03/08/66	A

FILE LOCATION

NATIONAL SECURITY FILE, Files of Robert W. Komer
Subject: ~~_____~~ India
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file - India

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E.O. 12356, Sec. 3.4

NEJ 94-179

~~SECRET~~

By 128, NARA, Date 6-22-94

17 June 1966

RWK:

These cables give you the New Delhi panorama, and the aid package and Hoopes paper give you the latest Washington thinking.

The big business is the World Bank liberalization package. Beyond Bell's paper, the current problem is to bring other donors along with us up closer to the \$900 million mark. Woods is still pushing. *(as nearly as we can count now, we're still maybe \$200m. short)*

This is chiefly a political issue because we have enough money now to get the Indian program started. Mrs. Gandhi's devaluation of the rupee two weeks ago kicked off an intra-Congress ruckus. So now Indira has to show that going along with IBRD-IMF-US economic advice pays off. If we don't hit the target, her opponents will say they told her that she'd make all these tough reforms and then the aid donors wouldn't come through.

The other important business is our effort to get Indians and Paks back on the Tashkent track. Bowles has suggested to his contacts everything from another ministerial meeting to a Gandhi-Ayub meeting. The dissenters on both sides are trying to muck up the works. (For instance, New Delhi 3472 which shows the Indians have a distorted picture of Pak requirements. The Paks insist only that Kashmir be on the agenda). We've made their talking through some channel of our aid conditions on both sides.

We are also still struggling here with whether and how to resume military aid. We have George Woods trying to get a handle on military spending and we have told both sides our economic aid is contingent on their setting ceilings and hopefully eventually settling down to an accepted ration between their forces.

You could help if you could convince Bowles that it isn't enough for him to tell us that the Indians will flip their lids if we sell lethal spares to Pakistan. As you have argued yourself, our problem and India's is how to keep Pakistan from depending exclusively on the Chicoms. Bowles so far hasn't been willing to argue the Indians into facing up to this problem.

Bon voyage!



Hal Saunders

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— Ta
DEVALUATION

+ AID

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

HS + *Mr. Wrigg*
India
AID Package
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Saturday, June 11, 1966, 6:15 p.m.

MEMORANDUM FOR THE PRESIDENT

Mrs. Gandhi has taken the first big step in the economic program Mehta worked out with George Woods. She has devalued the rupee. This has triggered strong opposition within her own party, from the Left, and from Indian business men.

She needs the prompt response of aid donors to permit import liberalization and to underscore the positive part of her program. That is why George Woods is pressing the consortium hard for prompt action.

The politics of our bargain are in pretty good shape.

-- State is angling through diplomatic channels for another meeting with the Paks. Gene Locke is working the other end of the line. While this will probably not produce anything dramatic, it should keep the Tashkent process going.

-- The effort to get a grip on military spending is less advanced. But George Woods is working actively on this, as you know; and State is pressing the Indians to take our concern seriously.

We are pleased with Mrs. Gandhi's boldness; a bit worried about the tightrope she's on; and feel we should go ahead now with our part of the economic deal.

Woods has promised to let her know by 15 June -- next Wednesday -- how much the consortium will contribute toward the World Bank target of \$900 million in non-project aid. She has committed herself to announce further steps on import liberalization by about 20 June. She cannot do this without the Woods package. The consortium meets on Tuesday.

Dave Bell accepts the World Bank's \$900 million target and would like your approval:

To put in a U.S. planning figure up to \$335 million at the consortium negotiating session Tuesday. This is in addition to the \$100 million you approved for the Vice President to take with him in February. Our planning figure would include: (a) an immediate new program loan of \$150 million available from FY 66 funds and (b) up to another \$185 million to be made contingent on Congressional approval.

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Authority State Ltr 5-15-78, NSC Ltr 11-22-78

By *slp*, NARA, Date *10-15-90*

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- 2 -

Bell would start bargaining with a low U.S. figure of \$280 million (plus the earlier \$100 million) to press other donors to give more and would go up to the full \$335 million only if necessary to get the maximum out of the others. AID can handle the higher figure with what it has already asked of Congress.

Woods is pressing the Germans to increase the \$62 million they plan to put into the consortium; and to increase within that figure the present amount (about \$45 million) of their program lending. We shall be on to the Indians to press home George's point.

Bell recommends the package and has consulted the Congress.

State concurs.

Bureau of the Budget concurs in an attached memorandum.

Secretary Fowler is in dissent, as his attached memorandum to you indicates.

He makes three points:

-- He believes 42 percent rather than 48 percent is the "Appropriate share" for the United States;

-- He regrets that the debt rescheduling for India will be delayed by the World Bank until the fall;

-- He generally opposes continued non-project lending to India unless we can establish a more favorable bilateral trade balance with India.

I have looked carefully into these points.

With respect to shares, the 42 percent is an historically accepted figure covering both project and non-project lending. It is not the relevant figure for this package, which is wholly non-project. In fiscal 1965 -- the last year for a full consortium package -- the non-project share of the United States was as high as 55 percent. It is, thus, true that in the sensitive area of non-project lending we are making progress in getting others to do more.

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CONFIDENTIAL

- 3 -

Moreover, our share looks bigger than it is. We are being allowed by the World Bank to count the \$100 million non-project loan to India which we granted via the Vice President, as part of this year's consortium package, although it represents funds which under normal circumstances we would have lent India last year. The other members of the consortium did not break off their assistance to India as we did during the war period. They are not getting credit this year for the contributions they made last year.

Therefore, on this point I conclude that our share in this non-project package is "appropriate."

With respect to debt rescheduling, all of us would like to see that take place as soon as possible. It requires, however, complicated prior negotiation. George Woods believes he cannot get it organized until the fall. He has, however, accepted and will try to press on the others, a principle greatly to our advantage; namely the principle that we will take the debt rescheduling "off the top." This means that those who, in the past (mainly Europeans), lent on hardest terms will bear the greater burden in the rescheduling; we will deduct this from the \$900 million; and we shall divide up the balance according to the agreed percentages. It is just that this principle be accepted; but it is also to our advantage. And it's worth our while to let George Woods fight this battle for us between now and the autumn, which is his recommendation.

With respect to the commercial balance, it is true that we buy more from India than they buy from us. However, this does not bear directly on the present loan package. All of it is tied. We are working hard -- and should work harder -- to increase our exports to India. We are making some progress. But we cannot count on having even bilateral trade balances with every country. Moreover, of the other major trading partners of India: the pound is in worse trouble than the dollar; the Germans are no longer building reserves; and we have good balance of payments arrangements with Japan. The Indians trade little with the French.

I conclude, therefore, that while we wish to go further in increasing our exports to India as to other countries, there is no balance of payments pain in this loan package; and there is not even much pain in India's favorable trade balance with us.

CONFIDENTIAL

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- 4 -

Therefore, I concur in the recommendation of AID, State, and the Bureau of the Budget.

The \$900 million is the minimum necessary to carry Mrs. Gandhi over import liberalization and her political crisis.

Economically, our balance of payments will not be damaged.

And we are getting about as much equity from the consortium as one is likely to get in an imperfect world.

I recommend you approve the AID package as presented:

W. W. Rostow

Approve AID package _____

Disapprove _____

See me _____

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DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

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OFFICE OF
THE ADMINISTRATOR

June 10, 1966

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E.O. 12356, Sec. 3.4

NEJ 94-162

By ig, NARA, Date 4-25-95

MEMORANDUM TO THE PRESIDENT

SUBJECT: Aid to India

Prime Minister Gandhi has started to undertake the economic policy reforms discussed with the World Bank. Devaluation of the rupee, announced early this week, was the most politically difficult element of the reform package. Mrs. Gandhi is standing firm in the face of a storm of criticism within India, not only from opposition elements claiming the Government sold out to the West, but from strong elements in the Congress Party itself, who fear the decision will hurt the party in the February '67 elections.

India had intended to put the whole economic program out as a single package, but because of the severity of conflict over the devaluation decision among the top political leadership, and because of the grave danger of a leak, Mrs. Gandhi was forced to speed up her timetable. The Government of India has publicly promised to announce further steps on import liberalization "within a fortnight", and is now in a difficult position with continued uncertainty about the nature and extent of foreign exchange support for the reforms.

The Indians have urgently requested George Woods to report on his efforts to mobilize the \$900 million of non-project aid he agreed that they required to undertake further reform measures, particularly liberalization of imports, in order to get the economy moving and thus convince the Indian public that the new steps are really in India's interest. George Woods has promised to report to the Indians early next week on the results of his efforts.

The question George Woods has put to us with the request that we respond as soon as possible is: how much of the \$900 million will the U. S. provide. The following considerations should govern our decision:

GROUP 4
Downgraded at 3 year
intervals; declassified
after 12 years.

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- 2 -

1. We would like to hold the U. S. contribution to about 42% of the total which has been the previous U. S. share of the combination of project and non-project (commodity) aid through the Consortium. This will not be easy because, although we have pledged about 42% of total aid, in the past the U. S. has provided about 55% of the non-project aid provided by the Consortium. Some of the other Consortium members have been reluctant to provide their proper share of non-project aid, although this kind of assistance is particularly well suited to India's needs. As it is especially valuable in support of the liberalization program now envisaged, we are particularly anxious that others increase the proportion of aid they make available on this basis.

2. Part of the requirement of \$900 million can be met by rescheduling debt payments due to Consortium members this year. Ideally, we would like to see the total amount of principal due (about \$170 million) deducted from the requirement of \$900 million and the balance divided among Consortium members. This approach seems logical because it puts the highest current bill to those who in the past have had the poorest terms. In view of the time urgency, it is doubtful that we can persuade the other Consortium members to conform to this principle in this round, but we, with World Bank assistance, intend to press for its adoption with respect to long-term aid and debt planning.

3. The World Bank agrees that the \$100 million loan which we made available recently should count towards the \$900 million total. However, it is possible that some of the other countries may object because they either have provided or plan to provide the full amount pledged last year while we do not plan to complete last year's conditioned pledge.

Balancing all of these considerations, we propose that you authorize us to report to the Bank that, subject to Congressional appropriation, our contribution to the \$900 million will consist of \$380 million, including the \$100 million already provided, this total representing about 42% of the \$900 million non-project aid requirement. Of the balance of \$280 million to be made available, we would provide \$150 million immediately out of funds which are available this fiscal year, and the balance of \$130 million out of new funds after Congress has acted.

It is probable, however, that \$280 million from the United States plus contributions from other countries - assuming maximum

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- 3 -

U. S. effort to induce others to increase their contributions - will fall short of the requirement of \$900 million. Therefore, we request your approval to increase the amount of the additional U. S. contribution from \$280 million up to as much as \$335 million.

The additional funds could be provided by AID, still within the total lending authority that we have requested from the Congress. Alternatively, a portion of the additional amount might be provided through Export-Import Bank facilities.

If we have to go as high as \$435 million (\$335 million beyond the \$100 million already contributed) to reach the total of \$900 million, the U. S. proportion of total non-project lending would still be substantially less than the 55% level that it has been in previous years. The absolute amount of non-project aid by others would have to increase by over 60% even if we went to our proposed maximum figure. We would interpret such increased contributions by others as reasonable burden-sharing on their part.

In communicating our decision to the World Bank, and through it to the Indian Government, we would indicate that we are prepared to negotiate a \$150 million non-project loan immediately. This could be made public promptly. We propose to ask the Government of India to refer to further prospects for U. S. support to the package in, and only in, the following terms: The U.S. has expressed its willingness to do its share in meeting India's non-project aid requirements for the year, as assessed by the World Bank, and to this end has indicated its intention to consider a further non-project loan this fall, after Congress has acted on the aid bill.

Recommendation:

That you authorize us to inform India and the World Bank:

- a. That we accept the requirement of \$900 million as calculated by the World Bank;
- b. That we are prepared to negotiate an immediate non-project loan in the amount of \$150 million;
- c. That we are prepared to make further non-project loans to India after Congressional action in order to meet our share in financing India's non-project aid requirements for the year, and that we now contemplate that an additional loan in the amount of \$130 million would, subject to Congressional action, complete our contribution.

+ appropriate burden sharing

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- 4 -

That you further authorize us to increase the contingent portion of our contribution to be **provided** after Congressional action, by an amount up to \$55 million which could be financed by AID, or by a combination of AID and Export-Import Bank resources.

Approve: _____ Disapprove: _____

David E. Bell
David E. Bell

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EXECUTIVE OFFICE OF THE PRESIDENT
BUREAU OF THE BUDGET
WASHINGTON, D.C. 20503

1a-3

JUN 11 1966

MEMORANDUM FOR THE PRESIDENT

Subject: Aid to India

DECLASSIFIED

Authority OMB Ltr 2-22-78; AID Ltr 5/31/8

By wp/ky, NARA, Date 10-15-90

Recommendation

I recommend that you approve Dave Bell's request in the attached memorandum that he be authorized to offer up to \$335 million as the U.S. share of non-project aid to India in her current fiscal year and to make a first installment of \$150 million available now. Of course, any further installments would be subject to Congressional action.

Approved _____

Disapproved _____

Discussion

Mrs. Gandhi is moving ahead with the economic reforms she discussed with you. She devalued the rupee early this week. She has now announced plans to liberalize imports "within a fortnight."

The scope of the liberalization depends upon the support she can expect from the World Bank Consortium. George Woods has promised to report to her on Tuesday the results of his efforts to mobilize foreign assistance.

The World Bank has calculated, and the U.S. agrees, that \$900 million in non-project aid is the minimum needed to permit the kinds of reforms we have been pushing for. Our share of that, based upon the 42% of the total which we have pledged through the World Bank Consortium, comes to \$380 million. This amount

- is within the AID budget level of \$385 million for India approved by you in January.
- is an improvement on past experience. While we have in the past supplied 42% of total Consortium aid to India, we had to put up 55% of the program-type loan which this package covers.

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- 2 -

But the Bank has agreed to count the \$100 million loan you authorized in February toward the total. This reduces the need for new money to \$800 million. Our share of this is \$335 million, which saves us \$45 million. I believe this is the amount we should be prepared to spend.

There is a chance that we can do even better than this. We might be able to persuade Canada, the U.K., Japan and the other donors to let us subtract all of the \$100 million from our share of the \$900 million, which would reduce our contribution to \$280 million. This is unlikely, however, because

- many of the other donors have serious problems with giving non-project aid.
- all of them are meeting their 1966 Consortium pledges, while we are not, which puts us in a weak bargaining position.

Thus, I agree with Dave Bell that we should start our negotiations with an offer of \$280 million in new money, but that we be prepared to go up to \$335 million if that proves to be necessary. This gives us plenty of room within the Budget and it is a reasonable price to pay for the politically courageous and economically sound steps which Mrs. Gandhi is taking. I also agree with Dave that we should provide the first \$150 million now, out of funds available this fiscal year, in order to reduce some of the very great political heat which she has taken on by announcing the reforms in an election year.

The balance of payments impact of this support will be reduced to the minimum by fully tying all loans to the purchase of U.S. goods. We understand Secretary Fowler is sending a separate memorandum on this.

Charles L. Schultz

Charles L. Schultz
Director

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THE SECRETARY OF THE TREASURY
WASHINGTON

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JUN 11 1966

Authority Treasury ltr 4/8/77
By my, NARA, Date 10/25/90

MEMORANDUM FOR THE PRESIDENT

Subject: Aid to India

Since I became aware late last evening of the particular terms of aid being proposed to you, I have had some opportunity this morning to consider this as expressed in Dave Bell's memorandum to you.

I would like to make these observations on the request that you authorize commitments up to \$435 million. The appropriate figure is \$343 million with the \$100 million contribution made earlier bringing the net to \$243 million.

1. It seems highly undesirable for you to authorize us to increase the contingent portion of our contribution by an amount up to \$55 million to compensate for short-falls in contributions from other members of the consortium. Forty-two percent is the appropriate share; that is what the United States should contribute. The practice, indulged in by the United States in the past, of picking up any residual needs that develop because of the unwillingness of other countries to make their appropriate share is hard to justify under normal considerations. It is even more difficult to defend in a situation where the United States has a major deficit in our balance of payments and other members of the consortium have surpluses derivative in part of our carrying major burdens throughout the world.

For all practical purposes this authorization will mean that you are authorizing us to pay 48.3 percent rather than 42 percent which is our agreed share.

2. Our contribution should result from a calculation that separates out principal payments on debt due members of the consortium and subtracts them from the total. These payments are \$172 million and would reduce the total to

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- 2 -

\$728 million. Prorating this figure in accordance with the 1965-1966 shares would require a U.S. contribution of \$343 million.

If we do not follow this approach and other countries do follow it, as they are likely to, the United States will be providing a percentage of the real economic assistance made available to India substantially in excess of its fair share.

I understand that the World Bank agrees this is an appropriate method of calculating shares but does not feel it is possible to settle the debt question until the fall when the next round comes up. That being so, I see no reason for the United States to assume unilaterally an additional burden in the current round.

Apart from these two specific points, there is one general observation I should like to make looking to the longer-term future. It will not be practicable, from the standpoint of our balance of payments, to continue large amounts of non-project aid to India directly or through IDA unless there is a substantial change in the pattern of commercial trade that gives assurance that is not currently present that this type of aid to India is not placing a very heavy burden on the U.S. balance of payments.

With the removal of restrictions on India's imports now contemplated, it should become the joint concern of India and the United States to increase substantially U.S. cash commercial exports to India. Trade missions, government efforts of various sorts, and a determined bilateral effort from both private and public sectors of both countries are indicated.

The commercial trade balance is heavily in India's favor. Our best estimates of the figures for 1964 show \$123.7 million of U.S. commercial exports to India and

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- 3 -

\$304 million of commercial imports from India. Even though there has been a slight increase over recent years in the share of the Indian import market falling to the United States, the disparity between that share and our share of aid contributions is striking and bound to be the subject of increasing attention. In 1965 for example, the U.S. share of the commercial import market in India was estimated at 16 percent. At the same time the U.S. contribution to the consortium was 42 percent, and PL 480 sales of approximately \$400 million in U.S. fiscal 1965 greatly increased the U.S. share as a contributor to the Indian economy.

Those responsible for continued U.S. aid to India, directly and indirectly, must do a great deal more to change this picture. I say this not solely out of my concern for the U.S. balance of payments but as the U.S. Governor for the World Bank who sees difficulty ahead in assuring an adequate replenishment for IDA in the next Congress. One of the points of attack is certain to be that a disproportionate share of IDA funds goes to India, thereby entailing a disproportionate burden on the U.S. balance of payments because of the small U.S. share in India's commercial import market.

Henry H. Fowler
Henry H. Fowler

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INCOMING TELEGRAM Department of State

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Action

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NNNNVV QSA967SBA693
PP RUEHC
DE RUSBAE 246 1551620
ZNY SSSSS
P 041542Z
FM AMEMBASSY NEW DELHI
TO SECSTATE WASHDC PRIORITY 3339
STATE GRNC
BT
~~SECRET~~ JUNE 4

DECLASSIFIED
E.O. 12356, Sec. 3.4
NIJ 94-180
By CB, NARA, Date 9-26-94

1966 JUN 4 PM 12 43
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L I M D I S

PASS WHITE HOUSE FOR ROSTOW

1. LATE SATURDAY AFTERNOON I MET WITH L.K. JHA TO DELIVER MESSAGE CONTAINED IN AIDTO 2017 REGARDING OUR READINESS TO COVER CERTAIN COMMODITIES WITH NON PROJECT LOANS UP TO \$100 MILLION. JHA WAS DELIGHTED WITH OUR ASSURANCE AND STATED THAT IT WOULD GREATLY STRENGTHEN MRS. GANDHI AT A CRITICAL MOMENT.

2. IN RESPONSE TO MY QUERY JHA SAID THAT THE POLITICAL CONFLICT WITHIN THE TOP LEADERSHIP OF THE CONGRESS PARTY OVER THE WORLD BANK PLAN IS BEING HEAVILY FOUGHT, AND THE SPLIT IS DEEP.

PAGE TWO RUSBAE 246 ~~SECRET~~

3. KAMARAJ EGGED ON BY T.T. KRISHNAMACHARI HAS FRANKLY AND OPENLY EMERGED AS LEADER OF THE OPPOSITION. T.T.K. INSISTS THAT WHEN THE CRUNCH COMES THE USG WILL FIND REASONS NOT REPEAT NOT TO PUT UP THE MONEY AND THE RESULT WILL BE A DISASTROUS SETBACK FOR THE CONGRESS PARTY SHORTLY BEFORE THE GENERAL ELECTIONS.

4. KAMARAJ WITH AN EMBITTERED T.T.K. AT HIS SIDE HAS CONVINCED SEVERAL SOUTHERN LEADERS OF THIS THESIS AND EVEN FORCED VENKATARAMAN, THE ABLE AND NORMALLY ENLIGHTENED MADRAS STATE MINISTER OF INDUSTRIES, INTO LINE.

5. S.K. PATIL HAS ASSURED MRS. GANDHI OF HIS STRONG SUPPORT ON THIS AND OTHER CURRENT ISSUES. PATIL OBVIOUSLY SEES IN THIS SITUATION AN OPPORTUNITY TO DEFEAT AND CONCEIVABLY TO ELIMINATE KAMARAJ AND TO ASSUME TOP ROLE AMONG ORGANIZATION LEADERS.

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-2- 3339, JUNE 4, FROM NEW DELHI

6. MRS. GANDHI VIEWS THE OUTCOME AS CRUCIAL TO HER ABILITY TO LEAD INDIA AS PRIME MINISTER. ACCORDING TO JHA SHE MAY BE EXPECTED TO REMAIN FIRM REGARDLESS OF THE CONSEQUENCES.

7. THE SHOWDOWN IS SCHEDULED FOR SUNDAY AND RIGHT NOW THE OUTLOOK IS MODERATELY GOOD. IF MRS. GANDHI WINS SHE PLANS TO MAKE THE ANNOUNCEMENT ON MONDAY AND TO SPEAK ON A NATIONWIDE RADIO

PAGE THREE RAXBAE 246 ~~SECRET~~
HOOKUP BY THE MIDDLE OF THE WEEK.

8. COMMENT: THE DEEP-ROOTED POLITICAL CONFLICT WHICH JHA DESCRIBES COMING JUST EIGHT MONTHS BEFORE THE NATIONAL ELECTIONS HAS OBVIOUS ELEMENTS OF DANGER. HOWEVER ON THIS CRITICAL ISSUE MRS. GANDHI HAS NO ALTERNATIVE BUT TO FIGHT; WE ARE FORTUNATE THAT SHE SEEMS TO UNDERSTAND THIS.

9. IF PATIL EMERGES OUT OF THE CRISIS AS TOP POLITICAL LEADER AND KAMARAJ FADES OUR LONGER TERM INTERESTS MAY BE WELL SERVED. HOWEVER IT WOULD BE A SERIOUS MISTAKE TO WRITE OFF KAMARAJ AT THIS JUNCTURE.

10. SUGGEST THE UTMOST DISCRETION IN HANDLING THIS INFORMATION IN PRIVATE AS WELL AS PUBLIC COMMENTS. THE CURRENT HEAVY ATTACKS ON MRS. GANDHI HAVE FOCUSED PRIMARILY ON THE CHARGE THAT SHE AND HER SUPPORTERS ARE BEING MANIPULATED BY THE USG IN NEW DELHI AND WASHINGTON AND THAT WHOLE WORLD BANK PLAN IS A US CONCOCTION. NEWSPAPER DOPE STORIES EITHER BEFORE OR AFTER THE ANTICIPATED ANNOUNCEMENT THAT LEND CREDENCE TO THIS CHARGE WILL BE SERIOUSLY DAMAGING TO HER AND TO US.

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NOTE: ADVANCE COPY TO S/S-O AT 1:05 PM, 6/4/66.
PASSED WHITE HOUSE AT 1:05 PM, 6/4/66.

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Info

PP RUEHC

June 6, 1966, 2:04 PM

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ZNY SSSSS

P R 061445Z

FM AMEMBASSY NEWDELHI

TO RUEHC/SECSTATE WASHDC PRIORITY 3353

INFO RUMJGM/AMEMBASSY COLOMBO 136

RUQVQR/AMEMBASSY KARACHI 1083

RUSBHT/AMEMBASSY KATHMANDU 321

RUQVGM/RAWALPINDI 318

ZEN/AMCONSUL BOMBAY UNN

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~~SECRET~~ JUNE 6

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E.O. 12356, Sec. 3.4

NJ 94-180

PASS WHITE HOUSE

By cb, NARA, Date 9-26-94

INDIAN DEVALUATION

REF: EMBTEL 3340

1. MRS. GANDHI'S DECISION TO DEVALUE RUPEE REPRESENTS ACT OF GREAT POLITICAL COURAGE IN FACE HEAVY OPPOSITION WITHIN CABINET AND CONGRESS PARTY. COMING SHORTLY AFTER BOMBAY AICC MEETING, IN WHICH MRS. GANDHI THREW DOWN GAUNTLET TO OBSTRUCTIONISTS AND CRITICS WITHIN CONGRESS (EMBTEL 3275), DEVALUATION ANNOUNCEMENT INDICATES MRS. GANDHI HAS SET BOLD COURSE

PAGE TWO RUSBAE 313 ~~SECRET~~

FOR HERSELF, IS PREPARED TO FIGHT FOR IT, AND HAS STAKED HER POLITICAL FUTURE ON OUTCOME.

2. ANNOUNCEMENT TOOK NEW DELHI BY COMPLETE SURPRISE. PUBLIC CURIOSITY ABOUT GATHERING OF POLITICAL LEADERS IN WHAT WAS OBVIOUSLY IMPORTANT SERIES HIGH LEVEL MEETINGS HAD BEEN SATISFIED BY REPORTS OF DIFFERENCES OF OPINION BETWEEN PLANNING AND FINANCE MINISTRIES OF GOI RESOURCE POSITION VIS-A-VIS FOURTH FIVE YEAR PLAN (EMBTEL 3267). PENDING DECISION RE DIVISION PRESENT PUNJAB STATE PROVIDED ADDITIONAL PLAUSIBLE REASON FOR NUMEROUS HIGH LEVEL MEETINGS. GOVERNMENT'S TECHNICAL PERFORMANCE IN CARRYING ON HIGHLY CONTROVERSIAL DISCUSSIONS WITHOUT LEAK, SHOWED BOTH SKILL AND DISCIPLINE.

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-2- 3353 June 6 from NEW DELHI

3. FINANCE MINISTER CHAUDHURI'S RADIO BROADCAST (REPRODUCED TODAY IN ALL DELHI NEWSPAPERS) IS CLEAR, FORTHRIGHT EXPOSITION OF INDIA'S FINANCIAL POSITION AND NEED FOR DEVALUATION ACTION. HE STRESSED BOOST WHICH DEVALUATION SHOULD GIVE TO EXPORTS AND INCREASED INCENTIVE IT PROVIDES FOR INVESTMENT IN IMPORT SUBSTITUTION INDUSTRIES. HE ALSO MADE CLEAR THAT SPECIAL MEASURES WOULD BE TAKEN TO PREVENT OR CUSHION INCREASES IN PRICES OF ESSENTIAL CONSUMER AND OTHER COMMODITIES SUCH AS FOODGRAINS, FERTILIZERS, KEROSENE AND DIESEL OIL.

RCAGE THREE RUSBAE 313 ~~SECRET~~

4. WHILE CHAUDHURI DID NOT ANNOUNCE SPECIFIC MEASURES IMPORT LIBERALIZATION, HE DID INDICATE THAT STEPS BEING TAKEN TO PROVIDE SUBSTANTIALLY LARGER QUANTITIES OF IMPORTED COMPONENTS AND RAW MATERIALS AND TO SIMPLIFY PROCEDURES. GOVERNMENT PRESS NOTE EXPRESSED HOPE THAT WITH SUFFICIENT ASSISTANCE FORTHCOMING FROM FRIENDLY COUNTRIES AND INSTITUTIONS, IMPORTS CAN BE LIBERALIZED IN VERY NEAR FUTURE.

5. THE MORNING PRESS HAS NOT YET HAD ADEQUATE OPPORTUNITY TO REACT TO THE DEVALUATION. STATEMAN CAME OUT WITH FAVORABLE EDITORIAL. STRONG CRITICISM WAS VOICED IN LEFT-WING PATRIOT AND NATIONALISTIC INDIAN EXPRESS. SINCE MOST DIRECT INITIAL IMPACT OF DEVALUATION IS INCREASE IN COST OF IMPORTS, CRITICISM MAY BE EXPECTED TO MOUNT UNTIL GOI CAN POINT TO CONCRETE MEASURES IMPORT LIBERALIZATION AND OTHER SPECIFIC BENEFITS.

6. WHILE WE HAVE NOT YET HAD OPPORTUNITY TO DISCUSS REASONS FOR DELAY ON IMPORT LIBERALIZATION WITH GOI OFFICIALS BELIEVE IT MAY BE DUE TO SEVERAL FACTORS:

A. DESIRE BY GOI TO AVOID APPEARANCE THAT DEVALUATION WAS TIED DIRECTLY TO US SPONSORED IMPORT LIBERALIZATION AND/OR CONSORTIUM ACTION;

PAGE FOUR RUSBAE 313 ~~SECRET~~

B. UNWILLINGNESS OF GOI TO MOVE FURTHER ON LIBERALIZATION UNTIL PICTURE REGARDING FOREIGN EXCHANGE SUPPORT FOR ACTION BECOMES CLEARER;

C. RELATED TO (B) UNWILLINGNESS TO ACT UNTIL AFTER CONSORTIUM MEETING WHICH, ACCORDING RUMORS IN SOME QUARTERS OF GOI, IS SCHEDULED FOR THIS WEEK.

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-3- 3353 June 6 from NEW DELHI

7. IF UNCERTAINTY CONTINUES OPPONENTS OF DEVALUATION WILL STEP UP THE PRESSURE. ONE OF PRINCIPAL ARGUMENTS OF OPPOSITION IN COURSE OF INTENSE INTERNAL DEBATE AMONG TOP LEADERSHIP PRIOR TO DECISION WAS THAT WHEN CHIPS ARE DOWN US AND OTHER CONSORTIUM MEMBERS WOULD NOT COME THROUGH WITH NECESSARY FOREIGN EXCHANGE SUPPORT AND THUS INDIA WOULD BE LEFT IN THE LURCH. THIS ARGUMENT WAS EFFECTIVELY FED BY TTK TO KAMARAJ AND OTHER HIGH CONGRESS PARTY OFFICIAL AND IS A MATTER OF SERIOUS CONTINUING CONCERN.

8. WHILE THUS FAR PUBLIC REFERENCE TO US PUSHING INDIA TOWARD DEVALUATION HAS BEEN RESTRAINED, WE ALONG WITH WORLD BANK HAVE BEEN CLEARLY IDENTIFIED IN INTERNAL DEBATE AS PRINCIPAL PROPONENT OF DEVALUATION, AND WE CAN EXPECT TO BECOME INCREASINGLY SO IDENTIFIED IN FURTHER PUBLIC DISCUSSION.

PAGE FIVE RUSBAE 313 ~~SECRET~~

9. THIS POINTS UP NECESSITY OF US AND OTHER CONSORTIUM COUNTRIES COMING THROUGH QUICKLY WITH FINANCING NECESSARY TO MAKE IMPORLHLIBERALIZATION A FACT AND DEVALUATION A FULL SUCCESS. IF ADEQUATE FINANCING IS NOT MADE AVAILABLE DEVALUATION WILL BECOME POLITICAL LIABILITY INSTEAD OF MAJOR STEP TOWARD BUILDING CONSENSUS FOR MORE LIBERAL/PRAGMATIC DEVELOPMENT POLICY IMPACT ON US POLITICAL POSITION IN INDIA WOULD BE EXTREMELY SERIOUS.

10. IT WOULD BE MOST HDJPFUL IF WE CAN AGAIN REASSURE MRS. GANDHI AND HER CLOSE ASSOCIATES THAT IF THEY CARRY OUT REST OF PROGRAM US FINANCING CAN BE COUNTED UPON. BEST VEHICLE WOULD BE CONFIDENTIALLY TO CONVEY SUBSTANCE OF COMMITMENT USG PRESUMABLY HAD MADE TO WORLD BANK, ESPECIALLY IF CONSORTIUM MEETING IS IMMINENT. BOWLES
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NOTE: Advance copy to S/S-O at 2:40 PM, 6/6/66
Passed White House at 2:15 PM, 6/6/66

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E.O. 12356, Sec. 3.4

NIJ 94-180

By cb, NARA, Date 9-26-94

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USIA

NSC 1. AT MY REQUEST I CALLED ON L K JHA MORNING OF JUNE 8 TO
INR DISCUSS NUMBER OF SMALL ITEMS. IT BECAME IMMEDIATELY APPARENT, HOWEVER,

CIA THAT JHA HAD HOPED THAT I HAD COME PREPARED TO DISCUSS WHAT US IS
NSA NOW READY TO DO TO HELP INDIA MORE FORWARD ON IMPORT LIBERALIZATION.
DOD WHILE JHA WAS PROFOUNDLY RELIEVED THAT DEVALUATION DECISION HAD BEEN
IGA TAKEN, HE WAS AT SAME TIME DEEPLY CONCERNED THAT SCOPE AND TIMING
AID OF BANK-CONSORTIUM-US SUPPORT HAS NOT BEEN OFFICIALLY CONFIRMED TO
E GOI.

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XMB PAGE 2 RUSBAE 492 ~~SECRET~~

RSR 2. JHA STATED THAT GOI HAD HOPED TO PUT THE WHOLE PROGRAM OUT AS
SINGLE PACKAGE. HOWEVER BECAUSE OF SEVERITY OF CONFLICT OVER
DEVALUATION DECISION AMONG TOP POLITICAL LEADERSHIP AND GRAVE
DANGER OF A LEAK, MRS GANDHI WAS FORCED TO SPEED UP HER TIMETABLE.
AS A RESULT, INDIA IS NOW IN DIFFICULT POLITICAL POSITION DUE
TO CONTINUED UNCERTAINTY ABOUT NATURE AND EXTENT OF FOREIGN
EXCHANGE SUPPORT FOR IMPORT LIBERALIZATION. POSITIVE BENEFITS
OF DEVALUATION MOVE AND MOMENTUM TOWARD LIBERALIZATION
MAY BE LOST UNLESS WORLD BANK AND OTHERS INCLUDING US COME
THROUGH QUICKLY WITH NECESSARY NON-PROJECT SUPPORT.

3. COMMENT: ALTHOUGH WE ARE JUST NOW IN RECEIPT OF AID TO
CIRCULAR X 1559 REPORTING ON JUNE 7 CONSORTIUM MEETING WE ARE
STILL IN DARK ABOUT WHAT SPECIFICALLY USG INTENDS TO PUT
UP IN WAY OF SUPPORT FOR MAJOR INDIAN PROGRAM NOW UNDERWAY
AND, EQUALLY IMPORTANT, WHEN. CONSEQUENTLY IT IS IMPOSSIBLE
FOR US TO REASSURE KEY GOI OFFICIALS WHO ARE OPERATING UNDER
WITHERING POLITICAL CROSSFIRE TOUCHED OFF BY BOLD DEVALUATION
MOVE AND WHO RIGHT NOW BADLY NEED ENCOURAGEMENT.

4. FACT THAT INDIANS MAY READ ABOUT NEW US NON-PROJECT
COMMITMENTS FOR PAKISTAN IN PAPERS TOMORROW AT PRECISE MOMENT

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-2- 3384, June 8, From NEW DELHI

PAGE 3 RUSBAE 492 ~~SECRET~~

WHEN US SUPPORT HERE IS OF CRITICAL IMPORTANCE WILL COMPOUND INDIAN ANXIETIES AND UNCERTAINTIES. GOI MOST EMPHATICALLY WILL NOT BEGRUDGE PAKISTAN THIS ASSISTANCE; THE QUESTION IS QUOTE IS THE US GOING TO WALK AWAY FROM US NOW THAT WE HAVE ACCEPTED THEIR PROGRAM AND GONE OUT ON A POLITICAL LIMB UNQUOTE.

5. I RECOMMEND THAT I BE AUTHORIZED TO INFORM GOI LEADERS ABOUT THE ANTICIPATED EXTENT AND TIMING OF US SUPPORT FOR WORLD BANK PACKAGE. UNDERSTAND US CONTRIBUTION MAY BE BETWEEN \$280 AND \$335 MILLION IN ADDITION TO RECENT \$100 MILLION NON-PROJECT LOAN. SINCE TIMETABLE IMPLICIT IN AID TO CIRC X-1559 SEEMS LIKELY TO MEAN ADDITIONAL TWO WEEK DELAY AND IN VIEW OF EXTREMELY FRAGILE INDIAN POLITICAL SITUATION REQUEST THAT I BE SPECIFICALLY AUTHORIZED ADVISE GOI OFFICIALLY OF \$200 MILLION PARTIAL US CONTRIBUTION (OR AS MUCH AS POSSIBLE OUT OF THIS YEAR'S APPROPRIATION) AND THAT REMAINDER WOULD BE SUBJECT FURTHER DISCUSSION WITH CONSORTIUM MEMBERS AND NECESSARY CONGRESSIONAL ACTION. WOULD PRESENT THIS AS INTERIM STEP TO PERMIT GOI INITIATE NEW ORDERS AND POINT TO RESUMPTION MAJOR ASSISTANCE.

6. I SHOULD THINK THAT WE COULD DO THIS WITHOUT DETRIMENT

PAGE 4 RUSBAE 492 ~~SECRET~~

TO OUR CONSORTIUM BARGAINING POSITION. ALSO SUGGEST THAT IBRD AND POSSIBLE FRG AND UK BE ASKED TO ADVISE GOI OF AT LEAST PART OF THEIR NEW NON-PROJECT ASSISTANCE. WHILE BANK MAY NOT HAVE DECIDED ON FULL IDA CONTRIBUTION IT SHOULD BE ABLE ANNOUNCE \$100-\$150 MILLION NOW WITH REMAINDER TO BE DECIDED WITHIN NEXT TWO WESGS.

7. HIGH LEVEL PERSONAL MESSAGE OF SUPPORT FROM PRESIDENT TO MRS GANDHI, RELATED TO HER BOLD STEP ON DEVALUATION, WOULD ALSO BE TIMELY AND EFFECTIVE IN MAINTAINING MOMENTUM AND STRENGTHENING HER HAND AT A CRITICAL MOMENT.

GP-3. BOWLES

ADVANCE COPY TO S/SO 6:01 P.M. 6/8/66

NOTE: PASSED WHITE HOUSE 5:40 P.M. 6/8/66

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TO RUEHC/SECSTATE WASHDC 3381
INFO RUMJGM/AMEMBASSY COLOMBO 141
RUQVGR/AMEMBASSY KARACHI 1089
RUSBHT/AMEMBASSY KATHMANDU 327
RUQVGM/AMOFF RAWALPINDI 324
RUCJHK/CINCPAC/USCINCPAC
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E.O. 12356, Sec. 3.4

NIJ 94-180

By CB, NARA, Date 9-26-94

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~~CONFIDENTIAL~~ SECTION ONE OF TWO SECTIONS JUNE 8

REACTION TO DEVALUATION

REF: EMBTELS 3340, 3353, 3358 AND 3364

1. INITIAL REACTION TO DEVALUATION, NOT UNEXPECTEDLY, PREVAILINGLY NEGATIVE, REFLECTING MAINLY SHOCK AND INDIGNATION AT DRASTIC MEASURE IN WAKE OF RECENT GOVT DENIALS OF SUCH INTENT. NOW, ON THIRD DAY AFTER ANNOUNCEMENT, WHILE THERE STILL CONSIDERABLE DISAPPROVAL BEING EXPRESSED FROM VARIETY OF SOURCES, EARLY SENSE OF SHOCK ABATING AND MORE EXCESSIVE EXPRESSIONS OF OPPOSITION AND FEAR ARE MODERATING.

De Luca

RSR

PAGE TWO RUSBAE 498/1 ~~CONFIDENTIAL~~

2. IN EDITORIAL COMMENT, PATRIOT STILL BITTERLY HOSTILE, REFLECTING CONTINUING FEELINGS LEFTIST ELEMENTS BOTH INSIDE AND OUTSIDE CONGRESS. INDIAN EXPRESS, WHICH HAD REACTED EXTREMELY ADVERSELY IN ISSUES JUNE 6 AND 7, CAME OUT WITH MUCH MORE MODERATE AND CONSTRUCTIVE EDITORIAL JUNE 8, ATTRIBUTING QUOTE MUCH OF HEAT THAT THIS DECISION GENERATED UNQUOTE STATESMAN HIGHLY LAUDATORY OF ACTION FROM OUTSET, WHILE HINDUSTAN TIMES AND TIMES OF INDIA HAVE BEEN EXPRESSING MIXTURE OF REGRET AT NECESSITY FOR DRASTIC MEASURE AND GUARDED OPTIMISM REGARDING ITS EFFICACY.

3. WITH EXCEPTION SWAZNNTRA, OPPOSITION PARTIES HAVE DECRIED DEVALUATION MOVE. SWATANTRA SPOKESMEN HAVE TAKEN POSITION THAT, WHILE DEVALUATION IS RESULT OF CONGRESS MISMANAGEMENT OF COUNTRY'S ECONOMY, IT COULD HAVE SOME DESIRABLE RESULTS IF IT REPRESENTED A FIRST STEP IN A POLICY OF ECONOMIC REALISM

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-2- 3381, June 8, From New Delhi (SECTION ONE OF TWO)

REPLACING DOCTRINAIRE POLICIES PURSUED TILL NOW. IN STATEMENT YESTERDAY, PARTY'S FOUNDER-LEADER C. RAJAGOPALACHARI REPORTEDLY CALLED MOVE COURAGEOUS ACT AND CHIDED KAMARAJ'S REPORTED EFFORTS TO POSTPONE IT.

PAGE THREE RUSBAE 498/1 ~~CONFIDENTIAL~~

4. AMONG OTHER OPPOSITION PARTIES, MOST STRIDENT CRITICISM, AS EXPECTED, HAS COME FROM COMMUNISTS. RIGHT COMMUNIST (CPI/R) CENTRAL EXECUTIVE COMMITTEE CALLED DECISION GREATEST BETRAYAL OF NATIONAL INTERESTS BY GOI AT DICTATE US IMPERIALISM SINCE ATTAINMENT OF NATIONAL INDEPENDENCE (CPI/R LEADER BHUPESH GUPTA USED ALMOST IDENTICAL WORDS IN INTERVIEW IN MOSCOW). LEFT COMMUNIST SPOKESMAN TERMED IT PRICE IMPERIALISTS DEMANDED FOR AID. PSP, SAMYUKTA SOCIALISTS, AND JANA SANGH SPOKESMEN HAVE ALSO SHARPLY CRITICIZED DECISION, STRESSING PARTICULARLY FEAR THAT PRICES WOULD SKYROCKET.

5. WITHIN CONGRESS, OPPOSITION TO DEVALUATION, AS EXPECTED, HAS BEEN VOICED MOST VOCIFEROUSLY BY LEFTWINGERS (KRISHNA MENON AND MALAVIYA HAVE BEEN PARTICULARLY OUTSPOKEN) BUT OTHERS HAVE ALSO EXPRESSED MISGIVINGS. WHILE CABINET WENT ALONG AT CRUCIAL JUNE 5 MEETING, FOUR MINISTERS (MANUBHAI SHAH, NANDA, JAGJIVAM RAM, AND SANJIVA REDDY) ARE UNDERSTOOD TO HAVE EXPRESSED CONCERN AT POSSIBLE REPERCUSSIONS, AND WHEN MINISTERS NOT OF CABINET RANK

PAGE FOUR RUSBAE 498/1 ~~CONFIDENTIAL~~

ASSEMBLED LATER THAT DAY TO BE INFORMED OF DECISION SEVERAL INDICATED THEY UNHAPPY WITH MOVE.

6. ONLY SENIOR NON-LEFTWING CONGRESS LEADER TO SPEAK OUT AGAINST EVALUATION SO FAR, HOWEVER, (HAS BEEN MADRAS INDUSTRIES MINISTER VENKATARAMAN, WHO WIDELY QUOTED IN PRESS JUNE 7 AS CALLING IT "POLITICALLY UNWISE AND ECONOMICALLY UNSOUND". VENKATARAMAN'S POSITION MAY BE CONDITIONED BY HIS POLITICAL DEPENDENCE ON KAMARAJ, WHOSE OPPOSITION TO DEVALUATION BECOMING MORE WIDELY KNOWN. YET THOUGHT KAMARAJ STILL REPORTEDLY UNRECONCILED TO DEVALUATION, MAN WHO WE UNDERSTAND ADVISED HIM AND FOUGHT BITTERLY AGAINST IT, FORMER MINFINANCE T.T. KRISHNAMACHARI, TYPICALLY REVERSED HIMSELF IN PUBLIC AND QUOTED IN TODAY'S PAPERS AS STATING IN MADRAS THAT "THERE IS NO OTHER WAY THAN WHAT THEY HAVE DONE". HE WOULD NOT BE DRAWN OUT FURTHER. ANOTHER FORMER MINFINANCE, MORARJI DESAI, QUESTIONED AT PRESS CONFERENCE, DECLINED TO COMMENT ON DEVALUATION ISSUE.

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-3- 3381, June 8, From New Delhi (SECTION ONE OF TWO)

7. PRIME MINISTER HAS INVITED OPPOSITION LEADERS TO MEET WITH HER INDIVIDUALLY AND IN GROUPS FOR EXPLANATIONS ABOUT MEASUR

PAGE FIVE RUSBAE 498/1 ~~CONFIDENTIAL~~
THE RELATIVELY FEW MEMBERS OF CONGRESS PARLIAMENTARY PARTY WHO IN DELHI ARE MEETING EVE JUNE 8 TO DISCUSS ISSUE AND HEAR MINFINANCE CHAUDHURI'S EXPOSITION.

8. OPPOSITION EXPRESSED ON BOTH ECONOMIC AND POLITICAL GROUNDS. ECONOMIC OBJECTIONS CENTER ON ARGUMENTS, CITED INTER ALIA FROM RECENT MIN COMMERCE ANNUAL REPORT, THAT DEVALUATION WILL NOT STIMULATE TRADITIONAL INDIAN EXPORTS BECAUSE OF INELASTIC WORLD DEMAND. POLITICAL OBJECTIONS CENTER ON CHARGE THAT INDIAN HAS SOLD OUT TO WESTERN PRESSURE IN ORDER OBTAIN AID. BOTH OF THESE ARE FAMILIAR REACTIONS, WELL CALCULATED TO APPEAL TO WIDESPREAD IGNORANCE AND EMOTIONALISM SURROUNDING THIS ISSUE.

9. MORE RESPONSIBLE ELEMENTS CONCENTRATING THEIR MISGIVINGS ON FEARS OF RUNAWAY PRICE RISES, STARTING WITH IMPORTED COMMODITIES AND THOSE WITH IMPORTED COMPONENTS, BUT LATER ENGENDERING SYMPATHETIC RISES IN WHOLLY INDIGENOUS COMMODITIES. SUCH FEARS HAVE NOT YET BEEN MODERATED BY SUCH REASSURANCES AS THAT GIVEN BY MIN FINANCE CHAUDHURI AT HIS JUNE 6 PRESS CONFERENCE (EMBTel 3357).
BOWLES

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INCOMING TELEGRAM *Department of State*

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Action NNNNVV QSA565
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SS TO RUEHC/SECSTATE WASHDC 3331
G INFO RUMJGM/AMEMBASSY COLOMBO 141
SP RUQVQR/AMEMBASSY KARACHI 1089
SAH RUSBHT/AMEMBASSY KATHMADDU 327
L RUQVGM/AMOFF RAWAPINDI 324
H RUCJHK/CINCSRIKE/USCINCPAC
EUR ZEN/AMCONSUL CALCUTTA UNN
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1966 JUN 8 PM 5.33

~~CONFIDENTIAL~~ FINAL SECTION OF TWO JUNE 8

CIA REACTION TO DEVALUATION

NSA
DOD REF: EMBTELS 3340, 3353 AND 3364

NIC
AID
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10. THESE FEARS HAVE, IN FACT, BEEN FANNED BY RUMORS OF
HUGE PRICE INCREASES AND DISAPPEARANCE OF STOCKS SPREAD
BY PREYU AND PUBLIC DURING TWO-DAY TRANSACTIONS HOLIDAY
JUNE 6 AND 7. OUR DIRECT OBSERVATIONS TO DATE IN DELHI
INDICATE THAT SUCH REPORTS EXAGGERATED. SOME MERCHANTS
ARE INDEED ATTEMPTING TO PROFITEER BY CONCEALING STOCKS
AND RAISING PRICES OF INDIGENOUS PRODUCTS (MATCHES, SOAP

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PAGE TWO RUSBAE 498/2 ~~CONFIDENTIAL~~
AND EVEN FRESH VEGETABLES) AND OTHERS ARE RELAYING TO
CUSTOMERS THEIR FEARS THAT WHOLESALE PRICES WILL RISE
SUFFICIENTLY TO SET OFF RETAIL PRICE INCREASES OF AS
MUCH AS 15 PER CENT IN MANY LINES. ON JUNE 8, WHILE ATTEMPTS
AT PROFITEERING STILL CONTINUING, PUBLIC APPARENTLY BECOMING
IMRESSED BY SIGNS OF STABILITY IN BULLION AND STOCK MARKETS.
THESE HAD RISEN SHARPLY IN UNOFFICIAL TRADING DURING TWO
DAY HOLIDAY, BUT FELL ON JUNE 8 TO LEVELS 3 TO 10 PER CENT
ABOVE PRE-DEVALUATION AND ARE EXPECTED STABILIZE FURTHER IN NEXT
FEW DAYS.

11. IN ADDITION TO MEASURES ALREADY TAKEN TO MINIMIZE PRICE
INCREASES ESSENTIAL IMPORTED CONSUMERS' GOODS
(EMBTEL 3358, PARA 4), GOI TAKING OTHER STEPS MAINTAIN

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-2- 3381, June 8, From NEW DELHI SECTION TWO OF TWO

REASONABLE PRICE STABILITY. ACCORDING TO JUNE 8 PRESS, TWO CABINET MINS (S.K. PATIL AND SANJIVAYYA) BEING SENT TO BOMBAY AND CALCUTTA, RESPECTIVELY, TO PERSUADE MANUFACTURERS OF CONSUMERS' GOODS WITH IMPORTED COMPONENTS (VEGETABLE OILS, SOAPS, HOUSEHOLD APPLIANCES ETC.) TO HOLD PRICE LINE TO EXTENT POSSIBLE.

ANOTHER PRESS REPORT SAYS GOI PLANS ISSUE ORDINANCE IN NEXT FEW DAYS PROVIDING STIFF PENALTIES, UNDER DIR, FOR PRICE

PAGE THREE RUSBAE 498/2-~~CONFIDENTIAL~~
PROFITERRING AND BLACK MARKETEEING. PRIMIN IS ALSO REPORTED TO HAVE TELEGRAPHED STATE CHIEF MINS INVITING THEM TO IDENTIFY AREAS OF SCARCITY IN ESSENTIAL CONSUMERS' GOODS SO THAT CENTRAL GOVT CAN TAKE STEPS DIVERT STOCKS TO STABILIZE MARKET.

12. THERE IS STRONG LIKELIHOOD THAT OPPOSITION AND MISGIVINGS ABOUT DEVALUATION WILL MODERATE FURTHER AS TIME PASSES AND DIRECT OF PREDICTIONS FAIL TO MATERIALIZE. EARLY ANNOUNCEMENT IMPORT LIBERALIZATION (PROMISED WITHIN TWO WEEKS) SHOULD PROVIDE FIRST IMPORTANT CUSHION TO SHOCK. OVER LONGER TERM, FURTHER BENEFITS SHOULD ACCRUE THROUGH RESUMPTION INDUSTRIAL ACTIVITY IN WAKE INCREASED IMPORTS. IF IN MEANTIME GOVT SUCCESSFUL AVOIDING STEEP GENERAL PRICE RISES, SHOCK OF DEVALUATION WOULD GRADUALLY QUIET DOWN ALTOGETHER. BOWLES
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INCOMING TELEGRAM *Department of State*

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1. S K PATIL CALLED AT MY OFFICE ON JUNE 8 TO DISCUSS POLITICAL SITUATION FOLLOWING MRS GANDHI'S DECISION ON DEVALUATION.

2. PATIL STATED THAT

KARAJ'S FAILURE TO ASSOCIATE HIMSELF WITH MRS GANDHI'S DECISION IS LIKELY TO HAVE PROFOUND POLITICAL IMPLICATIONS. IF HE STAYS ON AS CONGRESS PARTY PRESIDENT IT WILL BE INCREASINGLY CLEAR THAT HE EXERCISES ONLY A MARGINAL INFLUENCE. IF HE RESIGNS THERE IS A DANGER OF A SERIOUS PARTY SPLIT. PATIL OBVIOUSLY EXPECTS TO BENEFIT POLITICALLY FROM THIS SITUATION.

3. PATIL STATED THAT HE CALLED ON MRS GANDHI SATURDAY TO ASSURE

PAGE 2 RUSBAE 460 ~~CONFIDENTIAL~~

HER THAT HE STOOD SOLIDLY BEHIND ANY DECISION SHE CHOSE TO MAKE. HE TOLD HER THAT WHILE HE DID NOT FULLY UNDERSTAND THE TECHNICAL IMPLICATIONS OF THE DEVALUATION PLAN HE WAS PREPARED TO TAKE HER WORD FOR ITS SOUNDNESS. PATIL STRESSED THAT HE HAD MADE HIS DECISION AND SHE COULD DEPEND ON HIM.

4. PATIL'S PRIMARY CONCERN NOW IS THE PRICE OF DOMESTIC PRODUCTS. A RISE IN SUCH PRICES WOULD HAVE SERIOUS POLITICAL IMPLICATIONS AND EVERY EFFORT MUST BE MADE, HE SAID, TO HOLD THE LINE. HE WONDERED IF IT MIGHT BE POSSIBLE TO MAKE SOME ADJUSTMENT IN PRICE OF US FOOD GRAINS TO RELIEVE SOME OF THE BURDEN OF GOI'S EFFORTS TO KEEP FOOD PRICES STEADY.

5. PATIL STATED THAT BOMBAY WAS IN AN UPROAR OVER THE DE-

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E.O. 12356, Sec. 3.4

NIJ 94-180

By cb, NARA, Date 9-26-94

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BATOR
BOWLER
BOTHMAN
BUDGET
HAYNES
JESSUP
JOHNSON
JORDEN
KEENE
KOWAR
MOYERS
TAYLOR
WILSON

①
2 Saunders

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-2- 3379, June 8, From NEW DELHI

VALUATION ANNOUNCEMENT AND HE WAS NOT LOOKING FORWARD TO THE ASSIGNMENT MRS. GANDHI HAS GIVEN HIM TO DAMPEN DOWN CRITICISM THERE.

6. PATIL PLANS TO LEAVE FOR THE US ON JUNE 28TH AND GO DIRECTLY TO BOSTON CLINIC FOR A CHECKUP ON HIS THROAT CONDITION. HE DID NOT BRING UP THE QUESTION OF OUR FINANCIAL ASSISTANCE AND I GATHER THE TRIP IS BEING PAID FOR BY THE GOI. ALTHOUGH NO LONGER NECESSARY WE APPRECIATE DEPT'S HELP IN QUICKLY

PAGE 3 RUSBAE 460 ~~CONFIDENTIAL~~
LINING UP POSSIBLE FINANCIAL SUPPORT FOR TRIP (DEPTEL 2399).

GP-3. BOWLES

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FM AMEMBASSY NEW DELHI

TO RUEHC/SECSTATE WASHDC 3438

INFO RUFJKP/AMEMBASSY KARACHI 1096

RUFJKP/AMEMBOFF RAWALPINDI 332

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UNCLAS JUNE 13

12580

June 13, 1966

12:50 p.m.

~~BATOR~~
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REF: EMBTEL 2889

IN HER SECOND PERSON-TO-PERSON BROADCAST TO NATION EVENING JUNE 12, PRIMIN GANDHI DEVOTED MOST OF HER TIME TO AN EXPLANATION OF DEVALUATION AND ITS EFFECTS. FOLLOWING SUMMARY MADE FROM OFFICIAL TEXT, WHICH CARRIED ALL MAJOR NEWSPAPERS THIS MORNING:

1. DEVALUATION. DECISION TO DEVALUE WAS NOT EASY; TAKEN ONLY AFTER MOST ANXIOUS AND SEARCHING CONSIDERATION. RESOLUTE ACTION WAS NECESSARY. DEVELOPMENT IS AT STAGE WHERE POSSIBLE TO REGISTER LARGE GAINS, YET DUE TO COMBINATION

PAGE 2 RUDSND 745 UNCLAS

OF CIRCUMSTANCES PLUS WAR AND DROUGHT ECONOMIC GROWTH ALMOST HALTED. GOI DID NOT ACT UNDER FOREIGN PRESSURE. DEVALUATION ONLY A START. HARD, SUSTAINED, DISCIPLINED EFFORT NEEDED TO ACHIEVE SELF-SUFFICIENCY. DEVLUATION WILL HELP CORRECT SOME DISTORTIONS, BUT IS NO MAGIC CURE. IT SHOULD INCREASE INVESTMENT IN EXPORTS AND IMPORT SUBSTITUTION.

2. LIBERALIZATION. INCREASED NON-PROJECT AID WILL MAKE POSSIBLE SELECTIVE LIBERALIZATION OF IMPORTS, THUS PERMITTING FULLER UTILIZATION OF INDUSTRIAL CAPACITY AND REDUCTION COSTS. ELIMINATION OF "UNNECESSARY AND IRKSOME CONTROLS" ALREADY UNDERWAY. URGENT ACTION BEING TAKEN TO RELIEVE CRITICAL SHORTAGES TO AVOID LAY-OFFS AND SHUT-DOWNS.

3. PUBLIC SECTOR. DISCUSSIONS TO BE HELD ON IMPROVING WORKING OF PUBLIC SECTOR. THERE MUST BE ADEQUATE RETURN ON RS. 2,000 CRORES INVESTED. PUBLIC SECTOR EXPANDING AND HAS LEADING ROLE IN DEVELOPMENT - PERFORMANCE MUST IMPROVE. GOVERNMENT MUST ALSO USE SKILL, DRIVE AND INITIATIVE OF SMALL-SCALE ENTREPRENEURS.

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-2-3438, June 13, from: New Delhi

PAGE 3 RUDSND 745 UNCLAS

4. PRICES. LITTLE JUSTIFICATION FOR PRICES OF NON-IMPORTED ITEMS TO RISE. GOI WILL DEAL FIRMLY WITH PROFITEERS. ASSURANCES FROM RESPONSIBLE MANUFACTURERS HAVE BEEN RECEIVED. GOI ENSURING REASONABLE RATES FOR FOOD, VEGETABLES OILS AND KEROSENE. OPENING OF CONSUMER STORES AND FAIR TRADE SHOPS TO BE STEPPED UP. CONTROL ROOM TO BE ESTABLISHED TO IDENTIFY PRICE RISES AND SCARCITY CONDITIONS THROUGHOUT COUNTRY.

5. ECONOMIC PROSPECTS. RAPID RISE IN PRODUCTION AND EXPORTS PLUS MORE AID, CAN BRING INDIA TO STAGE OF SELF-GENERATING GROWTH IN 10 YEARS. MUST AIM TO TRIPLE FOREIGN EXCHANGE EARNINGS. EXPORT BASE MUST BE WIDENED AND IMPORT SUBSTITUTES DEVELOPED TO IMPROVE BALANCE OF TRADE.

6. AGRICULTURE. WITH THE ONSET OF THE RAINS, AGRICULTURAL OPERATIONS WILL BE IN FULL SWING. SEED, CREDIT, BULLOCKS, FERTILIZER AND PESTICIDES MUST BE PROVIDED TO EACH FARMER. AGRICULTURE IS FOUNDATION OF ECONOMY. THIS YEAR'S SCARCITY MUST NOT IMPAIR NEXT YEAR'S CROP.

7. FOURTH PLAN. PLANNING MUST BE METICULOUS; IMPLEMENTATIONS QUICK AND EFFICIENT. TRIBAL PEOPLES, HARIJANS, LANDLESS AND

PAGE 4 RUDSND 745 UNCLAS

OTHER WEAK SECTIONS OF COMMUNITY MUST HAVE NEW DEAL. POVERTY WILL BE DEFEATED BY UNITED AND CONSTRUCTIVE ACTION OF INDIVIDUALS, PRIVATE AGENCIES, ORGANIZED GROUPS AND GOVERNMENT.

8. DIVISION OF PUNJAB. UNANIMOUS RECOMMENDATIONS OF COMMISSION ON REORGANIZATION OF PUNJAB WERE ACCEPTED.

DECISION TO MAKE CHANDIGARH UNION TERRITORY AND CAPITAL OF BOTH HARIANA AND PUNJABI SUBA BOTH NECESSARY AND WORKABLE. GOODWILL NEEDED ON BOTH SIDES.

9. FULL TEXT BEING POUCHED

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Info

FM AMEMBASSY [NEW DELHI]
TO RUEHC/SECSTATE WASHDC [3455]

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INFO RUMJGM/AMEMBASSY COLOMBO 148 1966 JUN 14 PM 12 16

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RUSBHT/AMEMBASSY KATHMANDU 337

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RUQVGM/AMBEMBOFFICE RAWALPINDI 334

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DEVALUATION AFTERMATH

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1. DURING PAST SEVERAL DAYS, INTIAL FURORE OVER DEVALUATION HAS SUBSIDED FURTHER, WITH FEAR OF INFLATION EMERGING AS MOST PERSISTENT AND PREVALENT NATIONAL CONCERN. THIS CONCERN IS SHARED ALIKE BY SIMPLEST VILLAGERS, SOME OF WHOM REPORTEDLY THINK PAPER CURRENCY HAS BEEN DEBASED IN TERMS OF INDIA COINS, AND BY SOPHISTICATED BUSINESSMEN AND POLITICO-ECONOMIC COMMENTATORS, WHO RECOGNIZE THAT EFFICACY OF BITTER

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DEVALUATION PILL HINGES TO GREAT DEGREE ON CONTAINMENT OF INFLATION.

2. THERE IS, TO BE SURE, CONTINUED SNIPING REGARDING TIMING AND MANNER OF ANNOUNCEMENT. COMPLAINTS ARE ALSO DRIBBLING IN TO GOI FROM COMMERCIAL ELEMENTS WHO STAND TO INCUR SOME DEGREE CURRENT LOSS FROM APPLICATION ONE OR ANOTHER ASPECT DEVALUATION AND ACCOMPANYING MEASURES. OPPOSITION PARTIES BOTH LEFT AND RIGHT ALSO CONTINUE INVEIGH AGAINST MOVE, THREATENING ORGANIZED AGITATION, CENSURE MOTIONS WHEN PARLIAMENT CONVENES, ETC. THESE ELEMENTS, PARTICULARLY LEFTISTS, SEIZED UPON WRITTEN STATEMENT BY MIN FINANCE CHAUDHURI TO CONGRESS PARLIAMENTARY PARTY MEETING (RETEL, PARA 7 THAT QTE ACTION (RE DEVALUATION) COULD NOT BE POSTPONED AS ALL FURTHER AID NEGOTIATIONS HINGED ON IT UNQTE AS ADMISSION DEVALUATION

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-2- 3455, JUNE 14, FROM NEW DELHI
SOLELY RESPONSE TO PRESSURE FROM AID DONORS.

3. WHILE RESPONDING OCCASIONALLY AND IN RELATIVELY MODERATE TERMS TO SUCH SECONDARY REACTIONS, GOI SPOKESMEN HAVE CHOSEN TO CONCENTRATE MAIN ATTENTION ON INFLATION THREAT. THIS SUBJECT FEATURED MOST PROMINENTLY IN PRIMIN'S JUNE 12 RADIO

BROADCAST (EMBTTEL 3428), IN MIN FOOD AGR SUBRAMANIAM'S JUNE 10 STATEMENTS TO NEWSMEN IN HYDERABAD, AND IN MIN FINANCE CHAUDHURI'S JUNE 13 REMARKS AT NA INFORMAL MEETING OF CONGRESS PARLIAMENTARY PARTY FROM THESE STATEMENTS, IT APPEARS FOLLOWING MAJOR STEPS TAKEN OR PLANNED IN ADDITION TO THOSE MENTIONED REFTTEL PARA 11:

A. SUBRAMANIAM ANNOUNCED FOURTH PLAN COOP-STORE PROGRAM WOULD BE ACCOMPLISHED ENTIRELY THIS YEAR, INVOLVING ESTABLISHMENT 100 WHOLESALE CONSUMER STORES, 100 RETAIL CONSUMER COOPERATIVES, AND UP TO 50 GOVERNMENT DEPARTMENT STORES IN URBAN AREAS. (MIN FOOD AGR SOURCE CONFIRMED TO EMBOFF WORK ACTUALLY UNDERWAY THIS PROJECT.) SUBRAMANIAM ALSO QUOTED BY NEWSMEN AS THREATENING CONSUMER GOODS LEVY, IF NECESSARY, APPLYING TO SUCH ITEMS AS SOAP AND COSMETICS, WHICH HAVE BECOME SCARCE SINCE DEVALUATION.

4. B. ALL THREE SPOKESMEN FORECAST CONTROLS AND PUNITIVE ACTIONS, AS NECESSARY, UNDER ESSENTIAL COMMODITIES ACT OF 1955, RATHER THAN DIR, AS INITIALLY SUGGESTED REFTTEL PARA 11. ONE PRESS REPORT, AS YET UNCONFIRMED, STATES THAT CENTRAL GOVERNMENT HAS ALREADY DELEGATED POWERS TO STATES TO TAKE ACTION UNDER 1955 ACT.

C. CHAUDHURI QUOTED AS SAYING THAT THREE-MAN CABINET SUB-COMMITTEE, ALONG WITH STAFF ASSISTANTS, MEETING DAILY IN QTE CONTROL-ROOM UNQTE TYPE OPERATION TO SCAN REPORTS ON PRICE MOVEMENTS AND CHART ANTI-INFLATION MEASURES.

D. CHAUDHURI ALSO ANNOUNCED PENDING APPOINTMENT OF QTE COMMISSIONER OF CIVIL SUPPLIES UNQTE AT CENTER TO COORDINATE AND SUPERVISE MEASURES FOR ENSURING SUPPLY ESSENTIAL COMMODITIES AT FAIR PRICES.

4. WHILE GENERALIZED INFLATION FEARS STILL BEING FED BY STORIES SHARP PRICE RISES AND SCARCITIES, ONLY INDEX AVAILABLE COVERING PERIOD SINCE INFLATION (WHOLESALE PRICE INDEX OF BOMBAY

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-3- 3455, JUNE 14, FROM NEW DELHI

NEWSPAPER, ECONOMIC TIMES) SHOWS MARGINAL RISE OF LESS THAN NINE-TENTHS OF ONE PERCENT IN WEEK ENDING JUNE 11. GOLD BULLION PRICES BOTH DELHI AND BOMBAY WERE STILL ON JUNE 10 STILL SOME 12 TO 14 PERCENT ABOVE PRE-DEVALUATION LEVELS, THOUGH FAR BELOW SHARP INCREASES REGISTERED ON FIRST TWO DAYS, APPARENTLY REFLECTING PERSISTING RUMORS OF QTE DEMONETIZATION UNQTE (EXCHANGE OF HIGH-DENOMINATION CURRENCY) WHICH IS CAUSING HOLDERS OF QTE BLACK MONEY UNQTE NO BID UP PRICE OF GOLD. STOCK MARKETS, ESPECIALLY IN BOMBAY HAVE REACTED RATHER EBULLIENTLY IN WAKE DEVALUATION, ALTHOUGH IT NOT RPT NOT CLEAR WHETHER INCREASED TRADING REPRESENTS GRUDGING FAITH EFFICACY DEVALUATION OR HEDGING AGAINST INFLATION.

5. GOI CLEARLY TAKING INFLATION THREAT SERIOUSLY, BUT IT TO EARLY TO JUDGE WHETHER ABOVE-MENTIONED ACTIONS AND PROPOSALS WILL BE EFFECTIVE. PUBLIC STATEMENTS DO NOT RPT NOT YET SEEM TO HAVE QUIETED WIDESPREAD FEARS THIS SCORE, ALTHOUGH REITERATION OF PRINCIPLE THAT THERE NO RPT NO REASON FOR PRICE RISE DOMESTIC GOODS MAY HAVE STIFFENED CONSUMER RESISTANCE AND FORESTALLED PANIC BUYING, OF WHICH THERE SCARCELY ANY EVIDENCE SO FAR. IT ALSO FAR TOO EARLY TO TELL WHETHER FISCAL MANAGEMENT, WHICH MORE CRUCIAL IN CONTAINING INFLATION THAT PRICE CONTROL MEASURES, WILL BE ADEQUATE (PRIMIN HAS SAID SHE WILL SOON ADDRESS STATE CHIEF MINISTERS ON NEED FOR FINANCIAL DISCIPLINE).

6. FAIRLY THOUGHTFUL EDITORIAL JUNE 14 STATESMAN PERCEIVES POTANTIA PROBLEM OF COURTING DISILLUSIONMENT THROUGH STRONG GOVT REASSURANCES THAT PRICES OF ESSENTIALS WILL NOT RISE WHEN, BOTH BECAUSE OF SIDE EFFECTS DEVALUATION AND CONTINUING INFLATIONARY TREND RECENT YEARS, SOME RISES PROBABLY INEVITABLE. WE AGREE, BUT FEEL GOI WILL HAVE GONE LONG WAY TOWARD OVERCOMING OBJECTIONS TO DEVALUATION AND PRESERVING ADVANTAGES THEREOF IF IT CAN RESTORE INDUSTRIAL ACTIVITY AND SURVIVE COMING PERIOD WORST FOOD SCARCITY WITHOUT UNDUE RISE PRICE LEVEL CONSUMER GOODS. BOWLES

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JUN 14 10 46 PM '66

ACTION: AMEMBASSY NEW DELHI PRIORITY (2477)
 INFO: AMEMBASSY RAWALPINDI PRIORITY 655
 AMEMBASSY OFFICE KARACHI PRIORITY 1817

EXDIS

1. The President has approved the following US position regarding aid to India:

(a) We accept the requirement of \$900 mil non-project aid as calculated by the World Bank; (U.S. \$100 mil commodity loan announced by VP in Febr. is counted toward this total);

(b) we are prepared to negotiate an immediate non-project loan in the amount of \$150 mil;

(c) we are prepared to make further non-project loans to India after Congressional action in order to meet share in financing India's non-project aid requirements for the year, and ~~when~~ we now contemplate an additional loan in the amount of \$130 mil. This latter loan would be subject to Congressional action. We now contemplate that this would complete our contribution bringing U.S. total to \$380 mil or 42 percent, which U.S. share recent years total pledges.

2. As a fall back position, the President has further authorized us to increase the contingent portion of our contribution to be provided after Congressional action, by an amount up to \$55 mil which could be financed by AID,

Drafted by:

NEA/SQA:DTSchneider:thp

Telegraphic transmission and
classification approved by:

NEA - William J. Handley

Clearances:

AA/NESA:WBMcomber, Jr. (draft)

White House Mr. Wiggins
 S/S - 0 Mr. Holland

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 E.O. 12958, Sec. 3.6

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By isb, NARA Date 2-18-09

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or by a combination of AID and Export-Import Bank resources. This total package assumes India sustains economic liberalization, avoids arms race and ~~xxxx~~ pursues peace on sub continent.

3. Subsequently, Macomber conveyed to Woods points (a), (b) and (c), further qualifying (c) as subject to appropriate burden sharing by other donors. Woods indicated he did not expect have word from British regarding their contribution until June 15. By that date Woods estimates contributions of US, UK, Canada (which he now contacting) and Bank will total somewhat over \$700~~0~~ mil. He plans to convey this figure to Indians June 15 noting US conditions of Congressional action and appropriate burden sharing.

4. ~~Woods~~^{Wood's} position as we understand it is that if Indians require immediate response to their query regarding resources to support reforms, figure of \$700~~0~~ mil is best Bank can do at this time. Additional contributions will take more time.

5. Principal problem Bank has encountered so far in rounding up contributions has been with Germans. Woods has informed us in confidence that in response to his latest query German Minister of State Westrick (please protect both sources) has replied as follows:

"We are, as I explained to your collaborators, in very hard budgetary discussions. It seems to me impossible to come to a final

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decision ~~regarding~~ the aid for India within short time. I hope that we will continue in principle to support the Indian economic development but we cannot give assurances at the present time."

6. Bank as yet has no report from Japanese who next most significant contributor. Bank meeting June 7 asked early report from all including smaller donors but no reports yet in.

7. In our view ~~while~~ ^{while} ~~about~~ \$700 mil figure is far from what we or Indians had hoped for, there is reasonable prospect for reaching goal of \$900 mil given time. For example, if, on top of \$700 mil from Bank US Canada and US, others only match their last year non-project pledge the total would be over \$810 mil. Obviously ~~we~~ look for increased non-project contributions from others, particularly Germany, Japan and Italy. Principal problem, of course, is the Germans and it is up to Indians, at least in the first instance, to press the Germans for early adequate contribution. We ~~are~~ making this point to Indians here. Japanese are also rather unknown factor since Bank has not yet made serious individual effort with them.

8. Above information is FYI for the present. White House has authorized us to convey points (a), (b) and (c) to Indians, but we believe we should defer this until after Bank has given its overall response. We will notify you by IMMEDIATE telegram when this has been done.

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By is, NARA Date 9-11-97

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18-1
ISA/DOD
(Hoopes-Stoddart)
3 June 1966

The Problem of US Military Assistance to India and Pakistan

I. Perspective.

If there is to be significant future military assistance to either India or Pakistan, and if it is to be coherent, it must fit within an agreed context of US political and economic policy. In particular, it should be derived from the character and dimension of the economic aid bargain we are able to strike with one or both countries, for it is only in the potential of our economic aid that we may possess the necessary leverage to restrain military spending, impose limits on force levels, and induce a broad Indo-Pak accommodation. In present and foreseeable circumstances, adequate leverage is not obtainable from US military aid to either country. Military assistance to the subcontinent must accordingly be treated as a subordinate element of US policy.

As a result of recent conversations in Washington with Shoaib and Mehta, both Pakistan and India have made progress toward meeting the conditions required by the US and the World Bank to effect restoration of economic aid. It is well to remember that these conditions are different in each case. As to India, they relate almost exclusively to economic reform, as we have no fundamental differences with India's foreign policy. As to Pakistan, they are primarily political, reflecting our concern at the uncertainty of Pakistan's basic foreign policy orientation.

Because we are determined not to fuel an arms race in the subcontinent and wish to see both countries avoid a waste of limited resources which would drain away the hopes of effective economic development, we are also working to put a ceiling on the total military expenditures of each country (including the foreign exchange component). Specifically, we aim to impose a reasonable arms limit as a condition of economic aid--a limit which takes account of both economic strength and genuine defense requirements.

II. Political Situation in the Subcontinent.

The Tashkent meeting in January produced encouraging agreement on withdrawal of forces back within national boundaries, a foreswearing

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of force in future dealings between the two countries, and a continuing political dialogue on outstanding differences. The withdrawal was effected smoothly and a meeting of Ministers was held in early March to begin the process of political reconciliation. But this did not go well; Pakistan refused to discuss lesser questions until Kashmir was formally addressed, and the Indians demurred on Kashmir. As a result, India charged Pakistan with a serious breach of the "Spirit of Tashkent" and the usefulness of future meetings was placed in doubt.

Since March, events have unfolded slowly and there has been as yet no restoration of significant US economic or military aid. The result is an inconclusiveness that is causing frustration in both countries. The complexity of the issues, the limited maneuverability of both governments, the underlying tension and hostility, and US insistence on the assurances necessary, in our judgment, to prevent a recurrence of the September war have all contributed to this situation. Frustration is far more acute in Pakistan which continues embittered by the loss of US military assistance and possessed by a paranoid fear of Indian aggression, but which at the same time cannot moderate the intensity of its claims to Kashmir. Bhutto continues to proclaim that Pakistan and Kashmir are "indissolubly linked", and our intelligence now indicates that, by a decision at the highest levels, the Paks are preparing to provoke another "carefully limited" crisis in Kashmir as a means of getting the issue once more before the UN. India, as the territorially satisfied power and the continuing recipient of substantial military equipment from the USSR, is displaying greater moderation and steadiness, but is unyielding on the Kashmir question.

In sum, the political situation on the subcontinent is tense and uncertain, with both sides aware that many hopes raised at Tashkent have evaporated.

III. Military Aspects.

1. Pakistan.

At present it is clear that Ayub's first preoccupation is military security against India; and there is no doubt that, under pressure from the armed forces which are central to the Pak power structure, he is putting defense ahead of development and is determined to rebuild his military establishment from whatever sources are open to him and to whatever level appears necessary to appease the military leaders. Pakistan is rearming, not merely to make good its combat losses, but

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in an apparent effort to regain the more favorable ratio of forces (3 to 1) that existed before 1962. Four new infantry divisions are being created, which will raise the total to 12. The Air Force is being reconstituted with MIG-19s from China and spare parts for F-86s from a variety of Western sources. Three French submarines have been purchased for early delivery. crazy

From a pre-crisis military budget of less than \$300 million per year (including about \$75 million in foreign exchange, of which \$40 million was MAP grant), the Paks are now spending an estimated \$525 million per year (including about \$147 million in foreign exchange). The earlier level amounted to about 3% of GNP; the current level exceeds 5%.

A Pak aide-memoire of 17 May, which represents the formal response to the US proposals set forth in the recent Bell-Shoaib talks, said in part that "we would be failing in our duty to the country if we did not produce a reasonable deterrent, especially in the light of India's ruinous military buildup. Broadly, any ratio which gives India more than twice the Pakistan forces would not give Pakistan an assurance of security". The aide-memoire added however that, since such a level of effort is beyond the country's resources, Pakistan intends to hold military spending to \$450 million for 1967 (including a foreign exchange component of \$105 million) on the assumption that India will "exercise a similar restraint". The aide-memoire asserted that India's military expenditures are now \$2.6 billion per year.

2. India.

India appears to be creating two and perhaps three new Army divisions (to a total of 24) and steady improvement and modernization have continued since the war last fall. According to the World Bank, the military budget has risen slightly as a result of inflation and pay increases, etc., to a level of about \$1.9 billion. There is some ambiguity and evasiveness about the Indian foreign exchange component. According to official Indian figures, India is holding within the roughly \$300 million per year established in the US-Indian 1964 Memorandum of Understanding on military aid, but Soviet equipment is being calculated on a payments rather than a delivery basis, which understates the value of Soviet equipment actually received. AID estimates that the foreign exchange component would approximate \$450 million if this equipment were computed on a delivery basis.

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The Indian Government appears to have confidence in its present level of military strength, and a sober awareness concerning the dangers of excessive military spending. There are no extreme pressures for a **sharp** increase in either force levels or military expenditures at this time. China is regarded as the principal danger. Pakistan is regarded as a manageable problem by itself, yet one which causes grave concern when considered in combination with China.

3. Force Level and Expenditure Ratios.

In 1962 the Indo-Pak ratio of forces was about 3 to 1 (550,000 vs. 179,000 men) and the ratio of expenditures was 4.8 to 1 (\$1.03 billion vs. \$216 million). Following the ChiCom attack, India substantially enlarged and strengthened its forces, while Pakistan remained at the 1962 level. By 1965 this brought the ratio of forces to 4.9 to 1 (925,000 vs. 189,000 men) and the ratio of expenditures to about 6 to 1 (\$1.8 billion vs. \$295 million). Since the September war, the Pak rearmament effort has again shifted the force level ratio to about 4.4 to 1 (942,000 vs. 212,000 men) and the FY 66 expenditure ratio about 4 to 1 (\$1.9 billion vs. \$525 million). Tabs A and B present historical summaries of these two ratios as between India and Pakistan.

continues? It is probable that Ayub, Shoaib and other responsible Paks seriously desire a reasonable limit on defense spending, for a protracted arms race with an inherently larger and stronger India would ruin Pakistan's hopes of economic progress. On the other hand, the armed forces may be forcing Ayub into a contradictory position. Humiliated by their lack of success in the September war and determined to diversify their supply base, the military leaders are urging **that** Pak forces be built back to at least the 3 to 1 ratio prevailing in 1962. It is not clear, however, whether they appreciate the quantitative implications of this aim in the context of 1966 levels of effort. For example, if Indian levels were to remain as at present, Pak forces would have to rise **from** 212,000 to over 310,000 men, and military expenditures from \$525 to **\$650** million, in order for Pakistan to "redress the balance". And this **assumes**, of course, that India would not respond to such a development by increasing its own arms effort.

Indian leaders have expressed a willingness to discuss reasonable Indo-Pak ratios of force levels and military expenditures, but only if the significant differences in population and GNP, as well as the Chinese threat along 2500 miles of India's border, are recognized.

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Accordingly, there is no assurance of a downturn in military spending on either side. Indeed, elements of a serious new arms race in the subcontinent are present.

IV. Special Factors.

There are two special factors in the Indo-Pak equation that bear with particular point upon the consideration of future US military aid to the subcontinent. One is the Pak-ChiCom military supply relationship; the other is the sum of cumulative pressures on India to "go nuclear".

1. Pak-ChiCom Military Supply Relationship.

A factor that now seriously complicates consideration of further US military aid to Pakistan is the decision of the Ayub government to accept substantial quantities of modern arms from Communist China. The Paks have been quite candid about the fact of their ChiCom military supply relationship, but singularly evasive as to its details. Relations between the MAAG and the Pak armed forces have become attenuated, access to Pak bases has been denied, and a joint Embassy/MAAG assessment is that Pakistan will not in future permit the end-use inspection of any US equipment provided under a grant or sales program, including equipment already on hand. US intelligence indicates that up to 200 Chinese tanks and 45 MIG-19s, as well as substantial quantities of artillery and small arms have been delivered, that more equipment is coming, and that China has also offered a comprehensive arms arrangement including defense production facilities (e.g., a tank factory).

For the sake of achieving some kind of economic aid bargain in the talks with Shoaib, efforts were made to avoid imposing unpalatable US conditions. We did however seek agreement on a military expenditure ceiling. But while indicating our serious concern at the implications of the Pak-ChiCom supply relationship, we did not make alteration of that relationship a condition of economic aid. The State Department judgments underlying this position were that Pakistan will not rollback its relations with China for the sake of economic aid, and that a continuing Pak-ChiCom military supply relationship is not incompatible with US economic aid to Pakistan.

ISA believes the second judgment is open to question, for one cannot be confident that it would hold in all foreseeable circumstances. If, for example, Pakistan should allow China to become its sole or pre-dominant military supplier and thereby either (1) use the Pak-ChiCom

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relationship to pressure or threaten India on Kashmir, or (2) be used as an instrument of ChiCom policy against US interests, continuation of US economic aid to Pakistan might quickly become infeasible in terms of US domestic politics.

The Pak-ChiCom military supply relationship appears as a much more formidable obstacle to the restoration of any significant US military assistance to Pakistan. Indeed it seems to reinforce a number of fundamental barriers whose full dimensions have become apparent only within the past year. Beginning in 1954, we provided Pakistan with military assistance on the assumption that its forces would join with us in resisting Soviet attack from the north (and possibly Chinese attack from the east). We did not fully appreciate at the time that Pakistan's object in acquiring arms was primarily to protect itself against India and to gain leverage for its claims to Kashmir. It is doubtful whether US opinion would have supported military aid to Pakistan for those purposes, but for many years the reality of the Soviet military threat and the non-alignment of India served to blur the issue; moreover, the MAP program did contribute to Pakistan's internal stability, its adherence to CENTO and SEATO, and its willingness to accept US special facilities.

But now that the overt Soviet threat to the subcontinent has receded, it is no longer possible to disguise the primary purpose of Pak armament, nor to justify it in terms of the Soviet threat; and the secondary purposes served by the MAP program do not by themselves constitute a convincing rationale. Thus any significant US military assistance to Pakistan would be seen by all parties--Pakistan, India, the US Congress and other nations--as primarily the US support of Pakistan against India. Moreover, unless we could assure that a US military aid program would wholly displace the ChiCom supply, we would be placed in the public position of sharing with China the rearmament of Pakistan against India--a position that would flatly contradict our basic stance in Asia vis-a-vis China. It seems quite unrealistic to believe that even **a large-scale** US military aid program could completely turn off the flow of ChiCom equipment, for Pakistan is determined to diversify its sources of military supply and thus to gain freedom from dependence on any one country.

In the situation now facing us, there is grave danger that Chinese influence will grow in Pakistan to the detriment of Indian, US and ultimately of Pak interests. But we cannot surmount this danger by engaging in an arms competition in Pakistan. It is probably too late to eliminate the

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Chinese supply position and, as indicated, the attempt would run hard against the grain of broader US interests in Asia. Substantial US military aid to Pakistan would, for example, imply major mutual US-Pak interests when in fact they have proved to be tenuous; it would basically confuse our stance in Asia; and it would do grave damage to the prospect of a promising US relationship with India--a nation of far greater intrinsic weight and consequence, the world's largest functioning democracy, and a government and people with whom we may reasonably hope to develop a common view of basic security problems in Asia.

These considerations strongly suggest that significant US military assistance to Pakistan would not be a policy in the national interest for the foreseeable future, nor tenable in terms of our domestic politics.

2. The Pressures on India to "Go Nuclear".

The third Chinese nuclear explosion has sharply increased pressures on the Indian Government to move into a nuclear weapons program. Ambassador Bowles believes that if no adequate alternatives become available, the Indian Government will be unable to withstand public, press and parliamentary pressures for more than two or three years--if that long. His views are shared by Albert Wohlstetter who visited India in mid-April. Wohlstetter concluded, on the basis of talks with a wide range of leading Indian public and private officials, that India would (in the absence of adequate alternatives) initiate a nuclear weapons program after the ChiComs successfully test a missile delivery system capable of reaching Indian territory. The Chinese are expected to have operational MRBMs in the 1967-68 time frame. He also found in India an "abysmal ignorance" of the actual costs involved in developing even a small nuclear force, and he recommended a concerted and continuing educational effort on our part to make the Indians aware of the enormous cost of an operational nuclear defense system.

Mrs. Gandhi's "no-bomb" policy will probably endure the current round of debates in and outside the Indian Parliament. While numerous parliamentarians oppose the policy, no important leader, such as Defense Minister Chavan, has given any signs of defecting; but the pressures are heavy and continuing. On 11 May, Mrs. Gandhi faced an almost unanimous sentiment in favor of the bomb at a meeting of the executive committee of the Congress Party, and yielded to the extent of declaring that "The defense of our territorial integrity will be the paramount consideration".

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Ambassador Bowles believes that we must go forward on one or more of the following possible courses if we are to have any serious chance of averting an Indian decision to build nuclear weapons:

- offer to India a unilateral US guarantee against nuclear blackmail or attack (this confronts the dual difficulty of India's policy of non-alignment and the present uncertainty as to whether the US is prepared to extend a unilateral guarantee).
- encourage India to participate in a worldwide nuclear agreement, under US and Soviet sponsorship, which would (a) incorporate the principle of self-denial by the non-nuclear powers and (b) extend to them the protection of the US, Soviet and UK nuclear shields (the problem with this alternative is the marginal prospect of getting Soviet agreement).
- expand present US-Indian joint efforts to improve Indian detection of ChiCom nuclear and missile capabilities. Implicit in this proposal is a wider and deeper exchange of views between GOI and US scientific and military personnel (an interchange of this kind would give us the opportunity to acquaint the Indian leadership with the complexities and costs of a meaningful nuclear weapons program, but this is obviously an inadequate course of action standing alone).
- assist India to increase its conventional air defense capabilities as a means of improving deterrence against manned bomber attack (carrying conventional or nuclear weapons); at the same time, reaffirm or extend the 1963 US-India agreement to consult on the air defense of India against China. (this might buy valuable time for the further consideration of more basic alternatives--e.g., a nuclear guarantee, or an Indian nuclear weapons program--but there would be severe repercussions in Pakistan).

The NSC is to consider all aspects of the Indian nuclear dilemma on June 9. Discussion here is accordingly confined to the major implications of the last alternative above, as only this course of action would directly affect US military assistance policy in the subcontinent.

The depth of subcontinental mistrust and the complexity of existing political alignments appear to permit of no painless US approach to India's nuclear dilemma, for even measures which are no more than intermediate palliatives, in the strategic nuclear context, would seem to force far-reaching choices upon the USG. If the choices are to be made with the deliberateness and awareness that the transcendent nature of the

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issues demand, we must be as clear as possible on several questions: (a) What are the chances that increased military assistance directed to air defense would produce the US-desired result in India? (b) What is the relative importance of non-proliferation in the scale of US priorities? and (c) What are the real prospects for US-Pak relations even if we do not pursue a military assistance policy that discriminates in favor of India?

The pros and cons of a military assistance policy designed to pre-empt an Indian nuclear decision are examined in more detail in Section V 4 hereof.

V. Alternative US Military Assistance Policies.

There follows a brief analysis of pros and cons of plausible alternative US military assistance policies for India and Pakistan.

1. Continued Non-lethal Cash and Credit Sales to Both Countries.

Assuming we reach an economic aid bargain with each country (including US-Pak and US-Indian agreements on military budget ceilings), we would put our main reliance on economic aid. On military aid we would hold to the present policy, with perhaps a more liberal definition of "non-lethal" and a concerted effort to expedite deliveries.

Without trying to impose specific limits on the character or dimension of the Pak-ChiCom military supply relationship, we would strongly urge the Paks not to become dependent on China, and would use our economic aid leverage to move them toward non-Chinese, non-US sources (Europe, Commonwealth, Japan, Iran) for the purchase of military equipment; this would involve confidential assurances to certain countries that we would look with favor on their supplying reasonable amounts of equipment, including items of US origin.

The Indian reaction would be generally favorable. **This** policy would give them continued access to US defense production **support** and other non-lethal items needed to complement their continued **flow of** lethal military hardware from the USSR and the UK; and it would **enable the** GOI to avoid the sharp, disruptive reaction of Indian public opinion **to a US** policy that involved the direct shipment of US lethal items to **Pakistan.**

Such a policy could not expect to restore close relations with the Pak political and military leadership; on the military side in particular,

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a slow erosion would probably continue, resulting in a possible elimination of the MAAG at some point. On the whole, however, such a policy, grounded in economic aid and accurately reflecting the limited common purposes of the two countries, should permit correct and reasonably cordial US-Pak relations; it should also assure the uninterrupted use of Peshawar for at least several years.

? | The US would also benefit by avoiding the untenable role of arms supplier to both sides in a situation still characterized by tension, hostility and the absence of political settlement. A disadvantage of this policy is that it could seriously inhibit US efforts to prevent or delay an Indian decision to go nuclear, if we were to conclude that significant military assistance was an important inducement in the achievement of that US objective.

2. Cash and Credit Sales of Lethal Spares and Defensive Items to Both Countries.

Assuming economic aid agreements (including agreed military expenditure ceilings), we could consider extending the present military assistance policy to include lethal spares and selected "defensive" items to both sides. The first question to consider is what we would expect to gain by going lethal, for by hypothesis we would already have an agreement on a military ceiling as a condition of economic aid.

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? | With respect to Pakistan, the purpose of providing lethal items would be to moderate, curtail or terminate the Pak-ChiCom military relationship. The provision of lethal spares would give Ayub welcome relief from the high cost of restoring the combat readiness of his major US equipment; but there is widespread agreement in the USG (fully shared by our Embassy in Rawalpindi) that a policy of lethal spares, either alone or combined with reasonable quantities of "defensive" items, would have little or no effect on the present Pak-ChiCom arrangement. Our Embassy reports that a US military assistance program, in order to exercise any significant influence on Pak policy, must provide for modernization, augmentation, unhampered utilization, and guaranteed supply. A modest program of lethal spares could not meet the first two stipulations, and our basic uncertainty regarding the direction of Pak policy precludes our meeting the latter two desires. We therefore cannot expect to rollback, nor probably even to influence, the Pak-ChiCom arrangement with a policy of small-scale lethal military aid.

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At the same time such a policy would have a sharp, negative effect in India. Ambassador Bowles has repeatedly expressed the conviction "that the one thing the framework of Indo-American relations could not support now is resumption of supply of US lethal equipment, including spare parts, to Pakistan". He argues that such a move would throw away all of the confidence and understanding gained by Mrs. Gandhi's visit to Washington, because it would strengthen the hand of the radical left (Krishna Menon and Co.) which insists that United States policy cannot be trusted to support Indian basic interests. The several US Consuls posted throughout India have reaffirmed this "hard political fact"; they believe the adverse consequences would be great and lasting, not temporary or easily surmounted. Moreover, the military benefits of such a policy for India would be marginal.

To the US Congress and to world opinion generally, renewed deliveries of lethal equipment would represent a US return to the policy of arming both countries before there had been any definitive political reconciliation. Also, the US would unavoidably appear to be sharing with Communist China the rearmament of Pakistan against India.

3. Renewed Military Assistance to One Country, But Not the Other.

This alternative could apply equally to a policy of non-lethal items, lethal spares, or large-scale military assistance of a generally unrestricted character. It is an alternative which focuses on the possibility that, under certain foreseeable circumstances, US interests in the subcontinent can be served only by accepting the necessity of choosing between India and Pakistan.

We attach great importance to damping down a new arms race in the subcontinent. If one or the other country cannot agree to the military limitations proposed by the US or World Bank as a condition of economic aid, we should accordingly provide neither economic nor military aid to that country, but should proceed with the complying country. Such a stand would undoubtedly lead to some undesirable consequences, including a breakup of the affected financial consortium, the elevation of irrational or anti-American elements in the society concerned, and the serious attenuation of US influence. Nevertheless, if our refusal to fuel another arms race or to be pulled back into the untenable position of last September is to have meaning, we must stand firm on conditions that we regard as essential for stability and for our own interest and integrity. There must in other words, be definite limits to the extent of US willingness to save nations and governments from their own irrationalities.

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At the same time, we have a major strategic stake in the subcontinent and cannot allow the pursuit of our interests there to be determined by the intransigence of one party. Accordingly, an Indo-Pak reconciliation should not be regarded as the sine qua non of a positive US economic or military aid program to one or the other country. A genuine reconciliation may in fact be an unattainable goal in foreseeable circumstances; and by insisting on it as a criterion of future aid, we may be denying ourselves nonrecurring opportunities in matters of vital interest to US security--e.g., nuclear proliferation. While their destinies are clearly related, India and Pakistan are not siamese twins. We would therefore be wiser to accept the necessity for some degree of choice between them in the US interest, than to hold rigidly to the view that the subcontinent can only be treated as a strategic unity in all foreseeable circumstances.

4. Military Assistance to Pre-empt an Indian Nuclear Weapons Program.

This alternative represents a special application of the view (expressed in 3. above) that US interests may require a discriminatory US military aid policy as between India and Pakistan. As discussed earlier, Ambassador Bowles believes it may be possible to forestall an Indian decision to go nuclear by providing substantial assistance to the development of India's air defenses against manned bomber attacks.

If non-proliferation is in fact a fundamental, near-overriding objective of US foreign policy, if the pressures on India to go nuclear are heavy and cumulative, but if we still confront major obstacles to a unilateral or multilateral nuclear guarantee, a strong case can be made for this kind of intermediate measures proposed by the Ambassador. The Chinese threat to India is a land and air threat; and in the near-term, the air threat takes the form of limited attacks by manned bombers carrying probably conventional, but possibly nuclear, weapons. A US offer to build up India's air defense capability by the grant or sale of improved early warning and communications systems, more sophisticated interceptor aircraft, and an accelerated training program might strengthen Mrs. Gandhi's "no-bomb" policy at least to the point of buying 3-5 years for the further consideration of basic alternatives--i.e., nuclear guarantee or an Indian nuclear weapons program. Such an offer would be significantly reinforced by a reaffirmation or extension of the 1963 US-India agreement to consult on the air defense of India.

Alone or in combination, these measures would involve something less than a unilateral US nuclear guarantee; thus they would neither affront

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the continuing Indian concern for formal "non-alignment," nor force a premature conclusion to the debate in the USG with respect to the wisdom of further nuclear guarantees. An offer of additional air defense equipment would however involve a fairly large-scale military assistance program of lethal items; and an offer of further consultation on air defense would add some imprecisely measurable increment to existing US commitments.

To Indian air defense the Soviets have contributed MIG-21s and two SAM complexes covering Delhi and Calcutta. We were about 80% along on an early warning system and tropo-scatter communications net (Star Sapphire) when US aid was suspended last fall. The Indians are anxious to complete these facilities and otherwise to strengthen their air defense. But if additional aid were to have any influence on the Indian nuclear decision, the US package would have to include high performance aircraft (at least F-5s or F-104s, and perhaps F-4s). The monetary cost of an air defense package large enough to postpone an Indian nuclear weapons program would thus be relatively high, but we estimate that it need not exceed the parameters of the 1964 Memorandum of Understanding (\$50 million in credit and \$50 million in grant, annually).

It is doubtful however whether a program of "conventional hardware" would stand much chance of gaining the US objective unless it were combined with at least a reaffirmation, and more likely an extension, of the 1963 agreement to consult on air defense. But if made, such a reaffirmation on air defense would offer several advantages. While it would imply a measure of US participation in the air defense of India, the scale and means thereof would remain imprecise; thus it would give India added reassurance, but short of a unilateral nuclear guarantee. Moreover, the reassurance could be reinforced by the periodic staging of joint US-Indian air defense exercises, including the temporary deployment of US carrier-based nuclear-capable aircraft in the Indian Ocean, without further formalizing the undertakings on either side. If this or any similar combination of measures could in fact mitigate the nuclear pressures on the Indian government and thereby purchase a period of 3-5 years for further consideration of the basic issues, it would represent a policy alternative worthy of the most serious consideration.

A US decision along these lines would almost unavoidably involve discrimination against Pakistan in military assistance policy and program, for the considerations supporting it do not in any way alter the considerations against a policy of lethal military assistance to Pakistan. Major air defense assistance to India would accordingly produce a severe Pak reaction--one that might indeed detonate future hopes of good US-Pak relations--and no

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compensatory measures open to the US would be likely to temper the Pak attitude. We could argue cogently that only such US aid to India could forestall an Indian nuclear weapons program, and that such a program would be even more unpalatable to Pakistan; we could offer a more explicit guarantee of Pakistan's territorial integrity against unprovoked attack; we could add our continued hope of working out a multilateral nuclear guarantee arrangement that would spread its protective umbrella over all the non-nuclear powers; and we could offer additional economic aid. These arguments and measures would have undeniable objective strength and validity, but in the near-term we could not expect the Paks to be assuaged by them. We would accordingly have to anticipate a Pak reaction ranging from violent denunciation of the US (which gravely strained relations, but not to the breaking point) to further moves closer to China, including the possibility of a Chinese nuclear guarantee of Pakistan.

The wisdom and feasibility of this military assistance policy need further reflection at the highest levels of the USG. In particular, this alternative needs to be addressed as one among several possible courses of action we might take to prevent or delay an Indian decision to go nuclear.

VI. Conclusions.

1. US military aid to India and Pakistan must be regarded as a subordinate element of US policy and strategy in the subcontinent.
2. Economic aid is the major source of US influence with respect to the political, economic and military policies of both India and Pakistan. Neither the present nor the foreseeable levels of US military aid to either country are likely to provide important or decisive leverage.
3. A program of US economic aid to India can coexist with a program of Soviet military aid to India, because this combination is politically acceptable in the United States.
4. A program of US economic aid to Pakistan may be able to coexist with a program of ChiCom military aid to Pakistan, but only if Pakistan does not allow China to become its dominant military supplier and does not use the ChiCom relationship to pressure or harass India.
5. A policy of lethal spares and selected defensive items holds out the prospect of serious disadvantages for the US, but no clear advantages. Delivery of such items to Pakistan would improve the Pak military capability, but would have no restraining effect on the Pak-ChiCom military

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supply relationship; at the same time, this would seriously impair Indian confidence in US policy and would thus adversely affect an otherwise promising prospect of closer, more cooperative US-Indian relations. Lethal spares and selected defensive items for India would contribute only marginally to Indian military capability.

6. A policy of large-scale US military assistance to Pakistan is neither desirable nor politically feasible.

7. A policy of large-scale US military assistance to India, in the context of a possible Indian decision to "go nuclear," deserves and requires further study.

8. India and Pakistan are not siamese twins. The preservation or advancement of US strategic interests on the subcontinent may require the US to pursue a different economic and military assistance policy with respect to each.

VII. Recommendations.

1. US military assistance policy to both India and Pakistan should continue to be limited to cash and credit sales of non-lethal items.

2. Every effort should be made to use the leverage inherent in US economic aid to achieve a downward trend in Indo-Pak defense spending and to limit the Pak-ChiCom military supply relationship by moving Pakistan toward non-Chinese, non-US arms suppliers.

3. Further study should be made of whether, and if so how, military assistance would contribute to US efforts to pre-empt an Indian nuclear weapons program.

4. If US interests clearly indicate the need for it, the US should be prepared to adopt and pursue discriminatory economic and military assistance programs as between India and Pakistan.

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REF: RAWALPINDI'S 675 TO DEPARTMENT

PAK MILITARY SUPPLY AND US POLICY

1. PINDI'S 675 ON US POLICY RE PAK MILITARY SUPPLY HAS BEEN HELPFUL IN CLEARING THE AIR. THE FOLLOWING OBSERVATIONS IN REGARD TO THE SITUATION IN INDIA MAY BE USEFUL AS A SUPPLEMENT.
2. AFTER INTENSIVE CONSIDERATION OF INNUMERABLE COMPROMISE PLANS PROCEDURES AND DEVICES WE HAD COME TO THE CONCLUSION THAT US RESUMPTION OF SUPPLY OF LETHAL MILITARY EQUIPMENT TO PAKISTAN ON ANY BASIS (GRANT AID, CREDIT OR COMMERCIAL SALES) WOULD CARRY AN

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-2-, 3281, May 31, From New Delhi

UNACCEPTABLY HIGH PRICE TAG IN INDIA. NOT ONLY WOULD RESUMPTION CREATE A VERY SERIOUS ANTI-AMERICAN REACTION ON THE HEELS OF THE SUCCESSFUL JOHNSON-GANDHI VISIT; IT WOULD ALSO FORECLOSE FOR THE FORESEEABLE FUTURE ANY HOPE OF PAK-INDIA RAPPROCHEMENT WITHIN TASHKENT OR ANY OTHER FRAMEWORK.

3. FROM THE US POINT OF VIEW THE SITUATION IN INDIA NOW CONTAINS MANY REASSURING FACTORS. THESE INCLUDE MRS. GANDHI'S PRAGMATIC LEADERSHIP, A GENUINE DESIRE BY MOST GOI OFFICIALS TO EASE RELATIONS WITH PAKISTAN, MAJOR PROGRESS IN REGARD TO FOOD PRODUCTION AND POPULATION CONTROL, AND A MORE REALISTIC APPROACH TO ECONOMIC GROWTH. HOWEVER THERE IS GENUINE CONCERN AT ALL LEVELS WITHIN THE GOVERNMENT, PRESS AND PARLIAMENT OVER THE PAKISTAN-CHINESE THREAT AND PROFOUND UNCERTAINTY ABOUT US INTENTIONS IN THIS REGARD.

4. A US DECISION TO PROVIDE MILITARY EQUIPMENT TO STRENGTHEN PAKISTAN AGAINST INDIA UNDER PRESENT CIRCUMSTANCES WOULD COMPOUND THESE ANXIETIES AND LEAD TO A SERIES OF REACTIONS AND COUNTER-REACTIONS IN INDIA WHICH WOULD GO FAR TO DESTROY THE POSITION WHICH WE HAVE BEEN LABORIOUSLY BUILDING OVER A PERIOD OF YEARS.

5. THIS DOES NOT MEAN THAT THE INDIANS WOULD DELIBERATELY ABANDON THE FRIENDLY, COOPERATIVE RELATIONSHIP WHICH GREW

PAGE THREE RUSBAE 1790 ~~SECRET~~

OUT OF PRESIDENT'S VISIT WITH MRS. GANDHI; INDIA NEEDS US ECONOMIC ASSISTANCE MUCH TOO URGENTLY FOR THAT. HOWEVER THE FOLLOWING REACTIONS WOULD BE SPONTANEOUS AND EACH WOULD FEED ON THE OTHERS:

A. THE COMMUNISTS, THE FELLOW TRAVELLER FACTION IN THE CONGRESS PARTY AND THE INTENSELY NATIONALISTIC HINDU RIGHT WOULD VIGOROUSLY ATTACK INDIA'S NATIONAL POLICIES AS THEY RELATE TO THE US, WITH KRISHNA MENON TYPES EMERGING ONCE AGAIN AS AN IMPORTANT POLITICAL FORCE;

B. MOST MODERATE PRO-AMERICAN INDIANS WOULD BE POLITICALLY SILENCED;

C. TO SAVE HER POLITICAL POSITION MRS. GANDHI WOULD BE FORCED SHARPLY TO ATTACK THE US;

D. RESENTMENT WOULD INCREASE AGAINST FOREIGN PRIVATE INVESTMENT, ESPECIALLY US INVESTMENT; PROGRAM OF IMPORT LIBERALIZATION WHICH OPPOSITION LEADERS INSIDE AND OUTSIDE OF CONGRESS ALREADY ASSERT WAS FORCED UPON ASOKA MEHTA BY WORLD BANK AND U.S. WOULD COME UNDER STILL HEAVIER FIRE;

E. INDIA'S PRESENT FOCUS ON THE CHINESE THREAT WOULD BE SWITCHED TO PAKISTAN;

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-3-, 3281, May 31, From New Delhi

PAGE FOUR RUSBAE 1790 ~~SECRET~~

F. CURRENT EFFORTS BY MRS. GANDHI AND MODERATE INDIAN LEADERS TO EASE THE PAKISTAN CONFRONTATION AND PERHAPS EVEN TO PROVIDE A CERTAIN DEGREE OF AUTONOMY TO THE KASHMIR VALLEY WITHIN THE INDIAN UNION WOULD BE BROUGHT TO A GRINDING HALT;

G. INDIAN MILITARY EXPENDITURES WOULD RISE AND INDIA'S MILITARY AND POLITICAL DEPENDENCE ON THE USSR WOULD INCREASE;

H. AS ONE SUCH REFLEX ACTION FOLLOWED ANOTHER US PUBLIC AND CONGRESSIONAL RESPONSE, NOW GENERALLY FAVORABLE TO INDIA, WOULD BECOME INCREASINGLY ANTAGONISTIC AND OUR ABILITY TO HELP INDIA IN A SIGNIFICANT WAY WOULD BE SERIOUSLY CIRCUMSCRIBED.

6. FOR THESE REASONS AS WELL AS FOR THE REASONS OUTLINED IN REFTTEL WE CONCLUDE THAT, IN ABSENCE OF INDO-PAK UNDERSTANDING ON SUB-CONTINENTAL MILITARY POWER RELATIONSHIPS (AND ON REAL NATURE OF THE THREAT FACING SUBCONTINENT), THE RESUMPTION OF US SUPPLY OF LETHAL MILITARY ITEMS TO PAKISTAN WOULD BE A VERY SERIOUS MISTAKE.

7. IN GENERAL WE CONCUR IN THE SPECIFIC RECOMMENDATIONS IN REFTTEL:

A. IN PARTICULAR, WE AGREE THAT UNTIL PAKISTAN IS PREPARED TO JOIN INDIA IN DEFENSE OF THE SUBCONTINENT AGAINST CHINA, US MILITARY SUPPLY POLICY SHOULD BE RESTRICTED TO NON-LETHAL

PAGE FIVE RUSBAE 1790 ~~SECRET~~

EQUIPMENT TO BOTH COUNTRIES WITH PROMPT ACTION ON CURRENT REQUESTS WHICH HAVE BEEN SUBMITTED TO DEPARTMENT OF DEFENSE;

B. WE ALSO AGREE THAT EVERY EFFORT SHOULD BE MADE TO ENSURE THAT INDIA AND PAKISTAN KEEP THEIR MILITARY ESTABLISHMENTS AND EXPENDITURES WITHIN REASONABLE LIMITS; AND THAT US EFFORTS IN THE SUBCONTINENTAL BE FOCUSED ON DIRECT ECONOMIC ASSISTANCE.

C. WE FURTHER AGREE THAT WE SHOULD CONTINUE TO PRESS BOTH INDIA AND PAKISTAN TO MOVE TOWARD A PEACEFUL RESOLUTION OF THEIR DIFFERENCES, STRONGLY CONDEMNING ANY PROVOCATIVE ACTION BY EITHER NATION AND ENCOURAGING INDIA IN PARTICULAR, AS THE LARGER AND MORE POWERFUL NATION, TO TAKE EVERY REASONABLE INITIATIVE TO ALLAY THE FEARS OF ITS NEIGHBOR.

8. WE ALSO RECOGNIZE THE US STAKE IN SEEING THAT THE PAK MILITARY ESTABLISHMENT IS NOT SOLELY DEPENDENT

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3281, May 31, From New Delhi

OR ON COMMUNIST BLOC. INDIA IS NOW SECURING LETHAL MILITARY AID FROM A NUMBER OF COUNTRIES AND PAKISTAN MUST BE EXPECTED TO DO THE SAME. CONSEQUENTLY WE AGREE THAT US SHOULD NOT TRY TO CLOSE DOOR TO FRIENDLY THIRD COUNTRY SOURCES FOR MILITARY EQUIPMENT FOR PAKISTAN AND THAT UNDER CERTAIN CIRCUMSTANCES WE SHOULD CONFIDENTIALLY ENCOURAGE SUCH SOURCES.

9. WE STRONGLY RECOMMEND, HOWEVER, AGAINST ENCOURAGING OFFICIAL SALES BY COUNTRIES ON ANY US EQUIPMENT REQUIRING US APPROVAL FOR TRANSFER. WHILE SOME OF THE HEAT FROM SUCH SALES MIGHT MOMENTARILY BE DIVERTED TOWARD THE THIRD COUNTRY INVOLVED US ROLE WOULD NOT REMAIN CONFIDENTIAL FOR LONG AND EVENTUALLY WE WOULD BE HELD RESPONSIBLE.
GP-3 BOWLES

NOTE: PASSED WHITE HOUSE, MAY 31
ADVANCE COPY TO S/S-O, MAY 31

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SUMMARY

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OUTGOING TELEGRAM Department of State

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REF: Deptel 2383 to New Delhi (NOTAL)

X SUBJECT: Indian Defense Expenditures

1. Assistant Secretary Hare called in Indian Ambassador Nehru June 6 to discuss with him question of defense expenditures and to bring our discussion this subject with GOI to level of specifics we have already reached with GOP.
2. In brief remarks on Indian devaluation, Amb. Nehru described Mrs. Gandhi's decision as QUOTE very courageous UNQUOTE, expressed some surprise that GOI would have made this move so far in advance of any foreseeable consortium pledging session, and suggested that devaluation will be good move only if India can QUOTE get a lot of money UNQUOTE to make it work prior to elections.
3. Ambassador Hare then briefly informed Amb. Nehru of Amb. Locke's departure for Pakistan evening of 6th. Amb Hare expressed view that Amb Locke's appointment at this time will turn out to be useful not just for US-Pak relations but useful from a subcontinent point of view. Amb Nehru agreed and expressed hope he and Amb Locke would be able to meet when Amb Locke returns in a week or two.
4. Ambassador Hare then reviewed results of Mehta mission here, specifically

Drafted by:

NEA:SOA:HGHagerty:js 6/7/66

Telegraphic transmission and

classification approved by: NEA - William J. Handley

Clearances:

NEA - Ambassador Hare (draft)

SOA - Mr. Schneider

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FORM 1-63 DS-322

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focussing on need to reduce defense spending. He stressed our view that peace and development in the subcontinent require that there be reasonable limitation on defense expenditures and indicated as well our unwillingness, through economic aid, to finance indirectly an arms spiral in South Asia. He then referred to Soviet military assistance which, he noted, Amb Nehru had described as not very substantial during Minister Mehta's talk with the Secretary. Amb Hare said information gleaned from only public sources such as press and GOI statements in Lok Sabha indicates that program has an overall value of more than \$250 million and that it has included large number of transport aircraft, three squadrons of MIG-21's (~~XNUM~~ in addition to production facilities acknowledged by Amb. Nehru earlier), surface-to-air missile complexes, and large number of helicopters and tanks. Amb Hare also mentioned submarines and noted that this information could well be partial since certain info of this character is often kept confidential.

5. Amb Hare said our point in raising this matter and clarifying our position is that this substantial Soviet assistance feeds fears in Pakistan and contributes to arms spiral on basis of its arrival in South Asia rather than on basis of stretched out payments. For that reason we believe that costs of Soviet military assistance should be thus reckoned on basis of deliveries.

6. Amb. Hare indicated that we had also pressed Paks hard on question of reducing defense expenditures, and he suggested that if India, as the larger power, could initiate first steps toward reduction defense spending, then it would be helpful in getting Pakistan, as smaller, to come along as well.

7. Finally, Amb Hare made point that in our annual aid reviews, we would be assigning

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considerable weight to subject of defense spending and to need for downward trend. He said he hoped GOI and GOP might get together on this, but if that not possible, then cooperation by independent example might have same effect.

8. Amb Nehru responded saying he had no instructions this regard and his remarks should be interpreted as his and not necessarily GOI's. He spoke briefly of 1964 Memorandum of Understanding, indicating that while he agreed US would not want to fuel arms spiral, that memorandum appeared to him to have been broken by our suspension of military assistance.

9. More important, he said, is fact that GOI wants to spend no more than is absolutely necessary to meet the two-fold threat to its security. Prior to 1962, GOI spent too little on defense; now GOI needs forces deployed against the threat from China regardless of cost to other important needs. Second threat comes from Pakistan which QUOTE suffering from some kind of lunacy UNQUOTE that its security is threatened by India. He said GOI needs no more than parity on Pak side to protect Indian security on that front. If GOP is ~~willing~~ willing to reduce forces, then GOI would be willing to reduce anti-Pak component its forces ~~on~~ on a man-for-man basis, but anti-Chicom component of Indian forces would still be very large. He went on to say there is no question of a ratio between the two armed forces since the threats they face differ; neither ratio nor costing basis is relevant. Main point, Amb Nehru said, is the threat.

10. Amb Nehru asked Amb Hare what response US had from Paks. Amb Hare pointed out Pak interest in reducing arms load and in keeping heavy emphasis on economic development. Amb Nehru said GOI has same view. ~~REXX~~ GOI, he said, has already

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put lid on defense spending; current defense budget essentially same as last year's with no increase in real terms due to war. GOP's has doubled. GOI is most interested he emphasized, in reducing arms spending and focussing not on QUOTE military glory UNQUOTE but on economic progress, but GOI finds it necessary to defend itself against QUOTE psychotic Pakistan UNQUOTE which has allied itself with China.

11. Ambassador Hare noted that we agree GOI defense budget has not gone up appreciably but it was precisely for that reason that we had made point about costing basis for Soviet bloc assistance, since deliveries which heighten Pakistan anxieties are not accurately reflected in current GOI defense budget.

12. Ambassador Hare recapped points he wished leave with Amb Nehru, summing up by noting that while we recognize difficulties, we consider it simple proposition. An arms spiral in South Asia causes such difficult problems for us that we believe it is essential to get the arrows pointed down rather than up. Ambassador Nehru agreed on the importance of a downward trend, saying he would report this conversation to his government and assuring Ambassador Hare that the GOI will do all it can to limit defense spending, but not below the level of the threat the GOI feels it faces.

13. FOR NEW DELHI: Embassy should, at appropriate time and level, reinforce message on defense spending Ambassador Hare conveyed to Amb Nehru.

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GP-3.

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INCOMING TELEGRAM *Department of State*

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~~CONFIDENTIAL~~ (SECTION ONE OF TWO) MAY 31

PASS WHITE HOUSE

CONGRESS PARTY MEETING IN BOMBAY MAY 21-23

REF: BOMBAY TELS 534 AND 535

1. I HAVE DELAYED ANY BROAD ANALYSIS OF THE ALL-INDIA CONGRESS COMMITTEE MEETING (MAY 21-23) UNTIL WE HAVE HAD AN OPPORTUNITY TO DIGEST THE REPORTS, TALK TO SOME OF THE PARTICIPANTS AND EXCHANGE VIEWS WITH THE QUALIFIED OBSERVERS AND ANALYSTS.

2. IN BRIEF I BELIEVE THE MOST SIGNIFICANT DEVELOPMENT WAS

PAGE TWO RUSBAE 1755/1 ~~CONFIDENTIAL~~
THE FURTHER STRENGTHENING OF PRIMIN GANDHI IN HER NATIONAL LEADERSHIP ROLE.

3. AS IN MOST POLITICAL CONVENTIONS, IT WAS CLEARLY EVIDENT FROM THE OUTSET THAT BASIC POLICY CONSIDERATIONS WERE SECONDARY TO POLITICAL MANEUVERING; WITH ELECTIONS ONLY EIGHT MONTHS AWAY FOCUS WAS ON THE SCRAMBLE FOR POWER WITHIN THE PARTY STRUCTURE. PAKISTAN AND CHINA WERE SCARCELY MENTIONED. CONSEQUENTLY CONGRESS WORKING COMMITTEE CAME UP WITH ONLY ONE POLICY RESOLUTION, THAT ONE CONSISTING OF INNOCUOUS APPEAL FOR GREATER AGRICULTURAL PRODUCTION AND "SOCIAL CONTROL" OF DISTRIBUTION. SEMI-OFFICIAL EXPLANATION FOR THIS INSIGNIFICANT DOCUMENT WAS INABILITY OF COMMITTEE APPOINTED AS RESULT JAIPUR AICC MEETING (EMBTel 2144) PREPARE FULL-SCALE ECONOMIC RESOLUTION IN TIME AVAILABLE TO IT.

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-2- 3275, May 31, (SECTION I OF II) from New Delhi

3. HOWEVER, IT WAS OPINION MOST OBSERVERS, INCLUDING EMBASSY OFFICERS PRESENT AT SESSION, THAT CONGRESS HIGH COMMAND DELIBERATELY AND UNDERSTANDABLY INTENDED AVOID CONTROVERSIAL POLICY MATTERS. NOTEWORTHY THAT RESOLUTION CONTAINED NO MENTION WHATEVER OF CONTINUING USE FERTILIZERS AND INDEED THAT BOTH MAJOR SPEAKERS ON RESOLUTION, S.K. PATIL AND KRISHNA MENON,

PAGE THREE RUSBAE 1755/1 ~~CONFIDENTIAL~~
ANNOUNCED AT OUTSET THEIR INTENTION NOT TO DISCUSS FERTILIZER POLICY.

4. WHILE LARGE NUMBER (207) UNOFFICIAL RESOLUTIONS SUBMITTED FOR DISCUSSION COVERING WIDE RANGE OF IMPORTANT MATTERS, ONLY FOUR OF THESE ACTUALLY CAME UP FOR DISCUSSION, AND OF THESE ONLY TWO (MATTER OF INDO-US FOUNDATION AND RESOLUTION CALLING FOR REDUCTION IN PRICE OF FERTILIZERS) PRODUCED ANYTHING RESEMBLING GENUINE POLICY DEBATE.

5. CHOICE OF FIVE ELECTED MEMBERS OF CENTRAL ELECTIONS COMMITTEE PRODUCED CLEAR-CUT VICTORY OF S.K. PATIL AND SUBSTANTIAL STRENGTHENING OF HIS POSITION. AS HE HAD PREVIOUSLY ASSURED ME, HIS POSITION AS HE HAD PREVIOUSLY ASSURED ME, HIS MAN RAM SUBHAG SINGH WON OVER LEFTIST K.D. MALAVIYA. THIS VICTORY WAS PARTIALLY SHARED BY MORARJI DESAI FORCES AND REPRESENTED OVERALL GAIN FOR RIGHTIST END OF CONGRESS POLITICAL SPECTRUM, ALTHOUGH PERSONAL POLITICAL MANEUVERING WAS AT LEAST AS IMPORTANT AS IDEOLOGICAL CONSIDERATIONS, IN THIS CONNECTION. CONGRESS PRES KAMARAJ IS BELIEVED TO HAVE WANTED MALAVIYA ELECTED TO CENTRAL ELECTIONS COMMITTEE AS SOP TO LEFTISTS IN PARTY AND TO THIS EXTENT OUTCOME OF ELECTIONS INDICATES THAT THERE IS A CLEAR

PAGE FOUR RUSBAE 1755/1 ~~CONFIDENTIAL~~
LIMIT ON HIS POWER WITHIN THE PARTY.

6. HIGH CONGRESS LEADERS CONTINUED THROUGHTOUT BOMBAY MEETING TO AVOID COMMITTING THEMSELVES TO CONTROVERSIAL ASPECTS MRS. GANDHI'S ECONOMIC POLICIES. THIS INTERPRETATION BORNE OUT BY STUDIED AVOIDANCE DISCUSSION OF GOI FERTILIZER POLICY (PARTICULARLY RECENTLY CONCLUDED AGREEMENT FOR MADRAS PLANT), AND PLATITUDINOUS NATURE OF ECONOMIC RESOLUTION. S.K. PATIL MADE A VIGOROUS AND WELL-RECEIVED SPEECH SUPPORTING THE ECONOMIC RESOLUTION, URGING "INDUSTRIALIZATION OF AGRICULTURE", WHICH HE DEFINED AS INCREASED USE OF WATER AND PESTICIDES, BETTER STORAGE, AND CONSOLIDATION OF LAND HOLDINGS. HOWEVER,

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-3- 3275, May 31, (SECTION I OF II) from New Delhi

HE MADE NO SPECIFIC DEFENSE OF THE PRIMIN'S OVERALL ECONOMIC POLICY, NOR DID HE SPECIFICALLY COUNTER ARGUMENTS WHICH HAVE RECENTLY BEEN USED BY OPPONENTS OF THAT POLICY.

7. PROCEEDINGS OF AICC MEEETING AS WHOLE REINFORCE IMPRESSION MAJOR CONGRESS LEADERS NOT YET PREPARED THROW IN THEIR LOT COMPLETELY WITH MRS. GANDHI OR ESPOUSE PUBLICLY HER NEW, MORE PRAGMATIC ECONOMIC POLICIES. ON THE OTHER HAND, THERE IS NO EVIDENCE THAT THEIR RESERVE IS BASED ON IDEOLOGICAL DIFFERENCES OR THAT THEY ARE CONSIDERING ACTIVE OPPOSITION TO HER LEADERSHIP AT PRESENT. THEIR POSITION SEEMS TO BE

PAGE FIVE RUSBAE 1755/1 ~~CONFIDENTIAL~~

ONE OF WATCHFUL WAITING WHILE CONCENTRATING ON ORGANIZATION OF ELECTORAL CAMPAIGN AND JOCKEYING AMONG THEMSELVES FOR POSITIONS OF INFLUENCE AND ADVANTAGE.

8. THIS LEFT STAGE OPEN FOR MRS. GANDHI AND HIGH POINT OF AICC SESSION WAS HER ADDRESS IN AFTERNOON OF MAY 22. AS REPORTED BOMBAY'S 534, MRS. GANDHI MADE FORTHRIGHT, ALMOST IMPASSIONED, CLAIM TO BE TRUE INTERPRETER OF NEHRU'S POLICIES AND THINKING AGAINST THOSE INSIDE CONGRESS PARTY WHO ACCUSE HER OF DEVIATING FROM THEM WHILE UNDERSCORING THAT POLICIES MUST BE CONSTANTLY ADJUSTED TO NEW REALITIES. IN DIRECT APPEAL FOR POPULAR SUPPORT, SHE DEPLORED ALIENATION OF CONGRESS PARTY FROM PEOPLE AND BLUNTLY DECLARED HER FAITH IN PEOPLE AS MORE IMPORTANT THAN PARTY.

9. MRS. GANDHI'S ADDRESS, DELIVERED IN HINDI AND SPOKEN WITH VIGOR AND CONVICTION, WAS BEST RECEIVED OF ENTIRE MEETING. IN THIS SPEECH, MRS. GANDHI APPEARS, IN EFFECT, TO HAVE THROWN DOWN THE GAUNTLET TO CONGRESS PARTY LEADERSHIP BY ANNOUNCING HER INTENTION TO RUN HER OWN GOVERNMENT AS SHE SEES FIT OR TO LEAVE OFFICE.

GP-3 BOWLES

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NOTE: Passed White House at 4:55 a.m., May 31, 1966

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~~CONFIDENTIAL~~ (FINAL SECTION OF TWO) MAY.31

PASS WHITE HOUSE

CONGRESS PARTY MEETING IN BOMBAY MAY 21-23

REF: BOMBAY TELS 534 AND 535

10. MRS. GANDHI'S SPEECH AND CIRCUMSTANCES IN WHICH IT WAS MADE SUGGEST THAT SHE SEES HER PROBLEM AS ONE OF DOMINATING CONGRESS PARTY ORGANIZATION IN SENSE OF BENDING IT TO HER WILL IN NATIONAL MATTERS SHE CONSIDERS IMPORTANT. HER STRATEGY FOR DOING THIS APPEARS TO CONSIST OF DIRECT APPEAL TO THE PEOPLE (FOLLOWING IN THIS THE EXAMPLE OF HER LATE FATHER)

PAGE TWO RUSBAE 1755/2 ~~CONFIDENTIAL~~
IN EFFORT CONVINCE CONGRESS PARTY LEADERSHIP THAT SUCCESS IN FORTHCOMING ELECTIONS WILL HAVE BEEN DUE LARGELY TO HER EFFORTS AND HER POPULAR APPEAL. IF SHE IS TO CONTINUE AS PRIME MINISTER FOR THE NEXT FIVE YEARS, SHE NEEDS THE HELP OF THE CONGRESS PARTY LEADERSHIP, AND CLEARLY SHE HAS DECIDED THAT THE ONLY WAY SHE CAN BE ASSURED OF THAT HELP IS TO CONVINCE LEADERSHIP THAT IT IS TO THEIR ADVANTAGE TO WORK WITH HER RATHER THAN AGAINST HER.

11. IN A RECENT CONVERSATION WITH ME AND OTHERS, MRS. GANDHI MADE IT CLEAR THAT ONLY BY DEVELOPING A RATIONAL PRAGMATIC APPEAL TO INDIA'S PROBLEMS CAN THE MODERATE CENTER PROVIDE EFFECTIVE POLITICAL LEADERSHIP. SINCE HER FATHER PASSED HIS POLITICAL PEAK IN THE 1950S, WHATEVER DYNAMIC IDEAS HAVE EMERGED ON INDIAN POLITICAL STAGE HAVE COME FROM THE EXTREME RIGHT OR EXTREME LEFT. THE CENTER HAS REMAINED LARGELY RUDDERLESS AND NEGATIVE; WHAT IT HAS DESCRIBED AS ITS POLICIES HAVE BEEN LARGELY SUM TOTAL OF ITS REACTIONS TO PRESSURE OF EXTREMES.

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-2- 3275, May 31, (SECTION II OF II) from New Delhi

12. MRS. GANDHI IS CLEARLY AWARE OF THIS POLITICAL VACUUM AND NEED TO FILL IT. WITH SUPPORT OF SUBRAMANIAM, ASOKA MEHTA AND CHAVAN AND A FEW OTHERS OF THE YOUNGER ELEMENT SHE MAY BE

PAGE THREE RUSBAE 1755/2 ~~CONFIDENTIAL~~
EXPECTED TO MAINTAIN POLITICAL OFFENSIVE. IF THE MONSOON IS SATISFACTORY, IF ADEQUATE CONSORTIUM AID IS FORTHCOMING, AND IF PAKISTAN AND CHINA ARE RESTRAINED, POLITICAL TIDE IS LIKELY TO RUN HER WAY. IN THAT EVENT A WHOLE NEW GENERATION OF YOUNGER INDIAN LEADERS COULD BE INTRODUCED TO THE POLITICAL SCENE.

13. THE GREATEST POTENTIAL OBSTACLE TO HER ASCENDANCY, IN ADDITION-TO THE URGENT NEED FOR SUBSTANTIAL FOREIGN ECONOMIC

ASSISTANCE AND A GOOD MONSOON, IS FACT THAT BEING BRIGHT AND ACTION-ORIENTED SHE IS OFTEN BORED WITH THE TEDIUM OF POLITICS AND, WHAT IS MORE, SHE IS INCLINED TO SHOW IT. LAST WEEK SHE REMARKED TO CAROL LAISE AND ME THAT HER PRIMARY POLITICAL DIFFICULTY LAY IN FACT THAT SHE LIKED TO ACT AND TALK IN RATIONAL TERMS WHILE THEY (MEANING IN LARGE MEASURE THE OLDER POLITICAL LEADERSHIP) WERE MORE COMFORTABLE WITH IRRATIONAL EMOTIONAL ARGUMENTS.

GP-3
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NOTE: Passed White House at 5:02 a.m., May 31, 1966

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RUEHCR/AMEMBASSY MOSCOW 223
RUMJIR/AMEMBASSY SAIGON 186
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LIMITED OFFICIAL USE JUNE 16.

PRIME MINISTER PRESS CONFERENCE - FOREIGN POLICY

1. PRIME MINISTER AT JUNE 15 PRESS CONFERENCE ANNOUNCED SHE WOULD VISIT USSR JULY 12 FOR FEW DAYS IN RESPONSE TO INVITATION FROM KOSYGIN EXTENDED UPON HER ASSUMPTION OF OFFICE. SHE STATED IN RESPONSE TO QUESTION AS TO WHETHER ECONOMIC ASSISTANCE WOULD PLAY A PART IN HER DISCUSSIONS THAT THERE IS "NO FIXED AGENDA" BUT THAT SUBJECT "MAY WELL COME UP", ALTHOUGH SHE POINTED OUT THAT ASOKA MEHTA'S TALKS IN USSR ON THIS SUBJECT WILL BE OVER BEFORE

HER ARRIVAL. SHE REJECTED SUGGESTION THAT HER TRIP HAD ANYTHING TO DO WITH MINISTERIAL MEETING WITH PAKISTAN ALTHOUGH INDO-PAK RELATIONS "MAY COME UP". QUERIED IF SOUTH VIETNAM WOULD BE DISCUSSED, SHE SAID "WE KNOW MOSCOW'S VIEWS AND THEY KNOW OUR VIEWS. IT MAY BE MENTIONED. I CANNOT SAY."

2. IN RESPONSE TO QUESTIONS ON AMERICAN WITHDRAWAL FROM VIETNAM, MRS. GANDHI SAID "I AM FOR WITHDRAWAL. OUR POLICY HAS BEEN VERY CLEAR ABOUT THIS" BUT ALSO POINTED OUT THAT "IF YOU LOOK AT REALITY OF SITUATION IT IS EASY TO SAY 'WITHDRAW' BUT IT IS NOT SO EASY TO DO IT IN PRACTICE."

3. PRIME MINISTER STATED ON THE SUBJECT OF PAK PROPOSALS ON

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-2- 3480, JUNE 16, FROM NEW DELHI

DEFENSE EXPENDITURE DISCUSSIONS THAT "WE ARE ALWAYS READY TO TALK ON ANY ISSUE" BUT NOTED THERE IS ALSO THE QUESTION OF "PAK ATTITUDE" AND OBSERVED THAT PAKS "TALKING WAR AND OF ANNEXING KASHMIR", WHICH DOES NOT "GO TOGETHER" WITH REDUCING DEFENSE EXPENDITURES. SHE ALSO STATED "NOTHING HAS BEEN DECIDED AT ALL" ON ANOTHER INDO-PAK MEETING.

4. PRIMIN AGAIN CONFIRMED THAT NON-ALIGNED TRI-PARTITE SUMMIT, WHICH SHE SAID WAS SUGGESTED BY TITO WITHIN FIRST MONTH AFTER HER ASSUMPTION OF OFFICE, WOULD BE HELD IN DELHI, PROBABLY IN OCTOBER WITHOUT ANY FIXED AGENDA.

5. IN RESPONSE OTHER QUESTIONS, PRIMIN SAID SHE DID NOT THINK

CHINESE INTERNAL DEVELOPMENTS WOULD HAVE "ANY EFFECT ON WHAT THEY MAY DO ON OUR BORDER." SHE STATED THAT INDIA NOT ATTENDING SEOUL CONFERENCE ON SOUTHEAST ASIA AS THAT ORGANIZED BY "PARTICULARLY GROUP OF NATIONS" AND INDIA AS NON-ALIGNED COUNTRY "DOES NOT GO TO ANY SUCH MEETINGS." SHE ALSO STATED THAT SHE DOES NOT KNOW YET WHETHER SHE WILL GO TO ANY OTHER COUNTRIES AFTER HER VISIT TO MOSCOW. BOWLES
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PRIMIN PRESS CONFERENCE: MISCELLANEOUS TOPICS

1. IN ADDITION ECONOMIC TOPICS (MAINLY DEVALUATION AFTERMATH) AND FOREIGN RELATIONS, WHICH ABSORBED GREAT BULK PREPARED STATEMENT AND QUESTION PERIOD AND WHICH ARE REPORTED SEPTELS, PRIMIN IN THIRD PRESS CONFERENCE JUNE 15 COVERED FOLLOWING POINTS:

2. FAMILY PLANNING. INCLUDED IN OPENING STATEMENT IN VIEWS OF JOURNALISTS' REMARKS THAT NOT ENOUGH IS SAID THIS SUBJECT. LOOP INSERTIONS JULY 65- MARCH 66 ABOUT

PAGE 2 RUDSND 963 UNCLAS
800,000 AND STERILIZATIONS SINCE '56 EXCEEDS 1,600,000. '66/67 TARGETS ARE SIX MILLION LOOP INSERTIONS AND 1.23 MILLION STERILIZATIONS. AIM IS TO REDUCE BIRTH RATE FROM 41 TO 25 PER THO USAND BY 1975. THIS MEANS 23 MILLION INSERTIONS, 3.5 MILLION STERILIZATIONS AND USE OF CONVENTIONAL CONTRACEPTIVES BY 20 MILLION BY END FOURTH PLAN. PRESENT DEATH RATE LIKELY TO BE REDUCED FROM 17.2 TO 15 DURING DECADE. KANPUR IUCD FACTORY DAILY OUTPUT OF 25,000 CAN BE RAISED TO 100,000. ATTEMPTS BEING MADE TO OVERCOME SHORTAGE FEMALE DOCTORS BY SCHOLARSHIPS, MOBILE TEAMS FOR RURAL AREAS. PUNJAB, WEST BENGAL, MAHARASHTRA, GUJARAT, KERALA AND MYSORE PROGRESSING MOST RAPIDLY.

3. BOMBAY RAIL DISASTER. PRIMIN EXPRESSED DEEP SORROW AND CONDOLENCES. S.K. PATIL OFFERED RESIGNATION BUT QTE I DO NOT (RPT NOT) THINK I WILL ACCEPT IT UNQTE.

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-2- 3487, JUNE 16, FROM NEW DELHI

4. RADIO TRANSMITTERS FROM US. LAST YEAR USG OFFERED SMALL TRANSMITTERS. GOI DID NOT ACCEPT PROPOSAL TO HAVE THEM IN EVERY DISTRICT DUE TO COST. WAS PROPOSED SEND TWO MEN TO INDIA DISCUSS ESTABLISHING THEM ON REGIONAL BASIS. NO QUESTION OF US RUNNING TRANSMITTERS. QUESTION IS, WITH

PAGE 3 RUDSND 963 UNCLAS

DEVALUATION, WHETHER INDIA CAN AFFORD IT. QTE WHOLE THING WILL HAVE TO BE GONE INTO AGAIN AND WHAT IT WILL INVOLVE FOR US ON OUR SIDE UNQTE.

5. DIFFERENCES WITH KAMARAJ. IN RESPONSE TO QUESTION ABOUT DISAGREEMENTS WITH KAMARAJ, PRIMIN EXPRESSED GREATEST REGARD AND RESPECT FOR HIS OPINION BUT SAID SHE DID NOT ALWAYS AGREE 100 PERCENT ON ALL MATTERS.

6. MAHARASHTRA-MYSORE BORDER ISSUE. UNFORTUNATE THAT PEOPLE SO WORKED UP WHEN NATION FACES MORE SERIOUS PROBLEMS. WAY OUT WITH

LEAST DISTURBANCES AND BITTERNESS MUST BE FOUND. ONE MAN COMMISSION WILL BE APPOINTED SO ON, AFTER TALKS WITH KAMARAJ AND CONGRESS WORKING COMMITTEE.

7. PUNJAB ISSUE. NO LEGAL BAR TO PRESIDENT'S RULE IN PUNJAB. NOT YET DECIDED WHEN AND IF PRESIDENT'S RULE WILL BE ESTABLISHED.

8. INDO-US FOUNDATION. RE PROPOSED CHANGES, QTE NOBODY HAS HAD TIME TO LOOK AT IT JUST NOW UNQTE.

PAGE 4 RUDSND 963 UNCLAS

9. MO RARJI DESAI. CONTRARY RECENT REPORTS, NO SUGGESTION MADE TO HER TO BRING DESAI INTO CABINET. BOWLES
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INCOMING TELEGRAM *Department of State*

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PL 480 AGREEMENT PRESS RELEASE

FOLLOWING IS TEXT JOINT GOI-EMBASSY PRESS STATEMENT TO BE
RELEASED ON SIGNING PL 480 AGREEMENT 12:30 PM MAY 27.

BEGIN TEXT

U.S. SENDING INDIA 3.5 MILLION TONS OF FOODGRAINS NEW PL 480.
AMENDMENT PROVIDES FOR COMMODITIES VALUED AT RS. 150 CRORES.
COTTON, SOYBEAN OIL AND TOBACCO ALSO INCLUDED

NEW DELHI, MAY 27: UNDER AN AGREEMENT WITH THE GOVT OF INDIA
SIGNED HERE TODAY THE U.S. WILL SUPPLY INDIA UNDER THE U.S.
FOOD FOR PEACE PROGRAMS 3.5 MILLION TONS OF FOODGRAINS,
700,000 U. S. BALES (856,000 INDIAN BALES) OF COTTON AND OTHER
COMMODITIES VALUED ALTOGETHER AT \$313.48 MILLION (RS. 150
CRORES).

THE AGREEMENT IMPLEMENTS THE OFFER MADE BY PRESIDENT
JOHNSON ON MARCH 30 WHEN, SUBJECT TO THE APPROVAL OF THE
U.S. CONGRES, HE ANNOUNCED A FURTHER 3.5 MILLION TONS OF
FOODGRAINS FOR INDIAN AND EXPRESSED THE HOPE THAT OTHER NATIONS
WOULD ALSO HELP INDIA MEET FOOD SHORTAGES.

MR. A.T. BAMBAWALE, JOINT SECRETARY, MINISTRY MU FINANCE,
SIGNED FOR INDIA AND AMB CHESTER BOWLES FOR THE U.S.

UNDER THE AGREEMENT WHICH IS A FURTHER SUPPLEMENT TO THE
PL 480 AGREEMENT OF SEPT 30, 1964, INDIA WILL OBTAIN 2.75
MILLION TONS OF WHEAT, 750,000 TONS OF GRAIN SORGHUM
(MILO) OR MAIZE, 200,000 TONS OF MAIZE (FOR THE INDIAN
STARCH INDUSTRY), 35,000 TONS OF SOYBEAN OR COTTONSEED OIL,
700,000 U.S. BALES OF COTTON AND TWO MILLION POUNDS OF TOBACCO.

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-2- 3245, May 26, From New Delhi

UNDER THE AGREEMENT MAIZE MAY, TO THE EXTENT PRACTICAL, BE SUBSTITUTED FOR MILO WITHIN THE SPECIFIED LIMIT OF 750,000 TONS.

TODAY'S AGREEMENT BRINGS TO EIGHT MILLION TONS THE TOTAL OF FOODGRAINS SUPPLIED TO INDIA UNDER PL 480 SINCE DEC 9, 1965, WHEN AN ACCELERATED SCHEDULE OF SHIPMENTS TO INDIA WAS ANNOUNCED. U.S. FOODGRAIN COMMITMENTS SINCE LAST JULY NOW TOTAL 10 MILLION TONS.

THE 700,000 U.S. BALES (856,000 INDIAN BALES) OF COTTON PROVIDED REFLECT INDIA'S ESTIMATE OF THE QUANTITY NEEDED FOR ITS TEXTILE INDUSTRY. IT WILL PROVIDE INDIA'S MILLS WITH LONGER STAPLE TYPES NEEDED TO SUPPLEMENT ITS OWN COTTON PRODUCTION FOR THE SPINNING OF FINER YARNS.

U.S. FOODGRAIN ARRIVED AT INDIAN PORTS SINCE MARCH HAVE BEEN ABOUT ONE MILLION TONS MONTHLY. ALTHOUGH SLIGHTLY MORE THAN THREE MONTHS INTERVENED BETWEEN THIS AND THE LAST PREVIOUS SUPPLEMENTARY AGREEMENT (UNDER WHICH 3 MILLION TONS OF GRAIN WERE COMMITTED), THERE WILL BE NO INTERRUPTION IN THE FLOW OF FOOD TO INDIA. UNDER TERMS OF A LETTER FURNISHED BY THE

U.S. DEPT OF AGRICULTURE, THE INDIA SUPPLY MISSION IN WASHINGTON HAD CONTINUED TO BUY AS MUCH GRAIN AS COULD BE HANDLED BY SHIPPINGS TO PORT FACILITIES. SHIPMENTS WILL CONTINUE TO ARRIVE IN INDIA AT THE RATE DESIRED BY THE GOI.

THE TERMS OF TODAY'S SUPPLEMENTARY AGREEMENT ARE SUBSTANTIALLY THE SAME AS THOSE OF THE LAST

AGREEMENT OF FEB 5, 1966. INDIA WILL PAY FOR THE SUPPLIES IN RUPEES. THE U.S. WILL MAKE 75 PERCENT OF THESE RUPEES AVAILABLE TO INDIA AS LONG-TERM LOANS FOR MUTUALLY AGREED PROJECTS CONTRIBUTING TO INDIA'S ECONOMIC DEVELOPMENT. A FURTHER 5 PERCENT OF RUPEES ARE FOR LOANS TO INDIAN AFFILIATES GU AMERICAN FIRMS WHICH ARE STARTING OR AUGMENTING INDUSTRIAL ENTERPRISES IN INDIA. THE REMAINING 20 PERCENT OF THE RUPEES HAVE BEEN EARMARKED FOR U.S. USES.

END TEXT

DECONTROL FOLLOWING 12:30 HB INDIAN TIME MAY 27, 1966.
BOWLES

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OUTGOING TELEGRAM Department of State

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ACTION: Amembassy NEW DELHI 2288

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SUBJECT: Fertilizer Team - Dharma Vira

REF. : Embtel 3147, AIDTO 1557 and AIDTO 1843

1. Now that fairly firm date set for arrival of team, Indian Embassy has begun block out travel schedule for meeting US firms. Hope you can give us exact arrival date and duration of visit in next few days. / use here.

Also would like advance copies material team plans Please advise names other team members ASAP.
2. Delighted GOI sending team leader of Dharma Vira's calibre. / We will plan meetings with US officials at fairly high level. AEC also interested meeting / Dharma Vira.

3. Although meetings with fertilizer companies obviously have first call on / Dharma Vira's time, we and Indian Embassy are considering visit TVA if time permits. Would be helpful if / Dharma Vira could stretch visit by two or three days beyond three weeks. Also considering possibility visit Oak Ridge.

4. Indian Embassy presently scheduling one or two days Washington, week in New York, three or four days Chicago, possible side trips fertilizer plants, farms, etc., as well as TVA, then return to Washington for three or four more days. Usefulness of terminal visit here would partly be opportunity US firms have second round talks to clear up questions which may arise.

SCP - EXEMPT

END

Drafted by:	Ext.	Telegraphic transmission and classification approved by:
NEA:SOA - ACBauman:oh (5/20/66) 2079		NEA - William J. Handley NEA:SOA - David T. Schneider
AID/NESA/SA - Mr. Thomas ROB		Commerce - Mr. Bache (subst) AUB
AID/NESA/CDF - Mr. Firstenberg AUB		NEA/SOA - Mr. Schneider
SCI - Mr. Trevithick AUB		

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INDIA - PAK

OUTGOING TELEGRAM Department of State

INDICATE: ☐ CORRECT
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Amembassy Office RAWALPINDI 11 575
Amembassy KARACHI 11 1696
USUN NEW YORK 11 2744
Amconsul LAHORE 11 113

INFO: Amconsul DACCA 239
Amconsul CALCUTTA 185
Amembassy LONDON 7043
Amembassy MOSCOW 2762
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REF: As in text, ~~SECRET~~ NOTAL.

INDO-PAK

1. We are increasingly concerned over signs of down-turn in Indo-Pakistani relations. Apart from recent resolution of pension payments question (Delhi's 2908), discussions on eastern boundaries (Calcutta's 246 and 259), and occasional repetition by leaders on both sides of generalized willingness to talk and generalized commitment to peace, all other aspects Indo-Pak relations suggest that both sides are backsliding from even modest gains attained during initial phase of Tashkent implementation. Illustrative of present trend are following:

A. Signs of tension on Kashmir CFL (Karachi's 2079 and DAO Delhi's 0428), reports of renewed infiltration, and, most disturbing of all, the report from Lahore of the GOP's intention QUOTE to create crisis situation again along CFL UNQUOTE this summer ;

3.3
(b)(1)

Drafted by 5/24/66
NEA/SOA:HGHagerty/DTSchneider:dam

Telegraphic transmission and
classification approved by: NEA - William J. Handley

IO/UNP - Mr. Kimball (draft)
SOV - Mr. McCracken (draft)
INR - Mr. Spain (subs)

AID - Mr. Farr

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B. Step-up in press invective and in stiffening public statements by both sides;

C. Reports of continuing Pakistani assistance to tribal dissidents (Mizos, Nagas, etc.) in eastern India (We note from Pindi's 663 that President Ayub has/

D. Failure to move on to other provisions of Tashkent Declaration, including: other than aid and neutral insured cargos
(1) lack of progress on seized properties/, (2) continued Pak stickiness on border transit, and (3) Indian reluctance to initiate second round of high-level talks.

2. In addition, we note reports (Pindi's 644, Delhi's 3163) suggesting Soviets unlikely consider any fresh initiative on further implementation Tashkent Declaration in near future.

3. This trend has obvious implications re peace on the subcontinent, a prime requirement for normalization of our relationship with India and Pakistan. It cannot help but have disquieting effect on our continuing efforts unravel complex of aid and military assistance questions left over from last fall's suspension, a downward trend our efforts to bring about some reduction in defense spending, and our efforts to put into effect the policies which have resulted from our own reviews in light of Pres. and Prime Minister and Ministers our discussions with /AYUB, /SUBRAMANIAM, /GANDHI, /SHOAIB, and MEHTA.

4. For Rawalpindi:

A. We recognize President Ayub has serious political problems over Kashmir. Unfavorable reaction to his signing Tashkent Declaration probably responsible for GOP's backtracking to protect political rear. Ayub now undoubtedly feels he needs some sign of action on Kashmir. In absence any follow-up on Kashmir under Tashkent, any prospect further talks on Kashmir with Indians, or action on Kashmir under

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September 20 UN Resolution, Ayub seems to have agreed to renewal of propaganda campaign and possibly even new campaign of infiltration tension.

B. We have made our position regarding need for Indo-Pak peace and type of communications necessary to preserve peace quite clear to Shoaib during his visit here and Embassy has followed up effectively after his return. ~~Believe we must now be~~ ~~more~~ ~~or even appearance of~~ ~~resumption of~~ ~~GOP-sponsored~~ specific, however, and let Paks know that resumption/~~of~~ Kashmir infiltration or similar action with Nagas and Mizos in East could affect U.S. interests on sub-continent and would ~~understandable~~ ~~whatever~~ ~~understanding~~ ~~we~~ ~~across~~ ~~may~~ ~~work~~ ~~out~~ ~~regarding~~ ~~our~~ ~~assistance~~ ~~to~~ ~~Pakistan~~. We intend get this message/in general way to Pak Ambassador here. In meantime believe it best that Embassy stick to line we and Embassy have already taken with Shoaib. Embassy should also continue report whatever information available regarding Pak plans and activities designed heat up Kashmir dispute or stimulate Naga-Mizo insurrection.

5. For New Delhi:

A. Believe most effective thing GOI could do to head off new blow-up over Kashmir would be to get communications started up again. One clear way to break out of present cycle would be for Indians to cut through welter of generalized talk with specific ~~initiative~~ initiative for high-level talks on all matters of concern. New round of talks, including discussion Kashmir, might give Ayub show of activity he needs on Kashmir and cause change in GOP plans if such plans in fact made. Even if Paks ~~persisted~~ persisted in new pressure campaign, GOI initiative for talks would put Indians in favorable tactical position.

B. Accordingly we believe Ambassador took exactly correct line in ~~conversation~~ ~~conversation~~ conversation

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with C. S. JHA (Delhi's 3168). We find Jha's view that Paks committed to Chicom relationship which cannot be changed until they become QUOTE disillusioned UNQUOTE particularly negative in that it seems to admit little scope for external influence to be brought to bear on situation. We find it difficult believe Indian policy is simply to sit back, watch Pak-Chicom relationship develop, and await QUOTE disillusionment UNQUOTE. Hope Embassy can probe to determine if there is any more imaginative GOI policy and encourage more positive approach as Ambassador did in talk with Jha. Believe Ambassador should repeat to L. K. JHA line he took with C. S. Jha and, as opportunity presents itself, to Primin herself. Ambassador may also wish to weave in theme that it would be tragedy if, as India and Pak are returning to task of getting economies moving, every possible step were not taken to prevent new spiral of tensions and unfortunate consequences that could result.

6. For USUN:

A. Would appreciate mission views/on trend noted above as well as/
any info you can develop from UN

Secretariat sources re UNMOGIP's assessment of current situation along CFL;

B. We will reply separately to your 4989.

GP-3.

END

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~~CONFIDENTIAL~~ JUNE 3.

1. AT NOON ON JUNE 3 I CALLED ON PRIME MINISTER GANDHI FOR A BRIEF, BUT RELAXED DISCUSSION. AFTER PRESENTING HER WITH A COPY OF THE PRESIDENT'S MEMORIAL DAY ADDRESS (SEE DEPCIRTEL 2368) I SAID THAT I HAD ASKED FOR OUR APPOINTMENT IN ORDER TO EXPAND ON THE CONVERSATION WE HAD HAD A WEEK AGO ON THE QUESTION OF HIGH-LEVEL CONSULTATIONS WITH THE PAKISTAN GOVERNMENT.
2. I STATED THAT SINCE OUR RECENT DISCUSSIONS WE HAVE HAD INCREASING EVIDENCE THAT AYUB KHAN IS READY FOR A HIGH-LEVEL DISCUSSION AND THAT IT WOULD BE TO INDIA'S ADVANTAGE TO SEIZE THIS OPPORTUNITY WHILE HE WAS IN A MODERATE MOOD.
3. WHILE I KNEW THAT MANY KEY MEMBERS OF THE GOI FAVOR TALKS AT THE MINISTERIAL LEVEL WITH A SUMMIT MEETING HELD IN RESERVE, I BELIEVE THE CASE IN FAVOR OF AN EARLY MEETING BETWEEN THE NEW HEADS OF STATE IS MORE PERSUASIVE.
4. A MINISTERIAL MEETING AT THIS JUNCTURE WOULD BRING THE SAME PEOPLE BACK TO REPORT THE SAME OLD ARGUMENTS AND TO REFLECT THE SAME OLD FEARS LEADING TO THE SAME OLD FRUSTRATIONS.
5. ON THE OTHER HAND NO ONE WOULD EXPECT A SUMMIT MEETING WITH MRS. GANDHI MEETING WITH AYUB KHAN FOR THE FIRST TIME SINCE SHE BECAME PRIME MINISTER TO SETTLE ANYTHING. INDEED, MRS. GANDHI COULD SO WORD HER INVITATION TO AYUB THAT WHILE NOT PRECLUDING DISCUSSION ON ANY SUBJECT THE EMPHASIS COULD BE THE OPPORTUNITY FOR THE TWO PRINCIPALS TO EXPLAIN THEIR PURPOSE AND OBJECTIVES. THE OUTCOME OF THE MEETING MIGHT BE FORMAL AGREEMENT ON THE NEED TO ESTABLISH REGULAR COMMUNICATIONS PERHPAS BETWEEN UNOFFICIAL REPRESENTATIVES UNTIL AFTER THE INDIAN ELECTIONS NEXT FEBRUARY. BY THAT TIME THE WAY MIGHT BE PREPARED FOR MORE SUBSTANTIVE DISCUSSIONS BY A TEAM OF MINISTERS.
5. MRS. GANDHI STATED SHE WAS INCLINED TO AGREE WITH THIS ANALYSIS; IN FACT SHE HAD THOUGH THAT IT WOULD HAVE BEEN BETTER IF THE MEETING

~~CONFIDENTIAL~~

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E.O. 12356, Sec. 3.4

NIJ 74-180

By cb, NARA, Date 9-26-94

~~CONFIDENTIAL~~

-2- 3319, JUNE 3. FROM NEW DELHI.

AT RAWALPINDI HAD BEEN BETWEEN REPRESENTATIVES WHO HAD NOT BEEN PERSONALLY INVOLVED IN PREVIOUS HAGGLING BETWEEN THE TWO NATIONS.

7. I THEN BRIEFLY TOUCHED ON THE SUBJECT OF ARMS LIMITATION, SUGGESTING THAT A GOOD STARTING POINT MIGHT BE TO SET UP A FACT-FINDING GROUP WHICH COULD ESTABLISH THE EXISTING AND PROGRAMMED MILITARY STRENGTH OF EACH COUNTRY. ONCE THE FACTUAL BASIS WAS AGREED UPON THE NEXT STEPS MIGHT BE CONSIDERED. ALTHOUGH MRS. GANDHI WAS NON-COMMITTAL SHE SEEMED SYMPATHETIC TO THIS PROPOSAL, AND STATED (AS L.K. JHA HAD DONE ON A PREVIOUS OCCASION) THAT INDIA'S MILITARY BUDGET OVERSTATED INSTEAD OF UNDERSTATED WHAT WAS HAPPENING IN THE INDIAN ARMY.

8. I DID NOT ASK ABOUT THE STATUS OF THE ECONOMIC PROGRAM AND MRS. GANDHI DID NOT REFER TO IT.

9. MRS. GANDHI DID VOLUNTEER, HOWEVER, THAT IT WAS A DELIGHT TO HAVE PARLIAMENT OUT OF TOWN AND THAT SHE HOPED THAT BY THE TIME THE SESSION WAS RESUMED IN LATE JULY THAT SEVERAL DIFFICULT SITUATIONS MIGHT BE SOMEWHAT CLARIFIED AND CONSEQUENTLY SHE MIGHT BE ON STRONGER POLITICAL GROUND.

10. WE THEN DISCUSSED BRIEFLY A FAMILIAR THEME, I.E., THE INDIAN CENTER SINCE NEHRU'S HEYDAY HAS BEEN ALMOST WHOLLY DEVOID OF FRESH IDEAS OR EVEN CLEAR OBJECTIVES. AS A RESULT, THE PRESSURES FOR ACTION HAVE COME FROM EXTREME LEFT OR EXTREME RIGHT WITH CONGRESS

PARTY CENTER SIMPLY REACTING TO THESE PRESSURES AND DESCRIBING THE NET RESULT AS A POLICY. MRS. GANDHI ASSERTED THAT SHE HOPED TO GIVE THE CONGRESS PARTY A NEW SENSE OF DIRECTION. THE LEFT AND RIGHT COULD STILL HARRASS AND HECKLE BUT WITH A SOLID POSITION OF ITS THE CONGRESS PARTY CENTER WOULD BE IN A STRONGER POSITION TO CARRY THE DAY.

11. COMMENT: MRS. GANDHI WAS HER USUAL COOL, CALM AND COLECTED SELF.

GP-3 BOWLES
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INCOMING TELEGRAM Department of State

SUMMARY

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INFO RUQVGR/AMEMBASSY KARACHI 1101

RUQVGM/AMBOFF RAWALPINDI 337

RUMJDH/AMCONGEN HONG KONG 193

RUEHCR/AMEMBASSY MOSCOW 222

RUMJIR/AMEMBASSY SAIGON 185

RUEBBA/CINCEAFSA

ZEN/AMCONGEN BOMBAY UNN

ZEN/AMCONGEN CALCUTTA UNN

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~~SECRET~~ SECTION ONE OF TWO JUNE 15

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E.O. 12356, Sec. 3.4

NJ 94-180

By cb, NARA, Date 9-26-94

1. ON MORNING OF JUNE 15 AT MY REQUEST I HAD ONE HOUR DISCUSSION WITH SWARAN SINGH. ALTHOUGH THE FOREIGN MINISTER WAS HIS USUAL WOODEN AND UNIMAGINATIVE SELF HE SEEMED SOMEWHAT MORE FORTH-COMING THAN USUAL IN DEALING WITH SPECIFIC PROBLEMS. OUR EXCHANGE DEVELOPED ALONG FOLLOWING LINES:

2. IN RESPONSE TO MY QUERY ABOUT THE FOREIGN MINISTER'S INTERPRETATION OF RECENT DEVELOPMENTS IN CHINA HE EXPRESSED OPINION THAT THE CONFLICT WITHIN CHINESE LEADERSHIP IS NOT PRIMARILY CONCERNED WITH IDEOLOGY BUT WITH DISTRIBUTION

PAGE TWO RUSBAE 833/1 ~~SECRET~~
OF POLITICAL POWER. ALTHOUGH HE UNDERSTOOD THAT THERE HAD BEEN SOME SHARP DIFFERENCES IN REGARD TO THE ARMY BETWEEN THE PROFESSIONAL SOLDIERS AND THE POLITICAL LEADERSHIP, ACCORDING TO HIS INFORMATION THESE DIFFERENCES HAD RECENTLY BEEN RESOLVED IN FAVOR OF THE POLITICIANS.

3. IN REGARD TO VIET-NAM, SWARAN SINGH STATED THAT ON BALANCE HE FELT THERE HAD BEEN SWING IN NORTH VIET-NAM WHICH WAS BASICALLY ENCOURAGING. IF HIS INFORMATION IS CORRECT THE SOVIET UNION HAS BEEN GAINING STEADILY IN INFLUENCE AT EXPENSE OF CHINA. SINCE IN HIS OPINION SOVIETS ARE GENUINELY ANXIOUS TO SEE A NEGOTIATED SETTLEMENT OF THE WAR HE FELT THAT THIS WAS A WELCOME DEVELOPMENT. NEVERTHELESS GOI HAD CONFLICTING INFORMATION IN REGARD TO HO CHI MINH'S RECENT TRIP TO PEKING. ACCORDING TO ONE EXPLANATION PURPOSE OF HIS VISIT WAS TO

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-2- 3472 JUNE 15 FROM NEW DELHI (SECTION 1 OF 2)

PERSUADE CHINESE TO TAKE A MORE MODERATE POSITION IN RESPECT TO NEGOTIATIONS; A CONTRARY INTERPRETATION WAS THAT HO CHI MINH, FEARING CHINA'S DISPLEASURE, IS SEEKING TO REDRESS HANOI'S RECENT DRIFT TOWARDS MOSCOW. ON BALANCE, HOWEVER, HE FELT THAT THERE IS SOME EVIDENCE OF GREATER FLEXIBILITY.

4. I THEN TURNED TO SUBJECT OF PAKISTAN AND CHINESE RELATIONSHIP

PAGE THREE RUSBAE 833/1 ~~SECRET~~

POINTING OUT THAT THERE WERE TWO INTERPRETATIONS WITHIN OUR OWN GOVERNMENT AS WITHIN GOI. ACCORDING TO THE MORE PESSIMISTIC VIEW PAKISTANIS ARE ALREADY FULLY COMMITTED TO CHINA AND THERE IS NOT MUCH WE OR ANYONE CAN DO ABOUT IT. THE SECOND AND MORE WIDESPREAD INTERPRETATION IS THAT NO DEEP COMMITMENT EXISTS AND THAT CHINA AND PAKISTAN HAVE EACH BEEN MERELY TRYING TO USE THE OTHER AS MEANS TO BRING PRESSURE ON INDIA, USSR AND USA. SINCE I SUBSCRIBED TO SECOND MORE HOPEFUL VIEW I WAS ANXIOUS FOR ANY NEWS THAT HE MIGHT HAVE ABOUT A MEETING OF PAK AND INDIAN REPRESENTATIVES TO DISCUSS THEIR OUTSTANDING PROBLEMS INCLUDING KASHMIR.

5. AFTER A LENGTHY REVIEW OF THE NEGOTIATIONS INVOLVED AT TASHKENT AND RAWALPINDI, SWARAN SINGH STRESSED THAT INDIA WOULD WELCOME A MEETING BUT WAS FRANKLY UNCERTAIN AS TO PROCEDURE. GOP, HE SAID, INSISTS THAT INDIA MUST AGREE TO PUT FORWARD A QUOTE CHANGE OF POLICY IN REGARD TO KASHMIR UNQUOTE AS A CONDITION FOR HOLDING TALKS. WHILE INDIA WAS WILLING TO DISCUSS KASHMIR ALONG WITH OTHER ITEMS IT CANNOT CHANGE ITS KASHMIR POSITION AS A CONDITION OF NEGOTIATIONS; NOR DOES HE BELIEVE THAT THE PAKISTANIS WILL AGREE TO CHANGE THEIRS.

PAGE FOUR RUSBAE 833/1 ~~SECRET~~

MEETING HE SAID SHOULD BE A WIDE OPEN AFFAIR INCLUDING ALL SUBJECTS. IT WOULD BE MISTAKE TO HOLD SUCH A MEETING UNLESS THERE IS SOME HOPE OF PROGRESS SINCE A FRESH FAILURE FOLLOWING RAWALPINDI WOULD BE HARMFUL ALL AROUND.

6. I SUGGESTED THAT SINCE FIRST MEETING HAD BEEN HELD AT RAWALPINDI AT INVITATION OF GOP THE INDIANS CARRY RESPONSIBILITY OF PROPOSING NEXT MEETING IN NEW DELHI. INDEED PAKS HAD STRESSED WITH CONSIDERABLE LOGIC THAT THE BALL IS NOW IN INDIA'S COURT. THE MEETING I POINTED OUT MIGHT TAKE ANY ONE OF THREE FORMS:

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~~SECRET~~ SECTION TWO OF TWO JUNE 15

8. SWARAN SINGH EXPRESSED INTEREST IN THIS ANALYSIS AND ALTHOUGH NON-COMMITTAL SEEMED ANXIOUS TO CONVINCE ME THAT INDIA GENUINELY WELCOMED CHANCE FOR TALKS AND WAS CONCERNED ONLY THAT ANOTHER IMPASSE SHOULD BE AVOIDED.

9. I THEN ASKED SWARAN SINGH HOW SOVIET UNION VIEWED DETERIORATION OF TASHKENT SPIRIT AND WHAT SUGGESTIONS THEY HAD TO DEAL WITH SITUATION. THE FOREIGN MINISTER REPLIED THAT THEY HAD DISCUSSED THE PROBLEM ON SEVERAL OCCASIONS WITH THE SOVIETS WHO PLACED MOST OF THE BLAME FOR PRESENT DIFFICULTIES ON BHUTTO.

INDEED GROMYKO HAD GONE SO FAR AS TO SAY THAT AS LONG AS BHUTTO WAS IN THE PICTURE THERE WAS LITTLE CHANCE FOR PROGRESS. SWARAN SINGH ADDED THAT EVEN THOUGH RUSSIANS DID NOT WANT NEW MEETING AT TASHKENT THEY MIGHT PREFER IT TO ANOTHER ROUND IN SECURITY COUNCIL.

10. SWARAN SINGH STATED THAT HE WAS ABOUT TO LEAVE ON A WEEK'S HOLIDAY IN SOUTH INDIA WHERE HE HOPED TO GET A THOROUGH REST. I ASKED HIM IF HIS REST INCLUDED A DISCUSSION WITH SHEIK ABDULLAH WHICH HE GOOD NATUREDLY DENIED. HE THEN VOLUNTEERED THAT IF SHEIK ABDULLAH'S PARTY WON MAJORITY OF VOTES IN KASHMIR IN THE NATIONAL ELECTIONS NEXT FEBRUARY GOI WOULD WELCOME ABDULLAH AS CHIEF MINISTER OF KASHMIR. THIS WAS AN OFF-HAND COMMENT AND I

DO NOT KNOW IF IT INDICATES THAT NEGOTIATIONS ARE PROCEEDING.

~~SECRET~~

~~SECRET~~

-2- 3472, JUNE 15. FROM NEW DELHI. (SEC II OF II).

11. COMMENT: I DID NOT TAKE UP QUESTION OF DEFENSE BUDGETS PARTLY BECAUSE WE RAN OUT OF TIME AND PARTLY BECAUSE PAST EXPERIENCE HAS SHOWN THAT ON THIS PARTICULAR SUBJECT SWARAN SINGH FINDS IT DIFFICULT TO COMMUNICATE. HOWEVER I SHALL TAKE IT UP WITH C.S. JHA AND L.K. JHA IN NEAR FUTURE.

GP-3. BOWLES
ET

~~SECRET~~

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-3- 3472 JUNE 15 FROM NEW DELHI (SECTION 1 OF 2)

A. MEETING AT MINISTERIAL LEVEL AS IN RAWALPINDI. SUCH A MEETING, I SUGGESTED, WOULD BE THE MOST UNCERTAIN QUANTITY OF ALL SINCE THE SAME PEOPLE WOULD FACE EACH OTHER ACROSS THE TABLE AND WOULD BE INCLINED TO REPEAT THE SAME OLD ARGUMENTS;

B. CONFIDENTIAL AND RELATIVELY UNOBTUSIVE MEETING OF TRUSTED REPRESENTATIVES OF THE TWO HEADS OF STATE WHICH MIGHT BE PRELIMINARY TO A MEETING BETWEEN MINISTERS OR THE TWO PRINCIPALS.

C. TOP LEVEL MEETING WITHOUT AGENDA BETWEEN MRS. GANDHI AND AYUB KHAN. I PERSONALLY FAVORED SUCH A MEETING BECAUSE I BELIEVE IT WOULD BE THE EASIEST WAY TO DEAL FRANKLY AND IN A

PAGE FIVE RUSBAE 833/1 ~~SECRET~~

RELAXED WAY WITH THE PROBLEMS WHICH NOW DIVIDE THE TWO NATIONS. AS ON OTHER OCCASIONS I STRESSED THAT BECAUSE OF THE VERY NATURE OF THE MEETING (I.E., THE FIRST SINCE MRS. GANDHI BECAME PRIME MINISTER) NO-ONE COULD REASONABLY EXPECT DRAMATIC SOLUTIONS; RATHER PURPOSE WOULD BE TO ESTABLISH A NEW MOOD IN WHICH THE OUTSTANDING PROBLEMS COULD BE DISCUSSED AND PERHAPS A START MADE TOWARD DEALING WITH THEM.

7. THE INVITATION MIGHT EVEN SUGGEST THAT MRS. GANDHI VIEWED THE MEETING BASICALLY AS AN EXPLORATORY DISCUSSION IN WHICH OPINIONS COULD BE EXCHANGED ON OUTSTANDING QUESTIONS. THIS MIGHT LEAD TO ANNOUNCEMENT AT END OF TALKS THAT MONTHLY MEETINGS WOULD HENCEFORTH BE HELD BETWEEN REPRESENTATIVES OF THE TWO HEADS OF STATE TO EXCHANGE VIEWS ON A REGULAR BASIS AND HOPEFULLY TO OPEN UP AREAS OF AGREEMENT. BOWLES
BT

~~SECRET~~

16 June 1966

Dear P. K. ,

Thanks very much for the two Commencement speeches which I enjoyed reading.

I like your emphasis on peace, diversity, and economic development in the speech at Luther College. I also admire the determination to find a way out of the nuclear dilemma in your Colorado speech.

I think it's great that you are delivering speeches full of patience and hope to our young men and women. Keep it up.

Sincerely,

R. W. Komer
Special Assistant
to the President

Minister P. K. Banerjee
The Embassy of India
Washington, D. C.



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EMBASSY OF INDIA
WASHINGTON, D. C.

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*N. G. D. a
nice acknowledgment
for my sig.*

P. K. Banerjee,
Minister.

June 8, 1966.

dear Bob

I am taking the liberty of
sending copies of the two Commencement
speeches I gave recently, one in Iowa
and the other in Colorado, for favour
of your kind perusal.

Kindest regards,

Yours sincerely,

P. K.
(P. K. Banerjee)

The Honorable
Mr. Robert W. Komer
Special Assistant to President
White House,
Washington, D.C.

~~CONFIDENTIAL~~

MACV Dir 381-41

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9 July 1967 Office
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DIRECTIVE
NUMBER 381-41

MILITARY INTELLIGENCE
INTELLIGENCE COORDINATION AND EXPLOITATION
FOR ATTACK ON VC INFRASTRUCTURE (C) SHORT TITLE: ICEX (U)

1. (C) PURPOSE. To coordinate and give new impetus to US and GVN operations, both intelligence collection and processing and action operations, directed toward elimination of VC infrastructure. To insure that basic programs conducted by different GVN/US organizations and components, as they relate to identification, exploitation and elimination of the VC infrastructure, are mutually compatible, continuous, and fully effective.

2. (C) SCOPE. This directive applies to all elements of the US Mission engaged in intelligence collection and action programs specifically targeted against the VC infrastructure, or which have advisory responsibilities with respect to similar GVN programs.

3. (C) CONCEPT.

a. Destruction of the VC infrastructure as an effective instrument is an essential concomitant to Revolutionary Development (RD) and security of RD operations. It facilitates intelligence/counterintelligence operations against VC main and guerrilla forces.

b. Achieving a sustained and effective attack on VC infrastructure requires coordination, integration, and improvement of programs already being conducted by various US components at all levels, and bringing about corresponding integration and focus on the Vietnamese side.

c. As a first step, therefore, and consistent with the assignment to COMUSMACV of the responsibility for performance of US field programs in support of RD, a joint civil/military management structure for infrastructure Intelligence Coordination and Exploitation (ICEX) is established under the supervision of Deputy for CORDS to COMUSMACV.

DECLASSIFIED

Authority

By is, NARS, Date 3-11-85

GROUP-4

DOWNGRADED AT 3 YEAR INTERVALS;
DECLASSIFIED AFTER 12 YEARS.

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MACV Dir 381-41
9 July 1967

(1) Basic Structure (see Annex A). The US management structure will consist of:

(a) An ICEX Committee chaired by Deputy for CORDS to COMUSMACV and including senior representatives of OSA and MACV (CORDS, J-2, J-3).

(b) A small civil/military ICEX staff in Saigon to support this committee, reporting directly to Deputy for CORDS.

(c) Infrastructure intelligence and operations coordinating elements at Corps, Province, and in selected Districts.

(2) Methods and Principals of Operation.

(a) At each level, the designated US ICEX coordinating elements will be charged with coordinating and focusing the intelligence and operational attack on infrastructure, and with stimulating, energizing, guiding and collaborating with the corresponding Vietnamese organizations and effort. The US side will be developed first, to set an example and to serve as a catalyst for similar Vietnamese development, building primarily upon existing programs and resources.

(b) The latter will be marshaled and concentrated to permit a "rifle shot" rather than a shotgun approach to the real target -- key, important political leaders and activists in the VC infrastructure. The ultimate attack on this elusive target is fundamentally a Vietnamese responsibility, employing essentially police-type and other special resources and techniques. Hence, for example, it is intended that Provincial Reconnaissance Units (PRU) be especially focused and the Police Field Forces (PFF) redirected against infrastructure, with other forces and resources playing supporting and complimentary roles.

(c) Progress and success clearly will depend on a variety of interrelated factors, including:

1. Improved coordination of infrastructure intelligence collection and collation, and development of a clearer, common knowledge and understanding of VC organization and functioning.

2. More selective targeting, and timely exploitation of operational intelligence.

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MACV Dir 381-41

9 July 1967

3. Coordination of various collection and action activities with other military and civil programs and operations.

(d) Standing rules and operating procedures will be observed for protection and compartmentation of intelligence sources and techniques; however, as in the case of military tactical intelligence, every effort will be made to speed up the appropriate sharing and distribution of infrastructure intelligence information susceptible of effective operational exploitation. Similarly, based on such intelligence from all available sources, plans for its exploitation will be afforded maximum possible security to avoid their unauthorized disclosure.

(e) Responsibility for implementing this operational approach is vested in the ICEX "program managers" or "coordinators" at each level of coordination, employing committee/staff management techniques and, where appropriate, combined US/GVN coordinating centers. It will be recognized that a balance must be struck, depending upon local circumstances, between tactical, security and infrastructure requirements, for allocation of available assets and resources.

(f) The ICEX management structure, as it develops, will serve among other purposes as a vehicle for effective coordination of plans, programs and operations; as a means of identifying issues and resolving problems; and as an instrument for avoiding unnecessary duplication and averting competition for assets. It will seek to minimize special ICEX reporting requirements to a degree consistent with good security, control and management, including program evaluation. It will promote an all-American effort in working effectively with Vietnamese counterparts in mounting a more concentrated attack on VC infrastructure.

4. (C) US ORGANIZATION FOR ICEX (see Annex A).

a. National Level (Saigon).

(1) The US organization for ICEX will be headed by a coordinating and decision-making committee with the following regular membership:

- (a) Deputy for CORDS to COMUSMACV -- Chairman.
- (b) Special Assistant to the Ambassador.
- (c) Assistant Chief of Staff, J-2.

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MACV Dir 381-41
9 July 1967

(d) Assistant Chief of Staff, J-3.

(e) Chief, RDC Division, CORDS.

This committee will meet when occasion demands, at the discretion of the chairman or the initiative of any of its members.

(2) To support this committee and its chairman, and to conduct the day-to-day business of ICEX at the Saigon level, there is established an ICEX staff, reporting directly to Deputy for CORDS to COMUSMACV, and consisting of a Director, Deputy Director, and Executive Secretariat, together with small, functional groups for operations, reports management and intelligence.

b. Field Organization.

(1) At Corps, the OSA Regional Officer in Charge (ROIC) will be designated by the Corps Senior Advisor (CSA), to function as the latter's principal staff officer in matters relating to infrastructure intelligence collection and action against the key VC infrastructure. CSA will normally delegate supervision of this matter to his Deputy for CORDS. As the Corps ICEX Coordinator, the ROIC will convene and chair an ICEX Committee composed of the Corps G-2, Corps G-2 Advisor, Corps G-3 Advisor, and the heads of principal US elements concerned with infrastructure. The ROIC will serve as a principal point of contact for the Saigon ICEX staff. He will, using the committee, coordinate infrastructure collection programs and review the effectiveness of collation and dissemination machinery. The ROIC will recommend reaction operations for attack on infrastructure. As a priority task, the ROIC and members of the Corps ICEX Committee will stimulate counterpart Vietnamese Corps Intelligence Coordinating Centers to focus attention on attacking the infrastructure and foster Vietnamese inter-agency cooperation and coordination.

(2) At province, a qualified officer will be designated the principal staff officer to the senior province advisor, for intelligence and action coordination of the attack on the infrastructure. This Province ICEX Coordinator may be provided by OSA or by Central Registry Detachment (CRD) and, in addition to his other duties and when acting in this capacity, will be assigned to the senior province advisor's staff. He will coordinate infrastructure intelligence collection programs, assure timely collation and dissemination of information, and recommend reaction operations. He will serve as principal point of contact for the Corps ROIC with respect to ICEX matters. As a priority task, he will stimulate the Vietnamese

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MACV Dir 381-41
9 July 1967

Province Intelligence Coordinating Committee (PICC) and, with his US colleagues, seek to obtain effective Vietnamese agency participation in this PICC and to focus its attention on VC infrastructure.

(3) In the selected Districts where they are now operating or are to be established, combined GVN/US District Operations and Intelligence Coordinating Centers (DOICC) will be established for the purpose of achieving rapid evaluation and dissemination of infrastructure intelligence and quick reaction operations targeted on disrupting, harassing, capturing and eliminating local VC infrastructure. The US senior province advisor, with the assistance of the Province ICEX Coordinator, is charged with advising the GVN on establishing DOICC's and assisting in their efficient functioning.

5. (C) STAFFING AND SUPPORT REQUIREMENTS. Staffing and other support requirements will be developed by Director, ICEX staff, in collaboration with OSA and MACV.

6. (C) TIMING.

a. The national-level ICEX Committee and its supporting ICEX staff are established officially upon promulgation of this directive. The Saigon ICEX staff will begin to function initially on a skeletal basis, with personnel provided, as required, by OSA and MACV. It will draw upon the resources of OSA and MACV for the substantive assistance and support necessary to permit the ICEX program to get quickly underway.

b. By 15 July 1967, corps senior advisors will designate Corps ICEX Coordinators, select supporting military personnel, and begin selecting Province ICEX Coordinators, and initiating required administrative actions to accomplish these assignments and to provide for any necessary augmentation of Province advisory teams.

c. By 15 July 1967, Director, ICEX, will draft initial, basic mission and functions statements further defining responsibilities and relationships for Corps, Province, and District organizations. These will be subject to general or local revision, based upon operating experience and the approved recommendations of field ICEX Coordinators.

d. By 15 July 1967, Corps ICEX Coordinators, ROIC will determine in each Corps the Districts in which DOICC's will be established initially, in addition to those already functioning.

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MACV Dir 381-41

9 July 1967

e. By 31 July 1967, Director, ICEX, will prepare initial guidelines for DOICC operations, based on experiences of existing DOICC's. (These will be supplemented or augmented as additional experience is acquired.)

f. The ICEX staff will develop a talking paper, explaining the concept and purpose of US "ICEX" organization and describing experiences with DOICC's already in operation for presentation to the concerned GVN Ministries and senior police, civil intelligence, and military officials. Method, timing and responsibilities for making the actual presentations will be determined by the Deputy for CORDS to COMUSMACV, in collaboration with ICEX Committee members.

g. As soon as possible thereafter, Corps ICEX Coordinators will begin explaining the infrastructure intelligence and action coordination concept to Vietnamese Corps Commanders and Province Chiefs, obtain agreement in principle for the program and, if necessary, formalize Corps-level CICC organization.

FOR THE COMMANDER:



WALTER T. KERWIN, JR.
Major General, USA
Chief of Staff

NEIL N. SNYDER, JR.
Colonel, USA
Adjutant General

- 1 Annex
US Organization for Infrastructure Intelligence
Collection and Exploitation

DISTRIBUTION:

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Plus 50 - CORDS
150 - AG-AOP
10 - AG-AO

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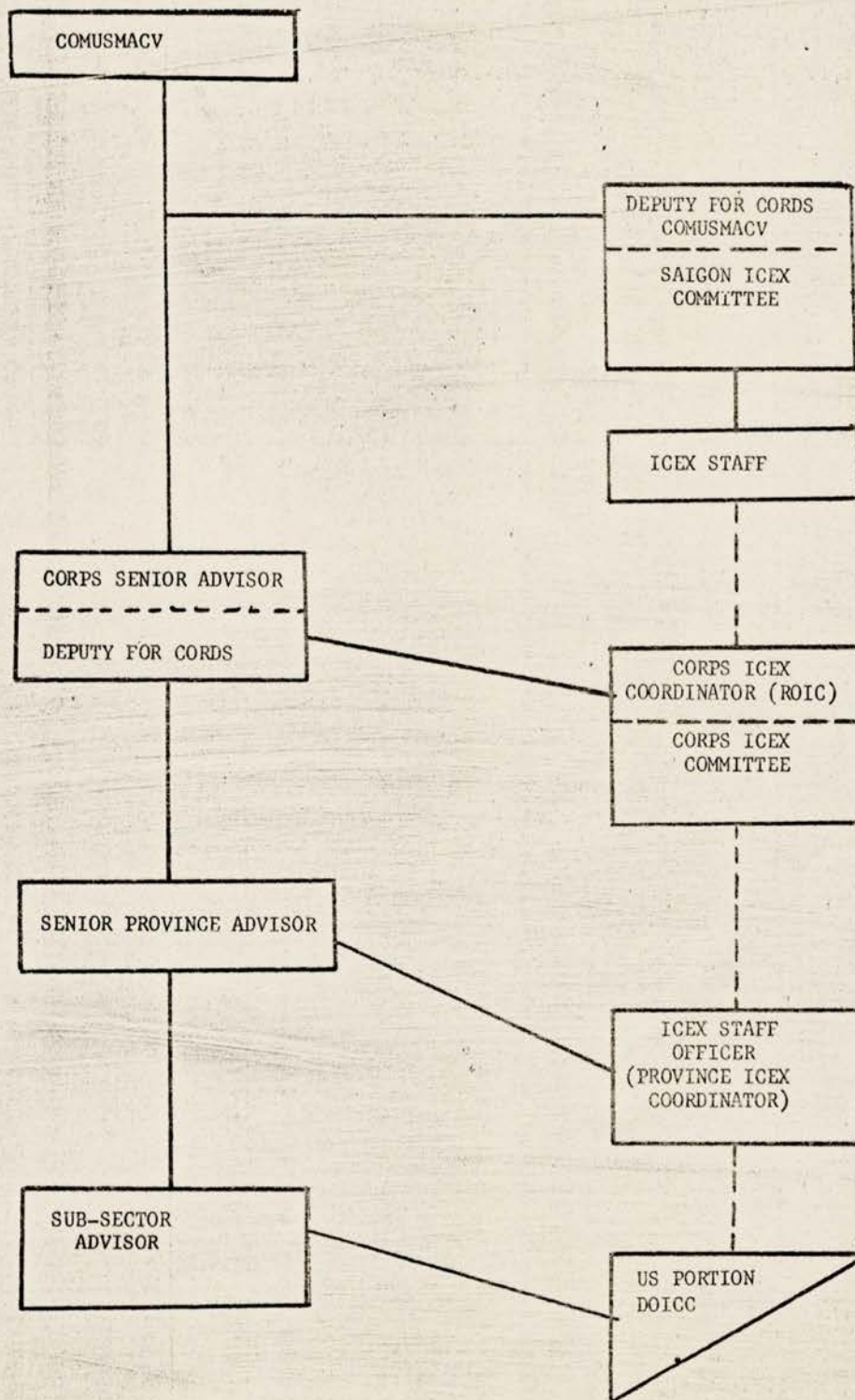
MACV Dir 381-41
9 July 1967

US ORGANIZATION FOR INFRASTRUCTURE
INTELLIGENCE COORDINATION AND EXPLOITATION

COMMAND

(ICEX)

COORDINATION



Annex A

~~CONFIDENTIAL~~

DECLASSIFIED

E.O. 12356, Sec. 3.4

NEJ 94-182

By WJ, NARA, Date 4-25-95

~~SECRET~~

ECONOMIC AID OPTIONS

The following economic and food aid options regarding India are available as steps short of resumption of full developmental aid either to:

- (a) indicate partial satisfaction with progress in relationships, or
- (b) to allow time for progress to be demonstrated:

1. Bi-National Foundation: Allocation of a large amount of U.S.-owned Indian rupees would have high public impact but would not be of immediate economic assistance to India.
2. Oceanographic Ship: Donation of a surplus research vessel would have public visibility.
3. Prior Year Development Loans:
 - A. Aerial Mineral Survey - \$3.5 million
 - B. Dhuvaran Power Plant - \$32.3 million
 - C. Durgapur Power Plant - \$16.5 million
 - D. Beas Dam - \$33 million

These four loans - from funds reserved from prior years - are a significant amount of money, but do not provide early economic relief.
4. Development Loans from Current Funds:
 - A. Education - a loan of \$12 million has been under review for some time. It would support a sector of considerable public appeal.
 - B. Private Industrial Loan - a \$10 million loan to a private Indian jeep manufacturer has been under review.
5. Grain Imports: The last PL 480 grain authorization will be substantially shipped by early May. New authorization could be 3 million tons - to last until September
or
6 million tons - to last until the end of the year.
6. Cotton: India has asked for 327,000 bales of cotton - valued at about \$50 million - under PL 480. This request or a portion of it could be granted.
7. Fuel for Atomic Power Plant: Credit contract (under AEC legislation) could be approved for the first "charge" of fuel (valued at \$15.8 million) for the Tarapur Plant now being built with A.I.D. financing.

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MEMORANDUM

THE WHITE HOUSE
WASHINGTON617
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DECLASSIFIED
E.O. 12356, Sec. 3.4
NEJ 94-179
By 128, NARA, Date 6-22-94~~CONFIDENTIAL~~

Sunday, March 27, 1966

MEMORANDUM FOR THE PRESIDENT

Final Notes on Gandhi Visit. This is my valedictory as your Mid-East hand, but fittingly so because I don't think there's been a more important substantive meeting since Kennedy met Khrushchev in Vienna. The flow of people and memos citing this as a historic opportunity to settle on a new course with 500 million Asians suggests that this is more than a Chet Bowles promotion.

Moreover, I think that we finally have the Indians where you've wanted them ever since last April -- with the slate wiped clean of previous commitments and India coming to us asking for a new relationship on the terms we want. Circumstances helped (famine and the Pak/Indian war), but seldom has a visit been more carefully prepared, nor the Indians forced more skilfully to come to us (note how little press backlash about US pressure tactics -- when it's been just that for almost a full year).

The proof is that India is now talking positively about buying all the World Bank reforms; its line is now that it wants to go boldly in this direction, but can only do so if the consortium will help pay the inevitable cost. This is precisely where we wanted to maneuver the Indians -- into saying they'll help themselves if we'll respond in turn.

The Nature of the Economic Bargain. This is aptly described in Dean Rusk's memo at Tab A. I'd only add two points. First, I'd break away from the old pledge figure (435) and talk privately in terms of around a half billion dollars from all US sources -- it sounds more generous while the arithmetic is the same -- plus at least half a billion in food. This is over \$1 billion -- a generous response in anyone's league.

Second, I'd stress that this can be a self-enforcing bargain -- in two critical respects. Most of our dollar loan aid plus debt rollover (and the consortium's as well) can be tied directly to import liberalization, as we did with the Paks. If India doesn't liberalize to our taste, it just doesn't get the dough. Similarly, you have already proved how our holding back on PL-480 can force India into revolutionizing its agriculture. Once the famine is licked, I'm for continuing to ride PL-480 with a short rein -- it will be painful but productive. If these points don't add up to requiring self-help, I'll eat them.

That tough-minded George Woods and the World Bank are with us is reassuring. You've read the VP's report on his talk with Woods, and at Tab B is Gaud's memo on his views. Woods talks about "double or nothing"

3/27/66

being the only sensible course on India aid, and it's true that on any per capita basis our aid to India is very low (less than a dollar per person ex-food), while India's own self-help contribution to its development is higher than that of almost any other LDC (twice that of Pakistan).

But as I explained the other day I think we can get real results in the next two years without going to Congress for a lot more money.

Debt rollover is the backdoor financing key, and it's the same as aid.

If India takes off as a result of our strategy, then we'll have a solid case to take to the Hill.

Political Conditions. We're not going to get as much from Indira on the political side, especially on Vietnam and Pakistan. She's new at being PM, scared of the coming elections, and lacking as yet in the confidence in her own position which would let her talk big. But we have a strong ally moving India toward us on these matters -- Mao Tse Tung. Just as he forced the Soviets in our direction, he's done the same with India. So the Indians are increasingly serious about China, and all we need do is nudge this trend along.

On Pakistan, the one thing that really gravels Indians -- Dinesh Singh and B.K. Nehru are prime examples -- is that we "equate" 500 million Indians with 100 million Paks. If you would just tell Mrs. Gandhi that we can count, it would reassure her enough about our basic intentions, that she'd stop any carping about our aid to the Paks.

If she raises military aid, I'd short circuit this by saying that it's far less important than economic issues and we plan no decisions for a while, beyond perhaps allowing sales. Nor do we intend to re-arm Pakistan to where it can threaten India. In fact, we favor both countries putting a ceiling on military outlays; we don't intend to finance an arms race indirectly via US economic aid. But India too must realize that forcing the Pak military to depend on Peking for arms would be folly from India's own viewpoint.

She's also ready to say in spades that India has no intention of taking over Pakistan. Get her to say so, and you can use it as powerful reassurance to Ayub. It's the best you can get him, because she simply can't give anything now on Kashmir (and it only creates useless trouble for us to try).

Emergency food is the trickiest problem. What's needed is both to give her reasonable confidence that Uncle Sam will help generously and to keep enough pressure on her to seek other help and push on with reforms. The best bet is to say you'll put it up to the Congress. But you should know that all your Executive Branch advisers are deeply worried lest Hill debate get out of hand, and create a sour aftermath to a successful visit. Even the sober Ellsworth Bunker reminded me of the 1951 experience when

3/27/66

Mr. Truman went up for a \$190 million food loan to India; Bunker said the violent criticisms voiced in the debate set back our political relations far more than the food helped fill bellies. Ellender talking about sacred cows certainly won't help. You might ask Bunker about this.

You're the judge on Congress. I'd only urge that we design the message to create the least flap and give you the most room to maneuver. This means avoiding tight formulas which box us in, since the worst of the famine is yet to come. Also, what happens if you ask for only 3.5 million tons of wheat/milo, and then want to authorize another tranche around September when Congress is out of session?

Visit tactics. All those who know her urge you see her alone first, put her at her ease, and then trigger her spiel by asking where she sees India going.

If she says the right things, you have a whole range of responses. I'd be generous but general, telling her that if she does what she says we'll respond in kind. We'll abide by what India works out with the World Bank (up to around a half billion -- including debt rollover and EXIM).

The experts say there's a strong case for moving quickly in May/June, before India gets caught up in its election campaign and Indira loses room to maneuver. So you might urge that she send her economics ministers pronto to talk with the World Bank.

I'm also sending up State's briefing books, which have all the facts and background. You might want to reread the Strategy and Talking papers. I'll have an agenda for tomorrow's 10 a.m. pre-briefing session, at which we can clear up any last-minute points.

R. W. Komer

R. W. Komer

ba

A

THE SECRETARY OF STATE
WASHINGTON

March 26, 1966

~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT

Subject: The Economic Bargain with Mrs. Gandhi

Discussions held since the submission of our strategy and talking points papers have indicated the desirability of restating in brief and specific terms the economic bargain we hope to strike with Mrs. Gandhi, if we reach the desired understanding on political issues.

In sum the proposition is this:

1. On the economic front the basic issue is confidence: confidence on our part that India will press forward aggressively to accelerate its economic development through liberal economic policies and emphasis on agriculture; and confidence on Mrs. Gandhi's part that the U.S. can be counted on to provide necessary financial support.
2. We believe Mrs. Gandhi is prepared to make the following points:
 - a. India plans to liberalize its import control policies and its internal price, marketing and other business controls and to adjust its exchange rate and tax policies to support such liberalization. If assured of U.S. support, India is ready to work out the details of these measures with the World Bank and IMF and to take the necessary actions this spring.
 - b. In order to move rapidly toward self-sufficiency in food production, India will follow through on emphasizing agricultural development, including making adequate fertilizers available to farmers and vigorously seeking to attract foreign private investment in fertilizer production.
 - c. India has already made a good start on family planning and will accelerate its efforts to control population growth.

3.

~~CONFIDENTIAL~~

Group 3

Downgraded at 12-year intervals;
not automatically declassified.

DECLASSIFIED

Authority State letter 4/17/78
By g/lw, NARA, Date 4/25/94

~~CONFIDENTIAL~~

-2-

3. We would recommend the following U. S. response:

We realize that a liberalized import program is possible only with assurances of substantial Consortium financial support. The U. S. will provide its share of that support in coordination with the World Bank and the rest of the Consortium. We suggest that India's key finance and planning people come to Washington as soon as possible to work out the details with the World Bank and the IMF. We will work with them and talk to our key consortium partners.

Our financial support for FY 1967 would involve about \$385 million A.I.D. loans and \$50 million EX-IM loans - the same levels as pledged in recent years - and \$35 million as the U. S. share of readjustment of Indian debt. In future years A.I.D. loans may go up a bit, if Indian performance warrants.

* * * * *

4. While the foregoing would be the key points in any bargain, the following points are also important:

- a. We are disappointed that India has not moved forcefully enough to attract foreign private investment in fertilizer production. No special financial backing is needed for action on this score; and the vigor of Indian performance in seeking fertilizer investments will certainly affect our judgment as to how vigorously we can expect India to move on other economic fronts. We do not expect India to accept unreasonable terms from foreign investors, but we do expect India to make every effort to tap this large resource of financing and know-how. We are not doctrinaire on the public sector-private sector question; we have financed public sector plants and may well again, but only after we are sure India is doing all it can to capitalize on available private resources.
- b. Congratulations might be offered on India's promising initiation of its family planning program.

Dean Rusk

Dean Rusk

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6-d

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT
WASHINGTON, D. C. 20523

OFFICE OF
THE ADMINISTRATOR

MAR 25 1966

MEMORANDUM FOR THE PRESIDENT

SUBJECT: World Bank Views on India

George Woods is in Europe, but we have talked to his Vice President, Geoffry Wilson, and to the World Bank officials principally concerned with India matters. We understand the Bank shares our hope that Mrs. Gandhi will indicate India's willingness and ability to make the basic economic policy changes recommended by the World Bank, the IMF and ourselves. If Mrs. Gandhi undertakes (a) to liberalize import controls with necessary exchange and tax adjustments, (b) to proceed vigorously with the new agricultural program and (c) to keep up the momentum of the population control program, the World Bank would, we believe, offer its full support.

The World Bank team, which has been working with the Indians for the past year, could work out the details of the new Indian program in a few weeks in cooperation with the IMF and ourselves. At the same time the World Bank and ourselves should be helping the Indians line up the full support of Canada, the U.K., Germany and Japan, our key India Consortium partners.

George Woods is expected back Sunday night, and I will check with him personally then or Monday morning to verify the accuracy of these views.



William S. Gaud
Acting Administrator

~~CONFIDENTIAL~~~~CONFIDENTIAL~~

DECLASSIFIED

Authority State letter 4/17/78
By dlw, NARA, Date 4/25/94

DECLASSIFIED

E.O. 12356, Sec. 3.4

NEJ

94-180

By ing, NARA, Date 7-14-94

2
Saturday, March 26, 1966- 5:30 pm.

~~SECRET~~

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Conversation with President Ayub re Chicom Visit (Karachi, 1804)

I saw President Ayub for 70 minutes on March 24 to discuss the Chicom visit.

I expressed regret at the unfortunate aspects of the upcoming Chicom visit, coming as it did at a time of widespread international bad behavior by the Chicoms, and during the period of Indira Gandhi's visit to the U.S. I expressed the earnest hope that nothing would transpire in the course of the Paks visit which would embolden the Chicoms to follow a more provocative course. I noted it would be extremely unfortunate if anything grew out of the visit here which the Chicoms could exploit from a diplomatic or propaganda standpoint. I observed that in view of numerous setbacks suffered by the Chicoms in the last nine months, extending from Algeria to Indonesia, it would be highly regrettable if Paks should even unwittingly become a factor in some Chicom effort to recoup lost prestige. I pointed out the public disappointment in the U.S. that Paks had found it necessary to agree to visit at a time when the Chicoms were making so much trouble and when unfortunate interpretations could readily be placed on the visit. I invited the President's comments on whether timing of the visit to coincide with Indira Gahdhi's talks with Washington was accidental.

The President stated with vigor that the visit had been laid on last December as repayment of Ayub's 1965 visit to Peiping. This was long before Paks had any exact idea as to when the Indian summit visit to Washington would come off. He said with some warmth that he was not so foolish as to want to play into Indian hands. He knew the Indians would endeavor to misrepresent the visit and he would have changed the date if he could have done so appropriately. But the Chicom leader had scheduled several visits this spring, including Afghanistan and Nepal and could not readily reshuffle the schedule. The President assured me that he would not permit the visit to be used by the Chicoms in any way which would hurt our cause or embarrass us. He recalled his firm stand against objectionable statements which the Chicoms had tried to employ in a joint communique to Peiping last year and said he would be equally firm this year. He could not control what the Chicoms might say unilaterally after they left Pakistan, but he would not allow the Pakistan visit to become a platform for hurtful actions or statements by the Chicoms. He did not think the Chicoms would try anything of that sort but he would be on the alert.

I told the President we hoped the people of Pakistan would not go off the deep end in expressions of enthusiasm for Chicom leaders at a time when they are seeking to foment so much trouble in Southeast Asia and around the world. We knew that dictates of international usage and Pak traditions would call for courteous and attentive treatment and I knew that gratitude generally felt in Pakistan for Chicom gestures of support to Pakistan during the war with India would make inevitable a certain amount of public acclaim. But we hoped that the accolades would not be so extreme as to create an unwarranted impression of Pak support for Chicom policies.

~~SECRET~~

The President said the guests would be given the full treatment as honored State guests and it was a fact that a considerable degree of public enthusiasm and expression of gratitude must be anticipated. He said, "After all, they came to our aid with unconditional offers of assistance when our national existence was at stake. That our people cannot forget."

I told the President it was our hope that he would make a full effort to put some sense of moderation and caution into the Chicoms in reference to the struggle in Vietnam. The Chicoms are undoubtedly exerting considerable influence on North Vietnamese and could do much to induce the North Vietnamese to come to a conference table on Vietnam without preconditions.

We felt that President Ayub perhaps is in the best position of any free world leader to talk bluntly and effectively to the Chicoms about imperatives and dangers of the present situation. Chicoms might be inclined to heed an urgent admonition coming from President Ayub. The Government of Pakistan, along with us, has a vital stake in the course taken at this juncture. He was in a position to make the Chicoms keenly aware of the penalties that would come from reckless involvement and he could make it clear that Pakistan would not be indifferent to any Chicom commitment to a course of irresponsibility.

The President said that it was his intention to make a major representation to the Chicoms counseling restraint, conciliation and peaceful settlement through unconditional negotiations.

He promised that he would use his very best efforts toward these ends. He agreed on the imperative necessity of finding a solution along these lines, but he disagreed with my assessment of the danger of provocative course being adopted by the Chicoms. He said the record shows that the Chicom leaders are cautious people when a showdown is near. They do not want to become involved in a major conflict and he believes that they intend to pursue methods other than outright military aggression to achieve their objectives. He said he would not try to predict beyond a decade, but for the next decade he did not believe the Chicoms intended to attempt in Southeast Asia, or in India, a conquest by armed force. He said that as a part of his major representations to the Chicoms, he would like to be able to state categorically the limits on US military intentions. He thought the Chicoms were genuinely mistrustful of US military intentions and that their bona fide fears needed to be allayed. He knew, of course, that our military posture was a responsible one but he wanted to be able to quote the US representative directly.

I told him he could reaffirm categorically what has been stated by US leaders repeatedly:--that we seek no wider war and that our desire is to end the hostilities at the earliest possible moment by unconditional negotiations, looking to a peaceful settlement which will respect the wishes of the people. We had no intention or desire to enlarge the area or the nature of the conflict and the Chinese Communists need have no fears on this score unless the Communists, themselves, should initiate some flagrant new aggression.

The President said he would use this statement in his representations to the Chicoms and expressed the hope that he could instill a more reasonable attitude in them. He asked me some factual questions about the series of talks with the Chicoms at Warsaw, Vice President Humphrey's recent statements on contacts with Communist China, and US Government moves looking to the possibility of visits by correspondents, doctors, scientists, and scholars to Mainland China. I gave him some background information, and noted the difficulties we have had in negotiating and implementing any sort of arrangement with the Chicoms.

The President said he thought he had a clear picture of the difficulties. He promised he would use his best efforts and that he would communicate with us on the outcome of the talks.

The remainder of the conversation dealing with India is covered in a separate telegram.

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8

DECLASSIFIED

E.O. 12356, Sec. 3.4

NEJ 94-182

By sig, NARA, Date 4-25-95

March 25, 1966

MEMORANDUM TO: Mr. Joseph Califano
Special Assistant to the President
The White House

SUBJECT: Proposed Message on India's Food Needs

As Bob Komer requested, I am giving you our suggestions on the proposed special message to Congress on India's food problem:

From the point of view of India's food problems, we would prefer that there not be any message to Congress. If the famine situation is described vividly enough to ensure Congressional sympathy and support, the message could have serious adverse effects in India. Heightened fears and uncertainties might lead to increased hoarding and soaring prices and could even play into leftist hands which are directing the Kerala and Calcutta riots.

If a message seems necessary for other reasons, we have the following suggestions:

1. The message should not be delivered until after the President has had a chance to discuss the message and its timing with Mrs. Gandhi. We understand that she emphasized in India that she was not coming to America to beg for food or aid; and a message like this during or directly after her visit might damage her domestic political position.
2. We recommend that the message simply report on conditions in India, the world response and the U. S. response, without asking for any special resolution unless we can be sure that there could be no delay. The P. L. 480 pipeline to India is running dangerously low. Additional wheat and shipping must be ordered by mid-April at the latest.
3. The tone of the message should be carefully moderated so as not to increase India's food problems and should not refer to

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- 2 -

"starvation" conditions or "threat to lives of tens of millions of people."

4. We recommend against discussing any matching formula. Since it would have to be quite complicated, it would only confuse matters. In any event, the recently announced additional Canadian contribution worth \$56 million, when added to the \$70 million of government grants and credits already made, fulfills 90% of the matching response sought under Bob Komer's formula. Private and World Food Program responses have also been substantial.

5. We suggest that the President's message announce a new Title I sales authorization of 3 million tons - 2-1/2 million tons of wheat and 1/2 million tons of sorghum. Such a program, coordinated with the Canadian grant, will keep the pipeline to India full through September. By that time we will be able to gauge this year's monsoon, we will know better how much other countries are giving, and we will have a better picture as to India's foodgrain needs for the rest of Fiscal Year 1967. This amount of grain should take care of our present political-humanitarian objectives in India without removing the pressure on Australia and our European allies for additional assistance.

5/
William S. Gaud
Acting Administrator

WGFarr/st/es:AA/NESA

~~CONFIDENTIAL~~

March 23, 1966

8a

MEMO FOR JOE CALIFANO

Joe, I have been trying to get you because I recall full well your request that all messages, etc., be passed through you. However, the President told me explicitly, in Rusk's presence, to send Rusk my latest draft message for comment. The President's intention as of Wednesday was to send this to the Congress immediately after Mrs. Gandhi's visit.

So the problem is urgent. Also urgent is my desire to disengage and become a Vietnamese. So in sending out my draft, I took the liberty of asking the Departments to reply through you.

Bob Komer

Enclosure

Suspense

8b

THE WHITE HOUSE
WASHINGTON

~~CONFIDENTIAL~~

March 23, 1966

MEMORANDUM FOR THE SECRETARY OF STATE
THE SECRETARY OF AGRICULTURE
THE ADMINISTRATOR, AGENCY FOR
INTERNATIONAL DEVELOPMENT

SUBJECT: Food for India

Here is the draft Food for India message and explanatory memorandum which the President asked that I send you. It is very rough, and has no status whatsoever at the moment.

However, the President's current intent is to send some such message to the Congress immediately upon Mrs. Gandhi's departure. Hence, may I suggest that we use the attached as a working draft and provide comments or amendments to Mr. Califano by Friday, 25 March.

R. W. Komer
R. W. Komer

Attachment

DECLASSIFIED
E.O. 12356, Sec. 3.4(b)
White House Guidelines, Feb. 24, 1983
By *Phg* NARA, Date *3/25/94*

~~CONFIDENTIAL~~

MEMORANDUM

DECLASSIFIED

E.O. 12356, Sec. 3.4

NEJ 94-179

By lip, NARA, Date 6-22-94

30
THE WHITE HOUSE

WASHINGTON

80
March 21, 1966

Monday, 4:30 p.m.

~~CONFIDENTIAL~~

MEMORANDUM FOR THE PRESIDENT

Special Message on India Food. Here is a draft version which rings all the changes on how much we've done already, how a big international effort is needed, and how we'll do as much or more than anyone else if Congress approves.

The one tough problem is to build a workable matching formula which will encourage others to pitch in without putting us on the spot.

Any formula will put pressure on the Indians to beat the bushes harder --but it will also punish the Indians for what others refuse to give. Matching gives us leverage on the Indians but not directly on other donors. Our real leverage on them comes from bilateral arm-twisting. Pressing the Indians is useful because they could push harder than they have through diplomatic channels. But pressing them via a loud international alarm about famine in India could set off hoarding and price speculation and make it even easier for the leftists to stir up food riots. So while a matching formula would spur greater Indian effort, we'd want to be careful not to put all our eggs in that basket.

The other side of the story is that--right or wrong--other donors just won't come close to matching our total effort. Some don't have grain but are sending modest quantities of other foodstuffs, port-handling equipment or money. Those who do have grain are heavily committed to other buyers, though they're gradually raising India's share. But so far other governmental contributions total around \$70 million--not bad but not even close to the \$660 million value (world prices) of India's 11 million ton wheat deficit or to the \$300 million value of the emergency deficit (5 million tons) above normal import levels. The tough part is that very little of this \$70 million is grain. Agriculture guesses we might only get 1 million tons from other donors, so even if other donors come through with half the dollar value of the emergency deficit (\$150 million or about 2.5 million tons' equivalent), India will still need 4 million tons of actual grain. So while a formula might encourage donors, tying ourselves too rigidly to direct matching could leave us later facing a choice between backing down if other donors failed and letting Indians starve.

After several months with this incredibly complicated and frustrating problem, my answer is a simple three-phase formula: (1) We finish meeting

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- 2 -

India's normal ¹⁹⁶⁶ import level of 6 million tons. Another million tons would do that. (So far they have 1.5 million you authorized in December, 3 million from February's authorization and 0.5 million in spillover from old purchases). (2) As the next step, say in effect we expect other donors to pick up at least half the value (\$150 million) of the emergency grain deficit (5 million tons) as we now see it--by sending grain, other commodities, cash or services. We'll match the value of their contributions in grain. (3) Then we'll review India's remaining grain needs in June to see where we stand. There will be time then to see whether we want to put in another 1-2 million tons on our own.

The purpose of this is frankly to keep grain flowing while putting as much heat as we can on the Indians and other donors in the next three months without either tying our hands or looking inhumane. Another million tons of wheat by early April would keep ships leaving with both wheat and sorghum into June, and another 1-2 million tons in matching would keep them going another 2-3 months through the monsoon. I've written this approach into the attached draft message to Congress and possible joint resolution.

R. W. Komer

~~CONFIDENTIAL~~

82

DRAFT

March 7, 1966

THE WHITE HOUSE

MESSAGE ON COPING WITH HUNGER IN INDIA

TO THE CONGRESS OF THE UNITED STATES:

I proposed in my message on Food for Freedom that the United States lead the world in a war against hunger. The nation will profit from the deliberations of the Congress on that proposal.

But today in India we face crisis so urgent as to require a special immediate effort.

The Indian Crisis

Over one-fifth of the half-billion people in the world's largest working democracy live in areas stricken by their worst drought of the century.

Last year we shipped about 6.5 million tons of grain to India--about one-third of the amount of wheat we used here at home.

But the Government of India estimates it will need 11-14 million tons to meet essential requirements--even after drawing down meager stocks and tightening belts. A team of experts which I sent to India confirms this estimate.

The need is staggering. Eleven million tons of foodgrains, valued at around \$700 million, would equal about forty percent of India's total annual export earnings.

Responsibility of All Nations

India has asked for help.

The United States answered by allocating 1.5 million tons last December and another 3 million tons on 4 February, after I consulted with the Congressional leadership.

We must do even more.

Yet meeting human tragedy on this scale cannot be left to a beleaguered India and to the United States alone.

The whole community of nations must play a humanitarian role.

Indeed, India's needs are already recognized as demanding a truly international response .

--The Government of India has itself addressed urgent inquiries to all nations believed able to contribute.

--The Secretary General of the United Nations and the Director General of the UN Food and Agriculture Organization on 11 February made an urgent appeal to the world community.

--His Holiness Pope Paul VI has written to me and has appealed to other nations and peoples to help.

--The World Council of Churches on 10 February made a parallel appeal.

In an emergency of this magnitude, the obligation to assist a neighbor in distress should extend to every nation in the world.

To those who have no food to spare, we point out that India needs more

than food--transportation and equipment, fertilizer and chemicals, credit and cash.

To those who believe they have nothing to spare, we suggest another look--first, at the critical urgency of the crisis--and then once more at their own potential to help.

There is no nation on earth far enough from India to be immune from the effect of hunger and starvation there.

There are few nations on earth that cannot afford to give something.

And there is no great and rich nation on earth that can sustain its claim to greatness if it cannot find some way to assist its "neighbor" in this emergency.

Though some besides the United States have already responded handsomely, the general response to date must be termed disappointing. Of the world's uncommitted export supplies of grain, other nations have about half as much as the United States. Yet it is estimated that so far aid from others amounts to only about seven percent of India's total import need /to around twenty percent of the emergency need above normal import levels/.

An International Response

So I ask the Congress to join with me in calling on all other nations for a response equal to the need. Let us look on this as an opportunity for strengthening the bonds of international cooperation.

I propose that the United States' response reinforce this international effort and demonstrate our own deep concern for the people of India.

But before embarking on this task of mercy--which could involve substantial quantities of additional foodstuffs--I believe it appropriate to call on the Congress to discuss fully my proposals and to endorse them. I seek the endorsement of the Congress for a simple three-phase program including:

--Fulfilling US plans to help meet India's normal import requirements of about 6 million tons.

--A further special US contribution in grain equal to at least half of India's emergency grain deficit as now forecast, on the understanding that other donors will match this with contributions of equal value or more.

--Review with the Government of India of the results of this international effort to determine how remaining requirements shall be met when the situation becomes clearer.

I urge these emergency measures in full recognition that they must not obscure the need for a broader, longer-range attack on hunger and malnutrition in India as elsewhere.

DECLASSIFIED

E.O. 12356, Sec. 3.4

NEJ 94-179

By WJP, NARA, Date 6-22-94

~~CONFIDENTIAL~~

RWK:

March 24, 1966

The President and Mrs. Gandhi probably won't get into detail on encouraging private investment. However, since this is one of our main points and the briefing papers don't say much, here's some flavor for your background.

The one telling statement the President might make is that he hears American investors are just about to throw up their hands on India. Here's the line:

1. American companies have just about decided India is a poor investment risk. For instance, ESSO India's 1966 profits will fall to 2.6% (4.3% in 1965)--largely because of a heavy import levy. Whatever Indians think about the morality of profits, 2.6% won't draw private capital. What's more important, companies view this as a breach of contract. They feel GOI is committed to squeezing them out and a contract is no protection. So they feel like calling a halt to further investment.

2. The President won't use USG money where private money is ready to do the job. That would be a waste. Since India needs all the help it can get, we can't afford to duplicate. We don't want to argue the private-public ownership issue. We're just arguing common sense--use private capital when you can since public funds won't go around.

3. If India wants private capital--and we'll consider it's wasting resources if it doesn't--India will have to compete for it ("hot pursuit", as Rusk puts it). It won't fall in India's lap. In fact, it's just about to walk away. The GOI will have to set pricing, profit control and tax policies with this goal in mind.

4. There are two ways to attack this: (1) Promote an ideological showdown over the public-private issue. (2) Look for ways to show practically what the private sector can do and how it works. This pragmatic approach is best. India's immediate goal should be to get a few contracts signed--fertilizer offers the readiest opportunities (and tackles the crucial food problem at the same time).

5. But beyond that, what would improve the climate? The companies say the big thing is for the GOI to establish terms of reference for private investment and stick to them. This would mean no more retroactive taxes; no more hiking import duties halfway through a project; no more leading a potential investor through two years of negotiations and then introducing impossible new conditions.

~~CONFIDENTIAL~~

HHS



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON

10

March 24, 1966

MEMORANDUM

To: The President
The White House

From: Orville L. Freeman
Secretary of Agriculture

Subject: Logistic facts pertinent to India Foodgrain Situation,
Cotton and Vegetable Oil

1. As reported, the movement of grain into India is on schedule. Sorghum has given us some serious problems and does lower capacity limits in pneumatic unloading equipment, but we have managed to stay ahead. Necessary delays in making the last allotment cut sharply our lead time for moving grain out of the United States but by making "all out" efforts we have so far stayed on schedule.
2. The arrivals in India will be as follows:

March	1,000,000 tons
April	1,250,000 "
May	1,290,000 "
June	990,000 "
July	175,000 "

3. Logistic Problem

A minimum of 30 days lead time is necessary to book ships and move grain if a heavy strain on our already over-taxed transportation system is to be avoided. We can again, if necessary, make the Indians book ships in advance, move grain in anticipation of purchases and shipments not certain to be made and demand on short notice priorities for internal handling and transport. However, to do this involves additional cost, possible loss of commercial export markets, interference with other commodity movements, and inefficiencies in the utilization of very scarce boxcars. If we are to avoid such additional strain some additional grain for India should be allotted by April 15. Then ships could leave North American ports in late June or early July without disrupting the already heavily taxed supply lines. An authorization of 1 1/2 million tons of grain to be released as Prime Minister Gandhi departs or perhaps included in your message to the Hill would give us the necessary cushion to schedule and handle shipments efficiently until a final decision for the balance of the year is worked out.

*m - hell m;
nothing further
till Congress
acts LBJ*

3/24/66

2--The President

4. There are two other commodities that India has requested and needs which we can make available to them and at the same time serve our own domestic political ends.

A. Cotton

We have, as you know, a big surplus of cotton on hand. It is expected to reach 16 1/2 million bales, an all-time high, by August 1. The cotton industry, currently using Bob Poage as the instrument, is trying to write into the Food for Freedom Bill restrictions on making food available to countries who produce cotton.

You will recall the colloquy I had with Poage when I appeared before the House Agriculture Committee on this subject.

It would be helpful to resist a damaging amendment to the Food for Freedom bill and generally pleasing to the cotton people if we responded to the Indian's request for 327,000 bales of cotton (estimated value \$50 million) under Title I of P.L. 480. We have made cotton available in the past. India needs the cotton. Their production suffered from the drought, textile mills are working at less than capacity and some have closed with resulting unemployment and labor unrest. The availability of American cotton would contribute to meeting India's general overall economic problem.

B. Vegetable Oil

Drought conditions have adversely affected peanut producing areas in India. As a result production of vegetable oil has declined about a billion pounds. Indian users have requested the Indian Government to import 300 million pounds under P.L. 480. We could provide 1/4th of this amount, 75 million pounds, within the quantity which we have determined can be made available for programming without undue pressure on prices. This will please the vegetable oil people who are unhappy that we have cut back ~~soybean~~ exports under P.L. 480.

THE WHITE HOUSE
WASHINGTON

3/25/66

To: Carol Laise

Will you see this is included?

Bob K.

Rec'd 3:10 pm
3/25/66
BTM

THE WHITE HOUSE
WASHINGTON

March 23, 1966

Bill:

If you wish I'll ask State to
include this in the President's
briefing book.

Yes ☒ No ☐

Hayes

To Carol Laise
Will you please
see this is included
C. to Saunders Bob K.

INTERNATIONAL SECRETARIAT FOR VOLUNTEER SERVICE

1000 16TH STREET, N. W.
WASHINGTON, D. C. 20036

118

COUNCIL:

Argentina
Denmark
Germany
India
Israel
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Philippines
Thailand
United States

March 23, 1966

WILLIAM A. DELANO
Secretary General

Cable Code: VOLUNTEER
Telephone: 382-8480

MEMORANDUM TO THE HONORABLE BILL D. MOYERS

FROM: William A. Delano, Secretary General

SUBJECT: Visit of Prime Minister Indira Gandhi.

I know the agenda for talks between President Johnson and Prime Minister Indira Gandhi will be crowded. Not all subjects, however, would be as felicitous as President Johnson discussing Vikas Dal (Indian VISTA effort) progress. ISVS has been helping India on this and stands ready to do more.

India receives volunteers from eight countries in the world.

As you know, India pioneered with five Reverse Peace Corps volunteers to the United States.

With this vast experience and interest in volunteers, New Delhi would make a perfect (and neutral) spot for the 1966 Assembly of ISVS in late November or December.

Critics might use the predicted famine to discourage India's hosting of this conference. However, such an effort by India at this critical juncture might be the very dramatic triggering necessary to bring life to Vikas Dal. If so, India would lead Asia with this type of self-help effort by volunteers.

The Indian Embassy relayed my request for India to consider this question in February. A mention of Vikas Dal and ISVS by President Johnson might turn the trick.

India as you know is a Council member. Incidentally, couldn't the vast amount of counterpart funds in India be used to defray the cost of hosting this conference. We figure the host country has to be prepared to put up at least \$100,000 for a conference with between 60 and 80 countries present.

ASSEMBLY:

Argentina
Australia
Austria
Belgium
Bolivia
Brazil
Canada
Chile
Colombia
Denmark
Dominican Republic
Ecuador
El Salvador
Ethiopia
France
Germany
Honduras
India
Israel
Italy
Ivory Coast
Jamaica
Japan
Liberia
Malaysia
Nepal
Netherlands
New Zealand
Niger
Nigeria
Norway
Pakistan
Philippines
Sierra Leone
Sweden
Tanzania
Thailand
Tunisia
United Kingdom
United States
Venezuela

OBSERVERS:

Finland
Switzerland

Sure

given to the president on the return trip
from NYC -- 23 Ma 66 ----by
Ambassador Galbraith...

12

L

the president gave it to me -- and did not
say what disposition it should have. .

vm
3/23/66

Komer

Rec'd
23 Mar 66
on AF 1
1:30 pm

12a

March 22, 1966

MEMORANDUM FOR THE PRESIDENT

Indian Policy

The two important things about Indian policy are to keep it concentrated on the very few essentials and to keep the Indians thinking that they need us more than we them. The following are the essentials of a sound Indian policy and there isn't much more.

- (1) To recognize that the most important thing is to keep India from being a famine disaster area in Asia with attendant disorders and dangers.
- (2) This requires:
 - (a) A strong agricultural policy with primary emphasis on fertilizer and price incentives. Nothing else is so important. Agricultural effort should not be spread over a lot of minor things as in the past.
 - (b) Energetic population control. This is still conversational rather than operational.
 - (c) Using aid to free the economy from the restrictions mostly having to do with use of foreign exchange. These now strangle it.
- (3) We will have to extend aid in generous amounts. But the Indians should be clear that we do this for the express purpose of accomplishing the above results, i.e., food production, population control, freeing the economy and, in the interim, preventing starvation. This is not interference. It is our natural expectation of effort by the Indians to achieve the above results.
- (4) The starvation danger far outweighs the Chinese danger. The Chinese are too intelligent to want to take over another hungry country. Therefore the foregoing measures must have priority over military outlays. There should be no talk of resuming military aid to either India or Pakistan in any serious form. Not even the State Department should feel compelled to repeat all past mistakes.

- (5) We count generally on the Indians to work for peace with Pakistan.
- (6) We don't consider India a major factor in the Cold War politics. That gives her a unsupported sense of her importance. We are naturally grateful for anything she can do in working for peace in Asia but her primary concern is to get on top of her own problems.

John Kenneth Galbraith

JKG/adw