



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON

13

March 22, 1966

MEMORANDUM

To: The President
The White House

From: Orville L. Freeman
Secretary of Agriculture

Subject: Basic Agricultural Matters for Discussion with Prime Minister Gandhi

I. Prime Minister Gandhi's Support of Agricultural Development

The relationship between Minister Subramaniam and Mrs. Gandhi appears to be good. Mrs. Gandhi has generally supported Minister Subramaniam's new agricultural development program as it evolved from our discussion in Rome last November. She relies heavily on Subramaniam for advice on a wide range of matters going far beyond agriculture. She also uses him as her personal emissary in problem situations, most recently in strife-torn West Bengal.

Her principal weakness is her failure to back necessary policies solidly. Over the past month, Subramaniam has been strongly attacked by both the opposition parties and his own Congress party on food and agriculture problems in general and the Government's decision to encourage foreign private investment in fertilizer production in particular. Subramaniam has shown determination and courage in carrying forward our Rome agreement.

Mrs. Gandhi, instead of assuming a strong, positive stance, has chosen to be defensive and apologetic. This contrasts with the strong, even brutal measures, used to suppress the food riots. Early in March at an informal meeting with Members of the Press Association of India and the Foreign Correspondents Association, Mrs. Gandhi responded to criticism about encouraging foreign fertilizer investment by relaxing restrictions as follows: "Certain commitments were made by the Government and I do not know how far it is proper to go back on these commitments." Following this she said, "Besides, we are in very urgent need of fertilizer. At that time (the time the decision was taken), the Government felt the need so important and so urgent that it tried to get it in whatever way was possible." Statements of this nature do not encourage foreign private investment in India.

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The Government has also been strongly criticized for going to other countries and asking them for food. This is often described as "begging" and an "embarrassment" of India before the world. This appears to have struck a sensitive political note. The Government is damned if it does and damned if it doesn't. If it doesn't go after food from other countries, it's faced with serious shortages, riots and famine. If it does go after food and succeeds in avoiding famine, it comes under fire for its "beggars" approach to solving the food problem. In a democratic country with free expression this is to be expected.

However, instead of a firm position with positive statements that the drought has triggered the need for worldwide assistance, Mrs. Gandhi has several times minimized the seriousness of India's food shortages. If she expects other nations to make meaningful contributions, she must face the fire firmly at home. So far she has equivocated on this.

II. The Dialogue with Minister Subramaniam

As you know, extensive and detailed discussions between Minister Subramaniam and myself have been held. A week in Rome late in November and several days here just before Christmas enabled us to pretty well "thresh out" the issues. Since then the Indian Cabinet and Parliament have publicly outlined a meaningful program.

The problem now is to implement these announced programs and policies. It appears that Subramaniam is proceeding energetically to carry them forward. However, at the moment he is falling short of some of our targets. In May, I expect to go to India to check on-the-scene progress personally and in detail.

III. Evaluation of Progress

A. Food Situation

(1) Logistics

At this point, grain is moving from here to India in a rather regular flow. Arrivals of grain in India should average more than one million tons per month in March, April and May. Everything indicates Indian ports should, with a little extra effort, be able to handle this much.

There has been some difficulty with grain sorghum. You may recall that the 3 million tons of food grain you made

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available in early February consisted of 2 million tons of wheat and 1 million tons of sorghum. The Indians immediately expressed reservations over their ability to take large quantities of sorghum. They claimed the moisture content of grain sorghum would be too high and that it would not store well under Indian storage conditions. The first shiploads of grain sorghum have arrived and were in excellent condition as far as moisture was concerned. A second objection was that grain sorghum could not be handled as rapidly as wheat. Once the evacuator was properly adjusted for sorghum, they handled almost as much sorghum as wheat, largely removing this objection.

The third objection was that consumers might not accept sorghum as a substitute for the local grains to which they were accustomed. We have not yet moved enough grain sorghum into India to test consumer acceptance on a large scale. They protest that riots like those in Kerala will result if we try to substitute sorghum for rice or wheat. We have urged the Indian Government to lower the retail price level of sorghum as needed to move the quantities we are providing. They have agreed to do this. We have had to push very hard to get them to take the allotted sorghum. The Ambassador and even the Prime Minister may complain that I have been unreasonable and excessively demanding. Even so we will still have some carryover of sorghum to ship after all the wheat has moved.

(2) Current Estimate of Crop

On February 15 the Indian Government was to have released another estimate of this year's crop. Because of an unresolved disagreement between the Center Government and some of the state governments on the actual level of food-grain production in these states, this report has not yet been released. If the Center Government prevails in this dispute, the crop estimate will probably remain unchanged at 76 million tons compared with 88 last year. If the state governments prevail, the crop estimate may decline by 1-2 million tons. It is our best judgment that as the crop estimate becomes firmer, it is more likely to decline than rise.

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(3) Contributions of Other Countries

The efforts of the Indians, backed by our support and that of the United Nations, have yielded some results although so far response to the Indian request has not been overwhelming. However, the cumulative contributions of some 20-25 countries are now becoming meaningful.

To date, the value of all contributions, including food, fertilizer, etc. totals some \$80 million. This still covers only a small fraction of India's food-fertilizer deficit, but it is nonetheless a start. If both we and the Indians keep the pressure on other countries, I think we can elicit further contributions.

Canada has promised to come through with another contribution of wheat which may be larger than the modest one made in January. The next major opportunity to press this issue with other countries is at the forthcoming meeting of the OECD scheduled to be held early in April in Europe. I plan to have a special representative there to impress upon the Europeans the need to assume much more responsibility not only for India this year but for the outcome of the world-wide food-population race.

(4) Food Needs for the Remainder of 1966

We have thus far made available some 5 million tons of grain for shipment to India in 1966. This is against their official request of 11 million tons. An additional 6 million tons is still required.

Some urge that we sign an agreement for a quantity of grain approaching this amount to carry the Indians through the remainder of this calendar year. They argue that such an assurance is necessary to stabilize prices and control the political situation, particularly Communist inspired riots. I would not recommend this for we would lose the leverage we so badly need to get the Indians to take some of the tough, politically difficult decisions -- decisions which become increasingly difficult as they move closer to the national elections to be held in February of 1967.

An agreement carrying to the end of the year would reduce the pressure to get other countries to contribute more food and fertilizer.

In my opinion, it would be better to announce some kind of a formula challenging the rest of the world to match our effort. A modest allotment could be made while Mrs. Gandhi is here or shortly after she leaves.

B. Basic Agricultural Long-Term Improvements

(1) Fertilizer

(a) Consumption targets

As of mid-March, the estimated availability of fertilizer for the 1966-67 crop is still well below target. Availability of nitrogenous fertilizer is now estimated at 850 thousand tons -- 400,000 tons of domestic production and 450,000 tons of imports. This is half again as large as the availability for the previous crop but still well below the target of 1 million tons set in Rome.

The estimated availability of phosphatic fertilizers is about 250,000 tons against a consumption target of 370,000 tons. For potash, availability is estimated at 100,000 tons against a target of 200,000 tons.

There is a very good prospect that the 1966-67 crop will not be up to normal because of the carryover effects of this year's monsoon failure. Thus, in order to minimize the prospective large grain import deficit for 1967, we must press the Indians hard to do everything possible to ensure fertilizer consumption at least as high as the targets.

There are various ways of getting the additional fertilizer. The Indians could use some more of their own foreign exchange. They should press other advanced industrial countries harder asking each of them to provide some fertilizer on concessional terms much in the same way we provide food. If Mrs. Gandhi would agree to using these two sources to fill half of the remaining fertilizer gap, we might then consider offering a loan to fill the other half. Without such an inducement, it is doubtful they will go much farther than they have so far.

(b) Getting fertilizer plants to full capacity

For one reason or another, fertilizer plants in India have never operated at much more than two-thirds of full capacity. Last year actual output was only 63 percent of capacity. Faulty plant designs, a failure to allocate enough foreign exchange to obtain both the necessary spare parts and necessary fertilizer raw materials were all contributing factors.

Over the past few months, assurances have been obtained from the Indians that efforts would be made to use more effectively their productive capacity. Gassification units, needed to get some of the plants with faulty design up to full capacity, are now on order and should be installed and operative within 18 months.

In addition to the factors preventing the effective utilization of plants in the past, there are some further factors hampering output this year. These include shortages of electric power deriving from the partial failure of the monsoon this year, and tight world supplies of phosphate rock and sulfur. They seem to be trying hard to increase production capacity but we must continue to push hard. You might impress upon Mrs. Gandhi the seeming incongruity of a country facing a serious and continuing food shortage on the one hand while tolerating such inefficiencies in their own government controlled and operated fertilizer plants on the other.

(c) Building fertilizer plants

One of the conditions under which the \$50 million fertilizer loan was made available last December 10 was a commitment by the Indians to do all they could to sign up by July 1, 1966 private sector plants with a combined production capacity of 1 million tons of nitrogen. There are four plants which may be signed up by July 1. These are:

1. Amoco Plant in Madras 200,000 tons
(All major hurdles believed cleared in these negotiations)

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2. Armour-Birla Plant in Goa 160,000 tons
(Negotiations largely concluded but further progress now stalled allegedly because of U.S. aid suspension)
3. Imperial Chemical Industries in Kanpur 200,000 tons
(Probably the most advanced of all prospective investors; expect to be on stream early in 1969)
4. Delhi Cloth Mills in Kotah 130,000 tons
(This is entirely an Indian private sector venture except for financing arranged through Japanese sources)

The total capacity of these plants will be 690,000 tons, still well below the 1 million ton commitment. None of these four plants is a certainty at this point, but each is a reasonable prospect for signing up by July 1, 1966.

Negotiations with other private investors are not moving forward satisfactorily at present. If Mrs. Gandhi continues to make wishy-washy statements about the government's attitude toward foreign private investment, India could even lose some of the prospects listed above.

Subramaniam is prepared to send a team of top level government officials through Western Europe, Canada, U.S. and Japan in an effort to interest more private foreign investors in India. In addition to fertilizer, they need pesticides, farm implements and improved seeds. The Indians claim that they have been creating the proper climate for foreign investment. The proof of the pudding, however, is in the eating and foreign investors so far have been passing India by, investing at record levels in other countries. It is claimed that restoration of our aid will make it possible to get the economy moving and that such is a necessary assurance for large investment.

Mrs. Gandhi may make this point in requesting a resumption of our aid. If she does, you might point out that had India been successful in attracting more foreign private

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investment in the past, it now might be reducing its dependence on external existence rather than increasing it. Her attention might also be drawn to her own weak statements.

(2) Other Agricultural Problems

In 1960 we signed an agreement with the Indian Government to provide 16 million tons of wheat and 1 million tons of rice over a 4 year period. This time was to be used to improve their agriculture and reduce their dependence on concessional food imports.

We kept our end of the bargain, shipping the agreed upon quantities of food during the specified time, but the Indians did not keep to their end of the bargain. Instead of reaching self sufficiency, the Indians are now more dependent on food imports than ever before.

Last year we shipped close to one-fifth of our 1964 wheat crop to India. This year the official import request of 11 million tons is equivalent to nearly one-third of an average U.S. wheat crop.

In addition to shortfalls in fertilizer production, there are other serious problems in Indian agriculture. One of the areas in which the Government of India is not coming through as they had agreed to is in the area of farm credit. To date they have relied on cooperatives to provide farmers with credit.

At present farmers are receiving only one-fourth of their credit through these cooperatives. For most of the remainder they must go to the moneylenders who charge interest rates of 25-30 percent per year.

The Government of India should establish a nationwide farm credit organization, somewhat similar to our own Farmers Home Administration. We could assist them in this effort by offering to provide local currencies to finance such an organization.

Irrigation has not received the attention it deserves. Vast investments in major irrigation projects are not being fully utilized because no one has assumed the full responsibility

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for getting the available water to the farmers on a systematic basis at the time they need it. This major source of inefficiency and waste could be removed by simply correcting the existing organizational and administrative defects.

Although the fourth Five Year Plan is not yet complete all indications are that agricultural investment during the Fourth Plan Period (1966-71) will be at least double that of the preceding Plan Period. This commitment was made in Rome and it now appears that they will be fulfilling it.

IV. Foodgrain - Cotton Substitution Possibilities

Mrs. Gandhi may express some concern over this issue. Bob Foage's demand in open hearing that India should shift part of its cotton land to the production of foodgrains was widely reported in India. It was labeled by the political opposition as another example of U.S. intervention in India's internal policy making.

Actually the possibilities of substituting cotton for foodgrains in India are limited. In the Northern wheat growing regions, cotton is grown in the summer and wheat in the winter as part of a double cropping rotation. Wheat will not grow during the summer in India's sub-tropical climate.

Very little cotton is grown in the rice growing regions of India since the climatic requirements of the two crops are so different.

Cotton, the most drought resistant crop grown in India, does compete with jowar (a sorghum) in the semi-arid regions of Central and Western India. In these regions some cotton land could be shifted to foodgrains by making the price of sorghum more favorable relative to that of cotton. Price appears to be the only practical way to accomplish such a change in the cropping pattern. The Indian Government simply doesn't have the machinery to make production adjustments like we do.

This could be done by providing larger quantities of cotton under Public Law 480. Cotton prices have been exceptionally strong in recent years because the Government has not had adequate stocks to prevent the sharp price rises. We are considering providing India with much larger quantities of cotton to push cotton prices down. This would encourage the shift of cotton land to the production of food grains. If we do this, some countries now supplying cotton to India will complain bitterly.



DEPARTMENT OF AGRICULTURE
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WASHINGTON

March 22, 1966

MEMORANDUM

To: The President
The White House

From: Orville L. Freeman
Secretary of Agriculture

Following are some of the key points in the memorandum prepared for Mrs. Gandhi's visit:

1. Minister Subramaniam is doing a yeomanlike job of trying to push through the program we agreed upon in Rome. In so doing, he has taken it on the chin politically. The Indian Government is in deep trouble on the food issue. As a result, there is a great deal of pressure to sacrifice Subramaniam to appease the opposition. Mrs. Gandhi should be cautioned on this. Subramaniam is one of the top two or three members of the Indian Cabinet. There is no replacement in sight.
2. Mrs. Gandhi has taken a weak, equivocating position on the key food issues. She must be prepared to acknowledge before the world that India is desperately in need of external supplies of food on concessional terms. Some countries have virtually withdrawn their offers of emergency assistance as a result of her statements minimizing the situation. If she continues to be defensive and apologetic about the Government's earlier decision to encourage foreign investment in fertilizer plants some foreign corporations may have second thoughts about investing in India.
3. American grain is moving satisfactorily at the rate of a million tons per month. Despite rather widespread riots related to the lack of food, especially the lack of rice, the food situation is under control and not desperate at this point. It will get worse before the next harvest brings relief in November.
4. India will need another 6 million tons of grain in order to carry out its plan to allocate and distribute food throughout the country so as to avoid famine between now and the next major harvest beginning in November. Without this imported grain to distribute the Central Government may well lose control of the situation.
5. Other countries can and should do more to help India in the current emergency. Now that the first round of requests is past, it is time to start again. In my meeting with the Canadians early this month

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I pushed them to contribute a million tons as compared to their initial commitment of about 150,000 tons of wheat and flour. They have agreed to reconsider and make a further contribution but we do not know yet how large it will be.

6. The need for fertilizer for next year's crop needs to be emphasized strongly. The weather for next year's crop cannot be controlled but the amount of fertilizer to be used can be. By holding the Indians to the targets we agreed to in Rome, we both increase the use of fertilizer next year and impress upon Mrs. Gandhi the importance we attach to the acceleration of India's agricultural development. This continues to be the main shortfall.

Enclosure

THE WHITE HOUSE
WASHINGTON

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RWK-

Here's The Birla memcon.
I've made a couple of
corrections on this dictated
version. If you want to
send it anywhere, add
your changes, and we'll
retype.

H.

DECLASSIFIED

E.O. 12356, Sec. 3.4

NEJ 94-179

By ing, NARA, Date 6-22-94

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MEMORANDUM FOR THE RECORD

March 21, 1966

G. D. Birla and Lloyd Cutler came in this morning to touch base prior to Mrs. Gandhi's visit. Birla will be seeing her in Paris over the weekend.

After a few remarks on how slowly fertilizer project contracts are maturing these days, Birla explained why he thought Mrs. Gandhi's visit would be ^{particularly} pretty important for the private sector. Even if US Government aid were resumed on the old basis following the visit, there would still be questions about the future of private foreign investment. The Indian Government would like to decontrol imports, but it will need assurances that the right kind of aid to make that possible will continue to flow.

Birla said we would have to think beyond the Gandhi visit towards some machinery to facilitate foreign investment. He said Mrs. Gandhi is alright as far as principle goes, but when it comes to implementation, we will need something more. Cutler underscored this point, saying that we needed something that would put American, Japanese and European businessmen on the spot in India--some sort of permanent secretariat. I noted Hoffman's idea for an Indian Committee for Economic Development, and Cutler alluded to the old Anglo-American Productivity Council in Marshall Plan days, saying that was along the same lines.

Birla emphasized that the Indian Government will have to "shed its shyness" about the private sector. Now it feels politically compelled to talk as if the private sector must be tolerated, but it rarely goes farther. Birla pointed out that there is a whole "new class" with a vested interest in bureaucratic controls. A good part of the battle now is to give them new laws to administer which will hamper the businessman less. I said that the public statements of Indian officials didn't bother me too much. I have always been more concerned about what the Government of India actually does. Moreover, I was afraid of more institutionalizing. I felt that what we really needed is a series of concrete examples of how effectively the Indian Government is using the private sector. For instance, a few signed fertilizer contracts would do more than all the words in India to give the private sector a boost.

On the general subject of the Gandhi visit, I said what will impress President Johnson more than anything else will be Mrs. Gandhi's seriousness of purpose. We have been through several cycles of Indian promises--Nehru's to Eisenhower in 1959 and Patil's when we negotiated the three-year

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PL-480 agreement. Each time promises have been bigger than performance. So now we are interested in action more than words. If President Johnson is convinced that the Indian Government is determined to decontrol, then we can talk about how much aid that will take. We don't want to impose conditions on our aid. We want to know what the Prime Minister of India intends to do so that we can decide how extensively to help her Government do these things. I said the assurance~~s~~ we seek of Mrs. Gandhi's firmness of purpose is only natural for a prudent investor. We have done the same with Pakistan although there the problem is more political than economic.

Birla reported that L. K. Jha had told him exactly the same thing. But he returned to the importance of machinery and people to translate intentions into performance. The Indian Government is not highly effective so he hoped the US would be able to bear with it.

Cutler interjected that there is room here for a real bargain. He pointed out, using as an example, Keyser Aluminum's relationship with Birla, how American investors are being scared off because the Indian Government is taxing away their profits. I suggested that the way to win this battle is not to join it directly but to take advantage of developments already in the cards. For instance, India is going to have an agricultural revolution. For that, it will need fertilizer. The US Government is not going to invest its aid money in fertilizer projects as long as private investors are eagerly awaiting to invest. Therefore, circumstances will force private sector fertilizer projects into the lead, and the breakthrough there will have an impact on the rest of the economy.

Birla returned to his feeling that Mrs. Gandhi is all right but doesn't understand these matters in detail. I agreed that her ability to produce would be the real test. I warned him that no matter how successful the visit is I could not see an automatic turning on of the AID tap as an immediate result. Birla agreed.

On Cutler's prompting, Birla said he felt that war fever in India is over as a result of the war with Pakistan. When he mused that some useful realizations had come out of the war on both sides, I told him I felt that few Indians understood what we had actually done for India on that front. For more than ten years we have kept Pakistan off India's back. Yet we have had nothing but criticism from the Indians. I thought what had stopped the Pak-Indian war was Pakistan's realization that if China came into the war on Pakistan's side, both the US and the USSR would come down squarely on India's side.

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m041 Concluding, I said I felt India had horribly neglected the Pakistan problem during these years while the US has in effect protected its flank.

Birla took this in but said we mustn't discount the important fact that India had regained confidence during this war in its ability to defend against China. The situation in Pakistan is still fluid and he hoped the US would not resume military aid to either India or Pakistan. I asked whether he would prefer that Pakistan receive its equipment from Communist China, and after discounting the Chinese as a serious source he let the subject drift.

In a final exchange, I told him that Mrs. Gandhi could expect to find us extremely sensitive on Vietnam--almost as sensitive as the Indians are on Pakistan.

R. W. Komer

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~~TOP SECRET~~

16
March 18, 1966

MEMORANDUM FOR THE PRESIDENT

One of your trickiest jobs with Mrs. Gandhi will be to stiffen her intention not to go nuclear without promising too much. This won't seem hard because it looks as if she'll state this intention flatly. But while that seemingly lets us off the hook of deciding how much pressure to apply or how much to pay for that decision, we don't want to pass over the subject so lightly that she goes away thinking we don't take non-proliferation seriously or don't have a realistic alternative to offer if some day she decides she has to reverse herself.

Rusk has been over the alternatives extensively and concluded (attached) that -- even though we should try to head off India's going nuclear -- we should not now go as far as to offer India any solid assurance of nuclear help against nuclear attack. But he also feels we're not ready yet to close any doors. So he'd propose taking this line with Mrs. Gandhi:

- You agree wholeheartedly with her intention to limit India's nuclear energy development to peaceful uses and to concentrate on economic development.
- You agree that the nuclear powers should work out some way of assuring the non-nuclear powers against nuclear attack.
- You hope that, if the pressures to build the bomb mount, she will talk the problem over with us before deciding, because there may be ways to help India find the security it needs without assuming the heavy costs of nuclear defense.

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SANITIZED

E.O. 13526, Sec. 3.5

NLJ 11-80

By *id* NARA, Date 9-20-11

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Rusk's memorandum encloses a study reviewing all of our options -- non-proliferation treaty and comprehensive test ban, cutting off US aid if India goes nuclear, a US-Indian alliance, a Joint US-USSR guarantee or a US call for one, a private US guarantee of help against a nuclear attack, and nuclear sharing. These aren't all mutually exclusive, and Rusk's recommendations address chiefly the most difficult question of whether we're prepared to guarantee nuclear support to India.

While I agree with Rusk on the issue of nuclear support, I'd recommend you emphasize the importance you place on a non-proliferation treaty and a comprehensive test ban and ask for Indian support in order to underscore your concern about the spread of nuclear weapons. I also believe that -- without threatening to cut off aid -- you might influence Indian thinking by making it clear how hard it would be for you through economic aid to underwrite an Indian nuclear weapons program.

R. W. Komer

Attachment

~~TOP SECRET~~

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TO	NAME AND ADDRESS	DATE	INITIALS
1	Mr. Robert Komer		
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ACTION	DIRECT REPLY	PREPARE REPLY	
APPROVAL	DISPATCH	RECOMMENDATION	
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Per our telephone conversation.			
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GEORGE BUNDY'S OFFICE

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TO DIRNSA MR. J. J. CONNELLY JR
STATE (RCI) MR. GEORGE C. DENNEY JR
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SSO ACSI MR HERBERT W. TAYLOR
CNO OP922Y CAPTAIN RAYMOND E. FORD
AFSSO COL RUDOLPH C. KOLLER JR

ZEN [redacted]

ZEM

~~SECRET~~ [redacted]

1. AS FOLLOW-UP TO AMBASSADOR'S DISCUSSION WITH FOREIGN MINISTER ON 3 MARCH, (KARACHI EMBTEL 1711) PARTICULARLY THAT SECTION IN WHICH BHUTTO SUGGESTED DETAILS BE INVESTIGATED PRIOR THEIR NEXT MEETING IN DACCA, [redacted]

2. AFTER SOME MUTUAL CORDIALITY, [redacted] REFERRED TO AMBASSADOR'S SEPARATE CONVERSATIONS WITH PRESIDENT AND FOREIGN MINISTER ON SUBJECT OF CLOSED INSTALLATIONS. [redacted]

SANITIZED

E.O. 13526, Sec. 3.5

NLJ 97-217 ISCAP Appeal

By CH NARA, Date 12-7-15

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COMMENTED

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[REDACTED] THAT FOREIGN MINISTER HAD SUGGESTED SOME PURSUIT OF DETAILS PRIOR TO NEXT SESSION WITH AMBASSADOR AND SAID WE WOULD LIKE TO GET INDICATION OF HOW TO GO ABOUT THE JOB. [REDACTED] COULD GIVE US READING ON WHAT FORM OUR DISCUSSIONS WOULD TAKE, COULD BEGIN WORKING ALONG PROPER LINES AND BE READY TO PROCEED AT ANY TIME. [REDACTED]

3. [REDACTED] SAID HE THOUGHT NEXT STEP WAS FOR THE EMBASSY OFFICER WHO WOULD CONDUCT DISCUSSIONS TO GET IN TOUCH WITH SALMAN ALI, MFA DIRECTOR GENERAL, AND DISCUSS PROCEDURE WITH HIM. HE SAID POLICY QUESTIONS HAD TO BE TAKEN UP AND DEALT WITH IN THAT CHANNEL. [REDACTED]

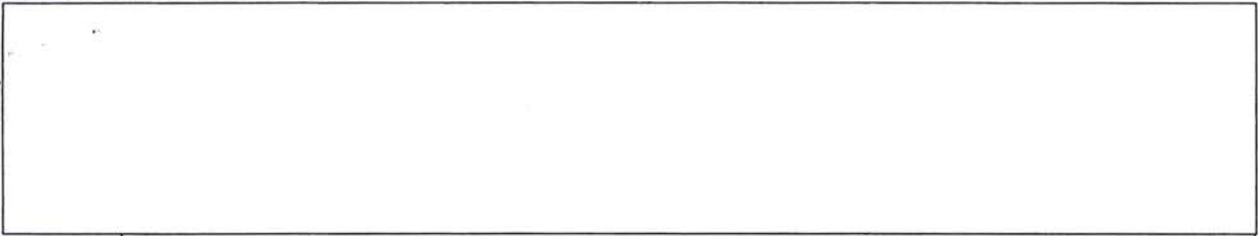
[REDACTED] HE SAID HE THOUGHT SALMAN ALI WOULD IDENTIFY SUBJECT WHICH SHOULD BE DISCUSSED IN NEGOTIATING PHASE AND WOULD DESCRIBE PROCEDURE GOP WOULD LIKE TO FOLLOW. HE URGED THAT WE TAKE STEPS TO CONSULT SALMAN ALI WITHOUT DELAY AND SAID WE SHOULD MOVE AS FAST AS WAS FEASIBLE IN WHOLE MATTER.

4. [REDACTED] REFERRED TO BHUTTO'S ADMONITION TO AMBASSADOR THAT UTMOST SECURITY SHOULD BE MAINTAINED AS AFFAIR PROGRESSES AND INDICATED NOT ONLY THAT WE INTENDED TO KEEP KNOWLEDGE OF THIS ACTIVITY TO MINIMUM, [REDACTED]

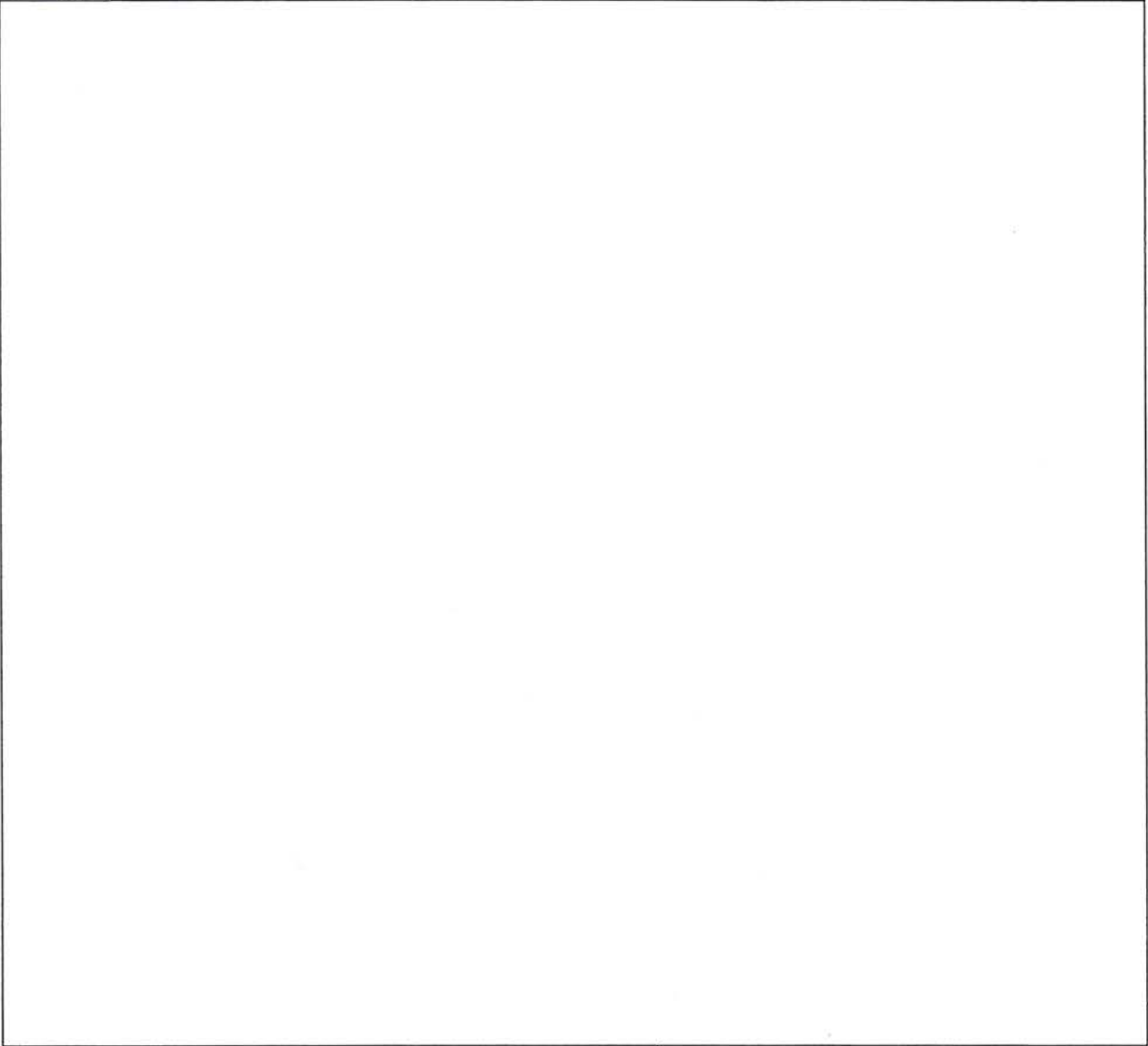
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[REDACTED] HE POINTED OUT THAT IF FOREIGN MINISTER DID NOT LOOK FORWARD TO REOPENING OF FACILITIES, HE WOULD BE UNLIKELY TO BE BOTHERED VERY MUCH BY SECURITY QUESTIONS.

[REDACTED]



5.



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6. ABOVE REPORTED TO AMBASSADOR.

GP-1

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WALTER D. DILLON, JR., CHAIRMAN
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United States Senate

COMMITTEE ON
AGRICULTURE AND FORESTRY

March 14, 1966

*Schultz has
action.*

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The President
The White House

My dear Mr. President:

Since my trip to India at the beginning of this year, I have become increasingly disturbed by the growing accumulation of U. S. holdings of local currencies in several countries, currencies which a maze of legislative and administrative restrictions is preventing us from putting to effective use.

In India, according to the Treasury Department, we had set aside by the end of 1965, in the account reserved for United States government uses, the equivalent of \$586.2 million in rupees. We are spending from this account at a rate of about \$38 million a year, while funds flow in -- from P. L. 480 sales and repayment of various soft currency loans -- at a rate of about \$170 million a year.

If we add to our U. S. uses total the \$732 million rupees we hold in our "country uses" fund which are available for economic development loans, we presently possess about fifteen per cent of India's money supply. This makes our aid programs a ripe target for Communists and other opponents of democratic development -- they say that our objective is not to help India, but to mortgage India to the United States.

There are now ten countries where our currency holdings are in excess of our needs. I feel that we should make a major effort to free some of these holdings from present restrictions and devote them to advancing American foreign policy and promoting development where it is needed most -- in the field of agriculture.

In agriculture, as you have emphasized, self-help is absolutely essential. I have been most impressed with your leadership on this issue and with your recognition in your excellent Food for Freedom message that we can never surmount world hunger unless developing countries take major steps to improve their own agriculture.

Up to now they have not been doing enough. But I think the evidence is clear that dramatic breakthroughs are possible -- and some have already been achieved -- in areas where intensive efforts are made to improve food production.

To assist countries which are firmly dedicated to this objective, I recently introduced a bill which would establish a special program of grants and low-interest loans of U. S. held local currencies to promote agricultural development. This program would help finance production and distribution of fertilizers and pesticides, expansion of farm credit and farm extension services, support of farm prices, processing of high-nutrition foods, agricultural research, land reform, and other projects to increase food output.

My bill would create a special incentive for recipient countries by making local currency assistance for agriculture available on especially favorable terms. Today, economic development loans of local currencies are generally made at about $4\frac{1}{2}$ per cent. I propose loans at $1\frac{1}{2}$ of one per cent for agriculture projects and, in certain cases, grants as well.

I would hope that the loans could be available not just to governments, but also to private enterprises moving into essential areas, such as fertilizer production.

Use of these funds for agricultural purposes should also be free of many restrictions which now generally apply. We should, in countries where we have excess holdings, make these local currency grants and loans from the U. S. uses account as well as the country use account. And we should exempt these from the appropriations process to encourage fuller use of local currency funds for this purpose.

Also, I feel we should consider the possibility of using large amounts of local currency -- in countries such as India and Pakistan -- to endow bi-national foundations to carry on programs for agricultural development, such as the Ford Foundation has so successfully conducted in India. These foundations would be similar in organization to the bi-national education foundation presently being discussed in India.

Such constructive uses of these currencies would reduce the political liability which our growing holdings now present,

The President

-3-

March 14, 1966

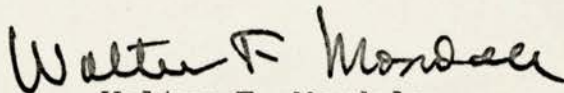
and increase our ability to promote the self-help in agriculture which alone can prevent massive world famine.

I am enclosing a copy of a statement I have drawn up which discusses our local currency holdings in more detail. I am also sending a copy of my bill, together with a short summary.

I am most grateful to you for your consideration of this matter.

With warmest personal regards.

Sincerely,


Walter F. Mondale

cc: The Honorable Orville Freeman
The Honorable David Bell

United States Holdings in Local Currencies

There are ten countries in which the Treasury Department has determined that U. S. uses balances are in excess of foreseeable U.S. requirements through fiscal year 1967. Below is a table listing these countries, together with our balances in U.S. uses and country uses currencies as of December 31, 1965 (preliminary Treasury Department figures). These have been accumulated largely, but not exclusively, through Title I sales under Public Law 480.

	<u>U.S. uses</u>	<u>Country Uses</u>	<u>Total</u>
Burma	\$23.7 million	\$15.3 million	\$39.0 million
Ceylon	2.1	12.8	14.9
India	586.2	732.0	1318.2
Israel	25.9	29.4	55.3
Pakistan	125.4	124.9	250.3
Poland	492.8	--	492.8
Tunisia	6.7	15.4	22.1
UAR	121.3	134.9	261.2
Yugoslavia	41.7	90.9	132.6
Guinea	<u>4.5</u>	<u>19.6</u>	<u>24.1</u>
Total (10 countries)	\$1430.3	\$1180.2	\$2610.5
Total (all countries)	\$1495.9	\$1421.5	\$2870.8

How our U.S. uses balances build up can be shown from Treasury Department figures. They estimate that, on June 30, 1965, our U.S. uses balances in India were \$503 million. At that time, it was estimated that in the present fiscal year the following amounts would flow into this fund: \$54.6 million

from new Title I sales; \$41.3 million from the payment of rupee loans for economic development under P.L. 480; \$60.5 million in repayment of Mutual Security Act and Development Loan Funds soft loans (loaned in dollars but repaid in rupees); and \$18.5 million from other sources, including interest. (Apparently interest from all accounts -- U.S. uses and country uses -- goes into the U.S. uses balance.)

These figures, when added to the original \$503 million, come to \$677.9 million at the end of fiscal year 1966. From this we can subtract the \$38 million that Ambassador Bowles estimates we spend every year from U.S. uses funds, and get \$640 million as an estimate for what the U.S. uses balance would be on June 30th. And Bowles estimates that, by the end of 1966, our U.S. uses balance will be \$675 million. This would seem, if anything, to be a conservative estimate.

This gives some idea of how rapidly this balance is piling up.

Present law restricts our ability to use the U.S. uses money (and to a lesser extent the country uses money) in the following ways.

- 1) Virtually all money spent out of U.S. uses funds (except for that sold to tourists for dollars) must be appropriated by the Congress. Our agencies see this money as part of their total budget which must be approved, rather than an extra resource they might be able to draw on.
- 2) As amended in 1964, P.L. 480 requires that 20% of currencies which accrue under Title I agreements must be reserved for appropriation - i.e. must go into the U.S. uses fund. Therefore, this 20% cannot be available for country uses; in India and a number of countries, it simply piles up beyond our ability to spend it.
- 3) Any proposal to grant any foreign currencies, or to use any of the principal or interest from loan repayments (which go into the U.S. uses fund), must be presented to the Senate and House Agriculture Committees, and they are given from 30 to 60 days to veto any such proposal.

- 4) Concerning country uses funds, no loans can be made at a lower rate than the cost of funds to the Treasury (now about 4.5%) unless the President specifically establishes a different rate.

S. 2826 seeks to make this situation easier by providing a lower interest rate, and grants as well, for use of local currencies for agricultural purposes. These grants would be exempted from the appropriations process; from the requirement that 20% of currencies be reserved for United States uses; and from the requirement that any grants or uses of loan repayments be required to come before the Agriculture Committees.

INCOMING TELEGRAM *Department of State*

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WHITE HOUSE FOR KOMER

SUBJ: PART I OF THREE -- INDIAN DEFENSE SPENDING

REF: (A) DEPTTEL 1633; (B) EMBTEL 2271

1. THIS MESSAGE IS FOLLOWUP TO PREVIOUS REPORT ON DEFENSE BUDGET CONTAINED REFERENCE (B).
2. IN PREVIOUS MESSAGE WE ARRIVED AT GENERAL CONCLUSION THAT NEXT YEAR'S DEFENSE BUDGET, AMOUNTING TO 3.5 PERCENT OF GNP, IS A RELATIVELY MODERATE ONE AND DOES NOT REFLECT

PAGE TWO RUSBAE 654/1 ~~SECRET~~
ANY EXPANSION IN MILITARY EXPENDITURES ABOVE LEVELS ALREADY PLANNED BEFORE AUGUST 5, 1965 WHEN CONFLICT BEGAN WITH PAKISTAN. AT RS. 918 CRORE, DEFENSE BUDGET REMAINS WELL BELOW RS. 1,000 CRORE ANNUAL AVERAGE CONTEMPLATED AT TIME OF JUNE 64 MEMORANDUM OF UNDERSTANDING. FURTHERMORE, INCREASE OVER CURRENT YEAR'S BUDGET ENTIRELY ATTRIBUTABLE TO PRICE AND WAGE INCREASES.

3. BOTH IN REAL TERMS AND AS PERCENTAGE GNP, NEXT YEARS'S DEFENSE BUDGET IS AS LOW AS ANY SINCE CHINESE INVASION IN 1962. AS FOLLOWING TABLE SHOWS, IT IS ABOUT SAME AS 64/65 BUDGET:

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-2- 2387, MARCH 11, FROM NEW DELHI (SECTION ONE OF TWO)

	AS PERCENTAGE OF GNP	IN CONSTANT PRICES OF 1962/63 (RS.CRORES)
62/63	2.7	474
63/64	4.2	762
64/65	3.5	710
65/66	3.8	735
66/67	3.5	710

ON BASIS GNP PRICE DEFLATOR ESTIMATED TO INCREASE BY 6 PERCENT ANNUALLY FOR LAST 3 YEARS SHOWN.

PAGE THREE RUSBAAKE 654/1 ~~SECRET~~

4. PURPOSE OF PRESENT MESSAGE IS TO EXTEND ANALYSIS TO COVER DEFENSE-RELATED EXPENDITURES NOT INCLUDED IN DEFENSE BUDGET AND FOREIGN EXCHANGE EXPENDITURES ON DEFENSE. LATTER IS EXAMINED WITH PARTICULAR REFERENCE TO RS. 682 CRORE FOREIGN EXCHANGE CEILING OF JUNE 64 MEMORANDUM OF UNDERSTANDING.

5. NUMBER OF PROBLEMS ARISE IN MAKING THIS ANALYSIS. FOREIGN EXCHANGE EXPENDITURE, FOR EXAMPLE, CAN BE COUNTED ON BASIS OF DELIVERIES, OR IT CAN BE COUNTED ON BASIS ACTUAL CASH DISBURSEMENTS. AS INDICATED IN PART III OF THIS MESSAGE, COMPLETE AGREEMENT WAS NOT REACHED AS TO WHICH METHOD WAS TO BE USED IN COMPUTING POSITION UNDER CEILING WHICH WAS ESTABLISHED IN JUNE 64 MEMORANDUM ESPECIALLY REGARDING SOVIET BLOC PURCHASES. CALCULATIONS IN PART III REFLECT EXTEND TO WHICH THERE WAS AGREEMENT AND TO SOME EXTENT INVOLVE BOTH METHODS.

6. WITH RESPECT TO DEFENSE-RELATED EXPENDITURES, THERE IS PROBLEM OF EXACTLY WHERE TO DRAW LINE BETWEEN MILITARY AND NON-MILITARY. EVEN WITHIN DEFENSE BUDGET THERE ARE NUMBER OF IMPORTANT ITEMS WHICH ARE QUESTIONABLE. FOR EXAMPLE, SHOULD INVESTMENT IN DEFENSE INDUSTRIES BE COUNTED EVEN THOUGH SIGNIFICANT PART OF OUTPUT IS USED FOR CIVILIAN PURPOSES?

PAGE FOUR RUSBAE 654/1 ~~SECRET~~

TO WHAT EXTENT SHOULD SUCH ITEMS AS PENSIONS, WELFARE BENEFITS, MEDICAL SERVICES, HOUSING FOR MARRIED TROOPS, ETC., BE COUNTED AS DEFENSE EXPENDITURES?

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-3- 2387, MARCH 11, FROM NEW DELHI (SECTION ONE OF TWO)

7. DESPITE THESE PROBLEMS OF DEFINITION, WE BELIEVE GENERAL CONCLUSIONS OF PREVIOUS REPORT ARE NOT MATERIALLY AFFECTED BY THIS FURTHER ANALYSIS.

8. THERE ARE THREE MAIN CATEGORIES OF EXPENDITURES WHICH ARE RELATED TO DEFENSE BUT WHICH ARE NOT INCLUDED IN DEFENSE BUDGET: BORDER AND STRATEGIC ROADS (RS. 35 CRORE, UP RS. 9 CRORE FROM CURRENT YEAR); BORDER POLICE (RS. 24 CRORE, SAME AS CURRENT YEAR), AND LOANS TO DEFENSE INDUSTRIES (RS. 14 CRORE, UP RS. 13 CRORE OVER CURRENT YEAR). COMPLETE DETAILS ARE PROVIDED IN PART II OF THIS MESSAGE. EVEN IF THESE EXPENDITURES WERE COUNTED IN FULL, TOTAL DEFENSE BUDGET WOULD STILL BE ONLY RS. 991 CRORE (3.8 PERCENT OF GNP) AND INCREASE FROM CURRENT YEAR (RS. 52 CRORE) ONLY 5.5 PERCENT.

9. ANALYSIS FOREIGN EXCHANGE EXPENDITURES CONFIRMS REPEATED ASSURANCES OF GOI THAT THEY ARE WELL WITHIN 5-YEAR (APRIL 1964 TO MARCH 1969) RS. 682 CRORE CEILING OF JUNE 64 MEMORANDUM. THIS APPEARS TO BE THE CASE WHETHER SOVIET BLOC

PAGE FIVE RUSBAEUUYTRXQ ~~SECRET~~
PURCHASES COUNTED ON DELIVERIES BASIS OR PAYMENTS BASIS.

10. WITH TWO OF THE FIVE YEARS GONE, ESTIMATED ACTUAL PAYMENTS TO ALL SUPPLIERS TOTAL ABOUT RS. 210 CRORE. ADDING TO THIS FIGURE DELIVERIES OF WESTERN GRANT AID AND DELIVERED BUT NOT PAID FOR CREDIT SALES FROM WESTERN SOURCES, WHICH WE ESTIMATE AT RS. 50 CRORE, BRINGS TOTAL UNDER CEILING OF JUNE 64 MEMORANDUM, AS INDIANS INTERPRET CEILING, TO ABOUT RS. 260 CRORE. IF SOVIET BLOC PURCHASES COUNTED ON DELIVERIES BASIS, FIGURE WOULD BE ABOUT RS. 325 CRORE.
BOWLES

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SUBJ: PART I OF THREE -- INDIAN DEFENSE SPENDING

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REF: (A) DEPTTEL 1633; (B) EMBTEL 2271

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11. ALTHOUGH GOI IS WELL WITHIN CEILING AT PRESENT, MASSIVE COMMITMENTS FOR SOVIET BLOC PURCHASES INVOLVING ESTIMATED DELIVERIES OF RS. 300 CRORE AND PAYMENTS OF PERHAPS RS. 215 CRORE OVER PERIOD OF FIVE-YEAR DEFENSE PLAN, WILL PUT THEM FAR OVER RS. 142 CRORE OF PAYMENTS TO BLOC ORIGINALLY CONTEMPLATED UNDER 5-YEAR DEFENSE PLAN AND ASSUMED IN JUNE 64 MEMORANDUM. INCREASE IN PROCUREMENT FROM BLOC REFLECTS (A) U.S. REFUSAL TO PROVIDE EQUIPMENT THAT INDIANS NEEDED MOST, AND (B) SUSPENSION U.S. MILITARY AID; CONTINUED ADHERENCE TO RS. 682 CRORE CEILING WILL MEAN SUBSTANTIAL INCREASE IN PROPORTION SUPPLIED BY BLOC. THIS DRAMATIC SHIFT TOWARD SOVIET SOURCES OF SUPPLY IS MATTER OF VZRY GREAT CONCERN TO US HERE, SINCE FOREIGN EXCHANGE CEILING ORIGINALLY MEANT IN PART TO PREEMPT SOVIETS MIGHT WELL BEGIN TO PREEMPT FUTURE U.S. AND WESTERN ASSISTANCE.

12. FURTHER DETAILS ON FOREIGN EXCHANGE EXPENDITURES ARE PROVIDED IN PART III OF THIS MESSAGE. ESTIMATES AND CONCLUSIONS ON FOREIGN EXCHANGE EXPENDITURES ARE BASED ON INFORMATION PRESENTLY AVAILABLE TO US. WE ARE SEEKING ADDITIONAL INFORMATION FROM GOI. IF WE DO OBTAIN INFORMATION CHANGING ESTIMATES OR CONCLUSIONS, WE SHALL PROMPTLY FORWARD IT. BOWLES

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SUBJ: PART II OF THREE -- INDIAN DEFENSE SPENDING

REF: (A) DEPTTEL 1633; (B) EMBTEL 2271

1. CAREFUL EXAMINATION OF GOI BUDGET REVEALS THREE TYPES OF EXPENDITURES WHICH ARE RELATED TO BUT WHICH ARE NOT INCLUDED IN CONVENTIONAL DEFENSE BUEGET -- BORDER POLICE, BORDER AND STRATEGIC ROADS AND LOANS TO PUBLIC SECTOR ENTERPRISES

PAGE TWO RUSBAE 655 ~~SECRET~~
CONTROLLED BY MINISTRY OF DEFENSE.

2. EXPENDITURES ON BORDER POLICE (BOTH DIRECT AND THROUGH GRANTS TO STATES) TOTAL RS.24 CRORES IN 66/67 BUDGET, WHICH IS SAME AS ESTIMATED EXPENDITURES IN CURRENT YEAR. TOTAL INCLUDES RS .7 CRORE TO REIMBURSE CERTAIN STATES FOR BORDER SECURITY EXPENDITURES IN PAST.

3. OTHER COMPONENTS ARE: RS .12.5 CRORE FOR BORDER SECURITY FORCES RECENTLY TAKEN OVER FROM PUNJAB AND WEST BENGAL (FORMERLY FINANCED THROUGH GRANTS TO THESE STATES), RS. 2.6 CRORE FOR THE INDO-TIBETAN BORDER POLICE FORCE AND JUST UNDER RS.1 CRORE FOR BORDER CHECK POSTS ON NORTHERN FRONTIER.

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-2- 2388, March 11, from New Delhi

4. PROVISION FOR BORDER AND STRATEGIC ROADS TOTALS RS.35 CRORE AS COMPARED ESTIMATED EXPENDITURES OF RS.26 CRORE DURING CURRENT YEAR. INCREASE IS MAINLY FOR CONSTRUCTION STRATEGIC ROADS IN RAJASTHAN AND GUJARAT (UP FROM RS.5 CRORE TO RS. 12.5 CRORE). OUTLAYS FOR CONSTRUCTION OF BORDER ROADS IS SLATED TO GO UP FROM RS.19 CRORE TO RS 20 CRORE, AND FOR MAINTENANCE FROM RS.1.1 CRORE TO RS.2.5 CRORE.

5. TOTAL DEBT AND EQUITY INVESTMENT IN PUBLIC SECTOR ENTERPRISES CONTROLLED BY MINISTRY OF DEFENSE WILL TOTAL RS.17 CRORE IN 66/67 AS AGAINST ABOUT RS.18 CRORE IN CURRENT YEAR. (THIS EXCLUDES RS.27 CRORE OF CAPITAL EXPENDITURES ON ARMY CLOTHING AND ORDNANCE FACTORIES WHICH IS PART OF DEFENSE

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BUDGET.) OF THIS AMOUNT, ONLY RS.3 CRORE WILL BE IN FORM OF SHARE CAPITAL AND THEREFORE INCLUDED IN DEFENSE BUDGET, WHILE REMAINING RS.14 CRORE WILL BE IN FORM OF LOANS UNDER FINANCE MINISTRY BUDGET. DURING CURRENT YEAR, RS.17 CRORE WAS IN FORM OF SHARE CAPITAL UNDER DEFENSE BUDGET AND RS.1 CRORE IN FORM OF LOANS UNDER FINANCE MINISTRY BUDGET. SHIFT IN FORM OF INVESTMENT, THEREFORE, ACCOUNTS FOR APPARENT REDUCTION RS. 13 CRORE IN DEFENSE CAPITAL BUDGET.

6. MAJOR RECIPIENT OF GOVT INVESTMENT IS HINDUSTAN AERONAUTICS LTD. (RS. 11.8 CRORE), PRODUCER OF GNATS, MARK I AND (IN FUTURE) MIG JET FIGHTERS. HOWEVER, THIS COMPANY HAS ALSO PRODUCED 3 CIVIL TRANSPORT AIRCRAFT FOR INDIAN AIRLINES AND 15 MORE ARE ON ORDER. IT ALSO SERVICES AIRCRAFT FOR CIVIL AIRLINES. OTHER COMPANIES CONTROLLED BY DEFENSE MINISTRY ALSO PRODUCE VARIOUS ITEMS FOR THE CIVILIAN MARKET RANGING FROM FLUORESCENT LIGHTS TO EARTHMOVING EQUIPMENT.

7. IN ASSESSING SIGNIFICANCE OF ABOVE ITEMS WHICH ARE NOT INCLUDED IN DEFENSE BUDGET, WE SHOULD ALSO BEAR IN MIND THAT DEFENSE BUDGET ITSELF INCLUDES NUMBER OF IMPORTANT ITEMS WHICH CONTRIBUTE ONLY marginally TO MILITARY CAPABILITY OR WHICH HAVE SIGNIFICANT CIVIL CONTENT. MRS. GANDHI, IN SPEECH MARCH 1,

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REGRETTING THAT INDIAN SHOULD HAVE TO DIVERT ANY OF ITS RESOURCES FROM DEVELOPMENT, NOTED THAT GOOD PORTION OF DEFENSE BUDGET WENT INTO NON-MILITARY ITEMS SUCH AS "DEVELOPMENTAL

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-3- 2388, March 11, from New Delhi

EXPENDITURE ON INDUSTRIAL UNITS, ON HOSPITALS, AND ROADS AND HOUSES AND MANY OTHER ITEMS WHICH ARE NOT IN THE SAME CLASS AS MILITARY HARDWARE."

8. SOME OF THESE NON-MILITARY ITEMS WHICH WE HAVE BEEN ABLE

IDENTIFY INCLUDE MEDICAL SERVICES (RS.27 CRORE), ACCOMODATIONS FOR MARRIED TROOPS (RS.10 CRORE), PENSIONS (RS.24 CRORE), MAINTENANCE OF BUILDINGS (RS. RY CRORE), MISCELLANEOUS AMENITIES FOR TROOPS SUCH AS WATER SUPPLY, WELFARE GRANTS. ETC. KRS.20 CRORE), AND INVESTMENT IN INDUSTRIAL UNITS (RS. 44 CRORE). BOWLES

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PASS TREASURY

WHITE HOUSE FOR KOMER
SUBJ: PART III OF THREE -- INDIAN DEFENSE SPENDING

REF: (A) DEPTTEL 1633; (B) EMBTEL 2271

1. THE RS. 682 CRORE (\$1,428 MILLION) FOREIGN EXCHANGE CEILING OF JUNE 64 MEMORANDUM OF UNDERSTANDING ASSUMED THAT RS. 142 CRORE WOULD BE APPLIED TOWARD SOVIET BLOC PURCHASES AND THE REMAINING RS;540 CRORE TOWARD PURCHASES FROM ALL OTHER SOURCES. IT WAS FURTHER UNDERSTOOD THAT ALL DELIVERIES

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FROM WESTERN SOURCES, INCLUDING GRANT AID AND CREDIT SALES, WOULD BE COUNTED IN FULL AGAINST THE TOTAL REGARDLESS OF WHEN ACTUAL PAYMENTS MIGHT BE MADE.

2. THERE WAS ALSO CONSIDERABLE CONFUSION ABOUT METHOD OF COUNTING SOVIET BLOC PURCHASES UNDER CEILING. OUR RECORDS SHOW THAT WHILE U.S. SIDE INTENDED TO COUNT SOVIET CREDITS ON SAME BASIS AS WESTERN CREDITS (I.E., ON DELEVERIES BASIS), THIS WAS NEVER CONFIRMED BY THE INDIANS. IN FACT, IN A CONVERSATION WITH GENERAL KELLY AND MR. SOLBERT ON NOV 6, 1964, INDIAN OFFICIALS DENIED THAT VALUE OF SOVIET ITEMS DELIVERED BUT NOT PAID FOR WOULD BE COUNTED AGAINST CEILING. SINCE RS. 142 CRORE FIGURE FOR SOVIET BLOC PURCHASES WAS EXTRACTED FROM INDIAN DEFENSE PLAN WHERE IT WAS CLEARLY INTENDED TO REPRESENT PAYMENTS, THERE IS A STRONG PRESUMPTION IN FAVOR OF INDIAN INTERPRETATION.

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-2- 2389 MARCH 11, FROM NEW DELHI

3. GOOD ESTIMATE OF DIRECT GOI PAYMENTS FOR PURCHASES ABROAD (INCLUDING SOVIET BLOC PURCHASES) IS AVAILABLE FROM TABLE PUBLISHED IN LAST YEAR'S BUDGET DOCUMENTS (DISCONTINUED THIS YEAR). TABLE SHOWS GOI MADE ESTIMATED EXPENDITURES OF RS. 95 CRORE ON FOREIGN PURCHASES FROM ALL SOURCES IN 64/65 AND BUDGETED FOR RS. 117 CRORE IN 65/66.

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4. TOTAL FOREIGN EXCHANGE EXPENDITURES DURING FIRST TWO YEARS OF 5-YEAR DEFENSE PLAN ARE THEREFORE ASSUMED TO HAVE BEEN ABOUT RS. 210 CRORE (\$440 MILLION). ADDING TO THIS FIGURE RS. 36 CRORE (\$75 MILLION) OF CONFIRMED U.S. MAP AND MAS DELIVERIES AND AN ESTIMATED RS. 14 CRORE (\$30 MILLION) DELIVERED BUT NOT PAID FOR FROM OTHER WESTERN SOURCES, GIVES TOTAL UNDER FOREIGN EXCHANGE CEILING (AS INDIANS INTERPRET CEILING) OF ABOUT RSM 260 CRORE (\$545 MILLION) IN FIRST TWO YEARS OF DEFENSE PLAN.

5. PAYMENTS TO SOVIET BLOC WERE RUNNING AT ABOUT RS. 25 CRORE PER ANNUM PRIOR TO 1964. WE ESTIMATE THAT SUCH PAYMENTS CONTINUED AT ABOUT SAME LEVEL IN FIRST YEAR OF DEFENSE PLAN AND THEN INCREASED TO PERHAPS RS. 40 CRORE IN SECOND YEAR. ACCORDING TO INTELLIGENCE ESTIMATES, DELIVERIES OF SOVIET BLOC EQUIPMENT WILL PROBABLY AMOUNT TO ABOUT RS. 30 CRORE IN FIRST YEAR OF 5-YEAR DEFENSE PLAN, TO OVER RS. 100 CRORE IN EACH OF NEXT TWO YEARS, RS. 30 CRORE IN FOURTH YEAR, AND RS. 25 CRORE IN FIFTH.

6. THESE DELIVERIES ARE PROJECTED ON BASIS OF PRESENT COMMITMENTS ONLY AND DO NOT REPEAT NOT TAKE ACCOUNT OF POSSIBLE FUTURE COMMITMENTS. ASSUMING AVERAGE 8-YEAR CREDIT TERMS ON PROJECTED DELIVERIES, WE ESTIMATE THAT PAYMENT TO SOVIET BLOC WILL AVERAGE RS. 50 CRORE (\$105 MILLION) PER ANNUM DURING LAST THREE YEARS OF DEFENSE PLAN.

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-3- 2389 MARCH 11 FROM NEW DELHI

PAGE FOUR RUSBAE 656 ~~SECRET~~

7. SUBTRACTING ESTIMATED PAYMENTS TO SOVIET BLOC FROM BUDGET FIGURES MENTIONED PARA 3, LEAVES FOREIGN EXCHANGE DISBURSEMENTS TO WESTERN SOURCES OF ABOUT RS. 70 CRORE IN 64/65 AND RS. 77 CRORE IN 65/66. PROJECTING FIGURE OF RS. 80 CRORE FOR PAYMENTS TO WESTERN SOURCES DURING LAST THREE YEARS OF PLAN WOULD BRING TOTAL PAYMENTS TO ALL AREAS, EXCLUSIVE OF WESTERN GRANT AID AND CREDIT SALES, TO TOTAL OF ABOUT RS. 600 CRORE (\$1,260 MILLION) BY END OF DEFENSE PLAN, THIS WOULD LEAVE SCOPE FOR ABOUT RS. 80 CRORE (\$170 MILLION) OF WESTERN GRANT AID AND CREDIT SALES WITHIN CEILING, INCLUDING RS. 50 CRORE (\$105 MILLION) WHICH WE ESTIMATE AS ALREADY DELIVERED.

8. THE FOREGOING ASSUMES THAT DELIVERIES OF WESTERN ASSISTANCE CONTRACTED BEFORE START OF FIVE YEAR DEFENSE PLAN WERE TO BE COUNTED AGAINST CEILING. THIS SEEMS TO HAVE BEEN THE INTENTION THOUGH WE ARE NOT CERTAIN OF THIS POINT. IF WE ARE MISTAKEN, THEN SCOPE FOR ADDITIONAL WESTERN ASSISTANCE ABOVE, SAY \$150 MILLION INSTEAD OF \$65 MILLION. IN ANY CASE WHETHER SCOPE FOR OUR MILITARY AID IS GREATER OR NOT, OBJECTIVE OF CEILING TO LIMIT DIVERSION OF INDIAN RESOURCES FROM DEVELOPMENT TO DEFENSE HAS BEEN PRESERVED.

PAGE FIVE RUSBAE 656 ~~SECRET~~

9. IT IS CLEAR, NEVERTHELESS, THAT SCOPE FOR U.S. MILITARY ASSISTANCE WITHIN FOREIGN EXCHANGE CEILING OF JUNE 64 MEMORANDUM OF UNDERSTANDING IS RAPIDLY BEING PREEMPTED BY SOVIET BLOC. UNLESS US IS PREPARED TO PROVIDE TYPE OF EQUIPMENT GOI WANTS, THEY WILL CONTINUE SEEK IT FROM SOVIETS AND U.S. PROPORTION OF MILITARY EQUIPMENT PROVIDED TO GOI WILL CONTINUE DECLINE.

BOWLES

BT

NOTE: COPY PASSED WHITE HOUSE 3/11/66 6:32 p.m.

~~SECRET~~

~~SECRET~~~~TOP SECRET~~

20

11 MARCH 66

RECD: 11 MAR 2230Z

FROM:

IN 73382

INFO:

PAGE 1 OF 2

TO: DIRECTOR

PER PARA 20 STACIA, PLEASE DELIVER FOLLOWING MESSAGE FROM AMBASSADOR BOWLES TO SECRETARY OF STATE AND PRESIDENT WITH INFORMATION COPIES TO DCI AND TO MR. KOMER (WHITE HOUSE):

1. IN PARAGRAPH FOUR OF YOUR RECENT EXDIS MESSAGE TO ME ON MRS. GANDHI'S VISIT (DEPTTEL 1649) YOU MENTION THE NEED FOR HER TO GIVE SOME PRIVATE REASSURANCE REGARDING WHERE INDIA WOULD STAND IF DESPITE OUR BEST EFFORTS THE WAR IN VIETNAM SHOULD LEAD US TO A DIRECT CONFRONTATION WITH CHINA.

~~TOP SECRET~~

SANITIZED

E.O. 13526, Sec. 3.5

NLJ 11-79

NARA, Date 6-6-11

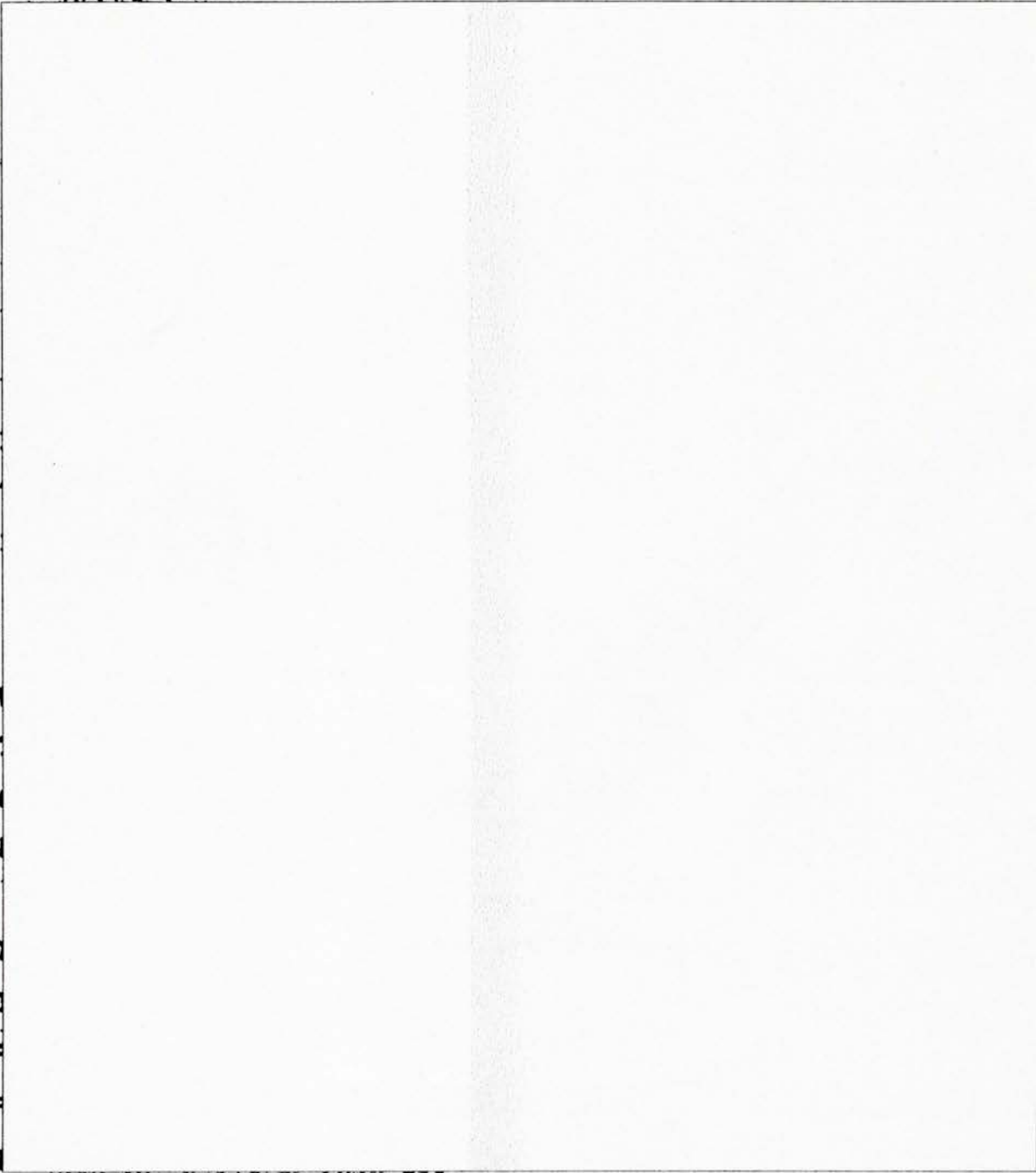
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IN 73382

PAGE 2 OF 2



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~~CONFIDENTIAL~~

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

21

March 11, 1966

Mr. John P. Lewis
Director, US AID to India
c/o American Embassy
New Delhi, India

DECLASSIFIED
E.O. 12356, Sec. 3.4
NEJ 94-182
By ijp, NARA, Date 4-25-95

Dear John:

We understand that Ambassador Nehru has sent cables to Mrs. Gandhi and Mr. Mehta recommending that Mrs. Gandhi take the line on economic matters which I have suggested to Guhan and Sundara Rajan. I take it this means that she would not refer to last year's pledge, but she would state that India is resolved to do better economically and that it plans to take at least the steps outlined in the several recent memoranda which we have sent to you and Ernie. She would probably also point out that India badly needs foreign exchange now and that the planned policy moves will be possible only if India is assured of substantial consortium backing.

As you know, we have suggested that this kind of line is the one best calculated to convince the U. S. Government that India is a good investment. We have also discussed the possibility of an early summer deal; and the Indian Government may be seriously considering this advanced timetable. We have made it clear that we can give no assurance that this is possible; and Mrs. Gandhi should not expect such assurance from the President when she meets with him. We have said that some of us at the working level think it would be appropriate and will recommend it if things work out.

The Embassy knows that there are also political issues, but we have not discussed them.

If you have not already done so, I think it would be useful for you to take the same line with Mr. Mehta or other appropriate contacts* so that all of the signals will be the same. Whatever may happen this summer, the likelihood of a fruitful U. S. -Indian economic relationship

* i.e. L. K. Jha

~~CONFIDENTIAL~~

GROUP 3
Downgraded at 12 year
intervals; not
automatically declassified

~~CONFIDENTIAL~~

Mr. John P. Lewis

- 2 -

will be greatly enhanced if Mrs. Gandhi indicates that her government intends to move along the suggested lines.

Sincerely yours,

Walter G. Farr, Jr.
Deputy Assistant Administrator
Bureau for Near East and South Asia

~~CONFIDENTIAL~~

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

22

March 10, 1966

MEMORANDUM FOR BOB KOMER:

Ambassador Chester Bowles sent the President his
views on the forthcoming visit of Mrs. Gandhi.

I thought perhaps you would like to read them.

Jack Valenti

for Komer

This document consists of 11 pages.
Copy 4 of 9 copies. Series A.

22a

New Delhi, India,
March 4, 1966.

~~SECRET~~

Dear Mr. President:

I am writing to you personally because I am convinced that your meeting with Mrs. Gandhi may be decisive in determining the future relationship between our two nations and in shaping the course of events in Asia in the years to come.

I say this because I believe that the only alternative to the commitment of ever increasing U. S. military forces to bolster our present uncertain political position in this area is the development of a consensus among the non-Communist Asian nations which could evolve into a political, economic and military counterweight to China. Since over half of all non-Communist Asians live in democratic India, this vast and often frustrating nation is of decisive importance. Indeed, without an economically viable and politically stable India a stable Asia is a flat impossibility.

In the 18 years since independence India has made considerable progress and U. S. assistance has been crucial to this progress. Food production is up more than 50% (significantly more than the population increase), industrial production has increased by over 150% with electric power up from 1.5 million kilowatts to 7 million kilowatts and the railways now largely modernized. Indian education and health services have been expanded and improved.

Most important of all, Indian democracy has grown deep roots. When an Indian citizen decides that the Government is doing a bad job, he does not join in plotting a coup; he writes to the newspapers, switches to another political party, and speaks his mind in whatever public forum may be nearest at hand.

The President,
The White House.

DECLASSIFIED
E.O. 12356, Sec. 3.4
NEJ 94-180
By ijp, NARA, Date 7-14-94

~~SECRET~~

Yet Mrs. Gandhi comes to Washington on her first official visit as Prime Minister at a time of economic crisis. India is now coping with the results of the worst drought in 65 years and India's industry is operating at only 50% of capacity. Under normal circumstances the consequent political pressures on Mrs. Gandhi's new government would be worrisome. With the national and state elections only ten months away they are explosive.

Factors Contributing to a Successful Meeting

Four factors should contribute significantly to the success of your meeting with Mrs. Gandhi:

- (1) You share the experience of being the elected leaders of the world's two largest democracies with a deep common commitment to increase the dignity and opportunity of the individual citizen;
- (2) You share a desire to see India emerge self-sufficient in food and finance at the earliest possible moment;
- (3) You share a concern about the gap between Indian developmental plans and Indian developmental performance; and
- (4) You share the conviction that Communist China poses a grave and continuing threat to peace and progress throughout Asia.

Mrs. Gandhi is the newly chosen leader of a genuinely democratic nation. In a period of shock and uncertainty, similar to that in which you were called upon to assume the Presidency, she was selected in a manner which offered impressive testimony to the strength of India's democratic institutions.

Because Mrs. Gandhi in India must deal as you do in America with a free press, a democratically elected Parliament and a vociferous opposition, she will appreciate the political pressures with which you must contend. Moreover, since she is still rather uncertainly adjusting herself to the responsibilities of her new role, Mrs. Gandhi will be hopeful that your own unmatched political experience will enable you to understand the massive political pressures with which she must contend.

You will find her at least as anxious as we are to see India stand on its own feet. Economic assistance to a proud and sensitive new nation such as India is as difficult to receive as it is for us to give.

You will also find Mrs. Gandhi and her colleagues determined "to bridge the gap between intention and action," as she put it in her Republic Day address to the nation. More recently in the Lower House she added "Those nations which have achieved the most notable progress are those which have laid the greatest stress on efficiency."

This new determination to clear away the bureaucratic barriers is now being reflected in a number of ways, including a vigorous new approach to agricultural production and to family planning.

In regard to China you will find Mrs. Gandhi acutely aware of both its military and its political challenge. Since the Chinese attack on India in 1962 India has developed a highly trained and increasingly well equipped Army. It is the fourth largest in the world; its morale is exceedingly high; and both officers and men freely express their eagerness to prove their abilities against the Chinese.

However, Mrs. Gandhi also sees the Chinese threat in broad political-economic terms. She deeply believes that the success or failure of India's experiment in democratic national development will determine in large measure whether China ultimately succeeds its ambition to overrun Asia.

"Our trouble with China" she said recently in the Upper House, "is not only in relation to the border. It is also a question of ideology and our approach. China does not want India's policies to succeed or her influence to grow."

The fact that the Indian defense budget for the five year period from 1963 to 1968 will be at least ten percent below the figure that they projected for this period in May 1964 reflects a genuine desire not to sacrifice development for defense.

Limitations of Mrs. Gandhi's Freedom of Action

While these factors provide a solid base for your talks with Mrs. Gandhi, there are certain political limitations on Mrs. Gandhi's freedom of action which it is essential to bear in mind.

First, in regard to Pakistan. Although Mrs. Gandhi is deeply committed to the Tashkent Agreement and to improving relations with Pakistan, she cannot undertake negotiations which might lead to turning the Kashmir Valley over to Pakistan. It would be dangerous for any Indian Government to discuss major concessions on this subject in a normal year; in this election year it would amount to political suicide.

However ten months from now when the election is behind her I believe that Mrs. Gandhi will take positive steps to improve India's relations with the Kashmiris themselves. One possibility is a kind of semi autonomy for the Kashmir Valley similar to that of Puerto Rico.

In regard to U. S. assistance, while Mrs. Gandhi appreciates our desire to assure that U. S. aid is being used wisely, she will find it difficult to accept conditions which appear to be forced on her by us. Therefore, I believe she will take the initiative in her discussions with you by stating that India is ready to take a series of important steps to improve its economic performance.

By noting these statements of intention and relating our own assistance to them we could avoid any appearance of "applying pressure" and at the same time secure the assurances which we require in regard to Indian performance.

Even if Mrs. Gandhi could be pressed to accept explicit conditions in writing I do not believe it would be in our interest to impose them. The formidable nationalistic element in Parliament which was aroused by the conflict with Pakistan is already being goaded by the Communists and the Krishna Menon left. Formal conditions on U. S. assistance (which would surely leak to the press) would provide them with precisely the ammunition which they need to destroy the moderate, western-inclined leaders of the Congress Party on which the future of democratic India depends.

I might add parenthetically that there is no doubt in my mind that India is well into a period of healthy economic transition which is similar in some ways to our own economic transition between 1928 and 1945. In recent months old economic concepts and slogans have been gradually making way for a much broader understanding of the developmental process.

Yet a nation cannot be expected suddenly to change its economic ideology as it would change a suit of clothes. Once a set of economic concepts has become established as part of the common wisdom, it becomes over laden with fears, folklore and persistent dogma and sealed off by political slogans.

Thus in 1932, three years after the stock market crash that ushered in the Great Depression, FDR, with all his brilliant insights, was still calling for a balanced federal budget and a reduction in government salaries; in 1937 with eight million able-bodied men looking for non-existent jobs he attempted to balance the budget. Indeed it took World War II to blast most Americans out of the comfortable economic assumptions of their forefathers.

Just so it will be wishful thinking for us to expect India, regardless of her current awesome problems, suddenly to abandon the dogma that has shaped her economic dialogue since the days of Harold Laski. The best we can hope for is a series of pragmatic decisions on specific questions taken reluctantly and piecemeal behind a continuing array of political cliches designed to reassure those who have not yet caught up with the realities.

If India in fact continues to give agriculture, education and population control top priority, to move away from controls as rapidly as its foreign exchange positions will permit, and to put out the welcome mat for foreign investment, then we should not be concerned if the political slogans take a little more time to catch up.

These limitations on Mrs. Gandhi's freedom of action are especially binding right now when she is just beginning to consolidate her own political strength and when she faces a national election in less than a year.

Nevertheless her general economic perspective although still fuzzy in some respects appears to be increasingly pragmatic. "The objective of our country" she said yesterday on the floor of Parliament, "is very clear, whether it is called socialism or anything else. That objective is to maintain unity and stability and to provide the people with equal opportunities to improve their standards of living and to ensure equal distribution of opportunities and national wealth."

In regard to foreign affairs, Mrs. Gandhi at this time cannot publicly take sides on those international issues such as Viet-Nam, which involves a direct conflict between American and Soviet interests. This is due less

to India's fears of driving the Soviets and the Chinese back together than to the hard fact that the Soviets have become by all odds the major supplier of equipment for the Indian Army, Navy and Air Force.

Following our rejection two years ago of India's urgent request for supersonic planes, tanks and other modern equipment (we had hoped that we could thus avoid offending Pakistan) the Soviets moved in here with a massive commitment of military assistance. In view of the current uncertainties about U.S. assistance, this has given the USSR considerable influence on certain political questions, even when Indian sympathies are on our side. (Note: The Soviets have contracted for \$543 million of military equipment and delivered \$158 million; we have delivered \$74.8 million.)

Moreover Mrs. Gandhi's approach to Southeast Asia will be significantly conditioned by India's chairmanship of the ICC. Although India's leaders confess that they wish they had never assumed this responsibility in the first place they point out that the ICC is the only international presence left in this area.

If the Indian Chairman were to take a pro-U. S. position the result, as they see it, would be the prompt banning of the Commission from North Viet-Nam, the withdrawal of the Polish member and the liquidation of a reliable communications line to Hanoi which may be critically needed when and if our adversaries to the north become more amenable to negotiations.

What we can Expect from Mrs. Gandhi

Despite these limitations we can expect a great deal from Mrs. Gandhi. Let me outline some of the things which I believe she will be willing to say and do.

Pakistan

Mrs. Gandhi deeply and genuinely desires friendly relations with Pakistan, and I believe that she is looking for ways to go beyond the Tashkent Declaration. Towards this end we should encourage her to cultivate her personal relationship with Ayub with whom she is already on good terms. A meeting between her and Ayub at an early date would be highly desirable.

In the meantime she will be forthcoming on such issues as promoting trade between the two countries, freeing the movement of peoples, reestablishing communication lines, demarcating disputed borders and exchanging enclaves. Mrs. Gandhi might also be responsive to a proposal to create some joint development ventures, such as the Bhramaputra River development, which would be administered by a bi-national board.

Mrs. Gandhi will understand that we expect India, as a major world power, to take every reasonable initiative to foster better relations with her weaker neighbor.

China

Mrs. Gandhi will publicly reaffirm India's determination to defend itself against China and privately Mrs. Gandhi will emphasize India's intention to assist its Himalayan neighbors (Nepal, Sikkim, and Bhutan). India is also concerned about Burma and should be encouraged to explore what assistance it could provide in cooperation with the U. S. if the Burmese should seek help against a Chinese threat.

In addition, India might welcome joint military studies with the United States of the Chinese threat to the subcontinent and of how it can be met most effectively. In the course of such studies it may be possible to explore the role India could play in regard to Tibet and elsewhere if China should attack the U. S. forces in Southeast Asia.

India is, of course, concerned about China's growing nuclear capability and is anxious for an effective non-proliferation agreement guaranteed by both the U. S. and the U. S. S. R.

Viet-Nam

Although Mrs. Gandhi will recognize that China is a major factor in the conflict in Southeast Asia, she may be inhibited from taking a more forthcoming position by the new Soviet military relationship and by her desire to play a role in getting negotiations underway.

Nevertheless, you will find Mrs. Gandhi eager to open avenues for negotiation and willing to bring continuing pressure to bear on the Soviets in this regard.

Although Mrs. Gandhi appreciated her frank discussion regarding Southeast Asia with the Vice President, you will find her anxious to be assured that whatever may be said on this subject is strictly private. Because the Indians are so fearful of leaks you will find Mrs. Gandhi more forthcoming with you in a face to face discussion than in a large meeting.

Before you meet with Mrs. Gandhi full briefings by a top member of General Westmoreland's staff on the military situation in Viet-Nam will have been held here in New Delhi at India's request. I am hopeful that such briefings on a regular basis may later be broadened to cover developments throughout Southeast Asia (e. g. Northeast Thailand, Laos, etc.) which bear on the Chinese threat.

Finally, you will find that Mrs. Gandhi is aware, although not yet adequately so, of India's responsibilities as a leader of the free nations of Asia. There is a growing interest in creating closer ties with Japan which we recently explored with the help of Ambassador Reischauer whom I invited to New Delhi for this purpose. Indeed, moderately high level Indo-Japanese discussions toward this end are now taking place in New Delhi.

India's Economic Situation

Mrs. Gandhi will want to give you a frank and specific rundown on the present state of the Indian economy, including such key problems as food production and population control.

In regard to food she will bring you up to date on the current crisis and spell out the steps which have been taken in the last few months to meet the long-term challenge. She will recognize the achievement of self-sufficiency in food as a major political imperative.

On population control very impressive strides are now being made and I am sure Mrs. Gandhi will want to detail these for you. She and her senior colleagues are profoundly aware that population control is an essential ingredient of rapid economic development. The impressive record of the new Indian family planning program is beginning to reflect this awareness.

The foreign exchange and industrial situation are sobering, as Mrs. Gandhi stated in her recent letter to you. She will want to review this situation with you pointing out the shortfalls and their genesis and describing what India is doing to meet them.

Mrs. Gandhi will express her gratitude for PL 480 food assistance and for the recent \$100 million commodity loan. Although she will carefully avoid pressure I expect she will make it clear that substantial additional assistance is needed to get her idle plants operating and her development program moving again.

A frank discussion of where Indian development stands today, while useful, will be a prelude to the broader and more important questions of where India would like to go, how it intends to get there, and what it needs to reach this goal. The conflict with Pakistan, the food crisis, the severe foreign exchange shortage, and our moratorium on new aid commitments have brought India to a decisive stage in its approach to economic development.

Consequently, Mrs. Gandhi will be anxious to discuss with you the basic decisions which confront the Indian Government regarding the Fourth Five Year Plan. She and her colleagues will be thinking in terms of a concerted effort to make India self-sufficient of all foreign assistance in ten years.

Such an effort would involve some significant departures in Indian economic policy along the lines being discussed with the World Bank, i. e. import liberalization, encouragement to foreign private investment, etc.

This "liberalized" policy would require a substantial and sustained U. S. - World Bank - Consortium commitment to provide the foreign exchange needed to get India through its "growing pains" which at best will be severe for the next few years.

Thus, I think Mrs. Gandhi will want to discuss with you how India's urgent need for an assurance of adequate U. S. support over a number of years can be reconciled with our desire to assure ourselves that the Indian economic performance is worthy of our continued assistance. Obviously, this question involves political as well as economic considerations in both nations.

I am convinced that the success of democratic India's massive development effort will depend in large measure on how and to what extent we decide to support the Fourth Plan. In turn the success of India's economy will certainly determine India's political stability and long-term capacity to contribute to the containment of China and the building of a free non-Communist Asia.

Although a more liberalized economic approach now has strong support within the Indian Government and the Congress Party, an adequate U. S. commitment will be required to make it politically defensible and economically feasible.

The political obstacles in India as well as in the United States are both complex and formidable. For instance, within the Gandhian heritage there is a strong current of self-denial which during the freedom struggle against the British led to campaigns similar to the non-importation movements of our own pre-Revolutionary days.

In addition, there are the new nationalists, who emerged from the conflict with Pakistan with a glowing pride in India's potential strength and the conviction that foreign assistance, and particularly western assistance cannot be depended upon.

Then there are the leftists of the Krishna Menon school who would cheerfully see India's economic progress slowed to a walk if U. S. influence could be destroyed in the process. Finally there are the Communist groups of both right and left, organizing, propagandizing and goading, each of them believing that it can benefit most from Indian economic failure and from the political and social chaos that would result.

Mrs. Gandhi and the moderate majority of the Congress Party clearly understand that without substantial aid from the United States the Indian economy will grind to a halt and India's political stability will be undermined. Nevertheless, as a practical matter, she must deal with the formidable political forces which I have described in pushing through the dynamic program which is now so urgently needed.

Thus, Mrs. Gandhi will arrive in Washington at a moment of crucial choice about the future course of India's economic and political development and her policy decisions following her return to New Delhi will be profoundly influenced by her visit. This is particularly so since the type, level and duration of assistance that we are ready to provide, and the basis on which we will provide it, will determine to a decisive degree Mrs. Gandhi's political ability to pursue the bold, liberalizing programs toward which she is inclined.

Although I am normally skeptical of those who refer to any given moment in history as "the decisive year," I deeply believe, that for all these reasons, India now stands at an economic and political crossroads.

Before the end of this summer events in India will begin relentlessly to move this vast country in one of two directions; (1) forward towards a bold liberalization of the economy based on a new confidence in the market mechanism or (2) backward into a command economy with increased controls and rapidly growing antagonism towards foreign capital and the "foreign interference" that it is said to go with it.

Moreover, once such a movement gets clearly underway in either direction, it will rapidly start to feed on itself as the multiplier factors go into action. If the movement is in a positive direction, one decontrol will lead to another and confidence in one area will rapidly breed confidence in others.

But if the movement is negatively oriented, one restriction will lead to other restrictions, political antagonism on matters important to us will make it even more difficult for us to be helpful, the Krishna Menon group will emerge from its present obscurity into a position of increasing influence, while the competent and well-financed Soviet Embassy will work skillfully to further the disruptive process.

* * * * *

My recommendations for specific U. S. actions regarding the visit will, of course, be sent through the usual channels. However, I have spelled out these more personal factors for you because I am convinced that your conversations with Mrs. Gandhi will be decisive in regard to India and Asia and I thought you might find these observations useful.

May I add that the policies we have followed for the last ten months have been most effective in clarifying the thinking of most Indian leaders. Consequently I believe that the stage may now be set for a breakthrough in India which could create the basis for a much more effective political-economic-military counterweight to China and for a major American foreign policy success.

I plan to arrive in Washington on March 23 and I shall be available if I can be helpful in any way.

With my warm personal regards,

Sincerely,

Chester Bowles

F
23

DECLASSIFIED
R.O. 12356, Sec. 3.4
NEJ 94-179
By isp, NARA, Date 6-22-94

~~SECRET - EYES ONLY~~

March 10, 1966

Dear Chet:

Am responding immediately to yours of 3 March, because you'll be returning shortly.

My answer to the points you make is a hearty "amen." By all odds, the real key to a successful meeting of minds between Indira and the President is for her to take a strong affirmative position -- describing in effect how she intends to make India hum and how India is determined to play an increasing role in the containment of China. On this latter point, few could deny that India's larger role in containing China over the mid and longer term is of greater ultimate significance than any symbolic presence in South Vietnam. But, and it is a big but, let no one forget that we are fighting a war, and that in wartime our Congress and electorate are far more influenced by what countries are doing for us today than what such countries can do tomorrow. As a politician, Indira must show comprehension for the President's political problems too.

I am sure that the President would be delighted if Indira took the initiative, and gave him a clear sense of her purpose. Do not hesitate to say, as I am sure the President would wish, that those close to him in the White House see him as eager for the most candid and straightforward private discussion among friends. You might say also that, as a practical man who knows the difference between campaign promises and genuine commitments and as one who is himself wrestling with running a major country, he is most impressed with those who talk in terms of concrete programs, not just visionary goals.

One note of warning. I hope the Indians do not count on us following up this meeting by immediately turning the aid tap full on again. Indeed, I would not envisage aid specifics being discussed much more than they were when Ayub was here. If Indira can convince the President that she is really going to take India somewhere, this may be the critically important ingredient in convincing him that India is worth a big investment. But let's not allow the Indians to expect that they will come home from this visit with X million tons of wheat in their pockets or full-scale "unfreezing" of U. S. aid. To do so is to invite likely disappointment, because I at least see the President as continuing to match response to performance, in the case of India as well as Pakistan.

~~SECRET - EYES ONLY~~

(page 1 of 2 pages)

~~SECRET - EYES ONLY~~

-2-

March 10, 1966

Finally, I devoutly hope that you can get across to Mrs. Gandhi that mutuality is the key to a sound relationship between two great self-respecting powers. We'll invest in India if we believe in it, but India must in turn show some greater sense of understanding of U. S. interests and concerns. We don't want to see India in a mendicant relationship any more than Indians do, and the best way to avoid this is for the Indians themselves to tell us what common purposes would be served by U. S. aid.

Look forward with pleasure to seeing you quite soon.

All the best,

R. W. Komer

The Honorable Chester Bowles
American Ambassador
New Delhi

~~SECRET - EYES ONLY~~

(page 2 of 2 pages)



EMBASSY
OF THE
UNITED STATES OF AMERICA

23a

~~SECRET~~

New Delhi, India,
March 3, 1966.

Dear Bob:

I have been working steadily along the line of your letter of January 4 to John Lewis, as you could see from the two very private memoranda I prepared to further Mrs. Gandhi's education. Subramaniam tells me that she has read the memoranda carefully and that they have helped to give her a larger measure of understanding of our point of view as well as a guide for the future. If this is in fact true, it is encouraging.

I think we all view the approaching visit of Mrs. Gandhi with the President with uncertainty. Mrs. Gandhi right now is in an uneasy mood, keenly aware of her unsophistication on economic matters and with an eye cocked toward the rapidly fluctuating political forces and her still fragile political position within the Congress Party.

If in this mood she sits back and waits for us to take the initiative the President will naturally ask her to do some things which may cause her to take fright, not because the requests are unreasonable but because they are coming from us and therefore expose her to the charge that "she is bowing to U.S. pressure." In this situation she may reply negatively, and the fat will be in the fire.

The best answer is for her to take an affirmative position, describing her hopes for stepping up India's growth rate, her commitment to critical economic reforms including a better break for the private sector, her desire to become independent

of

Mr. Robert W. Komer,
The White House,
Washington, D.C.

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

~~SECRET~~

~~SECRET~~

-2-

of foreign aid within, say, a ten year period, and the role a stable responsible India might begin to play in the containment of China.

Such a presentation would give her the feeling that she is taking the initiative. If she says all the things I would like her to say there would be no need for us to pressure her; rather we can simply endorse and support her commitments.

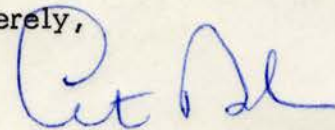
Whether I can persuade her and her associates to adopt this forward strategy rather than a "let's wait and see approach" is an open question, but I can assure you I shall do my best. I will be most grateful for any suggestions you may have for these talks with her.

Steb and I are planning to return on the 18th, arriving in Washington the night of the 20th which will give us a solid week before her arrival. Although I would like to come earlier to take care of some personal business I feel my time will be better spent here in Delhi in the next two or three weeks.

As a result I am putting my personal and family business at the end of my stay with the hope that I can get back to India by the 12th or 13th of April.

With my warmest regards to you and Gerry,

Sincerely,

A handwritten signature in blue ink, appearing to read "C. Bowles", written over a horizontal line.

Chester Bowles

~~SECRET~~

INCOMING TELEGRAM *Department of State*

24

~~SECRET~~

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Action

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Info

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DECLASSIFIED

E.O. 12958, Sec. 3.6

NLJ 97-220

By al, NARA Date 2-18-09

~~SECRET~~ MARCH 09 SECTION ONE OF THREE

EXDIS

REF: DEPTTEL 1649

1. IN OUR OPINION REFTTEL 1649 IS AN EXCELLENT OUTLINE OF OUR OBJECTIVES IN REGARD TO MRS. GANDHI'S VISIT. NONE OF YOUR QUESTIONS OR OBJECTIVES APPEAR INAPPROPRIATE OR UNATTAINABLE.

I HAVE BEEN TALKING WITH KEY GOI LEADERS ALONG IDENTICAL LINES AND WILL COVER THIS GROUND AGAIN WITH MRS. GANDHI THIS EVENING. FOLLOWING COMMENTS ARE INTENDED TO SUPPLEMENT AND IN NO SENSE TO MODIFY VIEWS EXPRESSED IN REFTTEL.

PAGE TWO RUSBAE 487/1 ~~SECRET~~
A. IN REGARD TO PAKISTAN:

(1) INDIANS ARE DEEPLY DISAPPOINTED AT OUTCOME OF RAWALPINDI TALKS. ALTHOUGH THEY WENT PREPARED TO WORK OUT SOLUTIONS TO QUESTIONS REMAINING AFTER THE HOSTILITIES, AND TO MOVE AHEAD IN OTHER RESPECTS, THEY REPORT THAT PAKS REFUSED TO DISCUSS THESE ISSUES UNLESS BY NEGOTIATIONS" WERE STARTED OVER KASHMIR. NEVERTHELESS GOI PRESS AND OFFICIALS ARE STILL GOING OUT OF THEIR WAY TO STRESS FRIENDLY ATMOSPHERE THAT SURROUNDED TALKS AND PUBLICLY TO ABSOLVE PAKISTAN OF CURRENT RESPONSIBILITY FOR UNREST IN EASTERN HILL AREAS.

(2) EVEN ON KASHMIR, SWARAN SINGH AND OTHERS HAVE SAID THAT INDIA IS WILLING TO ENGAGE IN DISCUSSION IN WHICH BOTH SIDES WOULD PRESENT THEIR RESPECTIVE POSITIONS; THIS IS THE LINE SET AT TASHKENT AND CONSISTENTLY HELD SINCE.

~~SECRET~~

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-2- 2354, March 9 (section one of three), from New Delhi

(3) A SIGNIFICANT BYPRODUCT OF THE EXTRAORDINARILY SMOOTH WITHDRAWAL OF THE TWO ARMIES HAS BEEN THE APPARENT RESTORATION OF WARM FEELINGS BETWEEN SENIOR PAK AND INDIAN MILITARY LEADERS. INDIAN MILITARY HAS PULLED OUT OF CRUCIAL STRATEGIC AREAS WITH REMARKABLY FEW COMPLAINTS. HAVING MADE THIS ADJUSTMENT THEMSELVES, THEY MAY BE EXPECTED NOT ONLY TO SUPPORT BUT

PAGE THREE RUSBAE 487/1 ~~SECRET~~
ALSO DISCREETLY TO PUSH POLITICAL SETTLEMENT WHICH WILL ELIMINATE POSSIBILITY OF FUTURE CONFLICT.

(4) AS ELECTION TIME APPROACHES IT IS ALSO POSSIBLE THAT INDIAN GOVERNMENT, IN SEARCH OF STRONG, RESPECTED KASHMIR LEADERSHIP WHICH COULD WIN AN HONEST ELECTION UNDER THE AUSPICES OF THE INCORRUPTIBLE INDIAN ELECTORAL COMMISSION, MAY BE SOMEWHAT MORE FORTHCOMING IN REGARD TO ABDULLAH AND ASSOCIATES.

(5) IN OUR OPINION OUR PRESENT POLICIES IN REGARD TO PAK-INDIA DIFFERENCES ARE SOUND, I.E., TO PRESS IN GENERAL TERMS FOR SETTLEMENT WITHOUT BECOMING INVOLVED IN SPECIFIC ISSUES, AND TO KEEP THE MATTER OUT OF THE SECURITY COUNCIL AND WITHIN THE FRAMEWORK OF TASHKENT. AT THE SAME TIME, WE SHOULD NOT REPEAT NOT ALLOW EITHER INDIA OR PAKISTAN BY ITS OWN ACTIONS OR INACTIONS TO ASSUME VETO OR CONTROL POSITION IN RESPECT TO OUR RELATIONSHIPS WITH THE OTHER. ACTING IN GOOD FAITH WE SHOULD BE PREPARED TO SUPPORT EITHER OR BOTH.

(6) HOWEVER, IN OUR OPINION THE KASHMIR ISSUE CANNOT REPEAT NOT BE SETTLED TO THE SATISFACTION OF PAKISTAN, AS LONG AS RAWALPINDI'S RELATIONSHIP WITH CHINA REMAINS FRIENDLY AND THERE IS A POSSIBILITY OF THE TWO NATIONS AGAIN COOPERATING AGAINST INDIA.

B. IN REGARD TO VIET-NAM:

(1) AS WE HAVE POINTED OUT, GOI POSITION IN SOUTH VIETNAM IS NOW HEAVILY INFLUENCED BY INDIA'S DEPENDENCE ON USSR FOR SUPPORT ON KASHMIR AND FOR SOPHISTICATED MILITARY EQUIPMENT WHICH WE HAVE REFUSED TO PROVIDE, AND BY THE HOPE FOR A BENIGN SOVIET POSTURE IN CASE CHINA SHOULD AGAIN ATTACK INDIA.

~~SECRET~~

~~SECRET~~

-3- 2354, March 9 (section one of three), from New Delhi

(2) THERE IS A CHANCE THAT THE INDIANS MAY EVENTUALLY AGREE TO SOME KIND OF SYMBOLIC CIVIL CONTRIBUTION TO SOUTH VIETNAM THROUGH THE COLOMBO PLAN. WITH RESPECT TO THEIR ROLE IN THE ICC, I WOULD EXPECT INDIANS TO CONTINUE TO CALCULATE THE NET EFFECT ON THEIR RELATIONSHIPS WITH US AND WITH THE USSR RESPECTIVELY, IN JUDGING HOW FIRM TO BE IN FINDING "EVIDENCE" OF NORHT VIETNAMES AGGRESSION.

(3) HOWEVER, IN MY JUDGMENT WE SHOULD NOT BECOME SO FOCUSED ON THE SYMBOLIC ACTS THAT WE WOULD LIKE TO SEE INDIA PERFORM IN REGARD TO SOUTH VIETNAM THAT WE LOSE TREK OF THE MUCH HIGHER STAKES FOR WHICH WE ARE PLAYING IN REGARD TO INDIA'S FUTURE ROLE IN ASIA. AS REFTTEL POINTED OUT, WHAT WOULD COUNT MOST AS FAR AS U.S. INTERESTS ARE CONCERNED IS INDIA'S ACTIVE SUPPORT AGAINST CHINA IF A MAJOR CONFLICT SHOULD DEVELOP.

FOR MANY MONTHS WE HAVE BEEN MAKING A MAJOR EFFORT TO ENCOURAGE GOI TO TAKE A BROADER RESPONSIBILITY IN ASIA AND I BELIEVE THIS EFFORT IS BEGINNING TO HAVE AN EFFECT. TODAY GENERAL DE PUY, ASSISTANT CHIEF OF STAFF UNDER GENERAL WESTMORELAND, GAVE SENIOR INDIAN MILITARY A COMPREHENSIVE BRIEFING ON PROBLEMS AND PROSPECTS IN VIETNAM. THIS REFLECTS SIGNIFICANT MOTION IN THE RIGHT DIRECTION.

(4) MOREOVER IT SEEMS CLEAR FROM SEVERAL PRIVATE CONVERSATIONS THAT INDIA IS NOW THINKING IN TERMS OF HOW TO DEFEND BURMA IF THE NEED SHOULD ARISE; INCREASING CONCERN IS ALSO BEING EXPRESSED WITHIN GOI OVER CURRENT DEVELOPMENT IN THAILAND.

(5) IN MY OPINION THE PRESIDENT SHOULD PUSH FIRMLY ON THE CENTRAL POINT, I.E., (A) CHINA IS OUR COMMON ENEMY; (B) IF WE ARE ATTACKED BY CHINA IN SOUTHEAST ASIA, WE SHOULD BE ENTITLED TO SOME COOPERATIVE ASSISTANCE FROM INDIA. WE ARE NOT SEEKING A FULL-BLOWN MILITARY ARRANGEMENT, BUT RATHER WE WOULD LIKE TO EXPLORE IN A LOW KEY FASHION HOW EFFECTIVE COOPERATION CAN BEST BE ACHIEVED.

GP-3
BOWLES
BT

~~SECRET~~

INCOMING TELEGRAM *Department of State*

~~SECRET~~

CORRECTION ISSUED
3/9/66 10:45 PM ROG

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87
Action

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Info

VV MJA089SPA9448SPA947SBA237
RR RUBHC
DE RUSBAE 487/2 0681615
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1966 MAR 9 PM 9 18

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FM AMEMBASSY NEW DELHI (CORRECTED PAGE ONE)
TO SECSTATE WASHDC 2354
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~~SECRET~~ MARCH 09 SECTION TWO OF THREE

E X D I S

(6) THE GOI'S READINESS TO TAKE THE NECESSARY RISKS WILL SLOWLY GROW AS IT GAINS CONFIDENCE IN ITS OWN ACHIEVEMENTS (ECONOMIC AS WELL AS MILITARY) AND IN OUR STEADFASTNESS AND UNDER-STANDING. HERE TOO THE GOI WILL CLOSELY CALCULATE ITS RELATIONSHIPS WITH THE SOVIET UNION.

C. IN REGARD TO INDIA'S ECONOMIC PERFORMANCE, WE SHOULD CONTINUE TO OPERATE WITHIN THE GENERAL INTERNATIONAL CONTEXTS OF THE IBRD AND THE CONSORTIUM, RATHER THAN UNILATERALLY.

(1) THE GOI IS NOW FAVORABLY DISPOSED TO DECONTROL OF

PAGE TWO RUSBAE 487/2 ~~SECRET~~
MAINTENANCE IMPORT AND INDUSTRIAL RAW MATERIAL AND TO GREATER DECONTROL IN GENERAL. THE DECONTROL ON CEMENT HAS MORE THAN LIVED UP TO EXPECTATIONS; PRODUCTION HAS INCREASED AND THE BLACK MARKET IS DISAPPEARING. HOWEVER, THE INDIANS WILL EMPHASIZE THAT, EVEN ALLOWING FOR OTHER MEASURES SUCH AS EXCHANGE RATE ADJUSTMENT, DECONTROL OF KEY IMPORTS IS

IMPOSSIBLE WITHOUT ADEQUATE ASSURED SUPPLY OF FOREIGN EXCHANGE TO COVER THE INCREASED DEMAND.

(2) THERE IS NO DOUBT THAT THE INDIANS ARE DETERMINED TO PROMOTE AGRICULTURE AS THEIR FIRST PRIORITY. THE NEED FOR A MAJOR INCREASE IN FERTILIZER PRODUCTION HAS BEEN ACCEPTED AND WE BELIEVE THAT THE INDIANS WILL MAKE REASONABLE CONCESSIONS TO ATTRACT NEW PRODUCERS.

HOWEVER, INDIANS MUST BE PERSUADED THAT THEY CANNOT EXPECT FERTILIZER PRODUCERS TO COME TO THEM AND THAT ALL FOREIGN

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INCOMING TELEGRAM *Department of State*

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~~SECRET~~ MARCH 09 SECTION TWO OF THREE

EXDIS

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PAGE TWO RUSBAE 487/2 ~~SECRET~~
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HOWEVER, INDIANS MUST BE PERSUADED THAT THEY CANNOT EXPECT FERTILIZER PRODUCERS TO COME TO THEM AND THAT ALL FOREIGN

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-2- 2354, March 9 (section two of three), from New Delhi

INVESTORS ARE NOT LATTER-DAY ROBBER BARONS. IF INDIA IS TO GET THE PRODUCTION FACILITIES IT NEEDS IN REASONABLE TIME SPAN, IT MUST DEVELOP TACTIC OF HOT PURSUIT OF ALL LIKELY PROSPECTS.

(3) IN REGARD TO THE CURRENT FOOD EMERGENCY THE INDIANS FACE A DILEMMA. UNLESS THEY DRAMATIZE THEIR PROBLEM, THEY WILL

PAGE THREE RUSBAE 487/2 ~~SECRET~~
HAVE DIFFICULTIES IN GETTING ADEQUATE SUPPLIES FROM AUSTRALIAN, CANADA, FRANCE AND OTHER NATIONS.

ON THE OTHER HAND, AS WE HAVE POINTED OUT, IF INDIA PAINTS ITSELF AS A NATION OF STARVING, HELPLESS PEOPLE, FOOD PRICES WILL SOAR, HOARDING WILL BE FURTHER ENCOURAGED, RIOTS WILL SPREAD, THE PRESENT MODERATE GOVERNMENT WILL BE GRIEVOUSLY WEAKENED IN A CRUCIAL ELECTION YEAR AND THE SITUATION MAY GET OUT OF HAND. IT IS ESSENTIAL THAT WE CONTINUE TO TAKE A SYMPATHETIC VIEW OF INDIA'S POLITICAL DIFFICULTIES IN DEALING WITH THIS COMPLEX AND CRUCIAL PROBLEM.

(4) INDIA'S POPULATION CONTROL PROGRAM IS OFF TO AN ENCOURAGING START FOLLOWING THE DECISION LAST APRIL TO PUSH THE INTRA-UTERINE DEVICE (THE "LOOP".) A NEW PLANT IS TURNING OUT 14,000 DAILY. IN NINE MONTHS FIVE STATES HAVE EACH INSERTED MORE "LOOPS" PER THOUSAND POPULATION THAN EITHER TAIWAN OR SOUTH KOREA DURING THE SAME PERIOD. HEAVY PRESSURE IS NOW BEING APPLIED TO SPEED UP THIS EFFORT THROUGHOUT INDIA.

(5) IN REGARD TO DEVALUATION, I STRONGLY URGE THAT WE DO NOT MAKE DIRECT DEVALUATION IN ITSELF AN ISSUE. RATHER WE SHOULD TAKE THE POSITION THAT THIS IS WHOLLY AN INDIAN DECISION.

PAGE FOUR RUSBAE 487/2 ~~SECRET~~
WE ARE, HOWEVER, HOPEFUL AS ARE THE WORLD BANK AND OTHER CONSORTIUM MEMBERS THAT THE BASIC OBJECTIVE CAN SOMEHOW BE ACHIEVED BY EITHER A DIRECT OR INDIRECT APPROACH.

THERE IS EVIDENCE FROM CAS AND OTHER SOURCES THAT FINANCE MINISTER CHAUDHURI FAVOR DEVALUATION AND IS PREPARED TO FIGHT FOR IT WITHIN THE INDIAN CABINET. (NOTE: NO DOUBT THIS EXPLAINS THE MINISTER'S EMOTIONAL REACTION TO UNDER SECRETARY MANN'S STATEMENT IN CONGRESS, WHICH HE FEELS MAY PLACE HIM IN POSITION OF APPEARING TO ACT UNDER U.S. PRESSURES.)

(6) IN MY OPINION INDIA'S ATTITUDE TOWARDS THE PRIVATE SECTOR IS BIGGEST SINGLE ECONOMIC PROBLEM WITH WHICH WE MUST

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-3- 2354, March 9 (section two of three), from New Delhi
COPE; AND SINCE IT IS SHROUDED IN MYTH, MISUNDERSTANDING AND
IDEOLOGY IT MAY ALSO BE THE LONGEST IN GETTING SOLVED. KEY
INDIAN LEADERS LARGELY ACCEPT THE VIEW THAT MUCH MORE PRIVATE
INVESTMENT BOTH FOREIGN AND DOMESTIC IS REQUIRED; NEVERTHELESS,
THEY HAVE BEEN DEEPLY CONDITIONED OVER THE YEARS BY THE
UNDISPUTED SHODDY RECORD OF EXPLOITIVE, SPECULATIVE CAPITALISM
HERE IN INDIA.

(7) THE U.S. GOVERNMENT CANNOT PUSH THIS ISSUE BEYOND A CERTAIN
POINT WITHOUT BEING INCREASINGLY HURT BY LEFTIST CHARGES
OF "IMPERIALISTICALLY" PROMOTING ROLE OF "PROFIT HUNGRY"
U.S. CORPORATIONS. NEVERTHELESS THE NEED FOR PRIVATE INVESTMENT
IS SO URGENT AND THE ISSUE SO FUNDAMENTAL THAT WE AND OTHER

PAGE FIVE RUSBAE 487/2 ~~SECRET~~
DEVELOPED NATIONS MUST CONTINUE TO STRESS THE NEED FOR A
MORE POSITIVE APPROACH. OUR PROPOSAL TO SET UP AN INDIAN
COMMITTEE FOR ECONOMIC DEVELOPMENT, WHICH COULD CARRY MUCH
OF THE EDUCATIONAL RESPONSIBILITY HERE, WILL BE FAR MORE
EFFECTIVE APPROACH THAN DIRECT HEAVY-HANDED PRESSURE BY USG.

(8) I BELIEVE THE PRESIDENT SHOULD, NEVERTHELESS, POINT OUT
THAT IN PRACTICALLY EVERY COUNTRY IN WHICH THERE HAS BEEN
RAPID ECONOMIC DEVELOPMENT A MAJOR ROLE HAS BEEN ALLOTTED
TO THE PRIVATE SECTOR. HE COULD ADD THAT HE IS NOT PROMOTING
AN IDEOLOGICAL THEORY BUT ADVOCATING A REALISTIC ACTION
PROGRAM BASED ON WIDESPREAD AND WELL TESTED EXPERIENCE.

D. IN REGARD TO MRS. GANDHI'S OWN APPROACH: I HAVE STRONGLY
EMPHASIZED WITHIN GOI AND I SHALL CONTINUE TO DO SO THAT MRS.
GANDHI SHOULD TAKE THE INITIATIVE BY **OUTLINING** IN VIGOROUS
TERMS WHAT SHE **INTENDS** TO DO TO GET INDIA MOVING. THIS WILL
ENABLE THE PRESIDENT TO APPLAUD HER DECISIONS AND TO STATE
THAT HE HAS DECIDED TO HELP MAKE HER EFFORT SUCCESSFUL, THUS
SIDE-STEPPING THE POLITICALLY EXPLOSIVE CHARGE HERE IN INDIA
THAT THE UNITED STATES FORCED HER TO ACCEPT OUR VIEWS.

GP-3
BOWLES
BT

~~SECRET~~

INCOMING TELEGRAM *Department of State*

~~SECRET~~

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TO SECSTATE WASHDC 2354
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~~SECRET~~ MARCH 09 SECTION THREE OF THREE

EXDIS

E. A FINAL COMMENT: WE ARE I BELIEVE AT A WATERSHED HERE IN INDIA. IF THE MEETINGS ARE SUCCESSFUL, I BELIEVE THAT US INFLUENCE IN INDIA WILL STEADILY INCREASE AND THE INDIAN ECONOMY WILL BEGIN TO PICK UP RAPIDLY AS THE MULTIPLIER FACTORS BEGIN TO WORK.

IF THIS PICK UP IS CLEARLY IDENTIFIED WITH US SUPPORT THE GOI IS LIKELY TO MOVE IN A GENERALLY MORE FAVORABLE POLITICAL DIRECTION AND THE INFLUENCE OF THE ALREADY STRONG ELEMENT WITHIN THE INDIAN GOVERNMENT WHICH SHARES OUR VIEW OF WHAT NEEDS TO BE DONE WILL BE GREATLY STRENGTHENED. THE STAGE WOULD THUS BE SET NOT ONLY TO MAKE INDIA ECONOMICALLY SELF-SUFFICIENT WITHIN A REASONABLE TIME SPAN BUT TO BRING HER GRADUALLY INTO A MORE RESPONSIBLE AND AFFIRMATIVE ROLE IN ASIAN AFFAIRS.

IF, ON THE OTHER HAND, THE MEETINGS ARE UNSUCCESSFUL, INDIA WILL ALMOST CERTAINLY BEGIN TO SEARCH FOR ALTERNATIVES TO THE DEMOCRATIC, WESTERN-ORIENTED COURSE IT IS ON. THERE ARE THOSE ON BOTH THE LEFT AND RIGHT WHO WOULD HEARTILY WELCOME SUCH AN OPPORTUNITY TO ESTABLISH AN AUTHORITARIAN COURSE, HOWEVER, BARREN THE PROSPECTS MIGHT BE. KRISHNA MENON WOULD BE REVIVED AS A POLITICAL FIGURE AND THE SOVIET POSITION FURTHER ENHANCED.

IN PREPARING FOR MRS. GANDHI'S VISIT WITH THE PRESIDENT WE MUST RECOGNIZE THAT, WHILE DEMOCRACY IN INDIA HAS BEEN REMARKABLY SUCCESSFUL, IT IS NOW UNDER EXTREMELY HEAVY STRAIN. IN THIS FRAMEWORK WE CANNOT EXPECT MRS. GANDHI TO IGNORE THE HARD POLITICAL REALITIES WITH WHICH SHE IS SURROUNDED.

WE CAN BEST SERVE OUR OWN PURPOSES IF WE HELP HER DEMONSTRATE THAT INDO-US COOPERATION IS IN FACT A MUTUALLY BENEFICIAL ASSET, NOT RPT NOT (AS PRO-SOVIETS AND FELLOW TRAVELERS CHARGE) A SHAMEFUL LIABILITY TO INDIA.

GP-3.
BOWLES
BT

~~SECRET~~

DEPARTMENT OF STATE
AGENCY FOR INTERNATIONAL DEVELOPMENT

25

EYES ONLY - MR. KOMER

Bob:

FYI - per our conversation.

Bill

William B. Macomber, Jr.



INCOMING CABLE

DATE AND TIME OF CABLE: MARCH 8, 1966 2130

LOG NO.: WU 27 - MAR. 8

TO: IPTBAFRAD

FROM: NEW DELHI

TEXT: HELL 2

PCR WOODS

ROUTING	
ACTION COPY:	MR. WOODS
INFORMATION COPY:	
DECODED BY:	NO

FIRSTLY PERSONALLY DELIVERED AIDE MEMOIRE AND LETTER MINISTER AGRICULTURE SUNDAY MORNING. WILL DELIVER PERSONALLY MINISTER OF FINANCE WHEN HE RETURNS DELHI TODAY. BY SUNDAY AFTERNOON WHEN I SAW MINISTER OF PLANNING HE HAD ALREADY SEEN BOTH DOCUMENTS ASSURED ME BOTH WERE RECEIVING MOST SERIOUS CONSIDERATION. BOTH MEN EXPRESSED APPRECIATION MY EMPHASIS YOUR UNDERSTANDING NECESSITY LETTER BE INCH LIMITED NUMBER MINISTERS ONLY.

SECONDLY AT GOI REQUEST OTHER DISCUSSIONS PROCEEDING TWO ENTIRELY SEPARATE LEVELS. MISSIONS SECTORAL REPORT INCLUDING MAIN OR SUMMARY REPORT BEING DISCUSSED HIGHEST CIVIL SERVANT LEVEL INCLUDING SECRETARY MINISTER OF FINANCE ECONOMIC ADVISER ETC. DISCUSSIONS SUBSTANCE AND RECOMMENDATIONS MAIN REPORT BETWEEN CERTAIN MINISTERS AND ME ALONE WITHOUT PARTICIPATION OR KNOWLEDGE CIVIL SERVANTS.

DECLASSIFIED
 E.O. 12958, Sec. 3.6
 NLJ 97-220
 By isl, NARA Date 2-18-09

PRESERVATION COPY

INCOMING CABLE

DATE AND TIME
OF CABLE:

MARCH 8, 1966 2120

LOG NO.:

WU 27 - MAR. 8

TO:

INTBAFRAD

FROM:

NEW DELHI

TEXT:

ROUTING

ACTION COPY: MR. WOODS
INFORMATION COPY:
DECODED BY: ME

PAGE TWO

THIRDLY BASIS MY DISCUSSION TWO MINISTERS THIS FAR BELIEVE THERE IS READINESS PROCEED OUR AND IIF FULL PROGRAM PROVIDED ASSURANCES ^{required basis} ~~REQUIRED BASIS~~ CAN BE OBTAINED AND PROVIDED SUCH ASSURANCES IN TIME FOR GOI ACTION BY JUNE OR JULY SINCE LATER ACTION CONSIDERED POLITICALLY IMPERMISSIBLE. HAVE BEEN ASKED CONVEY MESSAGE THIS TO YOU IMMEDIATELY AND TO CONCLUDE MY PERSONAL STAY HERE RAPIDLY PERHAPS BY ABOUT 15TH TO PERMIT FULL REPORT TO YOU WELL IN ADVANCE PRIME MINISTER POSSIBLE VISIT SO THAT YOU CAN BEGIN NECESSARY EXPLORATIONS.

FOURTHLY SENSITIVITY REGARDING PUBLIC APPEARANCE ANY ACTION UNDER PRESSURE GREAT CONSEQUENTLY THERE MAY BE PRESS STORIES DELIBERATELY DESIGNED COUNTER THIS APPEARANCE.

CARRIED CODE GROUPS

PRESERVATION COPY

INCOMING CABLE

DATE AND TIME
OF CABLE:

MARCH 8, 1966 2120

LOG NO.:

WU 27 - MAR. 8

TO:

INTEAFRAD

FROM:

NEW DELHI

TEXT:

ROUTING

ACTION COPY: MR. WOODS

INFORMATION
COPY:

DECODED BY: NO

PAGE THREE

FIFTHLY WAS ASKED FIRST DAY REPLAIN MANN STATEMENT AS AGREED
SAID YOU HAD NO PRIOR KNOWLEDGE MANN STATEMENT AND NO
COPIES OF REPORT HAD BEEN GIVEN USA OR OTHER GOVERNMENTS
BUT HIGH LEVEL PRIVATE DISCUSSION LAST SUMMER SEVERAL
GOVERNMENTS INTERESTED ALERT THEM ACTION NECESSARY THEIR
PART HAD GIVEN GENERAL INDICATION OUR THINKING SURE
YOUR MESSAGE REGARDING YOUR HANDLING THIS ALSO ARRIVED
TOO LATE.

SIXTHLY SURE YOU WILL HEAR OF BRITISH QUAINS REGARDING ONE OF
OUR RECOMMENDATIONS.

SEVENTHLY WELCOME ANY INSTRUCTIONS OR ADVICE REGARDS

EILL

PRESERVATION COPY

MEMORANDUM

THE WHITE HOUSE
WASHINGTON

File
Copy to DKS
RWT
26

OFFICIAL USE ONLY

March 7, 1966

NOTE FOR MR. KOMER

I saw Joe Kraft this afternoon at his request. Kraft is leaving on a trip to India and Southeast Asia and wanted a feel for the mood in those countries, and the names of people he might see.

Kraft said that he had just come from a session with George Ball where he presumably (but he did not say) was discussing the State Department reorganization. He raised the subject with me, and said he did not see how it could be successful with the "people now in place". I told him that the rationale of the plan was to emphasize the State Department's proper and appropriate role on policy. I said that I didn't feel it was fair to discuss the wisdom of the plan until it had been given a fair trial. He told me (pulling a sheaf of papers out of his pocket) that he had already written a piece on the reorganization plan. From what he said I would suspect that his piece will point out the inadequacy of State Department personnel to cope with the problems they are now charged with, and will also try to relate the plan to Bundy's departure.

Kraft said he had heard I was leaving on the first of April. I confirmed this and emphasized that it had nothing to do with the departure of Bundy or any aspect of the Vietnam situation.

CNC
Chester L. Cooper

OFFICIAL USE ONLY

Rec'd
Rogers
4:45 pm
3-6-66

27

MEMORANDUM

THE WHITE HOUSE

WASHINGTON

L

March 5, 1966
Saturday, 10:45 A.M.

MEMORANDUM FOR THE PRESIDENT

Freeman Report on Indian Agriculture. I'll summarize this latest long progress report, so you won't have to read it.

1. Dimensions of India's deficit are still in 12 million ton range. Rationing is moving slowly.
2. Subramaniam is under sharp political attack for the policies agreed on with us.
3. Historically, India recovers slowly from a drouth, so we may have an abnormal (through less so) 1967 too.
4. India's fertilizer program is not picking up as fast as hoped (we're prodding on this). Freeman would like us to press for greater diversion of foreign exchange to this sector, and to push the Germans and Japs to help out.
5. We're looking at feasibility of getting India to shift more acreage from cotton to wheat, while we supply cotton from our enormous stockpile. Poage raised this during hearings.

R. W. Komer

R. W. Komer

I might add that Freeman whacked his Canadian counterpart hard this weekend, during talks here. Canada will shortly go up to \$40 million in wheat for India. Once we get this, we'll ask 'em to double it later.



DEPARTMENT OF AGRICULTURE
OFFICE OF THE SECRETARY
WASHINGTON

27a

March 4, 1966

MEMORANDUM

To: The President

From: Orville L. Freeman
Secretary of Agriculture *Orville L. Freeman*

Subject: Review of the India Food Situation

Official estimates of foodgrain production in India are still holding at 76 million tons. Grain imports from all sources are expected to average about a million tons monthly in March, April, and May.

Grain procurement and efforts at belt tightening are moving slowly. Rationing programs instituted thus far cover 34 million people or 7 percent of the total population. An additional 20 million may be added by June 1, bringing the total up to 11 percent. This will cover most of the major urban centers but very little of the country outside these centers.

The riots in Kerala protesting the lack of rice have subsided for the present, but scattered food protests and demonstrations are occurring elsewhere in India.

Dissatisfaction with food policies

At the annual convention of the Congress Party, the Government's food production and distribution policies came under fire. Minister Subramaniam, as Minister of Food and Agriculture, bore the brunt of the attack.

At times the Party Leaders nearly lost control of the convention delegates who were loudly demanding the abolition of the food zones. Most of the criticism came from the deficit states, which this year out-number the food surplus states by about 3 to 1.

2-The President-March 4, 1966

At one time Minister Subramaniam threatened to resign. This is not the first time he has used this threat, but there is probably a limit to the number of times this tactic can be effectively used. There is little doubt but that Subramaniam's position has been weakened somewhat by the current crisis and the unrest and dissatisfaction it has generated.

Subramaniam appears to be fighting hard to implement the policies agreed upon in Rome. Despite the fact he got Cabinet and Parliament concurrence, he has been facing some strong opposition. At the annual convention of the Congress Party, Subramaniam was openly reprimanded by Congress Party Chief Kamaraj for having signed an overly generous agreement with an American firm permitting it to construct and operate a fertilizer plant. Subramaniam insisted that the Indian Government must live up to its agreement and he prevailed.

Subramaniam was also criticized by Kamaraj for the recent decision to permit foreign private investors to price and market their own fertilizer. Again he held his ground and won out. Kamaraj later partially retracted his criticism of Subramaniam, saying that in fact this decision was made by the Government of India.

The 1966/67 crop

We are thinking ahead to the 1966/67 crop in India. Historical records indicate that crop production does not usually recover completely after a serious monsoon failure such as that experienced this past year, even if the next monsoon is a good one.

Reports of serious and worsening power shortages indicate water levels in irrigation reservoirs are far from optimal.

Scattered readings of soil moisture levels indicate these are far below normal throughout most of the Indian subcontinent.

Fertilizer supplies for 1966/67 crop

A third key factor affecting the 1966/67 crop and on which we already have some information is fertilizer supplies. As things now stand, supplies of all three major nutrients will be well below the levels for 1966/67 agreed upon in Rome.

3-The President-March 4, 1966

Nitrogen fertilizer supplies are expected to range between 700,000 and 800,000 tons. This is up from the 550,000 tons used in 1965/66 but far short of the 1,000,000 ton level agreed upon in Rome. We do not have complete data on phosphate and potash supplies for 1966/67 but the shortfalls may be even greater than for nitrogen.

The Indians have used all of the \$50 million loan you announced on December 10. They more than matched that loan with foreign exchange of their own as they had agreed they would. Even so, they are falling far short of targets. Several factors account for this.

Fertilizer prices have risen sharply over the past several months. Our \$50 million loan did not go nearly as far as it would have a year or two ago.

World supplies of fertilizer raw materials, particularly sulphur, are in short supply. The inability to obtain adequate supplies of raw materials coupled with the failure to allocate enough foreign exchange for spare parts has prevented domestic plants from operating at anything near full capacity.

Getting fertilizer consumption up to target

It now seems quite clear that fertilizer consumption will be well below target in 1966/67 unless strong action is taken. We might very well press Mrs. Gandhi to find enough foreign exchange to get fertilizer consumption up to the agreed upon levels. It appears that Subramaniam could not carry the point alone again. From a political point of view, it would be very desirable to involve Mrs. Gandhi more directly in agricultural policy making. This would take some of the direct pressure off Subramaniam.

I recommend we use every way possible to get them to free enough of their own foreign exchange to get fertilizer consumption up to target. If this does not work, I would suggest we urge them to go again to some of the other advanced countries such as West Germany and Japan asking them to supply specific quantities of fertilizer on concessional terms so they can meet their consumption targets. These additional fertilizer needs would total about \$100 million. After all, they did not have any great qualms about asking us for \$750 million worth of foodgrains.

4-The President-March 4, 1966

If we decide none of these will work, you might want to consider an additional \$100 million loan to be used specifically for fertilizer, fertilizer raw materials and spare parts. One pound of fertilizer produces on the average 10 pounds of grain. Fertilizer supplied now will reduce the amount of grain we will be asked to contribute next year. If we let them off this year, it will be almost impossible to get them back on target in subsequent years.

Preparing for Mrs. Gandhi's visit

Later this week I am sending Les Brown, my key India expert, to India to take a last reading of conditions there before Mrs. Gandhi comes here. He will take a close look at the progress, or lack of it, in getting new fertilizer plants under construction, and in carrying forward the Rome agreement.

Brown will also be investigating the feasibility of attempting to shift cotton land into the production of foodgrains in India. If this proves feasible, we could work off some of our heavy cotton stocks under P.L. 480 while reducing their import needs for U.S. wheat.

This proposition seems logical on the face of it, but will need to be examined in terms of the economic implications, particularly to the producers involved, as well as the political overtones.

The fact that Poage brought this up in an open hearing and that it got in the newspapers means it has already reached India. It may have created political problems for Subramaniam and will possibly create more if we try to move in this direction.

Nonetheless, I have discussed it with leaders in the cotton industry and also cotton Congressmen and Senators and we will thoroughly investigate it.

I will send you a complete up-to-date report when Brown returns.



EMBASSY
OF THE
UNITED STATES OF AMERICA

28

Bowles

CONFIDENTIAL
OFFICIAL-INFORMAL

New Delhi, India,
March 2, 1966.

Dear Bob:

I think you may be interested in the enclosed letter which
I have sent to the Secretary.

With best wishes,

Sincerely,

Chester Bowles

Enclosure:

Copy of letter to the
Secretary of State.

Mr. Robert W. Komer,
The White House,
Washington, D.C.

DETERMINED TO BE AN
ADMINISTRATIVE MARKING
E.O. 12958, SEC. 1.1(a)

BY plg ON 3/25/94

CONFIDENTIAL

28a

~~CONFIDENTIAL~~
~~OFFICIAL-INFORMAL~~

New Delhi, India,
March 2, 1966.

Dear Dean:

I believe we are on the verge of completing what may be a useful exercise in the support of the private sector and economic sanity in general.

The Indian business community's current relationship to the Government and public is reminiscent of the situation in the U.S. in the 1930's when our government mistrusted business, business mistrusted government and the public looked rather skeptically on both.

In 1940 the CED was formed by Paul Hoffman and others and it rapidly began to play a creative role in bringing the business community together with the government and at the same time greatly improve the business image with the general public.

For some time I had been trying to get Paul Hoffman or someone else who knows the CED thoroughly to come to India and talk to a group of Indian businessmen about setting up a similar operation here. Recently Hoffman agreed to stop off in New Delhi on his way back from a meeting in Bangkok and we were able to pull together a group of key Indian business leaders who ranged from being sympathetic to being enthusiastic about this possibility.

At the luncheon in Paul's honor yesterday, there was a general agreement to go ahead and even the Government, which has been consulted informally, appears to be enthusiastic. Paul took off for home on Monday after a four day stay and left behind a CED staff member.

II

The Honorable
Dean Rusk,
Secretary of State,
Washington, D.C.

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

~~CONFIDENTIAL~~

~~CONFIDENTIAL~~

-2-

If the situation develops as I hope it may I would like to see our friend Eric DeCosta move in and head the staff, which of course would be of crucial importance. Under his direction and with a well selected Board of Directors I believe that this exercise could make a significant impression on the Indian scene in the next couple of years. One of the first things I would like to see is an effort to establish a sense of common interest between the business community and the tens of millions of Indian cultivators who, once their incomes begin to rise (and they are steadily rising even now), will become an unlimited market for Indian industry.

Although this may seem to be a minor matter in comparison with all the problems you have on your plate I think it points in the right direction. Because of your respect for Eric DeCosta, I thought you might be particularly interested.

With my warmest regards,

Sincerely,

Chester Bowles

~~CONFIDENTIAL~~

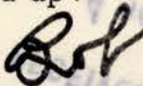
THE WHITE HOUSE
WASHINGTON

29

March 1, 1966

MEMORANDUM TO: Mr. Schultze

Neither Henry Wilson nor I think the President ought to reply directly to the attached non-letter from Congressman Cooley. Our instinct is to have Orville do so, along the lines of the attached draft his people prepared. Before passing the buck, however, could you tell us whether this evasive reply creates any problems for you, or could be tightened up?


R. W. KOMER

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

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MAR 3 1966

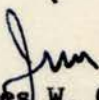
MEMORANDUM FOR MR. KOMER

Subject: Congressman Cooley's letter to the President

We agree that the President should not reply directly to what appears to be a letter for the record. Since Cooley's letter (February 3), we have had the Food for Freedom message and bill and testimony on the bill by Freeman and others before Cooley's committee. The issues raised in the letter--food aid policy generally and India in particular--were discussed at the hearings.

All of this suggests that a reply should come from Freeman. Because of what has transpired in the last month, you might want to suggest to him that he go see Cooley rather than send a letter. Freeman is probably the best judge of the preferred approach. In any event, our guess is that if he chooses to reply by letter, he would want to rewrite it to reflect the fact that he has already discussed these matters with the Committee.

The letter as now drafted presents no substantive problems and we see no "hookers" in it.


James W. Clark
Chief, International Division

Attachments

MAR 3 1966

MAR 3

~~SECRET ATTACHMENT~~

DEPARTMENT OF STATE

THE DIRECTOR OF
INTELLIGENCE AND RESEARCH

30

To: ^{RN} Mr. Komer

Enclosed are two memoranda on India
which I hope you will find useful and timely.

RNAB

FYI

TH
Thomas L. Hughes

Attachment: (S/NFD)

RM-RNA-8
RM-RES-3

P. S. Please note, except for this copy,
distribution has been limited to State.

~~SECRET ATTACHMENT~~

U.S. DEPARTMENT OF STATE
DIRECTOR OF INTELLIGENCE AND RESEARCH

Research Memorandum

RNA-8, February 28, 1966 30a

To : The Secretary
Through: S/S
From : INR - Thomas L. Hughes *Thomas L. Hughes*

Subject: India and the Bomb: What Price Proliferation?

In the following highly speculative analysis, we have attempted to assess some of the specific dangers involved should India decide to develop nuclear weapons. Projecting the assessments in recent national intelligence estimates that India will probably opt for nuclear weapons in the next few years,* the paper assumes that despite all efforts at reaching an international disarmament agreement, devising assurances satisfactory to India, and continued major power opposition to the proliferation of nuclear weapons, India has found it necessary to develop an independent capability. India's rationale, its own assessments of the political risks involved, and the military and economic environment of such a program, are considered in relation to certain theoretical risk calculations derived largely from the Western European context to determine if the dangers are equally valid in the different environment of Asia. The wider implications of a nuclear-armed India, beyond the confines of Asia, have been arbitrarily omitted.

ABSTRACT

Should India decide, in the face of uncontrolled Chinese Communist nuclear weapons development, that its vital national security interests demanded an independent nuclear capability, it would not expect to incur severe political penalties. Judging from developments in France and Communist China, India would have reason to believe that once a decision had been made, neither the US nor the USSR would place serious obstacles in its path. Although it would

* NIE 4-66, "The Likelihood of Further Nuclear Proliferation," January 20, 1966
SNIE 31-1-65, "India's Nuclear Weapons Policy," October 21, 1965

DECLASSIFIED

E.O. 12958, Sec. 3.6

NLJ 97-220

By *id*, NARA Date 2-18-09

~~SECRET/CONTROLLED DISSEM~~
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OR CITATION IN LISTS OF INTELLIGENCE PROJECTS.

not expect to receive help from either on its nuclear program, India would reason that the USSR's strategic interests in the area would continue to outweigh its opposition to proliferation. The Indians might expect a stronger initial US reaction, but they would calculate that the US also has a vested interest in a strong India and early US opposition would be modified by the Soviet posture. Since the Afro-Asian bloc failed to condemn China's nuclear tests, India might expect a similar reaction to its own nuclear efforts and might even hope thereby to recoup some of its prestige in the underdeveloped world. In the Indian view relations with Pakistan and China, already at a low ebb, could deteriorate only marginally, and since chances for improvement are at best slight, the net political loss could be discounted.

The accuracy of such Indian political calculations would depend to a significant degree on the type of weapons program it attempted. It seems likely, for technical and economic reasons, that India would limit itself initially to a token nuclear force designed primarily to offer limited deterrence to the Chinese force. It would be defense-oriented and its main utility would be political and psychological, rather than military. Such a token program, costing about \$50 million a year, would not detract from support for India's conventional forces nor would it seriously disrupt the country's economic development. The present disparity in conventional military strength between China and India is likely to persist in the nuclear field as well. India's narrower resource base and its general military outlook suggest that it would not try to match the Chinese strategic capability, but would instead strive merely to keep within a reasonable distance sufficient to afford it

political and psychological leverage against the Chinese.

An assessment of the assumed risks involved in a token Indian nuclear force takes on somewhat different connotations when viewed against the Asian rather than the more familiar European background. The most salient difference is that the vital national interests of the US and the USSR are not as directly committed through major alliances and the possibilities of escalation may, therefore, be more limited. In fact, only the engagement of US nuclear power at levels which threatened China's survival would be likely to pose the danger of general war. Whereas nuclear-armed China in conflict with a conventionally armed India would directly engage the credibility of the US deterrent, a small Indian force would serve to relegate the US force to a backup rather than a primary role thereby allowing both major nuclear powers more room to maneuver.

The mere prospect of a Chinese nuclear weapons system has already affected Indian thinking; the actual advent of this system will substantially increase chances for nuclear blackmail. In this situation, the political utility of a token Indian force would be significant since it would serve to increase Chinese risk calculations. It also seems likely that the dangers of pre-emptive attack and first use of nuclear weapons would be reduced by a continuing disparity in military strength. The Indians would not want to risk a much heavier counterattack; the Chinese could probably achieve their aims using only conventional weapons and would probably believe that the risks of US retaliation were greater than the gains to be achieved against a weaker India. Finally, neither China nor India has shown itself to be irresponsible or reckless in the use of military force; on the contrary, their conflicts

have been carefully limited and tailored to plainly circumscribed political objectives. Thus, the dangers of accidental war, while present, would not be significantly increased by a token Indian nuclear force; the actual and potential risks connected with the Chinese force will continue to grow regardless of what India does.

It is probable that Pakistan would attempt to follow suit should India begin to develop a nuclear arsenal. Because Pakistan would find it extremely difficult to develop its own nuclear force, it might seek assistance from the Chinese. The amount and type of such aid is likely to be restricted at least until such time as Peking has made a good beginning on its own stockpile. Even after that, China would be restrained by fear of becoming involved in an Indo-Pakistani nuclear exchange. The other nuclear-capable countries in Asia will determine their weapons policies in terms of their own national interests and by the US posture in the area, rather than by what India does. The diffusion problem in Asia, nevertheless, is apt to be more difficult for the US than for the USSR, which has taken a relatively passive attitude toward it.

All of the dangers and the mathematical odds that they will increase with nuclear proliferation will obtain in Asia and constitute a continuing rationale for preventing the further spread of nuclear weapons. At the same time the continued spread of nuclear technology for peaceful uses seems likely to expand both the knowledge and the physical plant useful for military purposes. If viewed as a choice of costs between the risks involved in a small Indian force versus the price for bolstering India's security through multilateral or bilateral agreements, the former might prove to be less expensive. Even the

- v -

cost of exerting leverage could mount unacceptably, given the passive Soviet attitude toward nuclear proliferation in India and the complications imposed by India's nonaligned position. In the eventuality that India does develop nuclear weapons, it seems probable that its political attitudes toward disarmament will endure. If the US and the USSR were to reach an agreement that included China as well, India would doubtless adhere even at the price of giving up its own nuclear arsenal.

I. Rationale for an Independent Capability

Among the potential new members of the "nuclear club," India is unique on several scores. It is the only country that is under direct military pressures from a new and seemingly uncontrolled nuclear power. The past two years have demonstrated that the prospects for halting or slowing the Chinese Communist nuclear program are not good. Thus India's time for decision, if it is not to fall hopelessly far behind China, will be circumscribed by the pace of the Chinese program. India is the only potential club member that already has a separation plant in addition to the other facilities for manufacturing an atomic bomb and it is possibly the only one that has already accumulated sufficient fissionable material to make one or two weapons. Finally, India's size, strategic position and basic nonaligned posture serve to complicate the application of generalized policies.

It is obvious that India's leaders would enter the nuclear weapons field only with great reluctance. Had they followed rather than restrained public sentiment, it is likely that they would have opted for a bomb months ago. India's time for decision will be limited by the pace of China's nuclear weapons program; the faster the pace, the longer it will take India to catch up. There may also be--at least theoretically--a point of no return, when China's nuclear capabilities so far outstrip those of India as to make a purely national effort to catch up appear close to impossible. This point could be a decade away if it takes that long for China to develop thermonuclear warheads, or it could come--in the Indian view alone perhaps--with China's first operational MRBM capability with fission warheads, possibly as early as 1967. Moreover, national defense policy is certain to figure prominently in the general election campaign early in 1967 and the government will be under pressure, particularly if Communist China by then has detonated a thermonuclear device or has made dramatic advances in its development of a missile delivery system.

Events in India over the past several years have combined to strengthen supporters of an independent nuclear capability and weaken anti-bomb elements. The Chinese testing program has been and will continue to be the paramount factor. But China's menacing posture along the Sino-Indian border, India's strained relations with Pakistan, and the Sino-Pakistani rapprochement all have served to heighten India's feeling of isolation. The chances that Chinese or Pakistani pressure will abate or that the Chinese nuclear weapons program will stop short of an operational capability appear remote from New Delhi. From the Indian viewpoint, about the only encouraging note in the past two years has been the deepening Sino-Soviet rift, but this must be weighed against the lack of meaningful international disarmament progress or assurances, either multi-lateral or bilateral, of protection against China's nuclear potential. The halt of US military assistance in the recent Indo-Pakistani war over Kashmir has reinforced those groups who argue for national self-reliance in defense matters. In this environment, the appeal of formerly strong moral and ethical arguments against an Indian bomb has been waning.

The alternatives faced by Indian policy makers could be listed as: 1) to agree to coexist with China on Chinese terms; 2) to seek nuclear protection from the US or the USSR or both in some kind of a de facto alliance; 3) to continue to seek an international disarmament agreement that would include Communist China; or 4) to develop an independent Indian nuclear weapons capability. Indications are that India would prefer the third alternative, but if domestic pressures outstrip progress in this direction, it would opt for the fourth rather than the first or second. In so doing, however, the decision would be essentially political rather than military, not only because India is probably already well behind China in weapons development but it is likely to remain so for the indefinite future. Moreover, India still would have the option of confining its efforts to a token program rather than going for a major weapons system if this lesser effort served its political objectives.

II. India's Assessment of the Political Risks

In weighing the political advantages for India's national security and international prestige against the possible penalties to be incurred in opting for a bomb, Indian leaders could hardly have failed to notice that "penalties" to date in the case of both France and China have been passive rather than active. The US did not help France to develop its nuclear weapons program, but neither did it impose major obstacles. The USSR cut off assistance to China's nuclear program prior to weapons testing, but this was related to a more general deterioration in Sino-Soviet relations and the USSR has subsequently taken a hands-off position. India would realize that it would be vulnerable to external pressures and it certainly realizes that both the US and the USSR are opposed to further nuclear proliferation. At the same time, it is well informed about the differences that divide the major nuclear powers and hamper agreement between them on disarmament proposals.

The Indians would probably believe that little damage would be done to their relations with the Soviet Union should they opt for an atomic bomb. They would reason that the USSR already has a very large investment in India in both economic and military assistance, that this investment was based on Soviet strategic and political evaluations that are only indirectly related to modern weapons systems and therefore are likely to prevail even though Indian nuclear policy changes. In any event, the Indians see themselves optimistically as a long-range counterweight to China and therefore of first rate importance to Moscow so long as they preserve their nonaligned position, even with a bomb.

The Indians would be less sure about the US reaction to a change in their nuclear policy. They would be sensitive to US capabilities for withholding vital economic and military assistance in an effort to prevent further proliferation. They also would be particularly concerned that US assistance (and that of other Western countries as well) in their peaceful uses program would cease. They would hope, however, first to persuade the US that it was in the

- 3 -

free world's interests in Asia that India have nuclear weapons. If they were unsuccessful, they might hope, as a fallback position, to obtain certain necessary elements for their nuclear program from other sources and to engage in some fairly severe belt-tightening until such time as the US pressures eased off. They might expect that such pressures would be foreshortened by the impact of continued Soviet assistance, and also by the limited nature of their nuclear weapons effort.

The Indian government undoubtedly assumes that if it develops nuclear weapons, Pakistan will bend every effort to follow suit. It could try to ameliorate the Pakistani reaction, if political conditions warranted, or it could simply ignore Karachi's expected reaction on the theory that a meaningful Pakistani nuclear capability was so far off in time that anything might happen in the interim. Unless there were some far-reaching improvement in Indo-Pakistani relations, India would probably consider the Pakistani effort as an unavoidable consequence and it might believe that Pakistan might get nuclear weapons from China at some future date regardless of what India did or did not do.

India probably regards its bilateral relations with China as being close to rockbottom already. Its fear of China is at the core of many of its diplomatic and military policies. In political terms, India would probably feel itself in a somewhat stronger position vis a vis China were it to undertake a nuclear weapons program and it would probably clearly define the defensive nature of its efforts. While it would not expect to gain much credence for this line in Peking, it might hope at least to begin upon the process of building a useful deterrent. Short of direct military pressure, India probably calculates that China could mount only limited political counterpressures via Pakistan and the Afro-Asian world.

After taking careful note of the virtual absence of Afro-Asian condemnation of China's initial nuclear detonation, India probably believes that it does not have much to fear from this part of the world. It might even hope to achieve a certain measure of admiration for its technical accomplishments and restore some of the prestige it lost with Nehru's demise and its demonstrated weakness in the 1962 border conflict with China. In any case, Afro-Asian reaction would not be a decisive factor.

Finally, a nuclear-armed India might hope to enhance its voice in world disarmament circles. It would feel in a far stronger position to advocate disarmament measures as a member of the nuclear club than as a non-member. It would reason that the mere possession of nuclear weapons did not alter its ultimate disarmament objectives. Even though India might feel obliged, for technical reasons, at some stage of its nuclear weapons development to exercise its escape clause options under the partial best ban treaty, it would make every effort to explain its position in terms of critical defense requirements in the face of continued Chinese testing and it would purposefully keep the door open for a wider measure of international disarmament agreement.

III. An Evaluation of Proliferation Problems

A. Relative Strengths

The best available estimates suggest that, should India test its first nuclear device late in 1966, it could produce about a dozen weapons in the 20 KT range by 1970. To have any military significance within this time frame, India would have to acquire medium or long range jet bombers, and even then its ability to hit significant targets in China would be severely constrained by Chinese air defenses as well as the distances involved. In contrast, the Chinese during this period will be able to produce enough fissionable material to continue their testing program and even build up a modest stockpile. Most importantly, they are already capable of delivering nuclear weapons in the 14 (including two jet) medium bombers now in inventory. They are capable of producing their own medium jet bombers in the near future (1967-68) and are sufficiently well advanced in missile testing to project an MRBM (1,000 n.m.) with compatible fission warheads before 1970. Thermonuclear warheads for such missiles probably will not be available until sometime after 1970. The geographic asymmetry between India and China will add to the latter's advantages in delivering nuclear bombs against targets in the subcontinent. It thus seems likely that the existing disparity in conventional forces between the two largest nations in Asia will continue to prevail in the nuclear weapons field as well, even if India made an early decision to develop such weapons.

India's present military policy is defense oriented and its paramount objective is protection of the country's borders. Essentially India is a status quo nation, and it does not covet additional territory. If its military capabilities were sufficient to ensure against the Chinese threat, some future Indian government might be tempted to take over a hostile Pakistan. An even more remote temptation would be to detach Tibet from Chinese hegemony. Such possibilities now appear extremely unlikely, however, and it seems probable that limited border conflicts rather than large-scale operations involving entire armies will continue to characterize armed conflicts between China and India even in the nuclear age. It is significant that one of the main elements supporting the present no-bomb policy is believed to be the Indian military leadership, which is concerned about the effect a bomb program will have on the resources remaining to support conventional forces. The outlook of the military leaders could, of course, change with the progress of the Chinese nuclear program, and they might not only agree but actively pursue some reallocation of resources which gave greater priority to nuclear weapons.

Goaded by an unfavorable external environment, India might try eventually to achieve more than a token or modest nuclear force. An aggressive Communist China moving rapidly toward first class power status and armed with a sophisticated nuclear arsenal would provide a constant prod to the Indian program.

Technological developments which made nuclear weapons cheaper and easier to build might be another influence. A rapidly developing Pakistani nuclear capability or a Sino-Soviet rapprochement are examples of still other factors which might push India into a major program. These possibilities would be strengthened if the present Congress Party leadership either gave way to right-wing elements within the party or if a party split significantly increased conservative political strength.

Given relative strengths and India's military outlook, it seems likely that any Indian nuclear force would be designed solely for deterrence, on the theory that even a minimum Indian force would add to Chinese risk calculations. Its main utility would be political and psychological rather than military, since India is no more likely to try to equal Chinese strength in nuclear weapons than it has been to make such an effort with conventional weapons. India would have no foreseeable incentive to develop an ICBM system, but it might be drawn into an MRBM program and proceed to develop thermonuclear weapons sometime in the late 1970's. We cannot say with assurance that such a program would be a "major" force or whether by this time developments outside the subcontinent would categorize even this level of development as "modest." In any case, technical limitations and, even more importantly, the nation's economic base will continue to circumscribe both the size and the quality of the Indian nuclear program.

B. The Cost Factor

India could initiate a token nuclear weapons program without curtailing its present level of conventional forces or its economic development. For some \$20-30 million a year, India could produce one or two weapons annually. For another \$20 million a year, it could acquire and operate a fleet of 20 medium jet bombers (assuming costs could be spread out over several years). A \$50 million annual addition is within India's means (its current defense budget is close to \$2 billion).

A considerably larger -- although still modest -- program of some 10-15 weapons a year and a fleet of 20 heavy jet bombers (if obtainable) would raise the estimated cost to about \$140 million a year. In terms of India's current defense budget, these costs would not be insurmountable, but they would have an adverse impact on conventional military forces and on the economic development program. The costs of producing or purchasing a missile delivery system would probably be even greater. Useful cost figures are not available for this development or for that of an independent Indian thermonuclear capability.

Against planned increases in national income of 5-6 percent annually, the actual rate during the Third Five-Year Plan (1961-66) was only about 2.5 percent in the first two years and about four percent in the third year. Population has increased by nearly 2.5 percent annually, so per capita income has hardly advanced at all. What small growth has been achieved has depended upon

utilizing more than \$1 billion in foreign aid a year, exclusive of PL 480 assistance. India, since the Chinese attack in 1962, has been devoting nearly one-quarter of its budget to defense (as compared with 19 percent for Pakistan, 25 percent plus for Israel, or 16.6 percent for the UAR). Under the present Five-Year Defense Plan (1964-69) the government plans to spend some \$10-12 billion, including \$1.4 billion in foreign exchange. Although these plans would allow for the expenditure of \$140 million or so on a modest nuclear weapons program, much would depend on the level of foreign exchange involved. Insofar as such a program would represent a net addition rather than some curtailment of expenditures for conventional forces, it would add to tax burdens, reduce the availability of consumer goods, and increase inflationary pressures. Barring some unforeseen major spurt in the Indian economy, its ability to support R&D costs involved in missile delivery and fusion warheads must be rated very low.

C. The Level of Risks

1. Nuclear Blackmail: In the sense that many Indians are already worried about making concessions to a stronger China even without a specific nuclear threat, this factor is even now at work. When the Chinese actually have an operational weapons system, the blackmail threat will become far stronger. Even a token Indian nuclear force would tend to mitigate the blackmail since it would have the effect of uping the ante and giving the Chinese reason to believe that they might not escape unharmed should they try to make good on their threat. It has been argued that, in proliferating against the wishes of the major powers, India would risk diluting their support against Chinese blackmail. From the Indian viewpoint, however, the chances for major power intervention in small but persistent Chinese thrusts against India's borders do not appear good. The Indians probably could not hope to engage great power deterrents for the type of progressive erosion of their position that nuclear blackmail implies.

2. Pre-emptive Attack: Translated into Asian terms, this theory postulates that China and India, each fearing an attack from the other, would use nuclear arms in an effort to wipe out the other's attack capability. The relative imbalance of the Chinese and Indian military establishments suggests that this kind of act of desperation is a remote possibility. A token Indian force could not destroy the Chinese attack capability or even weaken it sufficiently to justify the cost of an expected counterattack. The Chinese would be restrained by the availability of other means of attacking India's small force, by the political costs of using nuclear weapons against a weaker opponent, and by the likelihood of provoking US countermeasures.

3. First-use: The advantages generally ascribed to the first use of nuclear weapons would obtain to a limited degree in a China-India confrontation, but the disadvantages would be even stronger. If, for example, border clashes intensified to the point where both sides were tempted to use nuclear weapons, a weaker India would be likely first to appeal for great power

assistance: to use nuclear weapons against distant and dispersed targets in China would invite a catastrophic counterattack and would risk losing great power sympathy. A Chinese first use is more possible, particularly if it is directed only against India's small nuclear installations and bomber bases. Nevertheless, it is again unlikely, because under no foreseeable circumstances would the Indians be a sufficient threat to China's borders to cause Peking to risk US nuclear retaliation.

4. Accidental war: The accidental war thesis stems from the possibility of defective command and control systems. Neither China nor India would, in fact, be inclined to spend as much money on control systems as the major powers. Moreover, the more nuclear weapons that exist, the greater the chances for accidental use. On the other hand, the very defects in their systems might serve to make both China and India extra-cautious rather than more reckless. Neither country has shown itself to be irresponsible in the use of military forces. A case in point was the Indian decision not to use air power during the 1962 border clash with China. Border incidents are calculated to achieve certain limited political results, and inadvertent clashes have been quickly brought under control.

5. Escalation: Usually this term refers to the dangers of a general war growing out of major power involvement in a limited war situation. This situation would probably not obtain in a China-India confrontation to the same degree that it would in Europe (e.g. Berlin) or in the case of Chinese aggression elsewhere in Asia (e.g. Japan, Okinawa, Taiwan). In fact, probably only the engagement of US nuclear power at levels which threatened China's survival would pose a real danger of general war. Short of this extreme situation, however, the dangers would be less since the vital national interests of the US and the USSR would be indirectly rather than directly involved, and their political objectives in keeping India free of Chinese domination would be complementary.

Both the US and the USSR would continue to be concerned about an armed conflict between China and India, and this concern would mount sharply if there were a likelihood that nuclear exchanges might take place. If India were in danger of a major military defeat at Chinese hands, it would most probably ask for major power assistance before it resorted to using its token nuclear weapons force for many of the same reasons stated in foregoing paragraphs. This would permit a choice of retaliatory methods for use against China, including the option to use only conventional weapons. In the unlikely eventuality that China decided to risk US nuclear retaliation by using its own nuclear force against India, the Soviet Union would not be inclined to back up China at a general war level, unless Communist China's survival were at issue.

The foregoing assessment suggests that a number of risks already exist potentially or actually because of the Chinese program; they can expect to continue and to increase with further Chinese weapons development whether or not India has its own nuclear weapons. In these terms the addition of a small

Indian nuclear force would represent a marginal net addition to the various risks inherent in the spread of nuclear weapons. Insofar as the Indian force serves as a psychological deterrent to the Chinese, it represents an addition to Free World (and Soviet) assets. Moreover, its existence might serve to reduce direct major power involvement in a China-India conflict to some extent; a nuclear-armed China in conflict with a conventionally armed India would directly engage the credibility of the US deterrent whereas the token Indian force, by giving the US force a backup rather than a primary role, might permit both major nuclear powers increased room to maneuver.

IV. The Asian Diffusion Problem

The only country in Asia that feels itself menaced by Indian power is Pakistan. It is generally assumed that if India opts for nuclear weapons, Pakistan will also bend every effort to acquire them, either by developing an indigenous capability or by obtaining them from another nuclear country. This assumption is based upon a projection of recent political trends as well as an historical appreciation of underlying Hindu-Moslem antagonisms. Over the longer term, Pakistan's acquisition of nuclear weapons could become a serious problem, particularly in view of the fact that it could use relatively simple delivery methods to attack targets in India. At present, however, Pakistan's resources and present nuclear program are so small that it could probably not develop its own nuclear deterrent for some years. During the interim the most likely source for external help under these circumstances would be Communist China. However, until China passes through its present embryonic stage of nuclear weapons development, Pakistan could hope for little more than some advice and assistance in beginning its own program. The possibility that China will give away nuclear weapons before establishing its own stockpiles appears remote. China will be subject to many of the same restraints on this score as other nuclear powers; it would be reluctant to encourage a nuclear exchange on the Asian subcontinent which it could not be sure of containing. Above all, it would not want to see a nuclear exchange between India and Pakistan in which it might itself become involved.

Pakistan's options in the nuclear weapons field are more limited than India's. Out of emotional pique, or perhaps through miscalculation of what it might hope to gain, Pakistan might court open alignment with Communist China. Such a course of action would include a break with the West, at least some uncertainty about the validity of Chinese commitments, and a difficult pursuit of anti-Indian policies in the face of a developing Indian nuclear weapons program. At a lesser level of risk, Pakistan might seek Chinese assistance while maintaining a semblance of its old Western ties and muting its defiance of India until such time as a Chinese alliance and Pakistan's own weapons capabilities would permit a major policy alteration. Another possibility, at present more remote, would involve refurbishing of Pakistan's alliance with the West and dependence upon a US umbrella for protection against nuclear attack.

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The influence exerted by a nuclear-armed India on the policies of other nuclear-capable countries in Asia would probably be marginal. Japan and Australia would base their national decisions on their assessments of the Chinese menace and other factors in their national security calculations -- especially the US position -- rather than on what India does. Indonesia has announced its intention of detonating a nuclear device in advance of any change in Indian policy. It seems likely that the further development of the Chinese weapons program will intensify some of the problems involved in the US alliance system in Asia, but it is questionable that the existence of a token Indian nuclear force will have a decisive influence on developments in East or South-east Asia. Insofar as India was strengthened vis a vis China, the net benefits might outweigh the risks.

The problem of nuclear weapons proliferation in Asia is now greater for the US than for the USSR. The potential new club members are either US allies or nonaligned countries* whereas, on the Communist side, China has already joined the club and North Korea and North Vietnam are far down the list in nuclear development. These circumstances and Moscow's own sense of priorities have focused Soviet non-proliferation proposals on European rather than on Asian problems. In the particular case of India, the Soviets have shown little inclination to prevent a nuclear weapons decision. They were not responsive to Indian approaches for security guarantees, and the new Kosygin proposal for a non-proliferation agreement appears to fall short of what the Indians want by way of safeguards against China. It is doubtful that the USSR would attempt to prevent India from developing nuclear weapons and might even see some long range advantages to its own interests if India did so. In any event, by maintaining a relatively detached attitude toward the proliferation problem in Asia the Soviets are able to conserve their diplomatic leverage and maintain a flexible position.

In this environment, it seems likely that US control problems will continue to be more complex and difficult than those of the USSR, at least until Communist China achieves a major weapons capability. Thus the longer proliferation can be prevented or delayed, the longer such control problems can be deferred, thereby buying time for political or perhaps technological changes that would enhance prospects for a disarmament agreement. For India, these issues are a race against time: it is impossible to predict how long domestic pressures can be contained in the face of Chinese nuclear progress unchecked by international controls.

* Present estimates list India, Israel, Switzerland, South Africa, the UAR, Pakistan, Indonesia, and Sweden as possible candidates for proliferation, along with West Germany, Japan and Australia. The listing is based on motivation as well as potential or actual capability. A number of other technically qualified countries such as Canada are not listed primarily because they are not considered to be sufficiently motivated and/or the restraints upon them are too strong.

V. The Balance Sheet

All of the dangers--political and psychological as well as military--and the mathematical odds that they will increase with proliferation, will also obtain in Asia. The nature of the control problem, particularly in terms of the passive Soviet attitude, constitutes a continuing rationale for preventing or at least delaying the further spread of nuclear weapons. At the same time, diffusion of nuclear technology for peaceful purposes will continue to propagate both the knowledge and the physical plant useful for non-peaceful purposes. In Asia this environment, coupled with an uncontrolled Chinese Communist nuclear weapons program, is likely to present special problems, of which the most immediate and unique involves nonaligned India.

Essentially the issue lies between the net addition to risks involved in a small Indian nuclear force versus the cost of bolstering India's security in terms of either multilateral disarmament agreements or bilateral assurances. The cost of obtaining a multilateral agreement is beyond the scope of this paper except to note that the price of an agreement that included Communist China, if obtainable at all, would probably be unacceptable both to the West and to the USSR as well. A joint US-USSR assurance to India would mesh with the latter's nonalignment policy and coincide with US objectives but it would require that the USSR side with non-socialist countries against China. For the same reason, the Soviet Union would not want to give India a meaningful unilateral assurance. And even though the US might consider such an alternative, from the Indian view a US unilateral assurance would constitute a de facto alliance and would seriously undermine its basic nonalignment policy. For these reasons, some of the solutions proposed for the European scene by way of assurances, treaties or even nuclear sharing may not be acceptable in the case of India.

Even the cost of exerting leverage may prove to be higher than warranted by the risks involved in an Indian nuclear force. If, for example, Soviet passivity on the proliferation issue is not merely a diplomatic stance, but is premised upon a strategic appraisal of India's potential utility in balancing Chinese power, its willingness to assist an Indian weapons program could act as a brake on US pressures. The recent history of military assistance programs suggests that the Soviets are more willing to supply sophisticated equipment than is the West.

A small Indian nuclear force would not necessarily add seriously to existing nuclear dangers in Asia already posed by the Chinese program. Since the strength of the major powers seems likely for the foreseeable future to be far greater than that of either China or India, their ability to isolate a Sino-Indian confrontation would not be impaired. Moreover, the present state of the Sino-Soviet relationship and India's continued nonalignment suggest that both the US and the USSR could disengage from this type of confrontation more easily than they could were their respective European alliances involved.

It is possible that an Indian nuclear force might have certain advantages insofar as it served to increase the risk element in Chinese calculations and to provide a political and psychological buffer between growing Chinese nuclear power and the credibility of the US nuclear deterrent.

A nuclear-armed India is unlikely to change its political objectives; it is more likely to view its military arsenal as an aid to those objectives. A small Indian nuclear military capability is realistic if it is related to political and psychological rather than to military objectives. It is doubtful that such a capability could or would be used for aggressive purposes. It would not seriously impair India's conventional military forces nor pose impossible burdens upon economic development. Having achieved a token nuclear deterrent capability, India would continue to be militarily inferior to China and would be concerned about Pakistan's nuclear development. Under these circumstances, it would probably continue to search for international agreements that would enhance its security. Indian demands on the major nuclear powers for acceding to international agreements that would limit the nuclear arms race might even be more feasible than they are now. The dangers in disturbing the present nuclear balance implicit in nuclear proliferation could conceivably increase rather than decrease pressures for disarmament. The key elements in a disarmament agreement would continue to center around the major nuclear powers, not the lesser, newer ones. There seems little reason to doubt that if the US and the USSR reached an agreement on how to control Communist China, India would support it, even at the cost of reducing or eliminating its own nuclear arsenal.

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U.S. DEPARTMENT OF STATE
DIRECTOR OF INTELLIGENCE AND RESEARCH

Research
Memorandum

RES-3, March 2, 1966

306

To : The Secretary
Through: S/S
From : INR - Thomas L. Hughes *Thomas L. Hughes*
Subject: Potential of India's Military Production Capability

In view of forthcoming Presidential discussions with Mrs. Gandhi, this paper discusses long-range aspects of India's military production capability.

ABSTRACT

1. Indian military forces, particularly the Air Force and the Navy, have only small amounts of equipment, much of it obsolete and of doubtful combat effectiveness. Moreover, present stocks of weapons and equipment would melt away quickly under prolonged fighting.

2. India's present indigenous production meets its defense needs only for more simple weapons, e.g. small arms, ammo, mortars, and light and medium artillery. Although India has a small but expanding capacity to produce some of the components for aircraft, motor vehicles, and communications equipment, its armed forces still depend on a wide variety of foreign sources for most of its heavy or technically sophisticated items.

3. The improvement, however, in Indian defense production since the end of 1962 has been considerable when appraised in terms of a relatively slim industrial base and the country's limited numbers of technically

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trained managers. Nevertheless, Indian deficiencies in defense production remain serious and can be overcome only if sizeable aid from abroad joins with a special production drive at home.

4. The general level of Indian defense output can advance not so much by stepping up the production of simple equipment but by increasing that of complex items--a task placing a heavy call on its narrow industrial base and limited technical and organizational proficiency.

5. Even if home output of military hardware expands rapidly India will need to obtain abroad increasing amounts of raw materials, technical services, components, and machinery. Not the size so much as the composition of its imports will change if the indigenous output of end products is expanded vigorously. India's military forces are thus bound to remain dependent on foreign sources of supply.

6. The foreign exchange shortage will be an ever-present constraint upon India's ability to expand munitions output. This shortage will be as acute over the next five years as it is now, if not more so. India's success in improving the equipment of its armed forces thus remains tied to the amplitude of foreign aid.

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I. MILITARY EQUIPMENT

A. General Features

India's supply of weapons and equipment was seriously inadequate and becoming increasingly obsolete in the period before the Chinese attack of October 1962. Weapons on hand were mostly pre-World War II types left behind by the British upon India's independence in 1947. Equipment imports were small and home production of arms and ammunition negligible.

The Indian Government became aware of the Chinese threat in the late 1950's, but not until 1962 did it seek to equip adequately the rapidly expanding military forces. Home output was stepped up and a growing list of supplies was obtained from abroad, notably the Commonwealth, the US and the USSR. The GOI entered into a whole series of sale, grant, and lend-lease contracts under which equipment deliveries are still being made.

The present inventory of military items shows in fact a great reliance upon a varied foreign supply. The weaponry that India has may be almost as much a reflection of the vagaries of foreign supply as of a careful calculation of needs. The non-aligned foreign policy of India is of course one factor in the unusual multiplicity of national origin of their military equipment.

Foreign supply has been especially important in regard to weaponry of intermediate and advanced complexity—aircraft for example. The Indians acquired what they could lay their hands on in negotiations with outside countries that were timed for political convenience as well as to meet the needs of the military forces. The speed of deliveries was of course outside Indian control. This situation is better with respect to simpler weapons, which are largely produced at home, but even here the outside provision of many components and the availability of foreign exchange for buying raw materials has also affected heavily the speed of the buildup of equipment stocks after 1962.

Even if information existed, there would be no value in estimating the exact point of obsolescence of different classes of equipment. They will not be discarded after their combat utility falls below a certain technical level, but rather when they can be replaced by home or foreign supply. A fresh supply being slow and erratic, the average age of equipment in inventory will doubtless remain high and so contribute to an almost insurmountable maintenance problem.

Particularly lacking has been a balance in the equipment held by the three military services. How can there be anything like balance with outside supply so vital and with so many forces, political and others, affecting this supply? A new imbalance resulted from the equipment losses suffered in

hostilities with Pakistan last September; moderately heavy losses occurred in some types of materiel (armor and aircraft), light in others, and stocks of even some common items almost disappeared, though some are now being replenished from home factories. Moreover, the post-September suspension of fresh supplies of military hardware from the US and Commonwealth countries is seriously retarding reequipment and restocking of all items due from abroad--another factor outside India's control that reveals the catch-as-catch-can character of its equipment.

The following three sections are based upon information obtained from DIA.

B. Ground Forces

Table 1 carries information on all infantry equipment on hand, save simpler weapons, as of August 1, 1965. Both combat losses and new accretions since that date are excluded.

Four facts stand out. The first is the small quantity of equipment available to an army of more than 900,000 men having responsibilities in theaters of operation markedly different in terrain, climate and other relevant circumstances. Even divisions favored with equipment must be seriously short. Prolonged fighting engaging large numbers would wear down some supplies to the vanishing point.

Almost every type of military equipment is scarce. There are only 18,000 motorcycles and no more than 51 flame throwers. Mortars of different kinds do not total more than 8,024; and so on throughout almost the entire range of the infantry weapons listed in the table.

The second fact is that home plants produce as of today only few of the less simple items used in the ground forces. The table shows, for example, that of 15 classes of artillery only four are supplied from India, and in each case only in association with equipment provided by one or more foreign countries. Only one type of armored vehicle of the 12 listed is Indian and only one such vehicle (still experimental) is in Army hands; and so on.

The indigenous element in Army weapons supply is even smaller if three points, discussed later, are kept in mind: Indian products are largely modeled on Western designs; they contain many components supplied from abroad; and imports of raw material for their home manufacture are important.

Table 1. Ground Forces of India: Inventory of Arms and Equipment, August 1, 1965

Item	Quantity
Mortars:	
2-inch, Mks 2 through 8 (UK & India)	5,650
3-inch, Mks 1 through 5 (UK)	1,133
3-inch on armed carrier, Ford, Mks 1 and 2 (US)	18
81-mm (US & India)	527
4.2-inch, Mks 1 and 2 (UK)	303
120-mm, Brandt & Tampella (France, W. Germany)	393
Flame	
M2A1 (US)	50
Throwers:	
Armd carrier, Wasp, Mk 1 (US)	1
Rkt & Rcl:	
57-mm, Rcl Rifle, M18A1 (US & India)	297
3.5-inch, Rkt Lehr, M20 (US & India)	2,394
106-mm, Rcl Rifle, M40A1 (US & India)	668
Artillery:	
75-mm, Pack How, M1A1 (US & India)	164
76-mm, Mt Gun (Yugoslavia)	2
25-pdr, Gun How, Mks 1 through 5 (UK, Canada, & India)	917
3.7-inch, How, Mks 1 and 2 (UK & India)	415
105-mm, Pack How, L10A1 (Italy)	19
130-mm, Gun How (USSR)	8 ^a
5.5-inch, Gun How, Mk 2 (UK)	148
7.2-inch, How, Mk 6 (UK)	18
6-pdr, AT, Mks 2 through 4 (UK)	1,073
17-pdr, AT, SP, Valentine, Mks 1 and 2 (UK)	47
25-pdr, AT, SP, Sexton (US/UK modified)	66
40-mm, AA, Bantam (Canada)	58
40-mm, AA, Bofors (UK, Canada, & India)	1,152
40-mm, AA, SP (UK)	148
3.7-inch, AA, Mk 1 (UK)	253
Armor:	
Scout Cars (including Ferret, Mks 2 & 3 (UK)	188
Armd Cars (including Daimler, Mks 1 & 2; Humber, Mk4; GMI Fox 1; and Ford Lynx, Mk 3 (UK)	612
Armd Carriers (including Universal, Ford, T-15, Mk 1 (US)	4,300
Lt Tk, Stuart, M3A3 and M5A1; Walker Bulldog, M41; and AMX-13 (US, UK, and France)	746

Table 1. Ground Forces of India: Inventory of Arms and Equipment, August 1, 1965

(continued)

	Lt Tk, Amph, PT-76 (USSR)	67 ^{b/}
	Med Tk, Sherman, M4 series, and Centurion, Mk 7 (US & UK)	1,405
	Med Tk, Churchill, Mks 7 and 10 (UK)	442
	Med Tk, Vijayanta (India)	1
	Med Tk, Sherman, Bulldozer, Mks 5 and 8 (US)	37
	Med Tk, Sherman, Crab, Mk 5 (US)	14
	Med Tk, Churchill, Bridgelayer, Mk 4 (UK)	7
	Med Tk, Valentine, Bridgelayer, Mks 2 and 3 (UK)	11
	Tk Recovery, M32 (US)	34
Military	Motorcycles	18,000
Transport:	$\frac{1}{4}$ -ton Trk (jeep-type) (various)	30,000
	1-ton Trk (various)	30,000
	3-ton Trk (US, UK, W. Germany, & India)	45,000
	Tk Transports (US)	337
	Trailers (various)	19,920

SOURCE: DOD/DIA, Order of Battle Summary, India, 1 August 1965, p.8,9.

- a/ Total of 170 guns contracted for in February 1965; 16 additional guns to be delivered in July-September 1965, 20 in October-December 1965, and remainder in 1966-67.
- b/ Total of 176 purchased to date; remainder to be delivered by May, 1966.

The third fact is the great diversity of foreign supply. This diversity must present severe problems of training and must also complicate life for commanders who must match men and equipment in moving them from one unit to another.

It must be a serious logistical problem to try to keep in operating order the equipment, now largely obsolescent, that comes from so many foreign countries. Indian maintenance capability has nevertheless improved the last few years, especially in simpler equipment, the more so if home-produced.

The fourth fact is the antiquity of some of the equipment. Dates of production are not known but the type of equipment often shows its age; the presence of Sherman tanks is one example. Almost all Indian armored units are in fact obsolescent.

C. Naval Forces

The Navy is a small fleet of over-aged ships, manned by a well-trained officer corps, and lacking radar warning and other ancillary equipment. It has no submarines, and the aircraft for its one carrier are becoming obsolete. Port and drydock facilities are very limited and concentrated primarily at Bombay. There is also a motley collection of survey vessels, tugs, supply ships, motor launches, and harbor defense vessels.

Virtually all existing Indian Navy ships were built to standard British designs, and were taken over either from the former Royal Indian Navy or subsequently ordered or purchased from the UK. The few exceptions include a tanker and six patrol craft built and purchased in Italy.

Although three submarine chasers and a net-laying ship have recently been constructed in Indian shipyards, they too are basically of British design. Most of the smaller combat ships belong to postwar classes of British antisubmarine, escort, and mine warfare types. The remaining ships of the Navy are of prewar design and construction. The combat efficiency of most of the vessels is not free of doubt.

The UK is assisting in the construction of three LEANDER-class destroyers and the USSR has contracted to provide four submarines, one depot ship, five PCE's, two LST's, and five police patrol boats, as well as naval ammunition and spares. The delivery of these vessels will bring down the unusually high average age of naval equipment.

D. Air Forces

There were 1,522 planes in inventory at the outbreak of the September hostilities with Pakistan. Only 1,185 were tactically assigned, however, which suggests much less combat serviceability than the larger figure indicates.

The distribution of the full inventory was as follows:

Fighter	335
Fighter/Bomber	264
Light bomber	54
Reconnaissance	16
Transport	245
Helicopters	69
Trainers	452
Utility transport	84
Total	1,522

The large number of trainers is to be noted, as is also that of transports and utility transports. The small number of bombers also attracts attention. Jet-engined planes came to 810 of the total and prop types to 712.

The IAF consists of an unwieldy assembly of 37 types derived from six countries. Many squadrons are being phased out and the process would be speeded up were new arrivals in sight. The long-pending request to the US for advanced aircraft is important in any modernization program for the Indian Air Force.

There are no official Indian figures on aircraft losses during the September fighting, but the estimate of US intelligence comes to 61, including 20 Hunter F-56 fighters and 12 Vampire FB-52's. New output, especially of Gnats, has added to the inventory, as has also deliveries from abroad, notably MiG-21's, of which the USSR has so far delivered 12 of the 50 pledged.

The majority of the planes are old and supported by a thin line of spare parts. Sizeable quantities of almost all maintenance spares were cannibalized last September, and the combat serviceability, especially in sustained fighting, of all types is not assured.

Most planes are foreign-produced and even those of home manufacture, such as the Gnat, depend heavily on foreign components.

II. MILITARY PRODUCTION FACILITIES

World War II witnessed the industrial transformation of India, which became one of the major bases for quartermaster-type supplies for Great Britain and her allies. Of arms and equipment, however, local production was slight, limited largely to light infantry weapons, and heavily dependent on foreign parts and materials. It was the Chinese attack of October 1962 that shocked India into a serious effort to advance the home production of arms, which has since expanded vigorously despite tooling-up and other difficulties yet to be overcome.

The bulk of present-day production is of small arms, mortars, light and medium artillery and communications and optical equipment. It takes place in the 17 ordnance plants inherited from the British and the eight more built since independence. Several additional factories are under construction and dockyards, aircraft manufacturing and electronics and communications assembly and manufacturing facilities are also beginning to contribute to the expanding flow of military goods.

This section reviews the principal aspects of India's military equipment industries. The August 1965 draft of the National Intelligence Survey on Manufacturing and Construction (Section 64), supplemented chiefly by the FAMPAF of the DIA, is the leading source.

A. Ground Forces

Table 2 shows the estimated production for the last three years of the leading items of Army materiel. They include in particular small arms, mortars, and light artillery; hand grenades, bombs, and land mines; and ammunition for weapons up to and including medium artillery.

The only output in quantity is of light infantry weapons and ammunition. Home supply is basic for meeting Army need of these items. The production of selected items of artillery, on the other hand, is small; although India has produced artillery up to and including 5.5-inch gun-howitzers, recent production has been restricted to light artillery, including the AA gun, 40-mm, Bofors L-70 and the pack howitzer, 75-mm. There are also plans for the production of a 105-mm howitzer and a 155-mm field gun.

FAMPAF gives a detailed rundown of the essential facts on each munitions plant serving the Army in India. It need not be repeated here, but some general characteristics may be pointed out, especially as they are also typical of the productive facilities serving the naval and air forces, upon which less data exist.

Machinery is obsolete in many cases. The Gun and Shell factory at Cassipore was established in 1801. Some of the machinery at the ammunition factory of Kirkee dates back to 1915. The rifle plant at Ichapur started in 1850. And yet the newest and most up-to-date machinery is also entering individual plants, some alongside worn-out equipment and some supporting entirely new operations. New machinery purchased from France was recently installed in the 1942 ordnance plant at Khamaria. All the arms producing machinery set up at Varangaon is brand new. The ordnance cable factory at Chanligarh is also entirely new.

The origin of war-manufacturing machinery is very diverse. The tools and equipment of the High Explosive Factory at Kirkee are British and those of Indian Detonators entirely Hungarian. The rifle factory at Ichapur contains equipment

Table 2. Indian Output of Army Materiel, Major Items, 1963-65

Item	1963	1964	1965
Infantry weapons			
Submachinegun, 9-mm, Sterling	0	50	7,000
Rifle, .303 Lee-Enfield	40,000	0	0
Rifle, 7.62-mm, Lee-Enfield	0	20,000	85,000
Rifle, 7.62-mm, Ichapur	3,000	30,000	46,500
Machinegun, 7.62-mm, Bren	0	10	1,000
Mortar, 81-mm	0	2	17
Recoilless rifle, 57-mm	0	0	70
Recoilless rifle, 106-mm	150	150	150
Artillery			
Gun, 40-mm, Bofors L-70 AA	0	2	20
Pack howitzer, 75-mm	0	10	20
Mortar, 120-mm, Brandt	0	60	120
Ammunition			
Small arms	250,000,000	130,000,000	155,000,000
Mortar	2,500,000	1,000,000	1,250,000
Artillery	1,500,000	1,500,000	1,720,000
Military transport vehicles			
Truck, 1/4-ton (jeep-type)	4,000	4,800	4,800
Truck, 1-ton	4,800	8,600	8,800
Truck, 3- to 5-ton	4,100	6,200	8,500
Armored vehicles			
Tank, medium, Vickers	0	1	1

SOURCE: DOD/DIA, FAMPAF, India, November 1965, p. II-1.

from India and four countries abroad. India and nine foreign countries have supplied the production equipment of the Avadi plant for tanks.

Collaboration with foreign firms is common. It covers capital supply, managerial and technical assistance, use of designs, and the assembly of parts. Imperial Chemical Industries is in Indian Explosives and Montecatini in Dharamsi Morarji Chemical and Explosives. Premier Automobiles is tied to both Fiat and Chrysler. Vickers supplies parts, designs, and technical assistance to Avadi. The National Instruments Factory produces cameras and binoculars with the collaboration of Nippon Kogaku. Bharat Electronics is unusual in having collaboration agreements with firms in seven foreign countries.

Subcontracting among indigenous firms is rare in contrast to the widespread assembly in India of parts supplied from all corners of the industrialized world. The Jubbulpore plant assembles weapons from Cassipore and other ordnance units. Small privately-owned shops serve Ichapur, while Kirkee is supplied by various plants of the ordnance complex.

Production often falls short of capacity even during the recent period of expanding demand. Cassipore turns out 17 81-mm mortars with an annual capacity of 180. Jubbulpore could turn out almost double the current output of carriages for the 75-mm pack howitzer. The output of artillery ammunition of Kirkee does not reach a third of capacity. The Cordite factory at Aravankadu is exceptional in operating at full capacity.

Specialization is rare; in general, the older the plant, the wider its range of products. Cassipore produces rifles, ammunition components and crawler-type tractors. The output of Jubbulpore includes mortars as well as trucks. Nevertheless, few civilian products come from the plants engaged in defense output; the chief exception is the industry producing armed vehicles and military trucks. The fact that almost all the firms producing military items are state-owned and were set up for that type of production alone helps explain their disinterest in civilian goods; the vehicles industry is again the chief exception.

The labor force in the typical plant is small. No more than 10,000 work at Cassipore and the same number at Ichapur, both at two 10-hour shifts, six days a week. The manpower complement of Jubbulpore is large at 12,000. Varangson is more typical with a work force of only 2,000. The small shop, of course, goes with small capitalization. The next section brings out the implications of these facts for the expansion of India's facilities.

1. Military Explosives

The output of military explosives (initiators and intermediates) by three government plants is insufficient to satisfy present requirements. The domestic shortage of explosives has limited the production of ammunition and will continue to do so for the immediate future.

Moreover, India is totally dependent upon imports for 12 items of the 40 raw materials needed to produce the required high explosives and propellants. There are also imports of four items to supplement indigenous supply. The "import content" of even this common type of military item is therefore not small.

Plans made in 1963 called for the establishment of three new ordnance factories, but the government soon decided that imports of explosives would cost less than building and equipping new plants. The Ministry of Defense has therefore been relying on imports of both finished products and raw materials to help satisfy requirements. The gap still covered by outside supply is large both for propellants and high explosives.

2. Arms and Ammunition

The armed forces' program of reequipment after October 1962 was designed to replace almost the full inventory of arms and equipment. Not only were imports of arms and ammunition sharply increased, through purchases and grant aid, but steps were also taken to step up inadequate domestic output and move vigorously toward weapons standardization. Yet although output has increased in recent years, the arms and ammunition industry is not yet capable of satisfying India's full requirements.

Manufacturing of arms and ammo is concentrated in nine government-owned plants, while five additional publicly-owned plants produce ammunition components. Private industry is limited to the manufacture of components for small arms and light artillery, but plans are reportedly under way to procure small arms components from thirty small manufacturing shops.

There is no significant geographic concentration of the arms and ammunition industry. Much of the equipment in use in the government plants is antiquated, an estimated 80 percent being of pre-World War II vintage. Raw material requirements, especially for copper, zinc, and lead, are met in part from imports, though steel production satisfies present-day needs.

3. Military Vehicles

A light tank of British design will be produced at the Avadi Ordnance Factory. Output is expected to be at an annual rate of 75 light tanks beginning in 1967. A prototype model has already been produced. The manufacture of a

modified version of the British Centurion medium tank is also scheduled for early manufacture, hopefully reaching an annual rate of 100 units in 1966, but now set back with the suspension of UK military aid. Indian capability to mass-produce these two types of tanks, however, is not yet assured.

The medium tanks will initially be assembled from imported and domestically-produced components, but by 1968 all components are scheduled to be made in India. The tank, weighing 37 tons and mounting a 105-mm gun, will come from a new plant, the Heavy Vehicle factory in Avadi, completed in 1964 with assistance from Vickers Armstrong of the UK.

Otherwise, India has a small motor vehicle industry that manufactures models of foreign passenger cars, jeeps, buses, and trucks up to 5-tons. The industry is still dependent upon vital imported components, amounting to 20 to 50 percent of the assembled items, although a wide and increasing range of parts is produced at home. Present-day military needs for general-purpose vehicles up to 5-ton trucks are met by domestic firms.

4. Miscellaneous

(a) Optical and photographic equipment

India produces a limited supply of optical and photographic equipment for military use. A number of rapidly-expanding scientific facilities manufactures instruments of high quality. These firms could doubtless provide a substantial part of the military need for less complex devices in case of a stepped-up military demand.

Defense requirements for raw film are supplied by the Hindustan Photo Film Company. Beginning in 1965 this plant will produce 140 million linear feet of raw film with the collaboration of Ets. Cie Bauchet of France. Imports of raw film amounted to almost 77 million linear feet in 1963, of which East Germany accounted for 64 percent.

A wide range of photographic and optical equipment, such as range finders, telescopic sights, aerial cameras and telephoto lenses, are supplied through imports.

(b) Telecommunications and electronic equipment

India produces field telephones and switchboards, teleprinters, and military telecom field wire, but not enough to meet military requirements. Two small plants have recently started to manufacture teleprinters and military field wire under license from foreign companies.

The supply of radiocommunications equipment used by the military and by

other government ministries and departments is only partially met by local production. Mobile transmitters, receivers, and transreceivers have been purchased from West Germany and the Netherlands, while military assistance from the US and UK has included other classes of radio equipment.

The only radar under production is a target-acquisition type assembled at Bharat Electronics under contract with a Swiss firm. The UK and the US have supplied early-warning radar units while the USSR is putting up fixed radar installations for surface-to-air missiles.

(c) Chemical Products

India does not produce chemical, biological, or radiological warfare agents, or protection and detection materiel. Indian Army tactical planning does not envisage offensive employment of lethal or non-lethal CW-BW agents.

Limited quantities of smoke and incendiary munitions are manufactured in the Indian ordnance system. Incendiary bombs, smoke shells of various caliber, and smoke grenades, bombs, and candles are filled at the Khamaria Factory while smoke mortars of various caliber are filled at the ammunition factory at Kirkee.

(d) Military engineering equipment

All bridging and stream-crossing equipment presently in use in the Indian Army has been imported. However, the Bailey Bridge Class 40, presently in use, will be manufactured in India under an agreement with Thomas Storey, Ltd., of the United Kingdom. Production is expected of six units by 1969. The Krupp-Mann Class 60 bridge is also scheduled for domestic production of 12 units yearly to reach an annual total of 60 by 1969.

There is also limited output of tractors and bulldozers, road rollers, power shovels, towed and motorized scrapers, excavators, and cranes, which are supplemented by purchases in Japan, the US, and the UK.

B. Naval Forces

The principal combat ships of the Indian Navy were built in the United Kingdom, but India does have the capability to build each year about one small auxiliary naval ship and several light naval craft. Production over the past few years has been limited, however, to only a few coastal minesweepers and seaward defense boats, in addition to a 2,800-ton survey vessel, started in 1957 and recently completed. Ancillary shipbuilding industries are poorly developed, and nearly all components, including much of the ships' steel, are imported.

Of the few naval ships built in India since 1959 the Hindustan Shipyard

accounted for the bulk of them. In addition, two submarine chasers of 120 tons each were built at the Hooghly Docking and Engineering Co.; a 500-ton water barge at the Mazagon Dock Ltd.; and a 120-ton submarine chaser at the Garden Reach Workshops.

C. Air Forces

India has a small aircraft industry with a limited capability, but with ambitious plans for expansion. Indians have in fact already demonstrated a capability to design and produce, in limited numbers, modern airframes, but have not been successful, even with limited foreign technical assistance, in the design of jet engines. The Indian aircraft industry must therefore rely on foreign engines for some years to come. The development of a sound and integrated aircraft industry--engines, frames and electronic equipment--may require ten years or even more depending in large part of the amount and skill of the foreign assistance the Indians receive.

Ancillary industries necessary to support an expanding aircraft industry have not yet been developed, necessitating sizeable imports of raw materials and components to support even the modest level of production attained in recent years. Nor does India have in adequate quantities more than a few of the special raw materials needed to sustain aircraft manufacture on any scale. Aircraft engine overhaul facilities are also limited but growing, in part with US aid.

Hindustan Aircraft Ltd. (HAL) at Bangalore is the principal aircraft plant in India with nearly two million square feet of floorspace in the airframe section. The plant was designed and built by the US early in World War II and was equipped with machinery and equipment from the US and China. The aircraft engine division of the HAL plant is only a short distance from the airframe manufacturing and overhaul facilities. This division was completed in 1959 and its first engines produced toward the end of 1960. The Kanpur Airframe plant is the second producer with an estimated 600,000 square feet of floorspace located at Chakeri Airfield. Seven transports have been produced here since operations started in late 1961.

The Gnat jet fighter and the AVRO-748 light turboprop are being produced under license from the United Kingdom. India produces at present three Gnats per month with the help of many imported components of critical importance; its monthly production averaged up to 15 when the import of components and spare parts was uninterrupted.

A few "native-designed" HF-24 jet trainers and a few communications/utility aircraft also are being produced. Sixty-two of the jet trainers have been ordered and are scheduled for completion in late 1967, but further technical development of this aircraft is under way and until final decisions are made its future rate of output is uncertain. A total of eleven have been produced to

date at a rate of one every two months.

The HJT-16 "native-designed" jet trainer currently is being developed at Bangalore with assistance of foreign specialists. The three made so far are prototypes only and no production schedule yet exists.

As a result of negotiations with the USSR, which began in 1962, three factories are being set up in India with Soviet assistance to manufacture MiG-21 airframes, jet engines, and electronic components. The beginning of assembly work is expected to start in 1966 and full production reached in about four years. Since the start of the program, however, there have been delays in plant construction because of disagreements as to the model of MiG-21 to be produced and the cost of materials to be supplied by the USSR. These problems have recently been settled, however, and plant construction is reportedly scheduled for completion in this year.

The Indians have also concluded an agreement with the Soviet Union to build a plant for the production of AA-2 ATOLL air-to-air missiles which are part of the MiG-21 weapon system. But there is no evidence yet that construction has begun.

III. EXPANSION OF PRODUCTION FACILITIES

A. Past Expansion

Defense output in India has been up strongly since the Chinese attack and the rise is not likely to slacken over the next few years. The available figures illustrate the force of this expansion. The combined output of the full range of India's munitions industries was estimated in 1963/64 as the equivalent of \$299 million, up from \$164 million in 1962/63. The GOI's estimate for 1964/65 is \$379 million, more than double the output two years earlier.

This rate of expansion is impressively high but the figures are swollen for two statistical reasons. Wholesale prices have risen at least 20 percent in the period covered. The "real" increase in defense output is thus more modest.

Moreover, the output figures are gross, not net, that is, they include the large imported volume of raw materials and components that enter India's defense production. This fact creates the anomalous result that the figures on output could get larger by greater imports rather than by a greater productive contribution of the Indian economy. With a greater indigenous turnout of finished products in recent years the supply of imports has in fact risen to swell the gross value of output.

The true measure of the growth in India's productive capability would be of net value added, that is, the value of the productive contributions of Indian labor and capital that is added onto the value of imports entering the

military production process. India's output has doubtless expanded according to this measure, as the data would show did they exist, but not nearly as much as the gross figures suggest.

B. Future Expansion

The crisis of last September and the suspension of US and Commonwealth aid has accelerated the GOI will to increase production capability. There is even talk of approaching self-sufficiency in military items. What problems lie ahead?

There are engineering and organizational problems for each plant and for every type of weapon. Two US studies have carefully examined these problems for almost the full range of military output: Report of US Defense Production Team Mission to India, January 25-March 8, 1963 (Carroll H. Staley) and Defense Production in India, March 1964, Arthur D. Little, Inc. These are "the last word" as supplemented by day-to-day experience of the US Military Supply Mission in India. But they do not rule out the utility of some broad observations of an economic and financial nature.

The defense output of India could doubtless rise sharply if it were a question only of advancing the production of items already produced. But India's need for most of the simpler items is met largely by local output and the big task that lies ahead is turning out the more complex items that now come almost exclusively from abroad. This task will place a heavy call upon India's slim industrial base and limited technical and organizational proficiency. The task is thus qualitative and not only quantitative.

It is not certain, in fact, that India's defense output will rise in the future. Only if expansion in the production of complex items is great enough to offset the declines in some simpler types of arms will general output rise. There are changes in the composition of output that must be arranged to assure an expanding output of the total. India's limited success thus far in moving men, technicians and machinery from industry to industry does not guarantee such an expansion.

A notable example of a shrinking output is that of military trucks which if present plans are followed will fall off sharply from 1964 through 1968. Other examples are the 7.62-mm Ichapur rifle and the 120-mm-mortar, both scheduled to be dropped from production. The output of a wide variety of ammunition will also go down. Taken together, these items make up no small share of present-day defense supply. The composition of defense supply will therefore have to change considerably if India is to keep the gains won, not to speak of extending them.

It is not seriously suggested that India will ever supply itself completely. Industrially stronger countries, including the US, make military equipment purchases abroad. But even a limited move in the direction of greater self-

sufficiency will bump into the abiding shortage of foreign exchange, which in fact restricts India's economic growth in whatever direction, but especially in the expansion of arms supply. Several important items of import content enter arms supply.

1. Raw Materials

The raw material base of Indian industry is fairly broad but far from complete even at present levels of output. Moreover, some items found and processed at home are in insufficient quantity. Some of the raw materials not found in India, or in short supply, include copper, zinc, antimony, lead, nickel, and tin. The expanded import of non-ferrous metals and ferro-alloys would in particular be a heavy charge on foreign exchange at the high prices prevailing today. There are also net imports of small size of steel, aluminum and rubber.

There is only a thin back-up of raw material stocks at present to fuel a growth in manufacturing output. The size and composition of these stocks often reflects more closely the administrative vagaries of foreign exchange allocation than the rational evolution of production schedules. The result at times is costly slowdowns and even breakdowns in the flow of arms production that heavier pressure of defense procurement would generalize.

The basic solution is to set up more balanced and more abundant stockpiling within India of strategic materials. Foreign exchange costs are not likely to be small at present prices. Moreover, these reserves must be kept at all times at an adequate level to keep war production facilities operating without interruption.

2. Components

Previous pages underscored India's need to draw on parts from abroad in the home assembly of end items. As home production rises, the import of components will rise correspondingly, and hence another reason for expecting the levy on foreign exchange resources to be sizeable from any step-up in arms output.

This observation would need qualification were India preparing a greater volume of their own components. More and more plants are in fact in the process of phasing out their purchase of components abroad. This process has far to go, however, before India can find at home the growing number of components needed in the growing output of technologically complex end items.

Moreover, as the home output of components expands, raw material requirements, including those imported, also rise. The growing indigenous production of components therefore changes the form of demand for foreign exchange rather than its size.

3. Capital

The most obsolete and the most up-to-date machinery stand side-by-side in many Indian factories. The indigenous and the foreign also co-exist. The foreign facilities, in addition, are from an exceptionally wide array of countries, perhaps wider than in any other country. The maintenance in good operating order of this ragbag of industrial plant and machinery is a nightmare.

Productivity would certainly rise upon a decline in the average age of India's industrial machinery. The most natural way to rejuvenate its plant would be through the steady replacement of obsolete equipment with fresh installations. Further gains would be scored in productivity by reducing maintenance headaches with more and more plants moving toward the standardization of their capital facilities. Thus is envisaged a fresh inflow of capital investment of no small magnitude.

The machine and equipment industries of India are not able at present to supply more than a limited amount of the specialized types of machinery needed in defense plants. The shortage of machine tools in India--a problem to which the US has addressed itself--is one example. A rash of industrial installations would therefore raise the amount of capital required from abroad.

Moreover, the amount of capital needed in India to turn out a rupee of military hardware is high. It is high in every country since most modern weapons issue from much specialized and complex machinery. The volume of new capital in plants producing these weapons must therefore grow as the volume of their production expands.

The average size of the defense plant in India will also have to increase if it is to turn out the more advanced weapons. As noted before, small-scale organization characterizes Indian manufacturing, few plants employing more than 10,000 workers at two shifts, even in industries that are characteristically on a large scale in other countries, such as motor vehicles.

Experience in the US and Europe indicates that the small unit simply cannot produce most complex equipment on an economical basis. The mass production of sophisticated weaponry typically requires heavily-capitalized, large units. The enlargement and thus the greater capitalization of Indian manufacturing plants is a prior condition for their entry into the field of advanced weaponry.

Small size would not be anti-economic were subcontracting widespread, but it is only beginning in India. The more typical practice is to produce all of a product, even a fairly complex one, under one roof. These handicraft traditions would have to go in the field of military supply.

4. Manpower

The problems arising from the expansion of the military manufacturing labor

force can be solved only to a very small degree by outside contributions even though India is severely short of technical help, both advisory and operational. This shortage will become more acute as defense output increase. The input of technical services in a rupee of military output also rises sharply as advanced weapons assume a larger and larger share in this output.

The Little report points out that strong foreign collaboration is absolutely essential in any development program of military equipment. The present supply of aircraft designers, trained technicians and engineers, and skilled aircraft production workers, for example, is adequate only for the design and development of an occasional new light aircraft, but to turn out advanced aircraft in significant numbers extensive outside help is necessary.

The value of foreign technical assistance is shown most recently in the work of British and American experts since the defense buildup started in 1963. Yet they are thinly spread throughout the defense production establishment and there even is special resistance in India to increase their number and enlarge their authority; this is true in government departments as well as in individual manufacturing shops.

5. Summary

The foregoing shows the ways in which a defense buildup would place a heavy call on India's limited reserve of foreign exchange. It also shows the anomaly of any Indian move toward self-sufficiency in military hardware. Let it be assumed that India will soon produce all the military equipment needed by its armed forces. The result would be an enormous expansion in the need for foreign exchange to finance the purchase of the raw materials, parts, machinery, and technicians that enter the home production of military items. Self-sufficiency in end items, assuming its feasibility, is therefore bought only by increased dependence on things obtained abroad; the import bill changes in composition, not size.

There are too many unknowns to permit an estimate of whether on net balance there would be foreign exchange gains or losses were India to move toward military equipment self-sufficiency. The prices of many future imports, end items and raw materials alike, are simply beyond confident estimating. The change from one type of dependence upon abroad to another is nonetheless unmistakable even in the absence of magnitudes.

C. Foreign Exchange

The foreign exchange shortage will be an ever-present constraint upon whatever expansion program of defense output India sets its sights on. It will be possible to estimate the severity of the need for exchange when India puts in final form its program of defense expenditures for the Fourth Five-Year Plan.

This Plan is now stuck in the morass of many uncertainties, largely arising from the September conflict, and quantitative analysis must therefore be put off. It is enough for policy purposes, however, that India's exchange resources will be as scanty, if not more so, than at present; there is hardly a favorable factor in sight. US policy can change its tack if this almost certain expectation proves mistaken.

The basic facts are as follows:

1. India has been strapped for foreign exchange for two decades. International monetary reserves have dropped steadily from almost \$2.0 billion at the end of 1951 to a little over \$500 million at present. The passage from one exchange crisis to another reflects one underlying chronic crisis.
2. India's debt service has been going up and will continue upward on the likely assumption that it will need to contract new debt. Debt service now stands at about \$500 million a year, almost equal to exchange holdings and reaching about a fifth of annual exchange earnings from all sources.
3. Indian exports have little expandability since they include few products--and these of little importance--that are likely to be caught up in a steep jump of either price or volume. Moreover, some exportable supplies will melt away as the economy enters the pressure cooker of expanding defense spending. Rupee devaluation would no doubt boost exchange earnings for a time, though only at the expense of intensifying the import demand pent-up for many years.
4. If India enters hostilities, e.g. with China, it would probably lose a portion of the economic aid now passing through the Consortium; a stretch-out of debt payments, however, may replace fresh aid. India could even lose some financial support from the IBRD. Not much fall in the recent-year inflow of outside aid is necessary to bring it below the year-in, year-out outflow of debt repayment.
5. Belligerent India would also lose a share of the trickle of private foreign investment it now receives. This investment could even dry up altogether should the cohesion of the beleaguered Indian state come into question.

Thus is established the need for financial help from others if India is to supply itself to an increasing degree with the modern arms it needs, whether supplied from abroad or made at home with a high content of imports of goods and services.

~~SECRET/NO FOREIGN DISSEM~~

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The basic facts are as follows:

1. India has been strapped for foreign exchange for two decades. International monetary reserves have dropped steadily from almost \$5.0 billion at the end of 1951 to a little over \$500 million at present. The average loss has been about 10% a year. Another factor is the underlying structural crisis.

2. India's debt service has been going up and will continue upward on the likely assumption that it will need to contract new debt. Debt service now stands at about \$500 million a year, almost equal to exchange earnings and roughly about a fifth of annual exchange earnings from all sources.

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~~SECRET/NO FOREIGN DISSEM~~

Shelton Commander Hotel
Cambridge, Mass.

Feb 23 1965

Dear Bob,

Here is a copy of the letter
which, at some convenient moment,
you will burn or eat! I'm sure
no good would come of anyone
seeing it but you.

Please let me know if
there is anything useful I can do

Yours truly

Barbara

(Lady Jackson)

Sheraton Commander Hotel
Cambridge 38, Mass.

February 23, 1966

Mr. L. K. Jha
Office of the Prime Minister
New Delhi, India

My dear L.K.,

I have been to Washington and perhaps it would be helpful if I passed on some of my impressions - only please let this remain confidential, otherwise I fear the value ;of any contacts I have will quickly vanish!

I would like to begin by saying that I believe that if India can establish a close and confident relationship with the President, it could be vital for the whole of the developing world. He needs in a sense, to be repersuaded not of the importance of international economic aid and cooperation, but of its effectiveness, and if his relations with the sub-continent propper, the effect will spill out all over the "South" of our planet. It will also give India much more leverage in getting a genuinely peaceful settlement in S.E. Asia - but more of that later.

The President is now a "show-me" internationalist, wanting results. Given this fact, I think I know what will make the deepest impression - and I would also guess that, happily, it is also what India itself would consider reasonable and suitable. It is that the Prime Minister should say quite simply that she has not come to ask favours or special privileges, but to talk to the President about what she thinks India itself can and will do to solve its own problems.

This is not, she might point out, ingratitude for past generous help. On the contrary, the thanks are heartfelt. But it is realism about the future. She might say that, as a woman, she feels profoundly and deeply about population control and, as an administrator, is going to see that the policy really gets down to the states and the villages. She might say that the farming policy outlined by Mr. Subramaniam is her policy and that the government is determined to make optimum use

of India's farming resources - in food, in industrial raw materials, in exports - and give this first priority in public policy.

She might add that after the growing pains of fifteen years of putting in the economic infrastructure, the government knows that India is reaching a more sophisticated phase of development when rigid central planning must give way to lively decentralization, to greater reliance on the market, to maximum efficiency in public and private enterprise and to a greater welcome to genuine foreign private investment - no suppliers credits, please! She might add that in the context of foreign trade, the steps already taken to make imports less attractive will be completed by export incentives and the total result will be to give the rupee a more realistic exchange rate.

In such a context of population policy, agriculture and decentralization, I think it would be very helpful if the Prime Minister could share with the President her experience of the frustrations and opportunities of running a continental, federal democracy. They are the only two world leaders faced with such problems and since the President is fascinated by the political process as such, this theme would not only be interesting in itself. I would also create an opportunity for discussing the limitations placed on Indian policy making by tough regional pressures, by entrenched interests, by conservative traditions, by radical impatience, by the whole gamut of responses that have to be received from an electorate which is already larger than America's total population and contained within a federal system in which less power lies at the centre than in Washington.

And this in turn is anhelpful context for the foreign issues. Ayub made an excellent impression by asking for nothing and speaking frankly. He knows - because he has been told - that America cannot secure him his optimum claims over Kashmir. He also knows that America shares his view that it is a genuine, perhaps the genuine problem between the two countries.

I have not found anyone in Washington who thinks that the Prime Minister can do anything very far reaching before the 1967 elections. What is hoped for is strong reaffirmation of Tashkent (the U.S. Government incidentally is delighted to have a parallel policy with Russia) a readiness for long-term reconciliation, no refusal now to see Kashmir figure on some ultimate agenda and perhaps some lively ideas about greater Indo-Pak economic cooperation. - Brahmaputra waters, coordinated planning, even a general idea of an ultimate economic association of some kind.

Mr. L.K. Jha, February 23, 1966

On Vietnam, of course, the Americans would like a gesture of understanding that they are not imperialists and are really concerned only with discouraging the use of violence in so-called "Wars of Liberation". This is why they hope for, say, some ambulances. But short of gestures, I think India's readiness to take the Chinese threat seriously will be a great help. And if I may add a word of my own - this is not information but only hunch - I think if India could do some thinking a) about support for a genuine international policing of a return to the 1954 Geneva agreements and b) about the question whether Indian troops might not have some Congo-like part to play, it would greatly encourage the trend towards the belief that America is, as it were, a "stand-in" in South East Asia for a not yet existant international security system and will get out, thankfully, the moment such a force exists. Enough security forces in blue berets to oversee an election in South Vietnam, enough engineers in blue berets on the Mekong River scheme to swamp the area with an international "presence" would enable the Americans to achieve a longed-for withdrawal without handing the area over solely to Communists and Chinese.

One last point on the foreign side - any Indian decision to help both ~~the~~ supporting the non-proliferation of nuclear weapons and in limiting defense expenditure would encourage America to spell out guarantees - possibly in concert with Russia?

Now, you may ask, what is the likely American response to a clear and direct statement of Indian purposes? Well, I don't think policy has "jelled" yet because the President wants just such a personal dialogue as lies ahead to begin before major decisions are taken. But I sense the following direction: 1) A quick restoration of the old level of aid but with maximum emphasis on programme aid and balance of payments support to get the economy moving towards a higher utilization of capacity. 2) If this phase of, say, 18 months begins to show elan, then a move to secure a doubling of aid (from all Consortium countries) in order to accelerate the momentum. The fact that West Pakistan with at least twice India's per capita aid has made something of a breakthrough is realized as a hopeful portent and I think this door-of doubled aid - is very nearly open.

I know B.K. does not wholly agree and is inclined to say that since there is little sign of it, perhaps no aid would be better, whatever the cost. Unhappily someone in Delhi said the same thing to Jack Valenti and there is a spot of confusion over this. But I feel this is too pessimistic 1) because the doubling programme is being seriously

Mr. L.K. Jha, February 23, 1966

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considered and 2) because if a mutually satisfactory, sustained and adequate assistance and investment programme cannot be worked out between America and India, then all larger hopes of building a cooperative world economy must be abandoned. And I don't think I am alone in fearing that such an outcome means not only starvation and misery in the short run but ultimately the near-certainty of atomic destruction. And no two countries can take such a risk.

I do hope all goes well. I shall be thinking of you and praying for your good fortune.

Yours affectionately,

(Lady Jackson)