

# LBJ LIBRARY DOCUMENT WITHDRAWAL SHEET

Doc #	DocType	Doc Info	Classification	Pages	Date	Restriction
03	cable	Rawalpindi 337	<del>TS</del>	1	7/27/68	A
05a	memo	Weathersby to the Ambassador	S	1	6/21/68	A
05b	report	Indian Army	S	4	[6/68]	A
05c	report	Indian Air Force	S	4	[6/68]	A
05d	report	Performance Characteristics	S	2	[6/68]	A
05e	report	Indian Navy	S	2	[6/68]	A
06	cable	Rawalpindi 336	<del>TS</del>	7	7/27/68	A
<del>07a</del>	memo	routing slip sanitized 11/23/18 per RAC 1118	PCI	1	5/27/68	A
07b	report	intelligence report	PCI	3	5/27/68	A
08	memo	Smith to Rostow [sanitized 2000]	S	1	5/27/68	A
<del>11a</del>	<del>memo</del>	<del>Chester Bowles to the Secretary of State [duplicate #11c]</del>	<del>S</del>	<del>17</del>	<del>4/25/68</del>	<del>A</del>
<del>11c</del>	<del>memo</del>	<del>duplicate of #11a</del>	<del>S</del>	<del>17</del>	<del>4/25/68</del>	<del>A</del>
<del>16a</del>	<del>memo</del>	<del>Chester Bowles to the Secretary of State</del>	<del>S</del>	<del>21</del>	<del>3/8/68</del>	<del>A</del>
<del>20</del>	<del>letter</del>	<del>Chester Bowles to Edward Hamilton</del>	<del>PCI</del>	<del>1</del>	<del>1/29/68</del>	<del>A</del>
<del>20a</del>	<del>letter</del>	<del>Chester Bowles to Lucius Battle</del>	<del>C</del>	<del>2</del>	<del>1/19/68</del>	<del>A</del>
<del>20b</del>	<del>memo</del>	<del>Chester Bowles to Lucius Battle</del>	<del>C</del>	<del>7</del>	<del>1/19/68</del>	<del>A</del>
20c	report	Addendum	C	1	1/24/68	A

Collection Title National Security File, Files of Edward K. Hamilton

Folder Title "India"

Box Number 2

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<del>24a</del>	<del>letter</del>	<del>Chester Bowles to Dean Rusk</del> <i>OPEN 7-6-07 NLJ/RAC 07-6</i>	<del>S</del>	<del>4</del>	<del>12/22/67</del>	<del>A</del>
24d	draft	memo to WWR [Rostow]	PCI	2	10/67	A
25f	memo	Chester Bowles to Dean Rusk <i>SANITIZED 7-22-08 NLJ/RAC 07-6</i>	S	27	5/20/65	A
<del>29a</del>	<del>memo</del>	<del>Roger Morris to WWR [Rostow]</del> <i>OPEN 3-13-09 NLJ/RAC 07-7</i>	<del>S</del>	<del>1</del>	<del>10/16/67</del>	<del>A</del>
32a	memo	Chester Bowles to the Secretary of State [duplicate of #34a]	S	25	9/25/67	A
33b	letter	Chester Bowles to Harry McPherson	PCI	2	9/25/67	A
34a	memo	duplicate of #32a	S	25	9/25/67	A
<del>41a</del>	<del>memo</del>	<del>Howard Wriggins to Rostow</del> <i>OPEN 7-22-08 NLJ/RAC 07-7</i>	<del>S</del>	<del>2</del>	<del>3/13/67</del>	<del>A</del>
42	memo	Howard Wriggins to Rostow	S	3	1/21/67	A
<del>43a</del>	<del>report</del>	<del>re NSAM No. 355</del> <i>OPEN 3/13/14 per NLJ/RAC 12-240</i>	<del>S</del>	<del>36</del>	<del>1/67</del>	<del>A</del>
44b	memo	Chester Bowles to Secretary Rusk	C	6	12/12/66	A
45a	draft	NSAM 351	S	4	[7/66]	A
46	memo	Wriggins' Memorandum for the Record	S	2	5/25/66	A
47	memo	Wriggins to Rostow	S	1	5/11/66	A

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December 26, 1968

Mr Saunders,

Analyze, please.

W W Rostow

Confidential  
Personal

file 10



AMBASSADOR OF INDIA  
WASHINGTON, D. C.

India

26 December, 1968

Dear Mr. Rostow,

I am leaving for India to-day for consultations. During the rush of your own heavy work just now towards the end of your tenure, I did not wish to disturb you. However, I am sending you, as promised, certain material which you might be interested to glance through now or later : it bears on our willingness to discuss Kashmir. You will remember that someone had told you we had not been willing.

I am sorry you will be leaving so shortly after my having taken over here. It was a pleasure getting to know you and I hope there will be other opportunities in the future for us to meet. I look forward to them.

very truly  
with my best wishes for  
New Year,  
Yours sincerely,

( Ali Yavar Jung )

The Honourable Walt W. Rostow,  
The White House,  
Washington D.C.

Encl/As mentioned above.

DECLASSIFIED  
E.O. 12958, Sec. 3.5  
State Dept. Guidelines  
By jc, NARA, Date 7-16-02

I

Extracts from an informal Note of 1966

The Government of India have already made clear in their proposal that each side will be free to raise any issue. The Government of Pakistan have their own views on Kashmir and other matters; so have the Government of India. The tashkent Declaration calls for progress in various fields of Indo-Pakistan relations without progress on any matter being made a pre-condition for progress on another. It is the task of both Governments to strive sincerely for reconciling differences and for expanding the areas of agreement, and to persevere in efforts towards the peaceful resolution of their differences. This objective can best be achieved by discussions without prior commitments or assurances from either side.

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II

SPR 149

Asvina 1, 1888(Saka)  
September 23, 1966

INDIA INVITES PAKISTAN TO DISCUSS ALL DIFFERENCES  
WITHOUT PREJUDICE TO EITHER SIDE'S POINT OF VIEW

India has invited Pakistan to send a delegation of officials to New Delhi for talks on all differences between the two countries "without prejudice to either side's point of view."

In a note dated September 10 the Government of India said it had asked India's High Commissioner (Ambassador) in Pakistan to discuss a mutually convenient date.

The note made it clear that Pakistan could not expect a prior assurance in respect of any questions that might be discussed at the proposed meeting.

The Indian note is the latest in a series of exchanges between the two countries in a bid to call a meeting of officials to discuss the implementation of the Tashkent declaration.

Following is the text of the Government of India's communication of September 10 to the Pakistan Government:

"The Government of India have seen the communication handed over to their Acting High Commissioner by the Pakistan Government on August 31. They regret to note that while these exchanges between the two Governments so far have been concerned entirely with the question of another

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meeting between them under the Tashkent declaration, the Pakistan Government in their latest note have gone into a variety of extraneous matters and have thought fit to make accusations against the Government of India which are neither justified in fact nor in consonance with the spirit of the proposals made by the Government of India.

Talks Must Be Serious, Purposeful

"It was made clear in the Government of India's notes of July 6 and August 6 that at the proposed meeting each side will be free to raise any issue. It would, as already pointed out in the note of August 6, be the task of both Governments to strive sincerely for reconciling the differences and for expanding areas of agreement. The note added that in the view of the Government of India this could be achieved by discussion without prior commitments or assurances from either side and furthermore, any talks between India and Pakistan must be serious and purposeful. The Government of India repeat that once the two delegations meet it would be open to either side to raise any question, and the discussions must be held with seriousness befitting all discussions between India and Pakistan.

"It is not understood why, when the Government of India's position has been repeatedly set out orally and in writing, the Pakistan Government should persist in their demand for clarifications on points which have already been made clear. The Government of India find it difficult to avoid the conclusion that the Pakistan Government desire to secure from them a commitment that they give up their position on Jammu and Kashmir and on other matters. The Government of India must point out that such an attitude on part of the Pakistan Government is hardly reasonable. It is obvious that any agreement for discussion or negotiation between sovereign states must be without prejudice to their respective points of view. The Government of India are not asking the Pakistan Government for any prior assurance in respect of any of the questions that might be discussed between the two countries at the proposed meeting. There is equally no reason why the Pakistan Government should expect the Government of India to give such assurances.

India's Earnest Desire

"The Pakistan Government have made a grievance of some public statements reported to have been made by Indian leaders, and have dwelt on these in their latest note. The

Government of India regret that the latest communication of the Pakistan Government cites some Indian statements out of the context. The Government of India would have liked the Pakistan Government to take note of and appreciate the repeated statements by the leaders of the Government of India reiterating their earnest desire for development of friendly and good neighbourly relations between India and Pakistan. For example the Prime Minister of India at her May 20 Press Conference, in her broadcast of July 7, in her message to the President of Pakistan while overflying Pakistan on July 17, on August 15 at the shrine of Khwaja Nizamuddin Aula, and on August 18 in a press interview earnestly expressed India's desire for improvement of relations between the two countries. Indeed the President of India and the Prime Minister and other members of the Government of India have repeatedly affirmed the determination of India to carry out the Tashkent declaration in letter and in spirit.

"The Pakistan Government seem to take the view that any reiteration by India of its position on any question is an obstacle to another meeting under the Tashkent declaration. On their part, the Government of India do not feel that any useful purpose would be served or that it is relevant in connection with holding of the proposed meeting to quote the numerous statements by Pakistani leaders not only reiterating Pakistani stand on many questions, including that on Jammu and Kashmir, but doing so in a manner which is at once provocative and contrary to the spirit of the Tashkent declaration. Among the more recent of these statements are some by the Foreign Minister of Pakistan which go so far as to assert that Kashmir belongs to Pakistan. He stated in Karachi on July 24 that the letter 'K' in 'Pakistan' stood for Kashmir; and on July 28 that Pakistan and Kashmir were bound by unbreakable ties. On July 24 Pakistan Foreign Minister even threatened further conflict between the two countries in defiance of the categorical affirmation in the Tashkent declaration that the two Governments will resolve their difference by peaceful means.

"While the Government of India naturally regret such statements they have not let these come in the way of their efforts to bring about an improvement of relations or regarding them as an obstacle to a meeting between the two Governments. By parity of reasoning there is no reason why, when a member of the Government of India reiterates India's wellknown position that Kashmir is an integral part of India whose sovereignty is

not negotiable, the Pakistan Government should make a grievance of it.

Baseless Allegation

"Among the extraneous and contentious points now introduced by the Pakistan Government into these exchanges is the allegation that India has violated the Tashkent declaration by unleashing a propaganda campaign against Pakistan. This allegation is baseless. On the contrary, much harm has been done to the purposes of the Tashkent declaration by vilification of India by Pakistani leaders and by the Pakistan press and radio, to which the Government of India have repeatedly drawn attention.

Anti-Indian Propaganda

"Unfortunately India's representations have had no effect. The latest in the campaign against India is the wholly unfounded propaganda unleashed by Pakistan to the effect that India was planning to be a nuclear weapons power and is to undertake a nuclear explosion. In spite of India's denial which has been accepted by the international community Pakistan persists in such false propaganda.

"The Pakistan note of August 31 also alleges that in a conversation between the Secretary in the Ministry of External Affairs and Pakistan High Commissioner in India the former held out a 'threat to renew hostilities against Pakistan'. There is no basis whatsoever for this gross misrepresentation of the discussion between these two officials. The Secretary in the Ministry of External Affairs did no more than point out the seriousness of Pakistani military build up, the dangers thereof and the obligations of the Government of India to defend India's territorial integrity against any aggression.

"The Government of India are somewhat puzzled at the induction in Pakistan Government's note of wholly unrelated matter of diplomatic exchanges between the two Governments on Pakistani troop movements in the vicinity of the international frontier with India. They note that two weeks after reports of Pakistan's military preparations were brought to the attention of the Pakistan Government, the latter have made allegations of military preparations and threat from the Indian side. The official spokesman of the Government of India has already denied these allegations. As the Pakistan

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Government are aware, the Government of India have, with a view to ensuring tranquility along the border between India and Pakistan, proposed a meeting of the Chiefs of Army Staffs of the two countries. The Pakistan Government will, it is hoped, agree that, in the spirit of the Tashkent declaration and in accordance with the subsequent agreement between the Chief of Indian Army Staff and the Commander-in-Chief of Pakistan Army, reports of such movements should be discussed between them with a view to easing of tension created by such reports.

#### Obligations Under Tashkent Declaration

"It was with the object of reversing the unfortunate trends in the relations between the two countries and to give them a new direction that the Government of India had proposed the officials' level meeting with Pakistan. Both Governments have solemnly subscribed to the Tashkent declaration; both have affirmed their adherence to and their desire to implement the declaration; both have already taken certain steps to carry out measures envisaged in the declaration. The Government of India have no other desire than to proceed in cooperation with the Pakistan Government to take further measures along lines which both have set out in the declaration.

"The Government of India have repeatedly informed the Pakistan Government, and do so again, that they are willing to discuss all issues, with a sincere desire to find solutions for them, and without preconditions. The question of seeking further assurances in this regard should therefore not arise at all.

"The Government of India interpret Paragraph 8 of Pakistan Government's note as containing agreement to the proposal for a meeting at which all disputes and differences between the two countries including the question of normalisation of relations, could be raised and discussed with a view to reaching solutions, and that such discussions or negotiations would be without prejudice to either side's point of view. If this is a correct interpretation of the Pakistan Government's position, the Government of India would be glad to receive a delegation of officials from Pakistan in Delhi. They have asked their Acting High Commissioner to discuss a mutually convenient date."

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II

Chronology of attempts to have Indo-Pakistan  
meeting under Tashkent Declaration.

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On January 28, 1966, India proposed that an Indo-Pakistan inter-Ministerial meeting be held to consider further steps towards the implementation of the Tashkent Declaration. We said we would in particular like to discuss the restoration of trade and economic relations and communications (envisaged in Article VI) and the return of properties (in accordance with Article VIII), but other issues were not excluded; indeed, India sent a very large and high-powered delegation (including 3 Ministers and 5 Secretaries) prepared to discuss several other measures which could help improve relations, including such matters as the uses of the eastern waters and movement of refugees in which Pakistan had said she was particularly interested. Pakistan's immediate response was to publish on February 3rd an agenda so contentious in substance and provocative in language as to prejudice seriously the outcome of any meeting. To avoid a breakdown, the Indian High Commissioner was instructed to seek President Ayub's intervention, and it was eventually agreed that the two sides meet without agenda, each side being free to raise any issue it wished. However, when the meeting took place in Rawalpindi on March 1st and 2nd, Pakistan took the stand that unless there was progress towards a Kashmir settlement, there could be no settlement of any other issue. The Indian officials pointed out that the Heads of Governments had discussed Kashmir only a few weeks earlier without being able to agree, and it was unrealistic to expect officials to succeed where the Heads of Governments had been obliged to agree to disagree. Discussions on Kashmir were not ruled out by India, as Pakistan has been alleging; it was made clear to the Pakistanis that if they wished to discuss Kashmir, the Indian Ministers were available to their Ministers in Rawalpindi, but meanwhile the officials should try and settle other problems. The Pakistanis, however, insisted that visible progress towards a Kashmir settlement was an essential pre-condition to the settlement of other issues. In a meeting restricted to the Ministers and Foreign Secretaries of the two sides, the Pakistanis even suggested that if India preferred to work for agreements on other matters, these could be attempted but if reached would not be implemented until the Kashmir issue was settled. India, therefore, suggested that the two sides might meet again, and this was agreed to in a joint communique in which India also agreed to incorporate a reference to the importance which the Pakistanis attached to the Kashmir issue.

2. Despite the deadlock at the Rawalpindi meeting, India expressed her readiness to meet again with Pakistan if another meeting could lead to progress. The Prime Minister's statement on May 12 that India was willing to have a meeting with Pakistan at any level that could make for progress under the Tashkent Declaration was a

reiteration of India's persistent stand but Pakistan chose to use it as an occasion for appearing to be once again interested in implementing the Declaration. On May 28th, the Pakistan Foreign Secretary told the Acting Indian High Commissioner that his Government had been considering how to try and improve relations with India; that they had been distressed by India's "bellicose" attitude but were glad to find a new attitude as revealed in the Prime Minister's statement on May 12th. It was an after-thought on the Pakistani side to use the statements of the two Heads of Governments as a peg on which to hang their new feelers, the real motives of which lay rather in external pressures than in any new Pakistani approach towards the Tashkent Declaration. However, in accordance with her policy of trying to avail of whatever opportunity might arise to try to improve relations with Pakistan, India took the Pakistani position at its face value and the Indian High Commissioner was immediately authorised to take soundings to determine the level and basis of any further talks.

3. It would clearly serve the purpose of neither country and could in fact lead to a worsening of relations, if another meeting were to repeat the deadlock of Rawalpindi. India has been prepared to have another meeting as long as there are no pre-conditions; no issue is excluded as India would be prepared to discuss whatever issues Pakistan might raise but lack of progress on one issue should not be made an excuse for not making progress on other issues. If Pakistan were to adhere to its stand at Rawalpindi that there can be no settlement of any question unless there is visible sign of progress towards a Kashmir settlement, another meeting would be no more fruitful than the last. The Pakistanis have indicated that they consider a summit meeting should be kept in reserve until its success has been prepared at other levels. India is inclined to agree with this view but feels that the same argument applies to the Minister's meeting which Pakistan prefers. In order to ensure that a Ministerial meeting does produce results, India is of the view that an officials' level meeting should be held first to prepare the way for a Ministerial meeting. The Indian High Commissioner was authorised to inform the Pakistan Foreign Secretary on July 6th that the Government of India would welcome a meeting with Pakistan in accordance with the Tashkent Declaration. The High Commissioner also told the Pakistan Foreign Secretary that to ensure that the meeting would be fruitful there should be a meeting at officials' level which would prepare the ground for a subsequent Ministerial meeting. The Pakistanis were invited to send their officials to New Delhi on any date that might be convenient.

4. In their reply broadcast on July 22 and received in Delhi the following day, Pakistan sought confirmation that there would be "meaningful" negotiations leading to a settlement of all disputes and differences, in particular the Jammu and Kashmir dispute. They also attached "very great importance to a reduction of the armed forces", and agreed to send a delegation to New Delhi on this understanding and subject to agreement on the level of meeting.

5. On August 4th, the Government of India authorised the High Commissioner in Islamabad to inform the Pakistan Government that their reply amounted to attachment of preconditions, which was unwarranted. India had already made it clear that any issue could be discussed, and discussed in all seriousness; she therefore hoped that Pakistan would approach the Indian proposal in the same spirit of benefitting the peoples of the two countries in which it was made.

6. On August 31st, Pakistan's Foreign Secretary gave our Acting High Commissioner a note, which was published by Pakistan the next day, again seeking further assurances and also bringing in propagandist references to other matters. The note considered statements by Indian leaders on Kashmir as being contrary to our expression of willingness to have "meaningful" talks on all issues, adding that statements that Kashmir was not negotiable and accession was final and irrevocable appeared to foreclose any possibility of meaningful dialogue.

7. In a reply dated September 10th, India categorically refuted the Pakistani charges about propaganda and about deployment of forces. The Indian note pointed out that the Indian statements regarding Kashmir were no more than a reiteration of India's basic position and that since Pakistani leaders had been constantly repeating Pakistan's basic position on Kashmir without India letting these come in the way of a further meeting, there is no reason why Pakistan should make a grievance of the Indian statements.

8. In an oral response to this note, our High Commissioner was informed by the Pakistan Foreign Secretary on September 22nd that unless Pakistan found a change in the Indian approach to the Kashmir question, a meeting as proposed by India might worsen relations. Radio Pakistan announced immediately afterwards that "Pakistan has told India that no useful purpose will be served by continuing exchanges on holding Indo-Pakistan meeting at official level without change of heart on India's part towards Kashmir dispute."

9. Pakistan thus closed the door on the possibilities of any meeting. As though in anticipation of such an end to the exchanges begun in May, the Pakistani Foreign Minister had already started to raise the Kashmir issue in international forums by referring to it at the Commonwealth Prime Minister's Conference in London on September 6 to 15. Our Foreign Minister had to intervene firmly to point out that bilateral issues could not be raised at Commonwealth Conferences without the consent of both sides. Since this position was accepted by all other members, Pakistan had to acquiesce in it in London but Mr. Pirzada reverted to the attack in the U.N. General Assembly on September 29th, accusing India of refusing to hold a purposeful dialogue with Pakistan for the settlement of outstanding

disputes including Kashmir. He alleged that India had been defying the U.N. by rejecting all possibilities of a peaceful settlement of the Kashmir dispute and denying the people of Kashmir the right to decide their own future, India had thus prevented the fulfilment of the hopes raised by Tashkent Declaration on the March Rawalpindi meeting that the Kashmir issue would be settled. In an immediate rejoinder, our Foreign Minister repudiated the Pakistani allegation and also corrected the misrepresentations regarding the significance of the Tashkent Declaration and of the Rawalpindi meeting. Reiterating India's desire for an improvement of relations in accordance with the Tashkent Declaration, he pointed out that if Pakistan insisted on pre-conditions regarding Kashmir, India would be entitled to make her own pre-conditions, such as requiring Pakistan's withdrawal from the Indian territory in Kashmir, which she illegally occupied. It was, therefore, better for the two sides to meet without pre-conditions. Mr. Pirzada again sought to dismiss the Indian view as an attempt to confuse the issue which, according to him, was the right of self-determination of the people of Kashmir. In a brief final rejoinder, our Foreign Minister said that the Pakistani performance made it clear that they were going through an exercise when what was called for was a serious effort to settle issues by bilateral talks.

# India Ever Ready For Talks With Pakistan In Spirit Of Good Neighborly Relations, Foreign Minister Swaran Singh Tells U.N.

India proposed in the U.N. General Assembly September 29 that Pakistan join her in talks "in right earnest" to settle their differences.

Foreign Minister Swaran Singh made the appeal directly to Pakistan Foreign Minister Sharifuddin Pirzada after the two men had spoken during the General Assembly world affairs debate.

The following is the text of the statement made by Mr. Swaran Singh exercising his right of reply to the statement of the Foreign Minister of Pakistan:

"The Foreign Minister of Pakistan has today referred to India in abusive but familiar terms. Like other representatives of Pakistan who have exploited—indeed misused—this august forum, he has offered to the distinguished delegates assembled here a mixture of half truths and fantasies.

## Tashkent Declaration Ignored

"What is painful is that in the process of hurling abuse against India the Foreign Minister of Pakistan has completely ignored that provision of the Tashkent Declaration which stated the specific agreement of the two sides that they will 'discourage any propaganda directed against the other country and will encourage propaganda which promotes development of friendly relations between the two countries.'

"Among other things, India has been branded an aggressor and India has been compared to South Africa. The fact of India's defensive action in September last year has been presented by the Foreign Minister of Pakistan to this Assembly as aggression. The fact of Pakistan's aggression on the Indian State of Jammu and Kashmir twice within the last nineteen years has been conveniently ignored and kept back from this Assembly.

"Now, Mr. President, I prefer to be constructive, I prefer not to violate the Tashkent Declaration. As far as record is concerned, the same charges had been made time and again and refuted by the delegation of India on every occasion. I am not going to take time of this Assembly by once again covering the whole ground. There are two points, however, which need to be brought to the attention of this Assembly.

## A Constituent State

"First, it is amazing that the Foreign Minister of Pakistan has taken exception to the reiteration by the leaders of India of the Indian stand that the State of Jammu and Kashmir is a constituent state of India. This position of India has been stated by the Indian delegation on innumerable occasions both in this Assembly as well as in the Security Council. While participating in the general debate last year I myself stated and I quote:

'It is, therefore, necessary for me to make my Government's position clear beyond any shadow of doubt. Legally, constitu-

Indian Union. This is the position on which India takes its stand and will continue to do so. The people of Jammu and Kashmir together with their fellow citizens in other parts of India are architects of the largest democratic state in the world, a state rooted in popular will expressed through freely chosen institutions and periodic general elections based on adult franchise. There is no better way of giving reality to the freedom of a people.'

"The fact that India is prepared to discuss all differences with Pakistan in accordance with the letter and spirit of the Tashkent Declaration and to settle those differences by peaceful means in a spirit of good neighborly relations does not mean and cannot mean that India must give up its stand in regard to the status of the Indian state of Jammu and Kashmir. If each side were to insist on precondition would we not be entitled to say to Pakistan that it must first not only give up its point of view Kashmir but also, as a prior condition for talks, vacate the two-fifths of Indian territory in Jammu and Kashmir that it illegally occupied and still occupies?

"Mr. President, in our reading of the letter of the Tashkent Declaration and in our appreciation of its spirit what is required to be done by the leaders of the two countries is that they must sit down and settle all their differences without conditioning the settlement of one dispute on the settlement of another.

"It is necessary to recall that at

the time of signing the Tashkent Declaration 'each of the sides set forth its respective position' on Jammu and Kashmir and this fact is mentioned in article (1) of the Declaration. Recognizing this absence of reconciliation of the respective viewpoints on Jammu and Kashmir, India and Pakistan agreed to take several steps mentioned in articles (2) to (9) of the Tashkent Declaration.

"Article (9) has special significance in the present contest: 'The Prime Minister of India and the President of Pakistan have agreed that the sides will continue meetings both at the highest and at other levels on matters of direct concern to both countries. Both sides have recognized the need to set up joint Indian-Pakistani bodies which will report to their Governments in order to decide what further steps should be taken.'

"Mr. President, the effort of Pakistan to refuse to implement this article and to make it contingent on what Pakistan chooses to describe as 'meaningful talks' on Jammu and Kashmir is contrary to the provisions of the Tashkent Declaration.

## Ministerial Meeting

"The second point which I wish to clarify, Mr. President, relates to the ministerial meeting between India and Pakistan in March of this year. The Foreign Minister of Pakistan has made reference to the communique issued after that meeting. The operative part of the communique is that the two parties will meet again and discuss all (See TALKS, p. 5, col. 1)



### Unfounded Thesis

"Now, Mr. President, the Tashkent Declaration has been registered with the United Nations, its copies are available to all delegations and I invite all those who are interested to study the document. There is no basis in that Declaration to support the thesis of Pakistan that restoration of normal relations between the two countries—in other words, settlement of differences between the two countries—could not come about unless there was first an agreement of the question of Kashmir.

"Mr. President, as recently as last month we have offered to Pakistan to hold discussions on all outstanding issues between the two countries without any preconditions. To our deep regret and I believe to the deep regret of this Assembly, Pakistan has once again rejected our offer. Today the Foreign Minister of Pakistan has come to this Assembly and complained that India is not prepared to implement the Tashkent Declaration.

"Mr. President, on behalf of India, I would like to reiterate that India continues to adhere to the Tashkent Declaration in letter and in spirit and is ever ready to start talks for settling all differences between India and Pakistan by peaceful means in a spirit of good neighborly relations and with a view to reversing the deteriorating trend of relationship between the two countries I make this offer here and now to the Foreign Minister of Pakistan: Let us sit down and discuss ways and means of implementing all provisions of the Tashkent Declaration.

"Mr. President, before I conclude I would like to quote from a statement made by the Prime Minister of India to the Afro-Asian group here on April 1, 1966. She said and I quote:

"It is not enough that there should be peaceful coexistence among the great Powers of the world. We should also set an example and coexist peacefully among ourselves. The essentials for peaceful coexistence are determination not to use force and not to intervene in each other's

affairs and a desire to settle all disputes by peaceful means.

"It is in this spirit that India less than three months ago signed the Tashkent Declaration with Pakistan in which the two countries reaffirmed their obligations under the Charter not to use force but to settle their disputes through peaceful means. The Tashkent Declaration provides India and Pakistan with a new framework in which to restore normal and peaceful relations between the two countries and to promote understanding and friendly relations between the two peoples.

"Underlying the concept of the Declaration was the deep conviction that peaceful relations between India and Pakistan are vital for the maintenance of their political independence and achievement of their economic and social development. If all provisions of the Declaration are implemented faithfully in letter and spirit an atmosphere will be created in which all differences between the two countries can be settled peacefully.

"Political problems with emotional overtones—and there are strong emotions on both sides in this problem—cannot be solved unless the peoples of both countries appreciate the vital necessity of peaceful and friendly relations between them."

### No Substitute For Direct Talks

Taking the floor again to answer some points raised by the Pakistani Foreign Minister, Mr. Swaran Singh said:

"I must apologize for asking for the floor. I thought that I had said in very categorical terms that India is prepared to enter into discussions without any preconditions and that in such discussions

(See ASSEMBLY, p. 6, col. 5)

## ASSEMBLY—

(Contd. from p. 5, col. 2)

each side will be fully justified in raising any point. I said also that India would be prepared to discuss any matter raised by the Pakistan delegation, just as the latter should be prepared to discuss any matter raised by India.

"The fact that the Foreign Minister of Pakistan could anticipate what I would say and therefore came with a prepared text to reply to it only shows that we are going through this exercise knowing each other's point of view and trying to meet it by statements and counter-statements.

"I do not wish to delay the Assembly by taking any more time. I make this appeal to the Foreign Minister of Pakistan: Let us begin talks in right earnest, and not just continue to exchange diplomatic notes or statements and counter-statements on the floor of the General Assembly.

"There is no substitute for direct talks and no substitute for trying to understand each other's point of view. Let us devote ourselves to improving relations between our two countries. It is only by adopting that attitude that the people of India and the people of Pakistan can live in peace and friendship and good neighborly relations, an objective which is very dear to us and I hope dear to Pakistan."

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## Pakistan Rejects India's Proposal For Reduction In Arms Expenditure

On February 25, Mr. M. C. Chagla, Minister for External Affairs wrote to Mr. Sharifuddin Pirzada, Foreign Minister of Pakistan stating that "the Government of India consider that an earnest effort should be made by the two countries to reach an agreement aimed at bringing about reduction in the expenditure on arms in both countries."

Following is the text of Mr. Chagla's letter to Pakistan's Foreign Minister:

*We have seen the text of His Excellency President Ayub Khan's speech at the Pakistan Institute for International Affairs on January 28 in which the President, if I may respectfully say so, spoke eloquently on the need for diverting to the task of increasing the production of food and necessities of life, the resources that are at present being used by both India and Pakistan on arms and armament. Agreeing with the sentiments of His Excellency the President, the Government of India consider that an earnest effort should be made by the two countries to reach agreement aimed at bringing about reduction in the expenditure on arms in both the countries. They suggest a meeting at level of officials to discuss this important question.*

*Accept Excellency the assurance of my highest consideration—M. C. Chagla.*

### Pirzada's Reply

Mr. Sharifuddin Pirzada, Pakistan's Foreign Minister refused to accept Mr. Chagla's suggestion in his reply of April 7. Following is the text of Mr. Pirzada's letter to Mr. Chagla:

*I thank you for your letter dated February 25, 1967 which was handed to me by your High Commissioner in Pakistan, His Excellency Samarendra Sen.*

*We have given careful thought to your proposal for a meeting of officials to discuss the subject of reciprocal arms limitation. We have also had occasion to discuss with your High Commissioner the general question of relations between our two countries. He has no doubt conveyed to you our thinking on these subjects.*

*You are aware of our view that the question of arms limitation can be realistically tackled if an effort is made simultaneously to negotiate a settlement of the Jammu and Kashmir dispute which has been and remains the cause of continuing ill-will and tension between Pakistan and India. It continues to be our view that any approach which ignores the necessity of reaching a lasting settlement of this basic dispute between our two countries would be unrealistic.*

25-2-1967

February 25, 1967

The Government of Pakistan have regretted the fact that the cautious optimism expressed on this question in the communique we jointly issued at the conclusion of the Rawalpindi Conference last year was belied by subsequent developments. I must also express my disappointment at the fact that the discussions held in last year between our two governments at various levels have not led to a break in the deadlock. I can assure you that we remain ready nevertheless to enter into negotiations with your government for the settlement of the Jammu and Kashmir dispute and on other matters including the question of bringing down the strength of forces on both sides to reasonable levels. I have asked our High Commissioner at Delhi to take up the thread where it was left. If you consider that more detailed discussions can now be held on these matters, we shall be willing to depute other officials to assist him in these talks.

Yours sincerely, Syed Sharifuddin Pirzada.

#### Talks Can Proceed

India still thinks that talks with Pakistan on mutual arms reduction can proceed without being linked to any other question, an official spokesman said in New Delhi on April 28.

The spokesman made this statement while releasing the correspondence exchanged between External Affairs Minister M. C. Chagla and the Pakistan Foreign Minister S. S. Pirzada.

The spokesman said it was India's view that talks on mutual arms cut might lead to the relaxation of tension and creation of better atmosphere in which other questions including Kashmir could be discussed.

"Any conditional approach will not be in our mutual interest," he added.

The official spokesman regretted that the Pakistan Government had released the correspondence without prior consultations with the Government of India. He said Mr. Chagla had not yet replied to the letter of Pirzada and "I do not know whether a reply is called for."

Commenting on a Pakistani press report that the ball was now in India's court, the spokesman said: "I think they have played the ball out of court. Pakistan's reply is tantamount to a rejection of the Indian proposal."

I

Extracts from an informal Note of 1966

The Government of India have already made clear in their proposal that each side will be free to raise any issue. The Government of Pakistan have their own views on Kashmir and other matters; so have the Government of India. The tashkent Declaration calls for progress in various fields of Indo-Pakistan relations without progress on any matter being made a pre-condition for progress on another. It is the task of both Governments to strive sincerely for reconciling differences and for expanding the areas of agreement, and to persevere in efforts towards the peaceful resolution of their differences. This objective can best be achieved by discussions without prior commitments or assurances from either side.

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II

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September 23, 1966

**INDIA INVITES PAKISTAN TO DISCUSS ALL DIFFERENCES  
'WITHOUT PREJUDICE TO EITHER SIDE'S POINT OF VIEW**

India has invited Pakistan to send a delegation of officials to New Delhi for talks on all differences between the two countries "without prejudice to either side's point of view."

In a note dated September 10 the Government of India said it had asked India's High Commissioner (Ambassador) in Pakistan to discuss a mutually convenient date.

The note made it clear that Pakistan could not expect a prior assurance in respect of any questions that might be discussed at the proposed meeting.

The Indian note is the latest in a series of exchanges between the two countries in a bid to call a meeting of officials to discuss the implementation of the Tashkent declaration.

Following is the text of the Government of India's communication of September 10 to the Pakistan Government:

"The Government of India have seen the communication handed over to their Acting High Commissioner by the Pakistan Government on August 31. They regret to note that while these exchanges between the two Governments so far have been concerned entirely with the question of another

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meeting between them under the Tashkent declaration, the Pakistan Government in their latest note have gone into a variety of extraneous matters and have thought fit to make accusations against the Government of India which are neither justified in fact nor in consonance with the spirit of the proposals made by the Government of India.

#### Talks Must Be Serious, Purposeful

"It was made clear in the Government of India's notes of July 6 and August 6 that at the proposed meeting each side will be free to raise any issue. It would, as already pointed out in the note of August 6, be the task of both Governments to strive sincerely for reconciling the differences and for expanding areas of agreement. The note added that in the view of the Government of India this could be achieved by discussion without prior commitments or assurances from either side and furthermore, any talks between India and Pakistan must be serious and purposeful. The Government of India repeat that once the two delegations meet it would be open to either side to raise any question, and the discussions must be held with seriousness befitting all discussions between India and Pakistan.

"It is not understood why, when the Government of India's position has been repeatedly set out orally and in writing, the Pakistan Government should persist in their demand for clarifications on points which have already been made clear. The Government of India find it difficult to avoid the conclusion that the Pakistan Government desire to secure from them a commitment that they give up their position on Jammu and Kashmir and on other matters. The Government of India must point out that such an attitude on part of the Pakistan Government is hardly reasonable. It is obvious that any agreement for discussion or negotiation between sovereign states must be without prejudice to their respective points of view. The Government of India are not asking the Pakistan Government for any prior assurance in respect of any of the questions that might be discussed between the two countries at the proposed meeting. There is equally no reason why the Pakistan Government should expect the Government of India to give such assurances.

#### India's Earnest Desire

"The Pakistan Government have made a grievance of some public statements reported to have been made by Indian leaders, and have dwelt on these in their latest note. The

Government of India regret that the latest communication of the Pakistan Government cites some Indian statements out of the context. The Government of India would have liked the Pakistan Government to take note of and appreciate the repeated statements by the leaders of the Government of India reiterating their earnest desire for development of friendly and good neighbourly relations between India and Pakistan. For example the Prime Minister of India at her May 20 Press Conference, in her broadcast of July 7, in her message to the President of Pakistan while overflying Pakistan on July 17, on August 15 at the shrine of Khwaja Nizamuddin Aula, and on August 18 in a press interview earnestly expressed India's desire for improvement of relations between the two countries. Indeed the President of India and the Prime Minister and other members of the Government of India have repeatedly affirmed the determination of India to carry out the Tashkent declaration in letter and in spirit.

"The Pakistan Government seem to take the view that any reiteration by India of its position on any question is an obstacle to another meeting under the Tashkent declaration. On their part, the Government of India do not feel that any useful purpose would be served or that it is relevant in connection with holding of the proposed meeting to quote the numerous statements by Pakistani leaders not only reiterating Pakistani stand on many questions, including that on Jammu and Kashmir, but doing so in a manner which is at once provocative and contrary to the spirit of the Tashkent declaration. Among the more recent of these statements are some by the Foreign Minister of Pakistan which go so far as to assert that Kashmir belongs to Pakistan. He stated in Karachi on July 24 that the letter 'K' in 'Pakistan' stood for Kashmir; and on July 28 that Pakistan and Kashmir were bound by unbreakable ties. On July 24 Pakistan Foreign Minister even threatened further conflict between the two countries in defiance of the categorical affirmation in the Tashkent declaration that the two Governments will resolve their difference by peaceful means.

"While the Government of India naturally regret such statements they have not let these come in the way of their efforts to bring about an improvement of relations or regarding them as an obstacle to a meeting between the two Governments. By parity of reasoning there is no reason why, when a member of the Government of India reiterates India's wellknown position that Kashmir is an integral part of India whose sovereignty is

not negotiable, the Pakistan Government should make a grievance of it.

#### Baseless Allegation

"Among the extraneous and contentious points now introduced by the Pakistan Government into these exchanges is the allegation that India has violated the Tashkent declaration by unleashing a propaganda campaign against Pakistan. This allegation is baseless. On the contrary, much harm has been done to the purposes of the Tashkent declaration by vilification of India by Pakistani leaders and by the Pakistan press and radio, to which the Government of India have repeatedly drawn attention.

#### Anti-Indian Propaganda

"Unfortunately India's representations have had no effect. The latest in the campaign against India is the wholly unfounded propaganda unleashed by Pakistan to the effect that India was planning to be a nuclear weapons power and is to undertake a nuclear explosion. In spite of India's denial which has been accepted by the international community Pakistan persists in such false propaganda.

"The Pakistan note of August 31 also alleges that in a conversation between the Secretary in the Ministry of External Affairs and Pakistan High Commissioner in India the former held out a 'threat to renew hostilities against Pakistan'. There is no basis whatsoever for this gross misrepresentation of the discussion between these two officials. The Secretary in the Ministry of External Affairs did no more than point out the seriousness of Pakistani military build up, the dangers thereof and the obligations of the Government of India to defend India's territorial integrity against any aggression.

"The Government of India are somewhat puzzled at the induction in Pakistan Government's note of wholly unrelated matter of diplomatic exchanges between the two Governments on Pakistani troop movements in the vicinity of the international frontier with India. They note that two weeks after reports of Pakistan's military preparations were brought to the attention of the Pakistan Government, the latter have made allegations of military preparations and threat from the Indian side. The official spokesman of the Government of India has already denied these allegations. As the Pakistan

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Government are aware, the Government of India have, with a view to ensuring tranquility along the border between India and Pakistan, proposed a meeting of the Chiefs of Army Staffs of the two countries. The Pakistan Government will, it is hoped, agree that, in the spirit of the Tashkent declaration and in accordance with the subsequent agreement between the Chief of Indian Army Staff and the Commander-in-Chief of Pakistan Army, reports of such movements should be discussed between them with a view to easing of tension created by such reports.

Obligations Under Tashkent Declaration

"It was with the object of reversing the unfortunate trends in the relations between the two countries and to give them a new direction that the Government of India had proposed the officials' level meeting with Pakistan. Both Governments have solemnly subscribed to the Tashkent declaration; both have affirmed their adherence to and their desire to implement the declaration; both have already taken certain steps to carry out measures envisaged in the declaration. The Government of India have no other desire than to proceed in cooperation with the Pakistan Government to take further measures along lines which both have set out in the declaration.

"The Government of India have repeatedly informed the Pakistan Government, and do so again, that they are willing to discuss all issues, with a sincere desire to find solutions for them, and without preconditions. The question of seeking further assurances in this regard should therefore not arise at all.

"The Government of India interpret Paragraph 8 of Pakistan Government's note as containing agreement to the proposal for a meeting at which all disputes and differences between the two countries including the question of normalisation of relations, could be raised and discussed with a view to reaching solutions, and that such discussions or negotiations would be without prejudice to either side's point of view. If this is a correct interpretation of the Pakistan Government's position, the Government of India would be glad to receive a delegation of officials from Pakistan in Delhi. They have asked their Acting High Commissioner to discuss a mutually convenient date."

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SECRET

Chronology of attempts to have Indo-Pakistan  
meeting under Tashkent Declaration.

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On January 28, 1966, India proposed that an Indo-Pakistan inter-Ministerial meeting be held to consider further steps towards the implementation of the Tashkent Declaration. We said we would in particular like to discuss the restoration of trade and economic relations and communications (envisaged in Article VI) and the return of properties (in accordance with Article VIII), but other issues were not excluded; indeed, India sent a very large and high-powered delegation (including 3 Ministers and 5 Secretaries) prepared to discuss several other measures which could help improve relations, including such matters as the uses of the eastern waters and movement of refugees in which Pakistan had said she was particularly interested. Pakistan's immediate response was to publish on February 3rd an agenda so contentious in substance and provocative in language as to prejudice seriously the outcome of any meeting. To avoid a breakdown, the Indian High Commissioner was instructed to seek President Ayub's intervention, and it was eventually agreed that the two sides meet without agenda, each side being free to raise any issue it wished. However, when the meeting took place in Rawalpindi on March 1st and 2nd, Pakistan took the stand that unless there was progress towards a Kashmir settlement, there could be no settlement of any other issue. The Indian officials pointed out that the Heads of Governments had discussed Kashmir only a few weeks earlier without being able to agree, and it was unrealistic to expect officials to succeed where the Heads of Governments had been obliged to agree to disagree. Discussions on Kashmir were not ruled out by India, as Pakistan has been alleging; it was made clear to the Pakistanis that if they wished to discuss Kashmir, the Indian Ministers were available to their Ministers in Rawalpindi, but meanwhile the officials should try and settle other problems. The Pakistanis, however, insisted that visible progress towards a Kashmir settlement was an essential pre-condition to the settlement of other issues. In a meeting restricted to the Ministers and Foreign Secretaries of the two sides, the Pakistanis even suggested that if India preferred to work for agreements on other matters, these could be attempted but if reached would not be implemented until the Kashmir issue was settled. India, therefore, suggested that the two sides might meet again, and this was agreed to in a joint communique in which India also agreed to incorporate a reference to the importance which the Pakistanis attached to the Kashmir issue.

2. Despite the deadlock at the Rawalpindi meeting, India expressed her readiness to meet again with Pakistan if another meeting could lead to progress. The Prime Minister's statement on May 12 that India was willing to have a meeting with Pakistan at any level that could make for progress under the Tashkent Declaration was a

reiteration of India's persistent stand but Pakistan chose to use it as an occasion for appearing to be once again interested in implementing the Declaration. On May 28th, the Pakistan Foreign Secretary told the Acting Indian High Commissioner that his Government had been considering how to try and improve relations with India; that they had been distressed by India's "bellicose" attitude but were glad to find a new attitude as revealed in the Prime Minister's statement on May 12th. It was an after-thought on the Pakistani side to use the statements of the two Heads of Governments as a peg on which to hang their new feelers, the real motives of which lay rather in external pressures than in any new Pakistani approach towards the Tashkent Declaration. However, in accordance with her policy of trying to avail of whatever opportunity might arise to try to improve relations with Pakistan, India took the Pakistani position at its face value and the Indian High Commissioner was immediately authorised to take soundings to determine the level and basis of any further talks.

3. It would clearly serve the purpose of neither country and could in fact lead to a worsening of relations, if another meeting were to repeat the deadlock of Rawalpindi. India has been prepared to have another meeting as long as there are no pre-conditions; no issue is excluded as India would be prepared to discuss whatever issues Pakistan might raise but lack of progress on one issue should not be made an excuse for not making progress on other issues. If Pakistan were to adhere to its stand at Rawalpindi that there can be no settlement of any question unless there is visible sign of progress towards a Kashmir settlement, another meeting would be no more fruitful than the last. The Pakistanis have indicated that they consider a summit meeting should be kept in reserve until its success has been prepared at other levels. India is inclined to agree with this view but feels that the same argument applies to the Minister's meeting which Pakistan prefers. In order to ensure that a Ministerial meeting does produce results, India is of the view that an officials' level meeting should be held first to prepare the way for a Ministerial meeting. The Indian High Commissioner was authorised to inform the Pakistan Foreign Secretary on July 6th that the Government of India would welcome a meeting with Pakistan in accordance with the Tashkent Declaration. The High Commissioner also told the Pakistan Foreign Secretary that to ensure that the meeting would be fruitful there should be a meeting at officials' level which would prepare the ground for a subsequent Ministerial meeting. The Pakistanis were invited to send their officials to New Delhi on any date that might be convenient.

4. In their reply broadcast on July 22 and received in Delhi the following day, Pakistan sought confirmation that there would be "meaningful" negotiations leading to a settlement of all disputes and differences, in particular the Jammu and Kashmir dispute. They also attached "very great importance to a reduction of the armed forces", and agreed to send a delegation to New Delhi on this understanding and subject to agreement on the level of meeting.

5. On August 4th, the Government of India authorised the High Commissioner in Islamabad to inform the Pakistan Government that their reply amounted to attachment of preconditions, which was unwarranted. India had already made it clear that any issue could be discussed, and discussed in all seriousness; she therefore hoped that Pakistan would approach the Indian proposal in the same spirit of benefitting the peoples of the two countries in which it was made.

6. On August 31st, Pakistan's Foreign Secretary gave our Acting High Commissioner a note, which was published by Pakistan the next day, again seeking further assurances and also bringing in propagandist references to other matters. The note considered statements by Indian leaders on Kashmir as being contrary to our expression of willingness to have "meaningful" talks on all issues, adding that statements that Kashmir was not negotiable and accession was final and irrevocable appeared to foreclose any possibility of meaningful dialogue.

7. In a reply dated September 10th, India categorically refuted the Pakistani charges about propaganda and about deployment of forces. The Indian note pointed out that the Indian statements regarding Kashmir were no more than a reiteration of India's basic position and that since Pakistani leaders had been constantly repeating Pakistan's basic position on Kashmir without India letting these come in the way of a further meeting, there is no reason why Pakistan should make a grievance of the Indian statements.

8. In an oral response to this note, our High Commissioner was informed by the Pakistan Foreign Secretary on September 22nd that unless Pakistan found a change in the Indian approach to the Kashmir question, a meeting as proposed by India might worsen relations. Radio Pakistan announced immediately afterwards that "Pakistan has told India that no useful purpose will be served by continuing exchanges on holding Indo-Pakistan meeting at official level without change of heart on India's part towards Kashmir dispute."

9. Pakistan thus closed the door on the possibilities of any meeting. As though in anticipation of such an end to the exchanges begun in May, the Pakistani Foreign Minister had already started to raise the Kashmir issue in international forums by referring to it at the Commonwealth Prime Minister's Conference in London on September 6 to 15. Our Foreign Minister had to intervene firmly to point out that bilateral issues could not be raised at Commonwealth Conferences without the consent of both sides. Since this position was accepted by all other members, Pakistan had to acquiesce in it in London but Mr. Pirzada reverted to the attack in the U.N. General Assembly on September 29th, accusing India of refusing to hold a purposeful dialogue with Pakistan for the settlement of outstanding

disputes including Kashmir. He alleged that India had been defying the U.N. by rejecting all possibilities of a peaceful settlement of the Kashmir dispute and denying the people of Kashmir the right to decide their own future, India had thus prevented the fulfilment of the hopes raised by Tashkent Declaration on the March Rawalpindi meeting that the Kashmir issue would be settled. In an immediate rejoinder, our Foreign Minister repudiated the Pakistani allegation and also corrected the misrepresentations regarding the significance of the Tashkent Declaration and of the Rawalpindi meeting. Reiterating India's desire for an improvement of relations in accordance with the Tashkent Declaration, he pointed out that if Pakistan insisted on pre-conditions regarding Kashmir, India would be entitled to make her own pre-conditions, such as requiring Pakistan's withdrawal from the Indian territory in Kashmir, which she illegally occupied. It was, therefore, better for the two sides to meet without pre-conditions. Mr. Pirzada again sought to dismiss the Indian view as an attempt to confuse the issue which, according to him, was the right of self-determination of the people of Kashmir. In a brief final rejoinder, our Foreign Minister said that the Pakistani performance made it clear that they were going through an exercise when what was called for was a serious effort to settle issues by bilateral talks.

# India Ever Ready For Talks With Pakistan In Spirit Of Good Neighborly Relations, Foreign Minister Swaran Singh Tells U.N.

India proposed in the U.N. General Assembly September 29 that Pakistan join her in talks "in right earnest" to settle their differences.

Foreign Minister Swaran Singh made the appeal directly to Pakistan Foreign Minister Sharifuddin Pirzada after the two men had spoken during the General Assembly world affairs debate.

The following is the text of the statement made by Mr. Swaran Singh exercising his right of reply to the statement of the Foreign Minister of Pakistan:

"The Foreign Minister of Pakistan has today referred to India in abusive but familiar terms. Like other representatives of Pakistan who have exploited—indeed misused—this august forum, he has offered to the distinguished delegates assembled here a mixture of half truths and fantasies.

## Tashkent Declaration Ignored

"What is painful is that in the process of hurling abuse against India the Foreign Minister of Pakistan has completely ignored that provision of the Tashkent Declaration which stated the specific agreement of the two sides that they will 'discourage any propaganda directed against the other country and will encourage propaganda which promotes development of friendly relations between the two countries.'

"Among other things, India has been branded an aggressor and India has been compared to South Africa. The fact of India's defensive action in September last year has been presented by the Foreign Minister of Pakistan to this Assembly as aggression. The fact of Pakistan's aggression on the Indian State of Jammu and Kashmir twice within the last nineteen years has been conveniently ignored and kept back from this Assembly.

"Now, Mr. President, I prefer to be constructive, I prefer not to violate the Tashkent Declaration. As far as record is concerned, the same charges had been made time and again and refuted by the delegation of India on every occasion. I am not going to take time of this Assembly by once again covering the whole ground. There are two points, however, which need to be brought to the attention of this Assembly.

## A Constituent State

"First, it is amazing that the Foreign Minister of Pakistan has taken exception to the reiteration by the leaders of India of the Indian stand that the State of Jammu and Kashmir is a constituent state of India. This position of India has been stated by the Indian delegation on innumerable occasions both in this Assembly as well as in the Security Council. While participating in the general debate last year I myself stated and I quote:

'It is, therefore, necessary for me to make my Government's position clear beyond any shadow of doubt. Legally, constitu-

Indian Union. This is the position on which India takes its stand and will continue to do so. The people of Jammu and Kashmir together with their fellow citizens in other parts of India are architects of the largest democratic state in the world, a state rooted in popular will expressed through freely chosen institutions and periodic general elections based on adult franchise. There is no better way of giving reality to the freedom of a people.'

"The fact that India is prepared to discuss all differences with Pakistan in accordance with the letter and spirit of the Tashkent Declaration and to settle those differences by peaceful means in a spirit of good neighborly relations does not mean and cannot mean that India must give up its stand in regard to the status of the Indian state of Jammu and Kashmir. If each side were to insist on precondition would we not be entitled to say to Pakistan that it must first not only give up its point of view on Kashmir but also, as a prior condition for talks, vacate the two-fifths of Indian territory in Jammu and Kashmir that it illegally occupied and still occupies?

"Mr. President, in our reading of the letter of the Tashkent Declaration and in our appreciation of its spirit what is required to be done by the leaders of the two countries is that they must sit down and settle all their differences without conditioning the settlement of one dispute on the settlement of another.

"It is necessary to recall that at

the time of signing the Tashkent Declaration 'each of the sides set forth its respective position' on Jammu and Kashmir and this fact is mentioned in article (1) of the Declaration. Recognizing this absence of reconciliation of the respective viewpoints on Jammu and Kashmir, India and Pakistan agreed to take several steps mentioned in articles (2) to (9) of the Tashkent Declaration.

"Article (9) has special significance in the present contest: 'The Prime Minister of India and the President of Pakistan have agreed that the sides will continue meetings both at the highest and at other levels on matters of direct concern to both countries. Both sides have recognized the need to set up joint Indian-Pakistani bodies which will report to their Governments in order to decide what further steps should be taken.'

"Mr. President, the effort of Pakistan to refuse to implement this article and to make it contingent on what Pakistan chooses to describe as 'meaningful talks' on Jammu and Kashmir is contrary to the provisions of the Tashkent Declaration.

## Ministerial Meeting

"The second point which I wish to clarify, Mr. President, relates to the ministerial meeting between India and Pakistan in March of this year. The Foreign Minister of Pakistan has made reference to the communique issued after that meeting. The operative part of the communique is that the two parties will meet again and discuss all

(See TALKS, p. 5, col. 1)

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**TALKS—**

(Contd. from p. 1, col. 3)

their differences. In spite of India's best efforts to start these talks the intransigence of Pakistan has not made it possible for a further meeting (to be held) as contemplated in the communique issued after the Rawalpindi talks in March this year.

"The Foreign Minister of Pakistan did not—perhaps he could not—refer to the substance of the discussion held in March. This is so perhaps because he was not present at the talks. Since I led the delegation of India to that ministerial meeting I can speak with some authority and assurance in regard to the attitude taken by India then—an attitude which remains the same today. It is this: that regardless of differences between the two countries, indeed because of those very differences, the most important provision of the Tashkent Declaration—that is, restoration of normal relations between the two countries—must be brought about by all possible means.

"As we in India see it, Mr. President, the way to settlement of all differences is not to put conditions towards the conclusion of an agreement on all problems at one and the same time. What Pakistan desired in March this year was that even though the two countries might arrive at an agreement on a specific issue between the two countries, that agreement could not be implemented as long as there was no settlement of the question of Kashmir.

### Unfounded Thesis

"Now, Mr. President, the Tashkent Declaration has been registered with the United Nations, its copies are available to all delegations and I invite all those who are interested to study the document. There is no basis in that Declaration to support the thesis of Pakistan that restoration of normal relations between the two countries—in other words, settlement of differences between the two countries—could not come about unless there was first an agreement of the question of Kashmir.

"Mr. President, as recently as last month we have offered to Pakistan to hold discussions on all outstanding issues between the two countries without any preconditions. To our deep regret and I believe to the deep regret of this Assembly, Pakistan has once again rejected our offer. Today the Foreign Minister of Pakistan has come to this Assembly and complained that India is not prepared to implement the Tashkent Declaration.

"Mr. President, on behalf of India, I would like to reiterate that India continues to adhere to the Tashkent Declaration in letter and in spirit and is ever ready to start talks for settling all differences between India and Pakistan by peaceful means in a spirit of good neighborly relations and with a view to reversing the deteriorating trend of relationship between the two countries I make this offer here and now to the Foreign Minister of Pakistan: Let us sit down and discuss ways and means of implementing all provisions of the Tashkent Declaration.

"Mr. President, before I conclude I would like to quote from a statement made by the Prime Minister of India to the Afro-Asian group here on April 1, 1966. She said and I quote:

"It is not enough that there should be peaceful coexistence among the great Powers of the world. We should also set an example and coexist peacefully among ourselves. The essentials for peaceful coexistence are determination not to use force and not to intervene in each other's

affairs and a desire to settle all disputes by peaceful means.

"It is in this spirit that India less than three months ago signed the Tashkent Declaration with Pakistan in which the two countries reaffirmed their obligations under the Charter not to use force but to settle their disputes through peaceful means. The Tashkent Declaration provides India and Pakistan with a new framework in which to restore normal and peaceful relations between the two countries and to promote understanding and friendly relations between the two peoples.

"Underlying the concept of the Declaration was the deep conviction that peaceful relations between India and Pakistan are vital for the maintenance of their political independence and achievement of their economic and social development. If all provisions of the Declaration are implemented faithfully in letter and spirit an atmosphere will be created in which all differences between the two countries can be settled peacefully.

"Political problems with emotional overtones—and there are strong emotions on both sides in this problem—cannot be solved unless the peoples of both countries appreciate the vital necessity of peaceful and friendly relations between them."

### No Substitute For Direct Talks

Taking the floor again to answer some points raised by the Pakistani Foreign Minister, Mr. Swaran Singh said:

"I must apologize for asking for the floor. I thought that I had said in very categorical terms that India is prepared to enter into discussions without any preconditions and that in such discussions

(See ASSEMBLY, p. 6, col. 5)

## ASSEMBLY—

(Contd. from p. 5, col. 2)

each side will be fully justified in raising any point. I said also that India would be prepared to discuss any matter raised by the Pakistan delegation, just as the latter should be prepared to discuss any matter raised by India.

"The fact that the Foreign Minister of Pakistan could anticipate what I would say and therefore came with a prepared text to reply to it only shows that we are going through this exercise knowing each other's point of view and trying to meet it by statements and counter-statements.

"I do not wish to delay the Assembly by taking any more time. I make this appeal to the Foreign Minister of Pakistan: Let us begin talks in right earnest, and not just continue to exchange diplomatic notes or statements and counter-statements on the floor of the General Assembly.

"There is no substitute for direct talks and no substitute for trying to understand each other's point of view. Let us devote ourselves to improving relations between our two countries. It is only by adopting that attitude that the people of India and the people of Pakistan can live in peace and friendship and good neighborly relations, an objective which is very dear to us and I hope dear to Pakistan."

## Pakistan Rejects India's Proposal For Reduction In Arms Expenditure

On February 25, Mr. M. C. Chagla, Minister for External Affairs wrote to Mr. Sharifuddin Pirzada, Foreign Minister of Pakistan stating that "the Government of India consider that an earnest effort should be made by the two countries to reach an agreement aimed at bringing about reduction in the expenditure on arms in both countries."

Following is the text of Mr. Chagla's letter to Pakistan's Foreign Minister:

*We have seen the text of His Excellency President Ayub Khan's speech at the Pakistan Institute for International Affairs on January 28 in which the President, if I may respectfully say so, spoke eloquently on the need for diverting to the task of increasing the production of food and necessities of life, the resources that are at present being used by both India and Pakistan on arms and armaments. Agreeing with the sentiments of His Excellency the President, the Government of India consider that an earnest effort should be made by the two countries to reach agreement aimed at bringing about reduction in the expenditure on arms in both the countries. They suggest a meeting at level of officials to discuss this important question.*

*Accept Excellency the assurance of my highest consideration—M. C. Chagla.*

### Pirzada's Reply

Mr. Sharifuddin Pirzada, Pakistan's Foreign Minister refused to accept Mr. Chagla's suggestion in his reply of April 7. Following is the text of Mr. Pirzada's letter to Mr. Chagla:

*I thank you for your letter dated February 25, 1967 which was handed to me by your High Commissioner in Pakistan, His Excellency Samarendra Sen.*

*We have given careful thought to your proposal for a meeting of officials to discuss the subject of reciprocal arms limitation. We have also had occasion to discuss with your High Commissioner the general question of relations between our two countries. He has no doubt conveyed to you our thinking on these subjects.*

*You are aware of our view that the question of arms limitation can be realistically tackled if an effort is made simultaneously to negotiate a settlement of the Jammu and Kashmir dispute which has been and remains the cause of continuing ill-will and tension between Pakistan and India. It continues to be our view that any approach which ignores the necessity of reaching a lasting settlement of this basic dispute between our two countries would be unrealistic.*

25-2-1967

The Government of Pakistan have regretted the fact that the cautious optimism expressed on this question in the communique we jointly issued at the conclusion of the Rawalpindi Conference last year was belied by subsequent developments. I must also express my disappointment at the fact that the discussions held in last year between our two governments at various levels have not led to a break in the deadlock. I can assure you that we remain ready nevertheless to enter into negotiations with your government for the settlement of the Jammu and Kashmir dispute and on other matters including the question of bringing down the strength of forces on both sides to reasonable levels. I have asked our High Commissioner at Delhi to take up the thread where it was left. If you consider that more detailed discussions can now be held on these matters, we shall be willing to depute other officials to assist him in these talks.

Yours sincerely, Syed Sharifuddin Pirzada.

#### Talks Can Proceed

India still thinks that talks with Pakistan on mutual arms reduction can proceed without being linked to any other question, an official spokesman said in New Delhi on April 28.

The spokesman made this statement while releasing the correspondence exchanged between External Affairs Minister M. C. Chagla and the Pakistan Foreign Minister S. S. Pirzada.

The spokesman said it was India's view that talks on mutual arms cut might lead to the relaxation of tension and creation of better atmosphere in which other questions including Kashmir could be discussed.

"Any conditional approach will not be in our mutual interest," he added.

The official spokesman regretted that the Pakistan Government had released the correspondence without prior consultations with the Government of India. He said Mr. Chagla had not yet replied to the letter of Pirzada and "I do not know whether a reply is called for."

Commenting on a Pakistani press report that the ball was now in India's court, the spokesman said: "I think they have played the ball out of court. Pakistan's reply is tantamount to a rejection of the Indian proposal."



EMBASSY  
OF THE  
UNITED STATES OF AMERICA  
New Delhi, India

*India* <sup>2</sup>  
*Gen*

August 12, 1968

CONFIDENTIAL

Honorable Walt W. Rostow  
Special Assistant to The President  
The White House  
Washington, D. C.

Dear Walt:

You may be interested in the enclosed memorandum  
to the Secretary on the recent Indian Public Opinion  
Poll.

With warm regards,

Sincerely,

*Ceb*

Chester Bowles

Enclosure

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E.O. 12958, Sec. 3.5  
State Dept. Guidelines  
By *jc*, NARA, Date 7-16-02

CONFIDENTIAL

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~~CONFIDENTIAL~~

August 8, 1968

MEMORANDUM

To: The Secretary of State

From: Chester Bowles *cs*

Subject: INDIAN PUBLIC OPINION POLL, APRIL-MAY 1968

---

I am sure you will be interested in the results of the most recent public opinion survey here, conducted in late April and early May by the Indian equivalent of our Gallup Poll. The responses, gathered from 1,000 literate adults in the four largest cities in India, reveal:

1. The Soviet Union continues to have a more favorable image in India (64% among urban literates; 75% among the well educated) than the United States (56% among urban literates; 66% among the well educated). The only significant difference that has occurred in the image of either country since last summer is a 6% gain in the favorable image of the Soviet Union among well educated Indians.
2. A surprising and rapidly growing awareness of the importance of Japan during the last few years has led to a significant gain in its favorable image (55% among urban literates, a gain of 4% since July, 1967; 75% among the well educated, a gain of 10% since July, 1967). For the first time in these polls Japan's position surpasses that of the United States and, among the well educated, equals that of the Soviet Union.

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E.O. 12958, Sec. 3.5  
State Dept. Guidelines

By jc, NARA, D. 7-16-02

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-2-

3. Less concern is shown now about the role played by the United States and the Soviet Union in international affairs than in the period immediately following the Arab-Israeli war, when the last poll was taken. However, there has been an erosion of 13% among urban literates and 7% among the well educated in the favorable impression held about American activities in the international sphere. The Soviet Union recorded a slight net loss in this area.

4. The Soviet Union is viewed as significantly less bellicose than the United States. On the question of whether a country is peace-loving and wants to avoid war, the United States has a favorable rating from only 6% of the urban literates and 9% of the well educated. The Soviet Union scores 27% and 37% among the same groups. Approximately 15% more Indians feel that the Soviet Union is doing more to prevent a new world war than is the United States.

5. There is general acceptance of American sincerity in trying to obtain peace in Vietnam, but there is little support or interest in our position there.

6. Indians feel that the United States is now the strongest world power but that the Soviet Union will take over that position within the next 25 years and that India will be one of the great powers.

7. There is wide awareness of President Johnson's decision to retire and a higher opinion of him as a result.

I think we need to learn from but not be unduly concerned over some of the negative aspects evident in this poll. Had the survey been taken after the Soviet decision to provide arms for Pakistan, their favorable percentages would have been significantly diminished.

Moreover I am heartened by the Japanese gains. It is a public demonstration of support for the Government of India's increasing emphasis on better relations with the countries of East and Southeast Asia. The future of Asia is very much dependent on the success of the large non-Communist nations of Asia in working together to speed economic development and to assure their own security.

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-3-

I am, however, increasingly concerned about Soviet efforts to create suspicions of U.S. motives and activities through the mass media, either directly such as in Radio Peace and Progress broadcasts, or indirectly through Parliamentary questions and locally-produced pamphlets and newspapers such as Patriot. The Soviets are spending something like three times as much as we in spite of the fact that we have an unlimited reserve of rupees, the value of which is being steadily eroded by inflation.

Let me emphasize that I do not believe that the effectiveness of our foreign policy should be judged by the results of public opinion polls or inter-governmental popularity contests. Nor should the direction of future policies solely be determined by likely public acceptance, either at home or abroad.

This is not to say, however, that we should not be acutely conscious of how people react or are likely to react to what we are doing. Psychological implications should, and in New Delhi do, play an important role in the decision making process.

We should also recognize, and here, perhaps, is the most important factor that is confirmed by such polls, that our ability to operate with optimum effectiveness declines or rises in direct proportion to the general psychological climate.

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**URGENT**

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DEPARTMENT OF STATE  
AGENCY FOR INTERNATIONAL DEVELOPMENT  
WASHINGTON

OFFICE OF  
THE ADMINISTRATOR

*file*

July 19, 1968

MEMORANDUM FOR: Mr. Edward Hamilton  
The White House

Here is a condensation of our thoughts for Katzenbach, offered without reference to your memorandum. Let's talk on the phone about our differences of approach to the same objective.

*Done  
7-19*

This memorandum has not yet been sent.



Rutherford Poats  
Deputy Administrator

attachment;  
memo for Mr. Katzenbach  
re his talks in India

~~CONFIDENTIAL~~  
(w/attachment)

46

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

OFFICE OF  
THE ADMINISTRATOR

MEMORANDUM FOR: THE HONORABLE NICHOLAS deB. KATZENBACH  
Under Secretary of State

SUBJECT: Your Talks in India

A.I.D. staff has worked with State and Defense people to prepare the background material and proposed scenario for these, we hope, precedent-setting talks.

I want to highlight for your personal consideration three problems expressed or implied in the good briefing material--the mutual prohibition of commerce between India and Pakistan, the potential dangers of the Eastern Waters dispute, and the overriding threat of a South Asian arms race.

Specifically:

- Trade between India and Pakistan is non-existent, thwarting the previous and potential benefits for the two economies. Representatives Fraser and Frelinghuysen, in their positive report on their visit to South Asia (copy attached), score the prohibition on mutual trade as "a drag on their economic development."
- The so-called Eastern Waters - the Ganges and the Brahmaputra - have tremendous potential for mutual benefit, and could be a running sore between India and Pakistan, depending on the degree of cooperation achieved in their exploitation.
- The reciprocal security fears of India and Pakistan have created a situation of serious regional instability, with an incipient threat of a further escalated arms race and of costly diversion of resources from vital development needs. To date our efforts, those of the Consortium, as well as those of the USSR, have had limited, if any, effect.

I recommend that you underscore these concerns in your talks. You might indicate our view that India, as the stronger power, has more freedom to move on these questions. You should urge India, therefore,

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State Dept. Guidelines

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Downgraded at 12-year intervals;  
not automatically declassified.

By jc, NARA, Date 7-16-02

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- 2 -

to consider taking the initiative bilaterally with Pakistan, with the World Bank, or with the USSR to seek solutions. You might ask how we could be helpful.

Resumption and expansion of Indo-Pakistan trade could be of immense economic benefit to both, and would contribute to alleviation of political tensions. Would a World Bank study, quietly conducted, develop argumentation which like-minded Indian and Pakistan officials could use to break the barriers? Would it be useful if the U.S. earmarked some of its aid for each country for purchases in the other? (This would mean a breach in the Buy-American rule, but it might be pushed through--perhaps by making partial payment in U.S.-owned rupees.)

The Eastern Waters question is not only politically difficult--it is technically complex. The holding of recent bilateral talks was a step forward but the subsequent follow-through has not been promising. We have no "pat" solution, but recommend that you flag our concern. Probably the most promising approach would be for India to continue bilateral efforts to reach agreement with Pakistan.

The arms race danger is well covered in the basic papers prepared for your talks. These papers do not put forward an approach certain to be decisive--perhaps because there is none. Our view of the message you should get across is that the U.S. concern about diversion of resources from development is not a temporary phenomenon.

It is possible, that the World Bank, as chairman of the two Consortia, could play a useful role in studying the impact of security demands on development. Mr. McNamara might be willing to undertake this task in privy fashion and without the encumbrance of a committee structure. I suspect with a problem of this delicacy, that prospects for success are greater if quiet, ad hoc diplomatic efforts are used, rather than a more formal Consortium or committee approach. Too frontal an attack might arouse resentments and opposition on the part of both India and Pakistan. In any event, it would be instructive to secure Indian views on this or other possible approaches.

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ANNOTATED AGENDA FOR WAHSINGTON/NEW DELHI/RAWALPINDI JOINT DISCUSSIONS, April 1 and 2, at American Embassy, Rawalpindi

I. Introductory Remarks - Ambassador Oehlert

A. Beginning - with welcoming statement followed by comment these discussions are not envisaged as briefing sessions, but rather as give and take structured bull sessions aimed at surfacing and airing questions and concerns.

B. Continuing - with observations on impressions at this point concerning such matters as the situation in Pakistan, the nature of US interests here, the state of US/Pak relations, prospects and opportunities, etc., and including some pointing up of major obstacles and uncertainties in promoting the US interest.

C. Concluding - with remarks about special significance of military supply questions and concerns and calling upon Hamilton to kick off the discussion on that subject.

II. Military Supply Policy - Hamilton/Spain/Heck

A. Symington/Conte Amendment Presentation (Hamilton et al)

B. Questions:

1. What is status of current acquisitions and impending requirements in Pakistan and India (possibly Geary/Oglesby might interject brief elucidation).

2. If US is unable to implement Symington-Conte amendments, where does this leave us?

3. The current military supply policy in April, 1967, was called a major new US drive for arms limitation in subcontinent, but as soon as Paks said Kashmir and Indians stood on their sovereignty the drive fizzled. Is arms limitation and reduction a dead issue?

4. Pakistan's defense expenditures as a percentage of GNP are about the same as India's (about 3.3%) and could be expected to continue to drop somewhat unless India reversed the trend, which it did recently. What is our ultimate goal in both countries, expressed either as force levels/percentage of GNP/or whatever? Do we accept current Indian force levels as reasonable?

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5. Are inadequacies of current military supply policy conceptual and basic or questions of implementation?
6. Assuming basic change is in order for military supply policy what are the major considerations? Is direct supply to India and/or Pakistan the answer? Is a more or less restrictive policy in order in both countries?
7. Is any military supply policy modification to be undertaken head-on and formally, or by bits and pieces indirectly?
8. Indian arms acquisitions and military buildup continue. Pakistan may be expected to respond by boosting its own expenditures. Our military supply policy calls for us to limit such developments. Are we doing what we should for Pakistan, e.g., should we take steps to cut the cost of the Italian tank deal? If we are going to make aircraft available to Pakistan in the end, should we do so now? Do we lose the beneficial effect of concessions by a process so tortuous that we exhaust patience and pocketbook?
9. Whether or not Pakistan fears a direct attack from the Indians, they do fear that an overwhelming disproportion between Indian and Pakistani arms would settle all major political questions in favor of the Indians. The Indians say they have no military designs against Pakistan and we frequently agree, but to say the Indians won't attack Pakistan begs the question of political-military domination. Is this seen clearly in Washington and Delhi?
10. Indian balance of payments deficits are growing, and India will remain heavily dependent upon US assistance for many years. In these circumstances shouldn't we be getting a more responsive attitude on many problems from India? We sometimes have the feeling that we have not pushed the GOI hard as the traffic will bear, and not even as hard as we have pushed the GOP.

### III. Development Problems and Prospects - Mr. Kontos

(Contribution from AID pending)

### IV. Indo/Pak/US Relations and Issues - Messrs. Schneider and Weathersby

A. Kashmir - Does GOI permission for Sheik Abdullah to go to Kashmir (and to make self-determination statements) signify

any kind of swing in Indian policy or is it merely allowing steam to escape? Is it conceivable that India might seek some compromise on the Kashmir issue?

B. China - India's attitude toward China is usually represented as fully understood by the US, i.e., she stands staunchly against China in defense of democracy. This reinforces US aid program justifications and strengthens inclinations to overlook large Indian acquisitions of arms. Pakistan, on the other hand, has paid a price with the US for her relationship with the Chinese. To what extent are India and Pakistan respectively praised and damned in Washington these days for their positions on China?

C. Persian Gulf - India's dependence on the Soviet Union and her general lack of support for US international policies would seem to make it undesirable from the US standpoint for her to interest herself in the Persian Gulf area. The same might be said for Pakistan because of her relationship with the Chinese. What is the Washington view on each of these issues? How much should the US attempt to influence each country in this matter? Would Pakistan's development of interest in the area bring the Indians to assert and protect their relations with the countries involved?

D. Waterways - after completion of Farakka Barrage, is there any prospect that India will give attention to Pakistan's real waters problems?

a. Why isn't it possible for India to be more forthcoming as far as IBRD is concerned?

b. Is there any possibility for Pak/India cooperation on the Eastern waters question along the lines of the Indus Valley project? If so, how do we help bring it about? If not, why not, and what can we do about it?

c. Assuming India proceeds unilaterally with Farakka and the Paks continue to assume serious water loss as a result, what actions will Paks take, and what do we do about it?

E. Trade

1. Are there any prospects for India and Pakistan to cooperate in trade matters such as jute product exports? Should we encourage this?

2. If East Pakistan rice production increases, will smuggling problem in the East reach more serious proportions?

F. NPT

1. What is the chance for NPT in India and Pakistan and what, if any thing, could we and would we do to promote their support?

2. The very prospect of nuclear weapons development in India gives China a vast field for psychological and political exploitation in Pakistan.

G. Public Attitudes

1. What, if any thing, are we doing (or can we do) to promote parallelism in public attitudes in Pakistan and India in areas of importance to the achievement of US goals in the sub-continent? Specifically, do present US programs and policies in the two countries assist -- or work against-- development of parallel viewpoints in the public attitudes in the two states?

2. To what extent do our policies now (or could our policies) serve to promote public attitudes in each country reasonably prepared to support -- or at least not work against -- not just our policies in that country, but our overall goals in the sub-continent?

V. Summary and Conclusions with Policy and Program Implications

Messrs. Hamilton, Heck and Spain to be invited to comment on any and all aspects of Washington scene not adequately covered previously in the discussion and to include, hopefully, Vietnam, BALPA, Washington mood and temper.

VI. Summary and Conclusions with Policy and Program Implications

To be handled as seems appropriate, possibly as summary reviews by Weathersby and Schneider, with a listing of major conclusions, questions, differences, uncertainties, followed by a statement from Ambassador concerning implications if any of all this for US programs and policy (e.g., Les Squires hopes we could come out of the discussion with a decision to look more closely at our policies and our USIS programs in the two countries to discover whether there is anything positive that can be done to use them as devices to work towards greater understanding and parallelism in public opinion in the two countries.)

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1- Hamilton  
2- Ret.

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DEPARTMENT OF STATE

Washington, D.C. 20520



file

Indira ~~military~~  
July 2, 1968

The Honorable  
Walt W. Rostow  
Special Assistant to the President  
The White House

Dear Walt:

During my recent consultations in Washington I found a general lack of familiarity with the Indian armed forces and recent measures taken by the Government of India to improve their effectiveness. As you know, I regard this force as a critically important element in the Asian balance of power and a major potential asset to U.S. interests in Asia.

Following my consultations, I asked our Mission in New Delhi to reassess the Indian armed forces. I hope the Mission's report, which is attached, will give you a fresh picture of this resource, which is second in size only to our own among the non-Communist powers.

Sincerely,

Chet

Chester Bowles

Attachment:

As stated.

JUL 11 1968

STATE DEPT. OFFICE RECEIVED

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E.O. 12958, Sec. 3.5  
State Dept. Guidelines  
By jc, NARA, Date 7-16-02

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BY *8* ~~NAVY~~ Date *3-10-69*  
State Dept. Guidelines  
E.O. 13526, Sec. 3.2  
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ROSTOW'S OFFICE

1968 JUL 8 AM 11 07

as stated.

attachment:

Director, Bowles

*CTA*

Director, State

the non-Communist Bowles.  
This message, which is second in date only to our own initial  
report, which is attached, will give you a clear picture of  
to illustrate the Indian armed forces. I hope the message, a  
following my conversations, I asked our mission to New Delhi

Bowles and a major Bowles, as well as interests in India,  
as a significant important element in the Indian balance of  
power and effectiveness. As you know, I regard this force  
and recent messages taken by the Government of India to the  
general lack of familiarity with the Indian armed forces  
which my recent conversations in Washington I found a

Dear Sir:

The White House  
Special Assistant to the President  
Mr. M. Rostow  
The Honorable

*John Edgar Hoover*  
July 5, 1968

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E.O. 12958, Sec. 3.5  
State Dept. Guidelines

By jc, NARA, Date 7-16-02

UNITED STATES GOVERNMENT

# Memorandum

TO : White House - Mr. Roger Morris  
THROUGH : INR/RNA - Granville S. Austin *GSA*  
FROM : INR/RNA/SOA - Gerald A. Rosen *GA*  
SUBJECT: Indo-Pakistani Relations

DATE: May 27, 1968

The tactical maneuvering and self-serving statements of both Indians and Pakistanis tend sometimes to obscure the basic forces governing Indo-Pakistan relations. India is generally satisfied with the territorial status quo, is rather patronizing in its view of Pakistan, and is fearful of China; it looks forward to a detente with Pakistan, and indeed to a measure of cooperation, though not at the cost of significant concessions on Kashmir.

Pakistan conducts its relations with India in light of its passionate claim to Kashmir and its strong fears of being dominated and perhaps someday absorbed by its huge neighbor. Thus the GOP apparently considers that the maintenance of at least a minimum level of tension with India is necessary to give point to its claim to Kashmir. Even if the Kashmir problem were to be settled, Pakistan would no doubt be reluctant to participate in massive cooperative projects with India for fear of losing its separate identity.

President Ayub's government was subjected to harsh and widespread criticism within Pakistan for signing the Tashkent Declaration. Deluded by wartime propaganda, many Pakistanis, including a considerable number of young military officers, believed that a victory over India was lost because of a failure of nerve. To counter this discontent, the GOP was forced to take an especially hard line towards India, to claim that the Tashkent Declaration's call for the improvement of Indo-Pakistan relations was directed towards finding a quick solution of the Kashmir issue acceptable to Pakistan.

Since late 1967, the GOP position that no significant talks could be held without prior agreement for serious discussion on Kashmir has eased somewhat. This is especially so with respect to the Farakka Barrage, where India, the upper riparian, appears to hold all of the cards.

Most of the potential negative reaction to Tashkent in India was dissipated in the emotional response to Prime Minister Shastri's death; the Tashkent Declaration became his testa-

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- 2 -

ment. The Indian government has been willing, even anxious, to promote a step-by-step improvement in Indo-Pak relations, leaving Kashmir for the indefinite future. This has not prevented the Indians from engaging in hard bargaining on occasional Pakistani proposals for action on certain limited problems. This toughness derives from internal political pressures in India, as well as from suspicion that the GOP is only interested in solutions to a few problems which would provide a clear net advantage to Pakistan.

INR/RNA/SOA:GARosen:eh

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<b>SPEED LETTER</b>		REPLY REQUESTED		DATE
		YES	NO	27 May 1968
TO : Mr. Peter Jessup		FROM: DCNE/SA		
ATTN: Room 300, Executive Office Building		LETTER NO.		
<p>Per your request to Jim Critchfield, for Walt Rostow, the attached brief highlights of Indo-Pakistan relations since Tashkent is about all we have on the subject. In sum, not very impressive developments.</p> <p>The only other thing of interest on this subject is the DDI Weekly Summary Special Report 28 January 1968, Subject "India and Pakistan: Two Years after Tashkent".</p>				
				STAT
				SIGNATURE
REPLY			DATE	
<p style="text-align: right;">SANTIZED</p>				
				SIGNATURE
RESPONDER'S FILE				

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UNITED STATES DEPARTMENT OF AGRICULTURE  
INTERNATIONAL AGRICULTURAL DEVELOPMENT SERVICE  
WASHINGTON, D.C. 20250

April 24, 1968

TO: Ed Hamilton, White House ✓  
Irwin Hedges, AA/WOH, AID  
Maurice Williams, AA/NESA, AID

FROM: Lyle Schertz, Acting Administrator

Will Cochrane has recently been in India on a 3 to 4 month visit sponsored by Ford Foundation. Cochrane is Dean of International Programs at the University of Minnesota and was formerly Director of Agricultural Economics in the Department of Agriculture.

During his India visit he prepared the attached paper. Because of the relevance of its content to U.S. assistance to India and the manner in which Cochrane has presented the material, we thought that you would be interested in receiving a copy.

Some of Cochrane's main points are:

- . The Central Government of India should foster the view that it has the responsibility for food programs and should demonstrate the capacity to carry out the appropriate food programs in times of food shortage.
- . India should aim for a 5 million ton grain stabilization stock. It should have dual objectives, stabilization of consumer prices as well as farm prices.
- . The extremely poor people should be issued ration cards to facilitate their purchase of food below market prices.
- . Both India and the U.S. should reassess the concessional food import policy in light of the possible potential for production increases exceeding population growth rates.
- . The Food Corporation should become an executive arm of the Central Government for procurement, storage and distribution and should not operate at the sufferance of the individual states.
- . The private trade should not be treated "as if they were robbers", but they should be assisted "in a manner comparable to the assistance given to cultivators."

Attachment

April 4, 1968

FOOD AND AGRICULTURAL POLICY  
FOR INDIA\*

I. Introduction

This has been a time of rapid change in food and agriculture in India. The large food grain crop in 1967-68, which may approach a 100 million tons, following two bad crop years, provides room for maneuver with regard to food management policies and programs. And the development that is taking place in the production of wheat and rice, gives promise of moving India from a chronic deficit to a surplus position in food grains over the next decade. Thus it seems appropriate at this time to review and reappraise food policies and programs of the Center and state governments. And this is the purpose of this paper.

Since food policy shades so quickly into agricultural policy on one hand and development policy on another, we will not attempt to treat food policy in isolation; nor should we try. Our focus will be on food policy, but wherever that policy relates to agricultural

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\* A statement prepared by Willard W. Cochrane, Ford Foundation Consultant on Agricultural Planning.

development or general economic development the discussion and analysis will be expanded to deal with the larger and related issues. In our view food, agricultural and development policies must be developed in concert.

The treatment of issues and problems in this paper is somewhat uneven because the writer first lacked the time to become thoroughly acquainted and knowledgeable with regard to each issue and second lacked the time to completely integrate the various issues and problems presented in this paper. Thus certain issues may be over-stressed and others under-stressed. But there is no help for this if a short-term consultant is to present his ideas on a complex subject like food and agricultural policy in India. Thus an appraisal of Indian food and agricultural policy is presented in this paper even though the writer is conscious that the appraisal may be uneven in quality and proportion and lacking in depth and perception in many places.

## II. The Issues

1. Food Zones and Food Management: Although foreign advisors have argued long and hard on economic grounds that food zones do not contribute to effective food management and result in certain economic disadvantages, it remains a fact that many Indian politicians and most government administrators and economists believe that effective food management is dependent on the

maintenance of zones. The positive position with regard to food zones seems to be based upon some combination of four arguments:

- (1) a political and administrative argument;
- (2) a physical concept of the procurement which might be called a "Chicken Catchment" theory of procurement;
- (3) a big city excess purchasing power argument; and
- (4) a cost argument.

The political-administrative argument runs as follows:

agricultural production and food distribution are the basic responsibility of the state; this is set forth in the Constitution and the belief is firmly held that each state has a basic responsibility of seeing to it that its people are properly fed; it has then a responsibility for developing administrative procedures and government programs for procuring food from the farmers, obtaining food from outside of the state boundary, and distributing it in equitable manner within the state; to render such administrative procedures and programs effective, it thus becomes necessary to wall off the state from the conflicting actions and incongruous programs of other states. In other words, political responsibility by a state for assuring its people an adequate food supply, equitably distributed, forces the state to behave as a quasi-sovereign nation-state, wherein it develops the administrative machinery and the programs necessary to achieve its food policy objectives.

The second argument, concerned with the physical procurement of food, runs as follows: for the government to effectively procure food, either Center or state, it is necessary to build barriers around food production areas, literally crowd that productive output into a corner and then catch the penned-up supply through a levy, or requisitioning, procedure. This I have described above as a "chicken catchment" theory of procurement in that it seems to imply that food supplies run around in an arbitrary manner, much like chickens, and to catch that supply it is necessary to crowd it into a corner and grab it when it cannot move further in any direction.

The big city excess purchasing power argument is as follows: the large number of relatively high income consumers in the big cities have sufficient purchasing power to suck large quantities of food grain into the cities from the surrounding rural areas and thus denude the country-side of grain; to protect the relatively lower-income consumers in rural areas, it therefore becomes necessary to cordon off the big cities and impose statutory rationing in those cities; by this device supplies of food grains are equalized between the high income cities and the low income rural areas.

The cost argument is as follows: if a government, either Center or state, has the responsibility for procuring supplies of food to distribute to needy people, it can procure those supplies most economically by purchasing the supplies in surplus areas, where the surplus is acting to depress prices, and then distribute those supplies in high priced food deficit areas. In other words, it is argued that government costs can be minimized by purchasing supplies in low-priced surplus areas and distributing these supplies in higher-price deficit areas.

This cost argument may have some validity in the short run. But in so far as it contributes to holding prices down in the surplus areas to dis-incentive levels, it may turn out to be a high cost policy in the long run by acting to dampen down agricultural development in the surplus areas. Further, as events have developed in India a large proportion of the food supplies procured for distribution through fair price shops has had to be undertaken by state governments in high-priced, food-deficit states. Thus, it is debatable, which only a thoroughgoing analysis could resolve, whether food procurement in total, as it has occurred in India, under the zones has in fact been less costly than would have been the case with no zones and with a uniform price throughout India which varied only in accordance with the transportation charges.

The second argument has no validity at all, since food grains do not run about in an arbitrary fashion like chickens but rather are produced on recorded acreages and are stored in observable structures, which may be accounted for or be "lost" with equal facility in a state zone or an all India zone. Supplies of food grains may be procured through purchase arrangements in an all India zone as readily as they can be purchased in a particular zone, and levies may be administered as efficiently and possibly more efficiently in all India zone as they may be in any particular state zone.<sup>1/</sup> There simply is no substance to this physical barrier concept.

There may be some validity to the "big city" argument, and on occasion a shortage situation might arise wherein it became necessary to cordon off the big cities and impose statutory rationing in those cities. But special treatment of the large cities, again is not contingent on the maintenance of a system of state food zones. In fact,

<sup>1/</sup> A nation-wide levy system that is both equitable and rational is suggested in the Report of the Agricultural Prices Commission on Price Policy for Kharif Cereals for 1967-68 Season; Government of India, Ministry of Food and Agriculture, Sept. 1967, pages 5-6.

the acquisition of supplies to meet the big city requirements based upon statutory rationing could without question be most efficiently achieved from a national program of procurement, perhaps through purchase arrangements, or perhaps through a nation-wide levy. But with effective price stabilization and distribution programs, such as will be discussed later, it is not a foregone conclusion that special treatment for the big cities is required. The program of cordoning off of the big cities should be eliminated in a good crop year like 1967-68 and be re-imposed only as the excessive demands from the big cities began to disrupt the national program of food management.

Finally, we come to the political-administrative argument which in the view of this writer is at the heart of the whole matter, and in a political sense is a valid argument. So long as the Indian body-politic takes the view that feeding of its people is basically a state responsibility (which seems to be held with equal strength at both the Center and in the states) then each state must develop the administrative machinery and the programs to feed adequately the people living within it. This means that each state must act as a quasi-nation state with regard to food production and distribution, which in fact is what each state does.

If food grain production increases more rapidly than population growth in India on a long run trend basis, which in the spring of 1968 seems possible, the acuteness of the food problem in India will subside and individual states will be under less pressure to develop food distribution program and to take administrative actions to feed their people. Given such a situation it seems likely that the food zone concept will wither. Further, in so far as it becomes necessary to support farm prices in the surplus states, the Center government with its greater access to financial resources will probably be called upon to operate and finance such price supporting operations. Thus, to the extent that the food shortage situation in India is transformed into a food surplus situation, it seems likely that the food zone concept will simply cease to exist.

But in so far as the long-run trends in food production and population growth are interrupted by bad crop years, and food shortages develop in an irregular and unpredictable pattern both with regard to time and space, it could well be that the food zone idea will not die. Rather the idea will be brought out, dusted off, and be placed in operation whenever and wherever a food shortage develops. In other words, to the extent that the basic political-administrative argument is not rendered obsolete and meaningless by creative leadership on the part of the Center government, it is a distinct probability that state food

zones will be revived and placed in operation whenever a shortage situation develops.

It is thus the view of this writer that if the economic gains of a free trade area in food production and distribution are to be realized for India and the disadvantages associated with food distribution, where prices in adjoining states vary in an almost arbitrary manner are to be avoided (e.g. blackmarkets and smuggling), then the Government of India must deal in a forthright and creative manner with the basic political-administrative argument which places the responsibility for agricultural production and food distribution within each state. First, the Center government must foster the view that it too has a basic responsibility for seeing that the individual family in each state, district, block and village is adequately fed. Second, it must demonstrate the capacity to mount food programs that can reach the Indian family in the largest city and the smallest village. Third, where all India is treated as one food zone and the economic gains from that wide trade area are realized, the populace must be informed of the tangible results. In other words, it is argued here that the food zone concept will not wither away unless India should be so fortunate as to enjoy a long period of uninterrupted good weather, which seems highly unlikely. Thus the elimination of the zones in periods of short supply will be dependent upon the ascendance of the Center government with

regard to food and agricultural policies. And it will become ascendant only to the degree that it convinces the body politic that it has both the purpose and the capacity to deal adequately with food shortage situations.

2. Stabilization Price and Stock Policy: The foundation of an effective food policy and management program in India must be the establishment of an adequate sized Stabilization Stock of food grains. It has been stated recently by one foreign advisor that the Government of India cannot afford an adequate size Stabilization Stock and at times the Government of India has behaved as if it could not. But if the Indian nation-state is to become independent of United States largesse and if it is to demonstrate to the individual states that it has the capacity to cope with their potential shortage situations, the Center government must command a Stabilization Stock of a size which can meet the demands placed upon it as the result of a poor crop in a particular area. Further, if the Government of India is to sustain a continued increase in agricultural production, it must be prepared to acquire surpluses wherever they may develop from either exceptional weather or technological breakthroughs. Thus, if the Government of India is to have the capability of supplying food grains wherever they are needed in shortage situations to stabilize consumers food prices

and to acquire surplus stocks wherever they may be generated to stabilize farm prices; it must formulate and execute a Stabilization Stock policy with the purpose and capacity to achieve these objectives.

We now turn to the question of what should be the average size of such a Stabilization Stock. The present goal of the Government of India is to have a Stabilization Stock of 3 million tons of food grains in being by the Fall of 1968; approximately 2 million tons of this stock is to come from concessional imports of grains from the U.S. and 1 million tons from procurement within India. This Stabilization Stock is over and above the pipe-line needs of the private trade and operational needs of the various governments - Center and state. It has been suggested further that to carry the nation through the kinds of food shortage situations that may develop in India from droughts and other forms of adverse weather, the government should have a Stabilization Stock of as much as 9 million tons of food grains.

It would be comforting to have a Stabilization Stock of 9 million tons for certainly drought conditions are likely to occur in the monsoon agriculture of India in which a reserve of 9 million tons of food grains would be needed in a single year to maintain adequate supplies to consumers and to stabilize food prices.

But it is the view of this writer that for some time to come the GOI cannot afford to build and maintain a Stabilization Stock as large as 9 million tons. A compromise position of 5 to 6 million tons seems to be widely accepted by officials of the Government of India and by advisors from the international community. A stock of this size would be quickly exhausted in a bad crop year such as 1965-66, but it would enable the Government of India to mount and operate a program to meet the food needs of its people over several states until aid from the food surplus nations of the world could be mobilized. In other words, a Stabilization Stock of 5 million tons is a minimum sized stock for meeting contingencies that are likely to develop on the Indian scene. But it is probably all that the Government of India can afford to build during the next ten years, and it does represent a supply large enough to adequately deal with seasonal storages and localized drought conditions. And it would enable the Government of India to cope with a general drought situation until outside aid could be mobilized.

The cost of building and maintaining a Stabilization Stock of 5 million tons is not small. At a procurement cost of Rs.80 per quintal the capital cost of acquiring 5 million tons of grain is Rs.400 crores (Rs.4,000,000,000). Assuming that at least 2 million additional tons of storage space would need to be constructed to

enable the government to acquire a total of 5 million tons of food grains, the capital cost of constructing that amount of storage space would probably approximate 30 crores (Rs. 300,000,000). The annual storage and handling charge for 5 million tons of grain assuming a charge of Rs. 3 per quintal per year would amount to ~~15~~<sup>15.0</sup> million rupees per year.

The capital costs of acquiring a Stabilization Stock of 5 million tons is thus very large - approaching 430 crores; over time the capital costs incurred in the building of storage structures would be recouped from storage earnings, but the capital expended to acquire the grain stock would remain tied-up so long as the stock was maintained. The annual storage bill of ~~15~~<sup>15.0</sup> million rupees on the 5 million tons of storage would of course go on year after year and represent a continuing charge to the government. It and other handling and distribution costs would represent the annual cost of achieving food price stability.

Whether the GOI realized a profit or loss on its stabilization operations would, of course, depend upon the policies pursued by it in the acquisition and disposition of grain. If the decision was made to sell grain into the market below its procurement price to stabilize consumer food prices, which could be a common practice, the government would sustain a loss on the grain so handled. But

such a loss does not result from inefficient operations; it results from a purposive action by government to achieve a social objective.

The question of the level at which prices would be stabilized needs to be considered. If the Government of India is desirous of sustaining the gains in agricultural production, which may be observed in 1967-68, then it must make sure that farm prices are maintained at production incentive levels. A thorough analysis of what constitutes a set of incentive prices needs to be undertaken for each important food grain crop, but such an analysis does not exist at present and the time, and resources were not available to this writer to conduct such an analysis. Lacking such an analysis it would appear that the recent recommendation of the Agricultural Prices Commission of a procurement price of Rs.70 per quintal of wheat represents an incentive price for wheat production, although not a strong incentive price. But the minimum level prices of Rs.52 to Rs.60 per quintal are too low to induce farmers to continue to make the production investments that are necessary to increase productivity in agriculture. Thus, it is a tentative conclusion of this paper that the wheat prices should not be permitted to fall below the level of Rs.70 to Rs.75 per quintal, assuming a continuation of the present price level. The government should take all necessary action to guarantee that prices received by farmers do not, in fact, fall below this level, and certainly it should not force prices below that level in its procurement activities.

Food grain price to consumers should be stabilized at this farm level plus legitimate storage, processing and handling charges; very roughly these marketing charges might approach 20 per cent of the procurement price, which suggest a consumer price level of Rs.90 per quintal. Certainly the government and its agents should not try to make a profit out of its merchandizing operations from Stabilization Stock. And it should stand ready at all times to put food grains in retail distribution channels at such a price level.

The Stabilization Stock policy has a dual objective: to stabilize consumers prices on the one hand and stabilize farm prices on the other hand. This means that the managers of the Stabilization Stock may need to pour grain into retail channels when it is short on supplies and they may need to acquire stocks to stabilize farm prices when it is long on supplies. In other words, the price stabilization objectives determine the procurement and disposition operations not the other way around. The managers of the Stabilization Stock cannot in their food price stabilization program depend solely upon stocks acquired through farm price supporting operations, and they cannot limit their acquisitions in price supporting operations to those quantities needed for their food distribution operations. Managers of the Stabilization Stock may be required to purchase supplies when prices are above the support level and sell stocks at a

loss to achieve their food price stabilization objectives. And they may need to take over stocks to achieve their farm price stabilization objective when the total stock exceeds 5 million tons. The two price objectives of the Stabilization Stock are not parallel, and managers of the Stabilization Stock may at times have great difficulty in harmonizing these two different price objectives. No set of management rules or merchandizing formula can be set forth here to guide the operations of the Stabilization Stock. The managers of the Stocks must recognize the differing demands that stem from the differing price objectives and manage the stock as wisely as possible to achieve both objectives.

The Stabilization Stock operation should be viewed as a giant balancing wheel in the food grain economy pouring grain supplies into commercial channels as needed to stabilize consumers price level and withdrawing supplies at the farm level as needed to stabilize prices to farmers. And the managers of the Stabilization Stock must try to hold the level of grain supplies in the Stock at a height such that they may at all times be able to release supplies into the market to achieve the consumer objective and withdraw supplies at the farm level and place them in storage to achieve the farm objective. This is no easy task, and it will never be achieved to perfection, but in broad measure it must be done.

The purpose of the Stabilization Stock operation which we have been describing is obviously not to make a profit. It is to achieve the stabilization of consumers price and farm price through the acquisition and disposition of food grain supplies. In realizing this objective the stock operation may on some occasions make a profit and may on other occasions sustain heavy losses. But the criterion for judging the effectiveness of the stabilization operation should not be the magnitude of its profits or losses; the criterion should be its effectiveness in stabilizing prices.

3. Food Distribution Policies: Even if the policies and programs to stabilize food grain prices to consumers are successful, there will still remain an important segment of the Indian population with income so low that they cannot afford to purchase an adequate diet at the price level suggested above. One approach to the problem might be to pursue a lower food price level to all consumers. But if this were done through a government subsidy the budget costs would be exorbitant, and equally important, the majority of Indians can afford to purchase food grains at the price level suggested above. And if a lower food price level were achieved by grain requisitioning procedures, which forced farm prices to lower levels, agricultural development would be choked-off, and/or a large proportion of grain would start moving through the blackmarket. It is recommended

therefore that a special food distribution program be designed to subsidize the cost of food grains and possibly other protein food to the very poor. More specifically it is suggested that families living in extreme poverty be issued a ration card with which they can purchase food grains and possibly certain high protein food at a substantial discount below the free market price. The food items purchased on such a ration card might, for example, be priced at something like 75 per cent of the going market price.

Since extreme poverty is the cause of inadequate consumption in this case, the sole criterion for issuing ration cards would be income, or lack of income. All families falling below a certain level of income would be issued ration cards with which they could buy food grains and certain protein food at a substantial price discount. The identification of participant families in such a distribution program is no easy task in a country of wide-spread poverty like India. But it is suggested that participation be limited to families that are not subject to income taxation in urban areas and to landless laboring families. Experience might suggest that participation would need to be limited further, but the above identifiable groups would seem to be a place to begin.

In the view of this writer the food price stabilization objective could be achieved through the release of supplies through private marketing channels in which competitive forces were relied upon to hold food prices at the stabilization price level objective. If this procedure were accepted, the "fair price shops" which are now used as the outlet for achieving both the stabilization and distribution objectives could be limited to the provision of food supplies to consumers with ration cards at a price discount. But if the view is accepted, which seems likely, that competition in the private trade cannot be depended upon to achieve the price stabilization objectives, then the fair price shops would need to remain the outlet through which the stocks were released to consumers to hold prices at the stabilization level.

In this event it is strongly recommended that a separate set of food shops, probably government operated shops, which might be called "food ration shops", should be established to distribute food supplies to low income consumers at a price discount. If the food shops undertaking these two different retailing roles are not separated in space and personnel it is likely that the distribution program will be confused with the stabilization program and that all sorts of inequitable and illegal acts would develop. In short, it is argued here that the program personnel and the food shops concerned with providing

low income consumers with food at special prices must be separated from the free market as cleanly as possible, if the distribution objective is to be achieved.

It should be recognized that the provision of food grains to vulnerable low income groups at a special subsidized price will increase the consumption of food grains on the part of these groups; this is the expressed purpose of the program. Stated differently the effective demand of the vulnerable low income group will be expanded by this type of program, hence increase the total demand for food grains relative to supply. This means that food prices in the non-subsidized sector of the market will be somewhat higher than without such a distribution program.

Since the Stabilization Stock operation has the responsibility for procuring food grains, storing them and releasing them into the market to achieve the price stabilization objective, it is suggested that this operation also provide the supplies to be released to the food ration shops to achieve the distribution objective. This is suggested for two reasons: first it would seem unwise to develop a duplicate food grain handling organization to acquire, store and provide stocks to the food ration shops; second, the opportunity to move food grain stocks through the food ration shops on a regular and continuous basis would make it possible to

turn over and freshen the grain supplies held in the Stabilization Stock. In other words, a continuous movement of the grain from the Stabilization Stock to the ration shops to achieve the distribution of objective provides an effective means of keeping grain supplies in the Stabilization Stock in good condition. Thus the pursuit of the distribution objective contributes to the achievement of an effective and rational stabilization stock policy.

This kind of distribution program would not, however, come cheap. If we are thinking about a program that reaches 25 per cent of the population of India,<sup>2/</sup> or 130 million people, for a daily per capita consumption rate of 15.6 ounces, where the subsidized price to the consumer is 75 per cent of retail wheat price of Rs.90 per quintal, the total cost of the subsidy runs to 470 crores per year. This is a very large program expenditure relative to the resources of the Government of India, and suggests the nature of the problem of dealing with poverty in a densely-populated, low-income country like

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<sup>2/</sup> It has been suggested by Raj Krishna that some 25 percent of the Indian population might fall into this vulnerable grouping, "Government Operations in Food Grains" Economic and Political Weekly, Vol.II, No.37, Sept. 16, 1967.

India. But some kind of a program to help the very poor improve their diets is needed and should become a part of the food policy of India. The coverage of such a program in terms of number of persons and the amount of subsidy per unit purchased are points to be decided upon after the relevant information has been carefully considered, as well as budget constraints, but it is clear that any food distribution program aimed at helping the very poor could easily run to a cost of 200 to 300 crore per year if it were to make any significant impact on the problem.

4. Concessional Import Policy: If the long run trend in the production of food grains outraces the long run trend in population growth, so that the per capita availability of food grain increases over the next two decades, both the Government of India and the Government of the United States should give thought to tapering off imports of food grains under concessional terms (i.e. PL-480). PL-480 imports have been invaluable in the past in buying time to enable India to increase food production, and they have been invaluable in meeting critical shortages arising out of drought conditions. But a production revolution is now occurring in food grains and 1967-68 has been an excellent crop year. In sum, the food situation has improved

dramatically, and if this improvement is sustained over the next two or three years, it is suggested that PL-480 imports in the future be limited to two situations.<sup>3/</sup> First, to assist the GOI to deal with extreme and widespread food shortages arising out of widespread drought such as in 1965-66. Second, to assist the Government of India to rebuild its Stabilization Stock quickly following an unforeseen drain upon it. In this view we would not expect concessional imports to continue on a regular basis on the level of 5, 6 or 7 million tons a year. On the contrary we would expect concessional imports to fluctuate widely - rising to perhaps 3 or 4 million tons in a year following a bad drought and dropping off to near zero in normal crop years.

The time has come for both India and the United States to reassess the concessional food import policy. The production developments in food grains, which are now taking place, give promise of pushing the out-turn of food grains ahead of population growth in the long run future; if this promise is fulfilled the continuous importation of large quantities of food grains under PL-480 would be a mistake for both countries. Continuous heavy imports under PL-480 would operate to depress farm prices and to dampen the Indian will to develop its agriculture, and it would lead Americans to a false notion of food needs in India. Thus, thought should be given to a new role for PL-480 imports in India.

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<sup>3/</sup> And a possible third use that will be discussed in the section on landless labor.

5. Role of the Food Corporation of India. The Food Corporation of India has gained a wide experience in the past three years acting as an agent of the Center and state governments. For example, it purchased over 17 lakh tons of food grains between the 1st of December 1967 and 1st of March 1968. But the FCI has failed to become the pre-eminent agent for acquiring, storing and distributing food grains on government account in India.

It has failed for a number of reasons which include the following: first the leadership in the Corporation has often taken a view that the Corporation should operate only where it is assured of making a profit; limiting its operations to those times and places, obviously limits its effectiveness in achieving the stabilization and distribution objectives described above. Second, the political-administrative argument for placing the responsibility for the production and distribution of food in the states, has on some occasions caused the FCI to be excluded from operating within a state and has on almost every occasion caused the operation of FCI to be at sufferance of the state. In other words, the FCI has been able to operate within state only at the invitation of the state and in accordance with the conditions laid down by the state. The FCI has not been able to operate as a giant balancing wheel in the Indian economy pouring food grain stocks in the market whenever and wherever they have been needed and

Department with the Chairman of the FCI reporting directly to the Food Secretary. But since the FCI will have a responsibility for stabilizing farm prices as well as food prices, and hence be deeply involved with agricultural policy as well as food policy, it is suggested here that the Chairman of the FCI report directly to the Minister of Food and Agriculture (or directly to a Secretary-General in the Ministry if that post should be created) with the recognition that the Chairman of the FCI would work closely with the Secretaries of the Food Department and the Agriculture Department in conducting the affairs of the FCI.

In other words, it is suggested that the operations of the FCI be made consistent with the policies developed in the Departments of Food and Agriculture, and that this consistency be achieved through close working arrangements with the Secretaries and those two Departments. But in this view the Chairman of the FCI would be administratively responsible to the Minister (or to a Secretary-General if such a post should come into being.)

This recommendation is not made to encumber the operations of the FCI with the dead hand of bureaucracy; it is made to create an operating agency with the capacity to execute the food management programs of the Center Government. In its new charter the FCI should be given the authority to hire experienced personnel directly from the private

trade to enable the organization to operate efficiently in the pursuit of its objectives.

6. Role of the Agricultural Prices Commission. As matters stand the role of the Agricultural Prices Commission is somewhat anomolous. To some the Agricultural Prices Commission is an independent body giving advice to the Center and state governments on agricultural prices. To others the Agricultural Prices Commission is a part of the Ministry of Food and Agriculture and reflects the views of that Ministry. In the view of this writer it would be desirable to define more clearly the role of this Commission and to widen its field of responsibility.

One approach to finding a clear and effective role might involve making the Agricultural Prices Commission an official unit of the Ministry. In this role the Commission would lose whatever independent status it has now and provide advice and counsel to the Minister and the Secretaries of the Food and Agriculture Departments. It might, for example, become the unit to prepare an Annual Food and Agricultural Plan, which will be discussed later. But there are numerous and varied jurisdictional and bureaucratic problems in folding the APC back into the Ministry. And there are at least two major reasons why APC should not be made an integral unit of the Ministry of Food and Agriculture.

First, if the Directorate of the Economics and Statistics is strengthened and performs more effectively, this Directorate should provide the confidential staff work required by the Minister and the Secretaries of the Food and Agriculture Departments. Certainly this will be true if the Economic Cell now being established within the Directorate to do policy oriented research and staff work becomes a viable unit.

Second, there is need for a prestigious, independent organization to review and appraise the Food and Agriculture policies of India and report these appraisals to the body politic. Thus it is the recommendation of this paper that the Prices Commission be made a completely independent agency -- independent in all respects of the Ministry of Food and Agriculture -- with the responsibility to review and assess all aspects of Food and Agriculture policy and report periodically to the Union Cabinet its findings and conclusions. In this position the Agricultural Prices Commission would not necessarily reflect the policy views of the Ministry of Food and Agriculture and it would not be limited to price questions; it would provide a periodic and independent assessment of Food and Agriculture policies and programs to the Cabinet and such assessments would be made available to the public in printed form.

7. Research and Resource Development. If the production increases brought about by the High Yielding Varieties program are to be sustained and widened, research and resource development in many areas of agricultural production must be strengthened in India. Three production areas come to mind in this connection:

- (1) all aspects of water management;
- (2) all aspects of plant protection; and
- (3) intensified research in high yielding varieties, especially in the coarse grains.

Close control of irrigation is a key factor in the success of the new agricultural technology. The high yielding varieties program has had its major impact in areas where irrigation facilities are well developed. Additional knowledge of the availability of water, desirable practices in the use of water, and the conservation of water is vitally needed if the gains in agricultural production of the past few years are to be sustained and extended. Water research is needed in all areas of the country, but one obvious example is a comprehensive, coordinated survey of the ground water resources of the Gangetic Plain. Another specific need is for research regarding the most economical water management practices for improved crop varieties. Steps toward getting this knowledge are being taken by the Government of India, but these steps are still small relative to the need for scientifically organized

data and information about the role of water in a technologically changing agriculture.

Once a body of scientific knowledge has been developed with regard to the availability of water resources and the management of those resources with regard to agronomic and economic criteria, there will be need for various kinds of public actions; these actions might range from regulations governing the spacing of tubewells to new authorities governing the distribution and allocation of water to public investments in power lines, canal systems and irrigation works. But before major new investments are made in providing water to farmers it is imperative that a body of scientific knowledge be built up to guide those investments.

The steps already taken toward a modern agriculture make research on all aspects of plant protection much more important than in traditional agriculture. A high yielding, close growing, crop provides a more hospitable environment to both insects and diseases, to say nothing of the food it provides for rats, birds and other pests. Presently unimportant insects which adapt well to the new varieties could become serious problems in several short years. This has happened in other countries and could easily happen in India where climatic conditions are favorable. Knowledge of specific means of combating these problems

must be generated to complement the development of new varieties. Besides strengthening research in plant protection, action must be taken to ensure the production of required chemicals and their proper distribution and utilization by farmers.

It must be recognized that only an active breeding program will ensure that varieties resistant to ever-adapting plant diseases will be available when needed. The Government has taken an important step in implementing the All-India Coordinated Rice Improvement Scheme, but similar programs for wheat, maize and the millets have yet to be approved, and the resulting delay means that the breeding work necessary to stay ahead of the plant diseases will be delayed.

The important breakthroughs in crop yields to date have occurred primarily in wheat and rice grown under conditions of effective water management. An active coordinated breeding program in rice and extensive wheat research give the promise of this continuing. However, only two varieties of jowar and one of bajra which give substantially higher yields on unirrigated land have been developed. The termination of the Project for Intensification of Regional Research on Cotton Oil-seeds and Millets, and the apparent reluctance of the Government to approved coordinated research projects for Jowar and Bajra mean that research funds for these important dry land crops have stopped flowing.

These programs must be approved because the development of crops and varieties that consistently yield more under dry land conditions is a vital need for the vast unirrigated farming tracts of India.

Research and resource development is the engine of a modern scientific agriculture. This has been abundantly demonstrated in India in the new varietal developments in wheat, rice, hybrid jowar and hybrid bajra. The pace of agricultural growth is closely tied to the new varieties, so the resources for development of the required varieties of all important food crops must be made available. And further developments in production to match those of the last few years are absolutely dependent upon the further development of plant protection techniques and materials and water resource management.

8. Marketing of Farm Products: The institutional organizations for marketing agricultural commodities in India are antiquated and obsolete. To the foreign observer, it seems highly unlikely that the obsolete marketing system will be capable of handling the surpluses that are likely to develop in wheat and rice in the better producing areas of India in the near future. This lack of capability for handling the greatly increased marketable surplus in the wheat and rice producing areas will be reflected first in low prices to farmers and second in increased wastage and spoilage. If the production gains of the past

few years are to be maintained and non-farm consumers are to reap the benefits of these gains, a marketing system which can effectively concentrate the products of millions of farmers, grade those products, storage them and distribute them in the cities must come into being; the ancient marketing system of India must be transformed into a modern one.

One step in the direction of a rational marketing system involves the elimination of the food zones so that farm products may move from surplus area to deficit area in the most economical manner rather than through bilateral trading arrangement between states. The second step in the development of a rational marketing system is the development of a Food Corporation capable of skimming off burdensome surpluses in the best producing areas, storing that grain in modern efficient structures, moving that grain in a rational low-cost pattern and marketing it in the chronically deficit areas.

But more is required here than improved governmental operations. Private marketing organizations with modern efficient structures and equipment, with adequate credit, and with far flung trading connections will be required to market the bulk of the crop. The time has come to stop maligning the private trade and to help it develop the physical and institutional organizations that are basic to an efficient marketing system. This means that technical assistance to the private

trade with regard to storage, movements and processing is in order; new sources of credit are required; and new institutions must be developed such as improved market news, all India grades and standards, regulated markets and so on. The time has come to stop dealing with private traders as if they were robbers and assist them in a manner comparable to the assistance given to cultivators, because it is almost certain that the bulk of the food grain will in future, as in the past, be handled by the private trade.

The question may be asked: How is the private trade to be policed so that it does not gouge the farmer on the one hand and consumer on the other. The best solution, the countries of the West have found, is competition. Again much, or most, of this competition must come from the private trade itself (i.e., from competition among the private traders).

But farm cooperatives can play a role in this connection. The introduction of and the maintenance of an effective cooperative marketing organization can provide competition to the private trade and guarantee that trade practices will be fair to both farmer and consumer, and hold rates of profit to a minimum. Thus, it is appropriate that the Center and the state governments continue to assist farmers in developing cooperative organizations to market their products. But in this connection the various governments

should guard against squandering large sums of money on the development of magnificent storage and processing structures when the associations lack the business "know-how" to operate them in a productive and efficient manner. Cooperative marketing associations should be fostered and supported but they should not become government pets on which scarce resources are dotingly spent.

The goal of governmental assistance to cooperative marketing organizations should be independent operating status at the earliest opportunity. Size is not the important consideration here. Independence of operation is the important objective. And, once a set of efficient independent cooperative marketing associations are in business and an efficient all India Food Corporation is in business, the private trade will be provided with sufficient competition to keep it honest and make it efficient. But inefficient and pampered cooperatives and an inefficient limited Food Corporation will not provide the competition that is required to keep the private trade honest and to make it efficient.

9. Agricultural savings, tax policy and development needs: Without improved farm management data, and income and expenditure data by size of farm, it is difficult to know what may be happening in India with regard to farm operator earnings and savings. But from guess estimates

and deductions on the part of this writer it would appear that, at present procurement prices for wheat and paddy, the larger farm operators must be making sizeable profits. It is hypothesized that those farmers operating 15 acres or more, who have adopted the new wheat and rice varieties and have reasonably good access to water, are making large profits and have the capability of making large savings. It is probably the case that most small farmers (i.e. those operating less than 15 acres) are not at present procurement prices making good net returns; in fact, the very small farmers may be having a difficult financial time because of the rising input prices. But the point to be made here is that some per centage of farm operators, perhaps 15 per cent, perhaps as much as 25 per cent, have in the past several years enjoyed very good net returns, hence represent an important source of saving to the Indian economy.

It is further generally recognized that taxation in agriculture, either via a land tax or income tax, is almost non-existent. Therefore, the various governments are doing nothing to capture the savings that must be flowing to the larger farmers. One solution to this problem would be to further lower procurement prices to farmers. But this seems unwise for at least three reasons. First, lower procurement prices would squeeze the small farmer badly and he for the most part is already in financial difficulty. Thus the majority of farm cultivators would be hurt by such a price policy. Second, the lowering of procurement prices and the reducing of net returns to the larger, more aggressive farmers would slow down the development process on these farms and slow down

the potential rate of growth in agricultural production. Third, a substantial flow of savings is being created at the present farm price level, and constitutes an important source of financial resources for use in development, if those resources could somehow be captured.

Thus the problem posed for those responsible for general economic development in India is -- How may the flow of savings on large farms at present product price levels be captured and used to support the development efforts of the economy? Perhaps the most effective means for capturing those financial resources would be to develop some sort of a development corporation, in which the farmers had confidence and to which they would loan their savings at acceptable rates of interest. This is one way and it should be explored. But as a matter of equity and of economic need it would seem proper for the Center and the state governments to levy a tax on agriculture to capture some part of the economic surplus that is being generated on the larger farms in India. Ideally, this tax should be income tax so as to miss the little farmer who is not prospering, and to capture the relatively large net returns going to the large farmer. But if an income tax is administratively impossible in agriculture, as some argue it is, let us suggest a graduated land tax in which tax rates per acre increase with the number of acres operated. This form of taxation has the further

advantage that it promotes production efficiency; all gains in productive efficiency, hence all gains in returns, once the tax has been levied are held by the operator.

It is not the purpose of this paper to discuss where the saving surplus extracted from the larger farmers should be invested in the development process, but it is well-known that the industrial sector of India has been growing at a slow rate in the past several years and that there is much under-employment and unemployment in that sector. Development policy would, thus, seem to dictate that these savings be captured and invested in the industrial sector to increase production and employment there.

10. The problem of the Small Farmer: The small farmer in India is in trouble. He is not sharing proportionately with the large farmer in the production revolution that is taking place in wheat, rice and maize production. Since he is not sharing in these production developments he is not increasing his productivity to any important degree, not improving his income position, and not contributing to a solution of the food problem in India. Further, since his productivity is not increasing significantly and the cost of all the new inputs, as well as land, are rising rapidly, the small farmer in India, as in most parts of the world, is being squeezed financially.

The small farmer is in trouble for a number of reasons. First and most important in view of this writer, he lacks the managerial experience and capability to operate successfully in the modern commercial and technological world of agriculture. A high degree of management skill is required to transform a farm from one based on traditional practices to one based upon modern scientific processes, and to undertake the commercial transactions for acquiring the new technologies and resources and for marketing the resulting product. The small farmer typically lacks the management skill to successfully carry out both of these undertakings.

Second the small farmer is confronted with a resource proportionality, or scale, problem which is not easily solved. A modern tractor or thrashing machine or tube-well is typically too large relative to the acreage of a small farm to combine into an efficient operation. A modern tractor or tube-well may need to be combined with 4 or 5 small farms to work into an efficient operation. In sum, modern units of agricultural technology are often too large, relative to the scale of operation of a small farmer, to be efficiently incorporated into his operation.

Third, the financial resources of the small farmer are extremely limited and hence restrict the small farmer in the acquisition of new inputs and new technologies. Further, as his financial condition deteriorates with rising factor prices the ability of the small farmer to adopt the new technologies and transform his farm into a modern operation is diminished. In sum, there are numerous forces working against the small farmer in the modern scientific-commercial setting, which must be overcome if he is not to be squeezed and squeezed and finally liquidated.

What all this means to this writer is the following: If the small farmer is to be saved through increased participation in the modern development process, the responsible agencies of the Center and state governments must find a way first to improve his management capability, second to resolve the resource scale problem and third, to make greater financial resources available to him.

This means that more development resources must be devoted to strengthening the managerial capabilities of the small farmers. This is a slow and costly process since it must involve the provision

of more and better general education on one hand and strengthening specialized technical and business assistance on the other. It can be done but the cost of providing the increased technical and business assistance at the farm level for millions of farmers will be large indeed, and upgrading general educational services is both slow and costly.

The resource proportionality, or scale, problem may be solved through either formal or informal cooperative action. A cooperative association might for example provide custom ploughing and custom harvesting for its small farmer members, or a private firm might undertake to provide these services for a group of small farmers. And perhaps an organizational arrangement could be established, with rules governing the allocation of water, whereby a number of small farmers might go together in the sinking of a tube-well for their joint use. Again the problem can be resolved, but an extra effort on the part of both government and farmers will be required to find the formula whereby large units of modern technology can be efficiently combined into the productive operations of a number of small farms.

Finally, at an additional cost additional credit resources can be made available to small farmers. The additional cost will involve two components: (1) the additional financial resources themselves to be extended to small farmers and (2) the additional administrative cost of providing technical supervision along with the credit.

The problem of the small farmer is not going to solve itself with the passage of time. The forces outlined above can only result in an intensification of the problem of the small farmer. Without massive applications of the kinds of assistance described above the small farmer is going to be squeezed and squeezed and ultimately liquidated in India as he has been and is being liquidated throughout the western world. Thus, a very great problem confronts the Center and the state governments of India with respect to the shape and structure of the agriculture in the future; and unless the governments and agencies concerned are willing to undertake massive efforts to help the small farmer confront the forces described above, the small farmer will fall farther and farther behind in the development race and ultimately lose out to the aggressive larger farmers. What all this means in terms of social problems, employment and social structure in a country such as India is beyond the comprehension of this writer.

11. The Problem of Landless Agricultural Labor: In some respects this is an extension of the small farmer problem, but it is more difficult because these people are mired so deeply in poverty and are so totally lacking in resources to extricate themselves. These are the poorest of the poor. Estimates of the number of landless agricultural workers vary widely, but a rough projection of 1961 census data yields a figure of some 30 million workers as of 1968, and a figure for workers and their dependents of 60 to 70 million persons. Further, if our analysis of the plight of the small farmer is correct the total number of landless labour (whatever the true figure may be) will be increasing in the years to come.

Wages rates for agricultural labor have increased modestly in some production areas, but in the main and to a more extreme degree than in the case of the small farmer, members of this group are not sharing in the gains of the production revolution in wheat, rice and maize. In other words, development activity in agricultural production is widening the income disparity between small farmers and landless laborers on one side and the larger, more aggressive farmers on the other. The gains in productivity, hence income, are so spectacular on the larger grain farms as compared with wage increases by agricultural labor that the income disparity between the two is widening rather than narrowing. As this disparity becomes more

evident and is dramatized, it is certain to lead to social upheavals in rural India. This conclusion is not based on an intimate knowledge of living and working conditions among landless agricultural laborers; it is based on the straightforward proposition that millions of poverty ridden people will not stand by and watch a relatively few persons living in close proximity become richer and richer and do nothing about it.

The only solution to this problem is an increased number of more productive non-farm jobs. If the private non-farm sector can provide these needed jobs, all well and good. But employment and output developments in the non-farm sector have not been reassuring in the past few years. Thus, it is suggested here that the GOI undertake really large scale public works programs of road building, dam building and irrigation works building to provide alternative and higher paying employment opportunities to landless laborers as well as the unemployed in urban areas. In part these large scale public works programs might be financed by PL 480 imports (this is a possible third use of PL 480 imports). PL 480 grains might be paid directly to workers on public works projects as a wage good as part of their wage; but a more acceptable procedure would probably involve the workers receiving a money wage which they would use in part to purchase grains supplied under PL 480. Either way, PL 480 imports could defray some 30 to 40 per cent of the costs of the projects.

The important point to be made here is the following: those persons living in rural areas that are being by-passed by the agricultural production revolution (i.e., the small farmers and the landless laborers) must be assisted by the Government. In the previous section we suggested ways to help the small farmer; in this section we suggested ways of helping the landless laborers. These, or other programs of equal effectiveness, must be undertaken, if the spectacular developments in agricultural production are not to lead to unrest, despair and possibly civil strife in the countryside.

12. Annual Food and Agricultural Plan: This idea grows in part out of the National Food Budget idea<sup>4/</sup> and in part out of the belief of this analyst that it is important for a developing country to take a careful look at its total food and agricultural position each year; look at each piece of the production and distribution puzzle; see how the many and varied pieces fit together; and perhaps re-design the entire puzzle if it fails to meet the development goals and requirements of the country. In other words, it is argued here that the production and the distribution goals of a country should be assessed against the resource and organizational availabilities in total, and by relevant segments, to ascertain whether those goals are attainable and at what cost in terms of resources and organization.

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<sup>4/</sup> See Report of the Food Grains Policy Committee, 1966, Ministry of Food and Agriculture, March 15, 1966, pages 26-30.

The development of an Annual Food and Agricultural Plan might proceed as follows: (1) set forth the food requirements for the nation by principal commodities, and geographic areas if the latter is relevant to the problem; (2) given the farm production coefficients, specify the resources required by principal category, to produce the bill of agricultural goods set forth in (1) above; (3) specify the organizational units and changes in organizational units required to produce and distribute the bill of goods set forth in (1) (we have in mind here such organizational units as the Food Corporation, credit cooperatives, private marketing organizations and research organizations); (4) take account of exports and imports, stock changes, and such deductions from the gross food supply as feed and seed requirements and spoilage and waste; (5) ascertain the budgetary cost and manpower requirements of (2) and (3); (6) ascertain the extent to which the above components in the annual plan are consistent with one another and are feasible from the point of view of the available resources; (7) review and revise the plan in an iterative process until the plan is internally consistent and physically and economically feasible.

The development of an Annual Food and Agricultural Plan would necessarily involve personnel and units from the Ministry of Food and Agriculture and the Planning Commission. The organization

for developing this plan might take one or two forms: (1) place the leadership for developing the Plan in the Planning Commission with assistance to be provided by the Ministry of Food and Agriculture or, (2) place the leadership for developing of the Plan in the Ministry of Food and Agriculture with assistance to be provided by the Planning Commission. There are advantages and disadvantages from both of these organizational arrangements, but the preference of this writer is for the latter arrangement in which leadership is centered in the Ministry of Food and Agriculture. This preference is based upon the belief that the Ministry should be in the best position with respect to solid facts and data to do short-run detailed planning, and the Commission is in the best position to do long-range inter-sectoral planning.

Two further points need to be made. First the Annual Food and Agricultural Plan should be developed prior to the annual budget of the Union Government that is presented to the Parliament, so that program features and cost elements of the Annual Plan could be incorporated into the Government's budget. Second, it is assumed here that the Annual Food and Agricultural Plan would be formulated within the general guidelines laid down by the Planning Commission in its long-run planning efforts.

III. Food and Agricultural Policy under Sustained Food Grain Surplus Conditions.

This is the happy situation for food policy and the difficult situation for agricultural policy. We are assuming in this situation that food grain production for all India will on a sustained basis outpace the growing demand for food grains, the per capita availability of food grains from domestic production will increase steadily, and that there will be some downward pressure on farm prices. More specifically we are assuming an annual rate of increase in production of 5 per cent or more. The extent of the downward pressure on farm prices will depend on policies adopted with regard to PL 480 imports; if those imports are tapered off sharply the downward pressure will evaporate; if they are tapered off slowly there should be a chronic downward pressure on prices. Until recently it made no sense to consider this possibility, but the production revolution in wheat and rice has changed the outlook radically. There is now some possibility, although certainly not a probability, that a chronic surplus condition could develop in food grains in India.

Given this situation it is reasonable to expect that the food zones would wither away since individual states would no longer feel compelled to scramble for short supplies, or build a wall around their surplus areas, in order to feed their own people. Thus, an

all India view point with regard to food policy and food management would be the probable result in this type of situation.

The need for a Stabilization Stock policy, however, would not wither away. Emphasis in the management of the Stabilization Stock would shift from one of food price stabilization to farm price support. If farm prices and incomes were to be protected and a rate of increase in food grain production sustained that exceeded the rate of growth in the demand, the Food Corporation would be required to enter the market year after year in the principal surplus areas to syphon off the price depressing surpluses and thereby stabilize farm prices. In this situation the Government of India would need to begin to think about developing export markets for its surplus grains, since it could not operate a stabilization policy indefinitely in which supplies flowed in but did not flow out. India in this situation would find herself in the same position as the United States, and would need to find ways and means of disposing of its surplus grains.

The development of chronic surplus conditions in India with regard to food grains would not, however, eliminate poverty. There would still remain millions of Indians within the incomes so low that they could not afford to purchase anything approaching an adequate diet. There would, therefore, remain a need for a sizeable

distribution program in which food grain supplies and possibly other protein foods were sold at a subsidized price to persons living in extreme poverty.

This kind of distribution program would provide one outlet for the stocks accumulated under the farm price support operations. Whether this form of domestic disposition would absorb the net inflow of food grains into the Stabilization Stocks from the price support operations would, of course, depend upon the size of the price support operation on the one hand and the size of the food distribution program on the other. In any event, there would remain a need for this kind of distribution program in the situation under consideration, and it nicely complements the stabilization program. In fact, the argument makes more sense turned around: the farm price stabilization programs in a chronic surplus situation would make it possible for the first time to significantly improve the diets of the very poor.

In this situation the need for concessional food grain imports would be reduced or eliminated, although there might be a question as to how quickly such imports should be phased out. And as indicated above the Government of India might in time find it necessary to consider the problem of concessional exports.

We have considered in this section the possibility of a chronic food grain surplus condition in India, because the production revolution in wheat and rice of the past two years gives this possibility some degree of realism. But if a situation develops in India in which food grain production outpaces on a sustained basis the growth in demand (compounded of income and population growth) it will only come about because the Government of India has committed the resources to the production of fertilizer and equipment, to research on new varieties and plant protection, to the provision and management of water resources, to the extension of credit, to the establishment of an efficient marketing system, and to the effectuation of incentive farm prices, and has developed the organizational structure in each of these subject areas that enables the production developments of the last two years to widen and encompass more and more farmers and to be sustained through time. In other words a chronic surplus condition in food grains is not going to come about in India through magic; it will only come about to the extent that the resources are committed and the organizations are fostered which can support this development. Thus the emphasis on agriculture production, marketing and research will not be lessened in this situation; on the contrary the situation will emerge only if efforts in these areas are expanded and made more effective.

The basic problem of the small farmer discussed in Section II will not be lessened under this situation. It is anticipated that the principal production developments which led to the surplus situation under consideration, occurred on the medium to larger farms and that the production and income gap between the larger farms and smaller farms will if anything have widened. Therefore all of the remedial measures discussed in Section II would need to be undertaken in this situation, if the basic position of the small farmer is to be improved. To repeat the production and income picture of the small farmer will not improve by itself; it will be improved only to the extent that the Government formulates and pursues a positive policy to aid the small farmer.

Similarly the economic position of landless labor will be improved only to the extent that government takes positive action to improve the lot of these people. With no action the relative income position of landless labor is likely to deteriorate under this situation.

#### IV. Food and Agricultural Policy under Chronic Food Grain Shortage Conditions.

Until very recently this is the situation that most observers felt would obtain in India for the next several decades and it is still a distinct possibility. If for example, India should pass through a long cycle of bad weather, and/or plant diseases should

overcome the new wheat and rice varieties, and/or the Indian government, Center and states, should fail to do all of those things that they must do with respect to providing fertilizer and machinery, research on new varieties and plant protection, water management, credit, marketing and price incentives then it could easily happen that India would continue to suffer under a situation chronic food grain shortages. What then should be the food and agricultural policy of India in such a situation?

Obviously, the first and foremost plank in the food and agricultural policy of India in such a situation must be the commitment of more resources to agricultural development and the further strengthening of those organizations responsible for achieving that development. This means, of course, the commitment of more resources to all those areas of agricultural production that have been enumerated several times in this paper, and a concentration on the development of more effective organizations to do the work. This is very obvious and it is the direction in which India has been trying to move for a long time, but if a chronic shortage situation develops it will be because all of these efforts have not been taken with sufficient vigor, sufficient resources and sufficient wisdom.

If it is the fate of India to continue to experience a chronic food grain shortage condition the Government of India should make every effort to deal with that condition on all India basis rather than on a balkanized basis where each state tries to solve its own problem. There are obvious surplus producing areas in India and there are obvious deficit areas and it should be the goal of the Government of India to facilitate the most efficient movement of grain from the surplus areas to the deficit areas. And an efficient movement of grains cannot be achieved through a system of bilateral trading arrangements.

All this is not to suggest that the Government of India through its agent, the Food Corporation, should not procure supplies for distribution where they are needed. But it is to suggest that the Government of India through its agent, the Food Corporation, should procure those supplies either through purchase operations in surplus districts, or through a national levy in which every farmer above a minimum size is required to sell to the Food Corporation an amount based on a formula of acres operated and the productivity of the area at an established national procurement price. This price should still represent an incentive price to producers. The supply so obtained in the domestic market together with supplies obtained from commercial and concessional imports should then be used for two purposes: (1) to stabilize prices to consumers in the free market in

the deficit areas and (2) to provide supplies to the very poor in all areas at a subsidized price.

It is recognized here that there will be a continuous need under chronic food grain shortage conditions to stabilize food prices to all consumers in the highly deficit areas and to provide food at a reduced price to the very poor wherever they may reside. But it is not the conclusion of this paper, that the procurement of such supplies and their distribution, is in any sense dependent upon the continued existence of food zones. On the contrary, it is the conclusion of this paper that the maintenance of such zones renders the procurement and distribution of food grain supplies by the Center government more difficult and more complex than would be the case without the zones. Smuggling must be combated, trading arrangements negotiated amongst the states, different systems of procurement and distribution harmonized and the adverse consequences of price disincentives in the surplus producing areas accepted when state food zones are in effect. All these disadvantages are accepted not to assist in procurement, but rather because the people within each state somehow believe that they can deal with their food problem most effectively in isolation. This might have been true in the days of the British Raj when the states were isolated and in part independent of one another, but it cannot be true with the economic inter-dependence that exists in the sub-continent today.

If it is the fate of India to live through another decade of continuous food shortage, this will have occurred either because of bad weather which is beyond the control of man; or because of a failure in the agricultural development process. If it is the latter then a way must be found to identify the points at which the breakdown is occurring, and the Annual Food and Agricultural Plan can be an effective instrument for doing this. The Annual Food and Agricultural Plan can be used first to identify the inhibitors to agricultural development and second to specify the resources required in the organizational arrangements to achieve the required rates of growth in agricultural production. Thus, if India is to suffer through a long-period of food shortages after the dramatic breakthroughs in agricultural production of the past two years, the device of the Annual Food and Agricultural Plan should prove exceedingly helpful first in understanding the reasons for the development failure, and second for taking corrective action.

V. Food and Agricultural Policy under Food Grain Surplus - Shortage Gyration.

This is the situation which seems most likely to be realized during the next decade. The production developments in wheat and in rice are likely to provide a forward thrust in the output of food grains that on a trend basis will increase the per capita availability

of food grain in the long run. But this forward thrust will be interrupted and halted from time to time by unfavorable monsoons and by disease attacks on the new varieties of wheat and rice. Further, these interruptions in the expansion in the production of food grains are not likely to fall in cyclical or regular pattern -- on the contrary they are likely to be completely non-predictable. Thus, what seems most probable for India during the next decade is a significant expansion in food grain production interrupted from time to time by short crops.

If the above formulation of future developments in food grain production is a correct one, the first objective of agriculture policy should be that of finding a way of combating the non-predictable short-falls in production resulting from disease and monsoon inadequacies. Since the weather will not be controlled by men for many years to come, a substitute must be found for an unfavorable monsoon. This means that more and more resources must be allocated to the provision of irrigation water under controlled conditions. These resources should be concerned first with research into the availability of water supplies, management of those water supplies and the conserving of those water supplies. Following an effective research program into the whole question of water, more and more resources must be invested in the development and distribution of

of water supplies. In short, the instability in the agricultural production resulting from uneven monsoons must be combated through the increased supply of irrigation water and the improved management of those waters.

In the case of plant diseases, these too must be combated first through more and better research and second through the provision of plant protection material to farmers. These efforts are under way now in India but increased attention must be given to the whole area of plant protection if the incidence of plant diseases is to be avoided. Along with research in plant protection must come an increased emphasis on the development of new varieties which are more drought resistant and yield more consistently under dry land conditions.

But even with the best efforts to combat unfavorable monsoon conditions and disease attacks, some instability in production will remain. To deal with this instability phenomenon, the Stabilization Stock policy must be pursued in a vigorous and aggressive manner.

This means that the Government of India must develop a flexible Stabilization Stock policy in which it can move quickly into an area with a production glut, take over the burdensome surplus and support prices to farmers. And it must be able to move quickly into deficit areas and provide supplies for an indefinite period to keep consumer

food prices from rising sharply. In each case it must have the organization, the physical handling facilities and the financial resources to move quickly with little advance warning and operate over an indefinite period. Without this capability the Government of India cannot hope to deal with the food supply problems and the farm price problems that are likely to occur in any year in the next decade. There is, for example, such a farm price problem at the doorstep of the Government of India in the Punjab and Harayana in the spring of 1968. There will be other such situations arising on the farm production side in the years to come. And the desperate times that followed the very bad crop in 1965-66 do not need to be recounted here. Tolerable solutions to these unpredictable shortage-surplus situations will be found only to the extent that a Stabilization Stock program is in operation with the requisite capacity and the purpose and the flexibility to stay ahead of the problems.

In short and in sum, the first requirement for achieving a successful food management program must be a Stabilization Stock policy with an overall capacity of 5 to 6 million tons. And we certainly do not have in mind a policy in which those 5 to 6 million tons are held under lock and key at all times. On the contrary, we have in mind a policy in which all 5 to 6 million tons might be thrown into the market in one year, with the recognition that the stock must be built up in the

quickest possible time in order to meet a second food deficit year.

In a different direction, the Stabilization Stock may need to increase above 5 to 6 million tons in a particular year as the GOI moves to protect farm prices and incomes in a year of bumper crops.

In the kind of situation envisaged here concessional imports would continue to play an important role, but as a kind of second line of defense role. Concessional imports will be needed desperately from time to time, first to assist in rebuilding the Stabilization Stock in the quickest possible time and second in combating hunger and famine whenever the full resources of the Stabilization Stock of the Government of India are unable to cope with the short-fall resulting from a drought of the severity, for example, of that of 1965-66. The Government of India will not be able to avoid the use of concessional imports until first it has been able to dampen down the magnitude of its crop production fluctuation and second can afford a Stabilization Stock program that is perhaps twice the size of that suggested here.

The agent of the Government of India in executing the Stabilization Stock policy outlined above should be the Food Corporation. But to play the role required by such a policy, the Food Corporation must first grow into an all India operation and second recognize that it

is the agent through which the Government must work to achieve its dual stabilization objectives. The Food Corporation thus has a major and new role to play in the execution of the stabilization objectives described in this paper.

There will exist a need in this situation, as in the other two alternative situations, for a distribution policy and program for assisting the very poor to increase their food consumption and improve their diets. A program to combat mal-nutrition and mal-nourishment among those people living in extreme poverty is as important to the welfare goals of Indian society as overall food price stabilization, and should be viewed as a necessary component of Indian food management policy. Without it the food consumption requirements of this vulnerable group cannot be assured, as the nation pursues a farm price policy designed to increase agricultural production (i.e., a reasonably high farm price policy).

The stresses of market shortages and market surpluses will not fall upon the Food Corporation alone. A part of these stresses will fall upon the regular marketing system -- the private trade. If prices are to be evened out over time to the farmer and evened out over time to the consumer and surplus products are to be moved efficiently from surplus producing areas to deficit areas the private trade must play an important role in the process. Therefore, once again we

contend that the Government must provide technical assistance to the private trade, credit resources, and an economic climate of some friendliness in order to help the private trade transform itself from an obsolete, antiquated system into a modern system making use of modern technology and commercial practices. An economy that is increasingly urban, wherein farm products must move long distances through space, be processed and packaged, be carried long periods through time, and meet new and necessary health and sanitation requirements, must have an efficient private marketing system to do all these things; the Food Corporation at best can only expect to move and handle a marginal amount of the total crop. Thus the evolving, developing urban economy and crop production instability both demand an efficient marketing system if the farmer is to benefit on one hand from his increased productivity and the consumer is to benefit on the other.

All of the arguments with respect to the elimination of food zones discussed in the previous section hold in the context of the present discussion. Further, it should be easier to eliminate the zones in a situation where first the long run trend in production is such that per capita availabilities of food grains are increasing and second marketable surpluses come into being in at least part of the years.

But the Center government should provide the firm and creative leadership wherein individual states do not slip back into the establishment of zones around themselves, every time that they are confronted with a surplus or shortage situation. The Center Government should in this situation do its utmost to convert India into the free trade area with regard to food production and distribution.

In summary, the efforts of the Government of India in the surplus-shortage gyrating situation under consideration must first be directed to dampening down those gyrations by combating the causes of the shortages, and second be directed toward evening out available supplies throughout the uncertain period of gyration. The efforts in the first direction are obvious, but they must be prosecuted with increased vigor and wisdom if they are to cope with potential short-falls in production in the next decade. The efforts in the second direction are less obvious, more complex and more controversial. But if the food management efforts of the Government of India are to meet with success and farm prices and incomes are to provide an incentive to increase production, the Government of India must pursue the kinds of food and agricultural policies outlined above or ones that are equally effective.

## VI. Conclusion

Much that has been said in this paper is old and has been said before. In a few cases the arguments have been given a new twist. And certain component pieces of food and agricultural policy have been revised modestly and packaged in a somewhat new form. But the emphasis of the paper has been on organization -- on increasing the effectiveness of organizations concerned with food management and agricultural development, and this is certainly old hat.

But the over-riding problem of India in the broad area of food management and agricultural development is organization -- is the establishment of organizations that perform efficiently and effectively. Thus, this writer felt compelled to once again stress the need for improved performance on the part of organizations. To provide substance on one hand and avoid pure exhortation on the other, an attempt is made in this paper to contribute to an improvement in organizational performance by defining policy goals more clearly, indicating the inter-relations of policies and programs and then relating policies, programs and organizations to alternative developmental situations. But in the last analysis, the paper is once again a plea to ignore dogma and form in the establishment of organizations, and to concentrate first on setting forth clearly and boldly the policy goal or objective to be accomplished and second building the

capability in the responsible organization for reaching the specific goal or objective.

WWC/mb/ss

~~CONFIDENTIAL~~

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MEMORANDUM

March 19, 1968

TO: Mr. E. K. Hamilton  
The White House

FROM: Douglas Heck, NEA/INC

*HH*

The attached letter from Tony Quainton in New Delhi throws additional interesting light on the discussion we have been having about Indo-Pak affairs and Kashmir. Tony served in Pindi before his present assignment in Delhi and I respect his judgment on this subject.

It occurs to me that Mr. Rostow might be interested in this letter.

Attachment:

Copy of letter from Anthony Quainton to Thomas Thornton dated 3/7/68.

~~CONFIDENTIAL~~

DECLASSIFIED  
E.O. 12958, Sec. 3.5  
State Dept. Guidelines  
By *pc*, NARA, Date *7-16-02*

New Delhi, India

DIT  
CSC #  
NBS

March 7, 1968

OFFICIAL-INFORMAL

Thomas P. Thornton, Esquire  
Chief, South Asia Division  
RNA/SOA  
Department of State  
Washington, D.C. 20520

Dear Tom:

I have read with great interest the Department's Intelligence Note-146 on the Rann of Kutch Award. I find on reviewing the events of the last two weeks that I come out with a rather more optimistic assessment of the impact of the award on Indo-Pak relations. Both in the Intelligence Note and in the February 28 issue of Current Foreign Relations, the Department has put itself on record as believing that there has been a distinct hardening of the GOI's position on outstanding Indo-Pak issues and that resentment against the award is likely to make it more difficult for the GOI to take forthcoming positions on these pending problems.

What has struck me about the recent agitation and debate on the Kutch Award is the relative absence of stridently anti-Pakistani feeling. I have attended several of the Kutch debates and have read the newspaper reports carefully and I would say one of the most noteworthy features of the debates was the positive attitudes adopted by speakers towards Pakistan. Even opposition members took the occasion of the debate to express their desire for better relations, though at the same

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E.O. 12958, Sec. 3.5  
State Dept. Guidelines  
By jc, NARA, Date 7-16-02

time strongly opposing what they believe to be the Congress Government's tendency to purchase friendship through appeasement. On the other hand, Government leaders, particularly Mrs. Gandhi and Morarji, in justifying acceptance of the award have spoken out about the need for improved relations, about the impossibility of perpetual hostility and about the firm acceptance by India of Pakistan's right to exist. Chavan said very much the same, though his speech did bow in the direction of the chauvinist lobby by saying that India in pursuing a policy of flexible response would not hesitate to fight Pakistan's subversive activities with subversion if that was required. In general, Congress did not seem to feel obliged to take a hard line towards Pakistan because of emotional attacks from the opposition.

From all that we have been able to gather from Indian officials, they remain as committed as ever to the resolution of outstanding issues, and I have no doubt that on such subjects as aviation, trade, border crossings or telecommunications there will be no diminution in their efforts to press on towards accommodation with Pakistan.

Kashmir, however, is another kettle of fish. What the Kutch Award has done is to make it virtually certain that the Government of India would never refer the issue to international arbitration. All government leaders have acknowledged in recent weeks that one of the lessons for India of the Kutch Tribunal's Award was that international forums can not be trusted to judge issues strictly on their merits. India has, of course, never been enthusiastic about the internationalization of the Kashmir dispute, and the Kutch Award has confirmed this view. I do not agree, however, that the Kutch Award has necessarily exacerbated the climate of opinion to a point where greater autonomy within the Indian Union will be buried for a long time to come. The Kashmir issue in this context is not linked with Kutch, and I think that the Government will want to stick with Mrs. Gandhi's formula that within the framework of the Indian Constitution there are "many possibilities." If the Sheikh and his followers were to show

any enthusiasm for a solution based on an autonomous arrangement with India, I can not believe that the GOI would reject it out of hand. A great number and wide variety of people in India are anxious to see the Kashmir issue resolved and autonomy offers a basis which is acceptable and which indeed has already been offered to others (i.e. the Nagas) in the past.

In only one area can I conceive of the Kutch Award getting in the way of a possible development in Indo-Pak relations and that is in the context of the Eastern Waters problem. The two countries have agreed to an experts meeting in late April or early May on the Farakka Barrage. Washington's thinking seems to be that this should be followed by some sort of international initiative, perhaps through the World Bank to get ministerial level talks going, but ultimately with a view to some outside agency offering its services in carrying out a survey of the water resources requirements of the Ganges/Brahmaputra basin. The Government of India will, I think, now be even more reluctant to have a third party involve itself in this problem than it was in the past, and we were not very optimistic about the acceptability of an international presence even before the Kutch Award was announced.

All this is to say that the picture is perhaps not as bleak as recent departmental pronouncements suggest.

With best wishes,

Sincerely,


Anthony C. E. Quainton  
Second Secretary

CC:Department of State - NEA/INC  
American Embassy - Rawalpindi

~~CONFIDENTIAL~~

1739  
MEMORANDUM FOR: The Honorable  
Walt W. Rostow ← *J.P.*

Attached in response to your request  
last Friday is a review of the evidence of  
cooperation between India and Pakistan.

25X1A 

R. J. Smith  
DDI

27 May 1968  

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 (DATE)

FORM NO. 101 REPLACES FORM 10-101  
1 AUG 54 WHICH MAY BE USED.

(47)

SANITIZED

Authority NLT027-002-41  
By *J.P.*, NARA, Date 3/17/02

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No. 0689/68

CENTRAL INTELLIGENCE AGENCY  
Directorate of Intelligence  
27 May 1968

INTELLIGENCE MEMORANDUM

Indo-Pakistani Cooperation Since the September 1965 War

Summary

When a UN resolution brought an end to the war of September 1965, India and Pakistan each occupied parts of the other's territory, and trade, communications, and diplomatic relations had all been disrupted. Under the auspices of the Soviet Union, President Ayub Khan and Prime Minister Shastri met at Tashkent in January 1966 and agreed to a series of measures designed to begin the process of restoring normal relations. The list of actual Indo-Pakistani accomplishments since then is small, concerns relatively minor issues, and in many instances represents only qualified success. More numerous and important is the wide array of outstanding issues still to be resolved through a spirit of mutual cooperation. To a considerable extent the long-standing and bitter dispute over the status of Kashmir continues to poison the diplomatic atmosphere.

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Authority NLJ 027-002-4-1  
By [Signature], NARA, Date 3/17/02

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ROSTOW'S OFFICE

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1968 MAY 27 PM 2 31

to discuss the following information  
and other matters of interest concerning  
operation. It is requested that you  
advise us of any changes in the  
information in the above mentioned  
reference and any other information  
which may be of interest to you.  
The information in the above  
mentioned reference is being  
provided to you for your  
information and use. It is  
requested that you advise us  
of any changes in the  
information in the above  
mentioned reference and any  
other information which may  
be of interest to you.

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INFORMATION CONCERNING THE OPERATION OF THE

INTELLIGENCE MEMORANDUM

31 MAY 1968  
DISCUSSION OF INTELLIGENCE  
CURRENT INTELLIGENCE SERVICE

NO 0000/00

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Background

1. Until the outbreak of hostilities between India and Pakistan in September 1965, economic and political relations between these two neighboring states functioned largely within the over-all framework of normal diplomatic and commercial practice. Enmity, suspicion, fear, and hostility accumulated over 18 years of bitter controversy about Kashmir distorted day-to-day relations, but there remained real, if diminishing, willingness to maintain those ties of trade, travel, and communication which had existed since the partition of the subcontinent in 1947.

2. The September 1965 war, however, destroyed virtually all these links and they have only been in part restored. Trade and payments came to a halt, telecommunications and postal services were suspended, property belonging to the nationals of the other country was seized, and air, trains, and road services were cut off. When a UN resolution brought an end to the three weeks of warfare, both states were in occupation of small portions of the other's territory.

Accomplishments

3. Since the hostilities there has been a small measure of progress on a number of minor issues, although the sum total represents only the minimum necessary to maintain meaningful bilateral relations. There have been no dramatic breakthroughs and none appear to be in sight in the foreseeable future. The fundamental dispute over the status of Kashmir remains unresolved and there is no indication of a basic modification of either Indian or Pakistani views.

4. What progress there has been appears to stem mainly from the impetus of the January 1966 Tashkent meeting where, under the auspices of the Soviet Union, President Ayub Khan of Pakistan and Indian Prime Minister Shastri agreed to a series of measures designed to begin the process of restoring normal relations. The most important measures agreed to at Tashkent were: troop withdrawals to positions held prior to infiltration by the Pakistani forces; return of the high commissioners (ambassadors) to

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their posts; discouragement of propaganda; consideration of means to restore economic, trade, and cultural relations and communications; discussion of the return of property and assets; and the continuation of meetings at all levels on matters of direct concern to both countries.

5. Both states quickly implemented the more immediate provisions that were obviously mutually beneficial: troop withdrawal, repatriation of prisoners, and the resumption of correct diplomatic relations. The ban on propaganda, however, soon broke down. More important, however, the "spirit of Tashkent" suffered a severe blow at the first post-war Indo-Pakistani ministerial meeting in March 1966, when the Pakistanis refused to study lesser issues unless the Indians concurrently showed some flexibility on the Kashmir issue. The Indians replied that popular emotions in India prohibited any concessions on Kashmir, and that minor problems should be tackled first to provide a more favorable climate. In the end all that could be agreed on was that further discussion of specific matters should be handled on the diplomatic level by the high commissioners.

6. Since that time some progress has been made on a number of minor subjects, but this has not been important enough to improve substantially the overall diplomatic atmosphere. In the commercial sphere, the two governments have agreed to overflights by commercial aircraft, telecommunications and postal services have been progressively restored, and pension payments to officials who had migrated since 1947 have been resumed. Some of the ships and cargoes seized during the war have been released after considerable pressure from countries supplying aid to both India and Pakistan. In the military sphere, army commanders from both sides have met several times to discuss measures to prevent minor border incidents from becoming major issues. To this end they have established a "hot line" between the army commands and agreed to give each other advanced notice of troop movements along the border. An arrangement has also been made for twice monthly overflights of military transport aircraft--the Indians, flying aircraft to the USSR for servicing, and the Pakistanis flying between Egypt and West Pakistan.

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7. There has also been movement on two problems not directly related to the 1965 war--the Rann of Kutch dispute, and, to a lesser degree, the division of water resources flowing through both states. The Rann of Kutch tribunal--set up by Indo-Pakistani agreement in the spring of 1965 to arbitrate the dispute which had led to limited military clashes in early 1965--handed down last February a decision more favorable to Pakistan. New Delhi initially hesitated in clearly stating its acceptance of this "compulsory" award, but ultimately publicly said it is binding. The Pakistanis, relatively satisfied with the results, scored propaganda points by immediately accepting the tribunal's decision. Implementation of the award has thus far gone smoothly, but nationalist agitation within India combined with the unfavorable decision will make New Delhi very reluctant to submit other disputes with Pakistan to arbitration.

8. The water resources of the Indus, Ganges, and Brahmaputra river systems have long been the source of conflict between India and Pakistan. Pakistan as the lower riparian has often regarded itself as the aggrieved party, and the Indians have generally been slow to accommodate even legitimate grievances. In the case of the Indus basin, a final settlement of the water resources was made in the 1960 IBRD-sponsored Indus Basin agreement. Despite fluctuations in Indo-Pakistani relations since then, the treaty has been operating without major problems. In September 1965 there was some shortfall in the supply of water from India to Pakistan, and this problem is still being discussed in the meetings of the two Indus Commissioners. The shortfall was a direct result of the hostilities, which were taking place in the vicinity of the distribution system through which the water was provided. Otherwise the scheme has continued to work fairly smoothly. The personal relations between the commissioners is good, and several special inspections have been made in accordance with the agreement. Security considerations have inhibited inspections close to the borders on both sides, but in general the commissioners have been free to carry out their work.

9. On the eastern side of the subcontinent, the problems of reconciling competing claims for the waters of the Ganges are yet to be resolved. India



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is building a low dam at Farakka on the Ganges just above the East Pakistan border. This dam is designed to divert part of the river's flow into the Hooghly, a tributary flowing south past Calcutta to the Bay of Bengal. The aim is to flush out the silting port area of Calcutta and to reduce the salinity of the Hooghly, a prime source of Calcutta's water supply. Pakistan has long maintained that the dam would prevent a substantial amount of water from reaching the lower arms of the Ganges in East Pakistan during the fall dry season and thus seriously endanger rice and jute crops. Moreover, the reduced water supply would probably make impossible for East Pakistan to develop its resources in accordance with plans drawn up--at the request of Pakistan--by the US-based International Engineering Company. The Pakistanis claim that about 13 million East Pakistanis and four million acres of land will be adversely affected if India completes Farakka by 1971 or 1972 as planned. Hydrological information is not adequate to judge to what extent the Pakistanis' fears are justified.

10. Discussions about the dam took place before the 1965 war and recently were picked up again on the technical level. These talks ended on 24 May 1968 and, according to fragmentary reports, not much was accomplished. Recently the Indians have privately charged that the Pakistanis may be trying to build up Farakka into a major political issue to create an emotional response in East Pakistan similar to that evoked in West Pakistan over Kashmir. India is the upper riparian and status quo power and there is little pressure on New Delhi to work for a cooperative water resources development of the Ganges and Brahmaputra river systems. Only in Tripura and Assam, where Indian local governments are concerned about Pakistani bunds, embankments and dams, does India appear to stand to gain much from cooperative development.

#### Failures

11. The limited progress made on minor issues falls considerably short of even restoring Indo-Pakistani relations to their pre-war level. A host of problems relating to transit facilities, trade, travel, and seized property are still to be resolved. Moreover, no progress has been made or even appears likely in the foreseeable future on the more fundamental issues of limiting the Indo-Pakistani arms race and of resolving the disputed status of Kashmir.

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12. The 1965 war resulted in a complete ban on trade by both countries. Although India removed its prohibition on trade in May 1966, Pakistan still refuses to trade directly. The two economies have increasingly learned how to live in isolation from one another, and Pakistan in particular appears content to obtain from third countries the products, such as coal and engineering goods, which it once got from India. Pakistan's apparent willingness to accept the trade status quo may also be strengthened by the fact that substantial amounts of fish, jute, and raw cotton continue to find markets in India through illegal trade channels and via third countries. The devaluation of the Indian rupee in June 1966, which would make most Pakistani manufactured goods prohibitively expensive in the Indian market, is a further barrier to reopening trade. The Pakistanis have also publicly indicated that political riders may be attached to any renewal of trade agreements, a condition that the Indians would probably find unacceptable.

13. Transit facilities between the two countries continue to be very limited. Commercial overflights are now allowed, but talks on the resumption of direct air services by the respective national airlines have been bogged down for some time. Pakistan originally expressed a willingness to discuss this issue simultaneously with communications, but India insisted that such talks should be linked to the reopening of transit by road, water, and rail. A further complicating factor is India's demand that restitution be made for Indian Airlines property seized in Karachi, Lahore, and Dacca. The negotiations apparently are still technically continuing but seem to be stalemated in fact.

14. Road and river transit is also still suspended, although some illegal traffic goes on. The reopening of river traffic is complicated by the fact that a substantial portion of India's inland barges and ships were seized in East Pakistan during the war. Substantial damage to the economy of India's Assam State--in which formerly shipped most of its important export products to Calcutta via the East Pakistan river system--has been avoided, however, by special freight subsidies. The road transit issue is linked to both the resumption of trade and travel restrictions. The only minor breakthrough in this area is the Pakistani decision to allow exports from Afghanistan--mainly fruit--to transit

West Pakistan en route to India, although India still cannot ship overland to Afghanistan.

15. There has been a gradual resumption of travel between the two countries, although it is still considerably below the pre-1965 levels. At least two border checkpoints have been established and gradually opened to anyone except tourists from India and Pakistan. Pilgrimage travel is allowed by both countries, but such groups are carefully watched and are free only to visit approved areas. Travel between the enclaves in East Pakistan and India's West Bengal and the respective mainlands is still prohibited. This is a constant source of friction and border incidents, and both sides are equally obstructive.

16. Progress toward settling conflicting claims over seized cargo and assets has largely been limited to the return of virtually all available seized cargo. Agreement has not been reached on the payment of compensation for cargo consumed or damaged or in most cases even on the specific items involved. Private and public claims to assets seized during the war have not even begun to be settled. Both governments have shown little inclination to resolve these large and complex financial problems.

#### Prospects

17. The immediate prospects for meaningful cooperation between India and Pakistan are dim. Agreements on relatively minor points concerning limited problems may be reached periodically--provided they are mutually advantageous--but no dramatic breakthroughs seem possible in the foreseeable future. Neither side appears in a rush to return even to the strained relationship that existed prior to the 1965 war, much less to go beyond that. At the heart of this situation is the longstanding and extremely bitter dispute over Kashmir.

18. India has steadfastly held to its position affirming the legality of the 1947 accession of Jammu and Kashmir to India, formally made by Kashmir's Hindu maharaja. Since 1956, New Delhi also has maintained that it no longer considers itself bound to conduct a plebiscite in Kashmir, despite UN resolutions--that it once accepted--calling for such a

vote. The Indians assert that the demilitarization of Kashmir--another element of the resolutions--has never taken place. The Indians hasten to point out, however, that four "free" elections have been held in their part of Kashmir, thus giving the Kashmiris ample occasion to express their will. Actually, strong-arm tactics and legal maneuvering have governed the outcome of all four elections. Buttressing these legalistic points is the fact that ever since the 1949 cease-fire, India has held the lion's share of Kashmir, including the desirable Vale, and has had the military muscle to maintain possession. Over the years, India has gradually integrated its portion of Kashmir into the Indian Union and has also provided the state with considerable financial assistance.

19. Whatever the arguments that New Delhi dredges up to justify its position on Kashmir--and they vary according to circumstances--domestic considerations lie behind all of them. Strong and growing Indian nationalist sentiment opposes any settlement with Pakistan that would involve compromise. Mrs. Gandhi and the Congress Party bosses are well aware that too many concessions to Pakistan could bring their downfall.

20. Pakistan's position from the beginning has been based primarily on extending to Kashmir the principle of religious separation underlying the 1947 partition of the subcontinent. Pakistanis argue that the people of Kashmir, who are predominantly Muslim, should have a free opportunity to incorporate their land into Pakistan if they want. Pakistan's argument is not altogether altruistic. If so predominantly a Muslim area were to remain in the Indian Union, the principle behind the original partition would be undermined. Moreover, as in India, no government in Pakistan could entirely abandon a strong stand on Kashmir and survive, especially since the 1965 war.

21. Symptomatic of the strong animosities perpetuated by over twenty years of conflict over Kashmir is the arms race that drains the two countries' capacity for economic development. India continues with its ambitious plans to modernize and strengthen its armed forces, on the grounds that it must not only contend with Communist China but also with a

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hostile Pakistan. Pakistan, in turn, is determined to keep pace by improving the ratio of Pakistani to Indian ground forces and by drawing down on its dwindling foreign exchange reserves to purchase tanks and airplanes.

22. Despite this race, it is highly unlikely that either side is actually contemplating starting another war, although each accuses the other of nefarious intentions. Pakistan, if nothing else, appears to have learned a military lesson in 1965, and will not be eager soon to precipitate another conflict. India, reasonably satisfied with the status quo, has even less reason to resume hostilities than to rush to settlement, since military action would only draw the Chinese and Pakistanis closer together.





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THE WHITE HOUSE  
WASHINGTON  
Wednesday, May 22, 1968

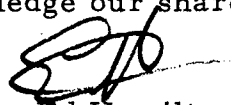
Walt:

Attached is a debt relief package for India which is ready to be blessed by the donors in the Consortium meeting beginning tomorrow.

The President approved negotiation of such a package in March. The result does not fully meet all the objectives established, but I think it is much better than most people expected. The Gaud memo goes through the reasons; you will want to read through it.

The U. S. share of this \$100 million package is less than \$9 million -- below the President's usual cut-off on Presidential review of AID loans. Since the package is so close to what he approved in March and the U. S. amount so small, I doubt that it's necessary for him to wade through the problem again. But I leave that decision to you.

I recommend we signal AID to tell the Bank we accept this package and pledge our share.



Ed Hamilton

LIMITED OFFICIAL USE

DEPARTMENT OF STATE

AGENCY FOR INTERNATIONAL DEVELOPMENT

WASHINGTON

MAY 21 1968

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OFFICE OF  
THE ADMINISTRATOR

MEMORANDUM FOR Mr. W. W. Rostow  
Special Assistant, The White House

SUBJECT: Indian Debt Relief

The World Bank has called for debt relief action, as all members now have offers on the table. We will be expected to decide by the upcoming Consortium meeting May 23.

On March 4, the President authorized our participation in this exercise with three primary objectives:

- getting acceptance of discriminatory relief, with the largest share assumed by those whose past aid was on the poorest terms.
- a target of \$100 million a year of relief for India, with, per above, our share under 9%, i.e., \$8.7 million due on 1951 wheat loan.
- an equivalent, high quality of relief by all on better terms than previously provided by harder-term donors.

The first two of these objectives are achieved by the offers now in hand. The third -- quality of relief -- is partially achieved. In addition to the U.S., the UK, Netherlands, Canada and Austria offer quality at or better than the target. Germany and Belgium offer quality close to the target. France, Italy and Japan offer lesser quality, but the French and Italian offers are on better terms than their normal aid, and Japan's offer is as good as its present aid and is on much better terms than the loans to be rescheduled.

Tab A gives the annual relief shares offered and an estimate of the relative quality of terms offered. Tab B is the draft report of the March 4-5 Consortium meeting and gives the terms offered by members other than Italy and Japan. Tab C gives the improved offers by Italy and Japan and communicates the World Bank conclusion that these offers are acceptable and its recommendation that the Consortium act swiftly.

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- 2 -

We also were directed to ask Indian agreement: (a) to seek parallel relief from other creditors including the Bloc, and (b) to prudent limitation on future acceptance of supplier credits. These objectives are shared by the Consortium, and Indian acceptance of them will be a condition precedent to debt relief action.

We also sought commitment by others that debt relief be additional to normal Consortium shares. With the possible, partial exception of Canada, all others reject this request. Even though our share last year was below our historic norm and since this is likely to be the case this coming year, we do not necessarily need to be bound by this "norm". We look upon the present action as part of our continuing effort to get other Consortium members to take on a larger share of the burden with a corresponding decrease in ours.

Our main options are: (a) reject participation since all objectives not secured, (b) participate but lower the quality of the U.S. offer because of the quality offered by some (c) participate with firm commitment only for one of the three years so that further pressure can be put on the others in subsequent years, and (d) participation for the full three years on the basis of present offers despite the fact that some are of lesser quality.

I believe the substantial progress toward achievement of our objectives is within the policy range defined earlier by the President. Accordingly, I recommend we participate as in (c) above for these reasons:

- the de facto recognition of discriminatory relief is a valuable precedent. All of the others, compared to the U.S., will give a higher proportion of their normal aid share as relief in the form of free foreign exchange. Four - Germany, Japan, UK and the World Bank - will provide a greater absolute amount than our share.
- the \$100 million relief, being in free-flowing form, will help counterbalance reduced total aid - primarily resulting from our situation and that of IDA.
- the improvement in terms even by those not up to target is a significant one.
- reduced participation by the U.S. would risk loss of the above gains and, at minimum, would be a psychological blow to the Consortium, all of whose members except IDA and Italy have kept up their aid level in the past year despite our drop.

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--a full three year commitment is not required; some others cannot provide one for legal reasons, and we should seek further improvements of terms in later years by holding our commitment to one year at this time. (The UK has taken this position formally, and Canada and Germany indicate they will also).

If you agree with our recommendation, we intend to convey to the IBRD, however, our concern that the foregoing gains are offset by two serious shortcomings.

a) The quality of relief offered by Japan, France and Italy is seriously deficient as measured by the IBRD proposal. We will strongly urge the Bank to make a maximum effort to improve these terms before the second year's relief is agreed upon.

b) Most of the relief is not additional to Consortium pledges. We will likewise urge the Bank to get others to make their relief partly or wholly additional before the second year.

The Treasury Department and the Bureau of the Budget concur in this recommendation.



William S. Gaud

Attachments  
3 tables

Reject participation \_\_\_\_\_

Participate with reduced U.S. terms \_\_\_\_\_

Participate on annual basis to press  
for further progressive improvements  \_\_\_\_\_

Participate with a commitment for  
the full three years \_\_\_\_\_

LIMITED OFFICIAL USE

MAY 21 1968

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- 2 -

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LIMITED OFFICIAL USE

LIMITED OFFICIAL USE

- 3 -

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The Treasury Department and the Bureau of the Budget concur in this recommendation.

/s/ WSG

William S. Gaud

Attachments

3 tables

Reject participation \_\_\_\_\_

Participate with reduced U.S. terms \_\_\_\_\_

Participate on annual basis to press  
for further progressive improvements \_\_\_\_\_

Participate with a commitment for  
the full three years \_\_\_\_\_

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TAB A

INDIAN DEBT EXERCISE

	<u>Annual Share (\$ mil)</u>	<u>Quality of Relief (offered (%))*</u>
Austria	0.9	100%
Belgium	0.9	90%
Canada	0.8	100%
France	5.2 ✓	60%
Germany	27.5 ✓	86%
Italy	5.5 ✓	50%
Japan	16.8 ✓	50%
Netherlands	0.8	116%
UK	18.0 ✓	128%
US	8.7 ✓	100%
World Bank	15.0 ✓	68%
	<u>100.1</u>	

TAB A

\* Target quality is 10 year postponement without interest. The relative quality offered is expressed in estimated percentage deviations from that norm in terms of the "grant equivalent" of the offer using a discount rate of 10%.

5/17/68

MEETING OF INDIA CONSORTIUMPrepared by the Chairman

1. A meeting of the India consortium was held in Paris, March 4 and 5, 1968. The principal topic on the agenda was Mr. G. Guindeg's Report on India's long-term debt servicing problem (distributed to members on January 24, 1968, as IND 68-4). A list of delegates previously distributed as IND 68-7 is attached as Annex I.

Opening Session, 11:00 A.M. Monday, March 4

2. The Chairman, Mr. I.P.M. Cargill, opened the meeting with a brief review of the past year's actions with respect to seeking an agreement to relieve part of India's external debt service burden. At a meeting of the Heads of Delegations in Paris, September 7 and 8, 1968, members had agreed, with some reservations on the part of Italy and Japan, to proceed with detailed discussions using as a basis for these discussions the suggestions outlined in the Bank's staff working paper dated July 13, 1967. Mr. Guillaume Guindeg, a special consultant to the Bank, had spent the months of October, November and December discussing technical and legal possibilities of relief with each member country in its capital, and with the Bank in Washington. In January Mr. Guindeg had submitted a report with recommendations for an agreed consortium debt relief action; it was the purpose of the present meeting to discuss those recommendations and reach a decision if possible. The Chairman hoped that each Head of Delegation would be able to make an affirmative statement. For its part, the Bank was in a position to participate, providing there was no substantial shortfall on the part of other members from Mr. Guindeg's suggestions. Mr. Cargill asked Mr. Guindeg if he would like to make a statement before members gave their reactions to his recommendations.

3. Mr. Guindeg said that he hoped members would be able to set aside questions of principle, on which many had strong and sometimes conflicting opinions, and instead address themselves to practicalities, in an attempt to see what each could do in a common effort to help India. He hoped that each representative would report candidly what his country was prepared to do, rather than reserving his position, waiting to see what the others do, it being understood that each member's action would be conditional upon satisfactory action by the others. It was also essential that everyone be willing to compromise; Mr. Guindeg noted that he would not be unhappy if the compromise rejected some facets of his own suggestions, as the best solution would be one to which all would agree; the most important task was to reach an agreed solution, not to stick to any particular principle, proposal or formula.

4. The Chairman next asked members for their comments on Mr. Guindeg's recommendations, which are summarized below. In the course of their remarks, many speakers congratulated Mr. Guindeg on the quality of his report and thanked him and his associates from the Bank for their efforts.

5. Dr. Musyl of Austria, reported that his country was willing to contribute \$2.83 million, composed of \$1.5 million in the form of a grant (by reducing the interest rates on existing credits from 5.5 to 3 percent) and \$1.33 million in the form of rescheduling (at 5-1/2 percent interest with a maturity period of 15 years, including 5 years of grace).
6. Mr. Vanormelingen representing Belgium, reported that the Belgian administration would recommend to the new government that Belgium participate in the consortium exercise to the extent recommended in the Guindey report. Any debt relief would fall within the total of Belgium's aid to India, which had been doubled within the last Indian fiscal year, and action would have to be taken formally on an annual basis, for legal reasons.
7. Mr. Drake, the head of Canada's delegation, reminded members of the previous statements of his country about the great importance attached to consortium debt relief action. Canada was willing to accept Mr. Guindey's recommendations as long as they were part of an agreed action by all members; it was most important that debt relief be in a form which released free foreign exchange and be on favorable terms. Canada would contribute the full share of \$2.5 million recommended by Mr. Guindey in the form of postponement for a period of ten years of certain payments due at an interest rate of 6 percent. In order to compensate for the interest charged and to make the contribution meet the minimum quality recommended, Canada would give an additional \$1.1 million in the form of a grant of freely usable foreign exchange.
8. Mr. Moreau, of the French delegation, said that although France was able to agree with much of the report, it wished to enter certain reservations. It was the opinion of the French officials that all of India's creditors, including non-consortium countries, should participate equally in debt relief. The proposed formula of burden sharing was discriminatory, since it did not ask all creditors to relieve the same proportion of their debt service claims. France did not accept the principle that harmonization of aid, especially past aid, should be achieved through debt relief. Nevertheless, France was willing to be as pragmatic as possible in participating in debt relief. As the Bank had recommended relief of about 25 percent of India's service payments for the next three years, France would reschedule about 25 percent of the payments it expected to receive, or \$14 million. The terms would be the same as for the recent rescheduling for Indonesia. Interest at a rate between 3 and 4 percent (but as close to 3 percent as possible), would be calculated but postponed during the grace period of four years; principal and interest postponed from the grace period would be repaid on an ascending scale over eight years.
9. The Head of Germany's delegation, Dr. Elson, emphasized the importance his country placed upon making debt relief a multilateral action. Although Germany had expressed its preference for a proportional burden sharing, it was willing in the interests of an international agreement to adopt the amount suggested by Mr. Guindey. For budgetary reasons only the

first year's contribution of \$27.3 million for 1968/69 could be announced at this time, but Germany wanted other consortium members to know that the Federal Republic contemplated continuation of its participation in each of the following two years. Germany's contribution would fall within the total of its aid to India. Dr. Elson stated that although Germany would thus participate fully in a consortium agreement, it could not accept in principle the concepts implied in a formula to determine the quality of contributions.

10. The representative of Italy, Mr. Trotta, said that his country would prefer to give new assistance to India rather than to grant debt relief; nevertheless, it would participate in a consortium agreement, although such participation would be purely voluntary, as the consortium should not impose obligations upon its members. Italy also could not accept the principle of harmonization, but proposed to participate in proportion to anticipated debt payments from India, according to the formula proposed by France. For Italy this would result in an amount of relief of about \$3 million a year. Italy's contribution would, like France's, be on the same terms as for the last Indonesian rescheduling.

11. Mr. Komura of Japan stated that his country could not agree to several principles involved in Mr. Guindey's recommendations. The formula for sharing the burden of debt relief attempted to adjust the terms of past aid, whereas Japan felt any burden sharing should reflect the differences in aid-giving capacity of each country; similarly the present capacity to aid should be reflected in the terms of any debt relief granted. The Government of Japan felt that it should be up to each member to contribute as much as possible on the softest terms possible, but that contributions should be for one year only and reviewed annually. Japan also felt that India should be called upon to do more in the way of self-help, particularly by expanding her exports and by more careful planning to restrict imports to a proper level determined by exports and the amount of aid received. Within the limits of these reservations, Japan was willing to grant debt relief to India which would be in the form of rescheduling with an interest rate; at the moment the Japanese delegation could not give an idea of the exact amount or terms of Japan's first year of rescheduling due to budgetary discussions which were presently under way in Japan.

12. The spokesman for the Netherlands, Mr. Boomstra, noted that his country felt that the proposed solution dealt only marginally with the real problem of India's debt service, because India's capacity to service external debt was really zero and not 20 percent of export earnings. Although this belief indicated that much work remained to be done on the problem, the Netherlands was nevertheless willing to go along with the recommendations of the Guindey report. The Netherlands would make its contribution entirely in the form of a grant of \$1.75 million, which was a slight shortfall from the figure recommended by Mr. Guindey but which Mr. Boomstra hoped the consortium would find acceptable because of the qualitative advantages of grant "terms".

13. Mr. Belcher of the United Kingdom urged members not to misinterpret the fact that India was not really in a position of default; the most important implication of that fact was that the consortium was not faced with a conventional debt relief problem. An agreed debt relief action, while both necessary and urgent, should be regarded as part of an attempt to improve terms of aid. The United Kingdom would participate to the full extent recommended by Mr. Guindey by granting refinancing loans at zero interest, with maturity of 25 years including 7 years of grace, providing of course that all other members of the consortium indicated similarly appropriate actions.

14. The representative of the United States, Mr. Rees, observed that there were three ways in which members seemed to find the proposed solution unsatisfactory: some felt that the proposal was too limited in scope; some felt that the element of harmonization of aid implied in recommending a minimum quality of contribution was inappropriate for a debt relief exercise; and some members felt that it was also inappropriate to place a greater burden of relief on creditors whose ~~debt-relief~~ had been on the hardest terms in the past. The United States wished to reiterate its position that some harmonization of terms was necessary. At the same time, Mr. Rees sympathized with several points made by other delegates; it was important to have some measure to judge the quality of contribution, although no specific formula need be rigidly applied; the German proposal to take definite action for one year while expressing an intent to act in the future could help many members over a legal barrier; and the United States joined Canada in hoping that as much relief as possible would be additional to other new aid.

15. The Chairman announced that the Bank, because it could not reschedule without interest, intended to make an additional contribution, as suggested by Mr. Guindey, which would place its total participation in the range of between \$10 and \$15 million annually.

Second Session, Monday, March 4, 1968, 3:00 P.M.

16. The Chairman opened the second session by responding to some of the remarks made in the morning. In response to queries about data in Mr. Guindey's report and the Bank paper, Mr. Cargill noted that the debt service figures used to calculate the proposed amount of debt relief for the consortium did not contain figures owed to the "rupee area" or any other non-consortium debtors. Although the Bank's total figure was higher than one given recently by the International Monetary Fund, the Chairman was convinced the Bank figure was more correct and was if anything an underestimate of the true figure. The Chairman expected India to make a statement, at the next full meeting of the consortium in May, dealing with action to secure parallel relief from the non-consortium creditors and with action to take precautions in the future management of its external debt. The Bank's tentative view was that such precautions should be in the form of a limitation on debt incurred on hard terms, self-imposed and self-policed by India.

17. The Chairman stressed that the sort of debt relief agreement proposed by the Bank and Mr. Guindey was entirely different from other, previous debt rescheduling exercises, including the Indonesian case. The point to be made in the case of India was that the terms upon which necessary aid had been granted in the past were too hard. Indian debt relief had to be seen in the context of improving the terms of future aid, and if it involved recognition of the fact that some mistakes had been made in the past, then there should be no embarrassment in recognizing such errors and acting to correct them. As to the particular burden sharing formula of Mr. Guindey's report, Mr. Cargill thought it was an admirable compromise between the extremes posed in the Bank paper; further, it was necessary to have some means of assessing the quality of contributions in order to satisfy members, who would otherwise be unable to act, that all members had acted in a manner which was roughly within some agreed limits.

18. Referring to the actions indicated by members during the morning, the Chairman expressed his disappointment and his doubt that agreement could be reached unless, in the first instance, there were further movements towards achieving the goal of \$300 million of relief for the three years of the proposed consortium action. The spokesmen for the United States and the United Kingdom supported this position.

19. After some discussion of the derivation of the figure of \$20.2 million proposed by Mr. Guindey for Italy's share in a common action, Mr. Trotta indicated that his country could not accept such a high amount because it implied acceptance of the principle of retroactive harmonization of aid terms, and because it represented a higher proportion of anticipated debt service payments from India than was true in the case of any other consortium creditor. Italy was anxious to do its part, was willing to take a positive attitude and discuss further the amount of its contribution, and therefore requested that other members take into account its special position with regard to the very high percentage of debt service it was asked to forego.

20. Dr. Elson stated that Germany, although sharing the anxiety of others that a basis for agreement had not yet been reached, hoped that all members would continue to seek ways to reach a multilateral understanding. Germany had moved toward significantly softer terms of aid in recent years, and hoped that others would, in the same spirit, continue the discussions until an agreement satisfactory to all could be reached.

21. Mr. Moreau said that France agreed with the sentiment, advanced by his German colleague, that both because of the importance of debt relief to India and because of the great efforts already made by some members, the consortium should continue to discuss the matter until a solution was found which would permit agreement on action if not on principles. For its part, France would make an effort to reach the figure proposed by Mr. Guindey, which was only slightly higher than the proposed figure Mr. Moreau had given in the morning session.

22. The delegate of Canada, Mr. Drake, while expressing the hope that more significant progress be made, joined the French and German spokesmen in urging the consortium not to contemplate failure in this effort to aid India.

23. The Chairman, in response, noted that the positions so far stated by Austria, Germany, France, and the Netherlands all in their own way represented very considerable advances over positions held as recently as September, and commended the efforts of the many country officials who had been responsible for such progress.

24. The Belgian Head of Delegation, Mr. Vanormelingen, indicated that it was the intention of the Belgian administration to recommend that rescheduling be on terms of 3 percent interest and 25 years of maturity including 7 years of grace, which represented a further softening of Belgium's terms of aid to India.

25. After the Chairman noted that while it might be possible after further discussions to make a feasible proposal for a proper share for Italy, the problem posed by Japan's inability to discuss an amount and terms for its participation appeared to be more difficult. Accordingly, he proposed to adjourn for further talks with those two delegations and to reconvene the meeting the following morning, to which the members agreed.

Third Session, Tuesday, March 5, 1968, 10:30 A.M.

26. The Chairman asked members to elaborate upon the terms of their proposed debt relief actions or to report, if possible, any progress in improving their proposals.

27. Mr. Rees of the United States said that the United States proposed, for each year of a consortium action, to postpone for ten years without interest an amount of payments in accordance with Mr. Guindey's suggestions.

28. For the United Kingdom, Mr. Belcher said relief would be in the form of interest free refinancing loans of 25 years maturity including 7 years of grace (as stated in paragraph 12 above).

29. Mr. Boomstra of the Netherlands repeated the amount and terms of his country's proposal as reported on Monday. (See paragraph 14 above.)

30. The Japanese representative, Mr. Komura, could give no further indication of the nature and extent of intended relief.

31. Mr. Trotta, repeated that Italy, subject to an agreement in the amount of its participation, would reschedule at the same terms as it had for Indonesia, making every effort to grant the softest possible terms.

32. Dr. Elson announced the following composition of Germany's first year contribution of \$27.5 million: \$14.6 million postponement of amortization payments at 3 percent interest with 10 years maturity including 3 years of grace; \$8 million in an untied, freely usable balance of payments credit at 3 percent interest with 25 years maturity including 7 years of grace; and \$4.9 million grant in the form of temporary reduction of the interest rate on existing credits from about 5.50 or 5.75 percent to 3 percent. Dr. Elson hoped other members would recognize the high quality of this offer, and pointed out that it represented what Germany liked to call a "unilateral harmonization" of its terms of aid. He went on to say that Germany hoped all members would realize that supplier credits were a normal means of business between private parties in different countries, but he also recognized that after proper study it might be proper for both borrowing and lending countries to impose voluntary restrictions on the total amount of such credits. Germany hoped that in the future studies could also show how the consortium, and the Bank as its Chairman, could be even more effective as an instrument for helping a developing country such as India to take full advantage of aid resources.

33. The representatives of France (see paragraphs 7 and 20), Canada (paragraph 6), Belgium (paragraphs 5 and 23) and Austria (paragraph 4) repeated the details of their proposed contributions.

34. The Chairman thanked members for their cooperation, especially Dr. Elson for his thoughtful comments. He felt that it might indeed be time to have a thoughtful review of India's economic achievements and problems, but he noted that just such a review had been undertaken on a massive basis by the Bank economic mission in 1964/65, which Mr. Bernard Bell had headed. While it would be inappropriate to repeat such an effort so soon, it was certainly in order to review progress made on points covered by that mission, and he welcomed comments by members on the subject.

35. The Chairman referred to a form of temporary debt relief, which the Bank had arranged with India during the period when detailed discussions were taking place within the consortium and with Mr. Guindey. As was known to members, the Bank, while awaiting a comprehensive longer-term rearrangement of debt, had placed on temporary special deposit in the Reserve Bank of India amounts equivalent to principal repayments to the Bank by India during the current Indian fiscal year. Although the amounts were scheduled to be withdrawn on March 31, the Bank was aware that to remove the entire deposit at once would be anomalous in the context of a consortium debt relief action. The Chairman assured members that efforts would be made to arrange some more appropriate solution.

36. Returning to the problems encountered in reaching an agreement on relief within the consortium, the Chairman suggested a method of continuing the effort to reach an acceptable solution. He asked France to reconsider the possibility of making an additional contribution to compensate for interest charged, as the Bank was willing to do. The two principal points outstanding, however, were the questions of whether or

not Japan and Italy would be able to make contributions to the exercise which would be adequate to enable other members to proceed with formal implementation of their proposals. The Chairman asked that he be given responsibility to engage in further discussions with the Governments of Italy and Japan in hopes of reaching a reasonable accommodation. If he was able to reach a position which he could recommend for acceptance by other members, he would so notify the consortium and try to establish an agreement on debt relief without having another meeting. Members agreed that the Chairman should proceed on that basis.

Asia Department  
April 12, 1968

Messrs. Gianani, Haushofer, Lieftinck, Maudo, Merchant  
Plescoff, Reid, Suzuki, van Cospenhout and May 8, 1968  
van Hofo

I.P.M. Cargill *Shiraz*

INDIA - Debt Relief

1. Further to consortium discussions in Paris March 4 and 5 and my memoranda of March 26 and 27, I am now able to report a definite proposal from Italy and a revised offer from Japan.

(a) The Government of Italy proposes to refinance an amount equivalent to US \$5.5 million for the Indian fiscal year which began on April 1, 1968. Interest will be charged at a rate of four percent per annum (inclusive of insurance premiums); the maturity will be 12 years (including a grace period of three years). The refinancing will be in a form which will release free foreign exchange. Although this proposal concerns only the first year of the three year period under discussion within the consortium, the Italian authorities have indicated to me their intention to take the same action in terms of both amount and quality for each of the subsequent two fiscal years.

(b) The Government of Japan proposes to reschedule an amount equivalent to US \$16.83 million for the Indian fiscal year which began on April 1, 1968. Interest will be charged at the rate of four percent per annum; the maturity will be 12 years (including a grace period of three years). The Government of Japan has indicated to me that it intends to reschedule approximately the same amounts for fiscal year 1969 and fiscal year 1970, respectively, to the effect that the total amount for three years shall be the equivalent of US \$50.48 million.

2. I consider both of these proposals acceptable and recommend that other consortium members accept them. If these proposals are accepted, together with offers already announced at the March 4-5 meeting in Paris (including \$15 million from the Bank), the total amount of consortium debt relief during the current fiscal year would be slightly in excess of \$100 million; since similar action is expected in the subsequent two years, the total for the three years ending March 31, 1971, would be approximately equal to the \$300 million target recommended by Mr. Guinday.

3. I would appreciate confirmation from your governments as soon as possible that the proposals summarized in paragraph one above represent an acceptable basis for proceeding with the consortium debt relief action and that on that basis you are prepared to proceed immediately with such formalities as may be necessary to complete refinancing or rescheduling agreements with India. If at all possible I would appreciate your reply no later than May 15.

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

OFFICE OF  
THE ADMINISTRATOR

MEMORANDUM FOR THE PRESIDENT

SUBJECT: Rescheduling Indian Debt

Problem: We need to take a position on a World Bank proposal to reschedule Indian debt to be considered at a meeting of the Consortium March 4 and 5.

The Need for Action: Two pressures have brought the Indian debt question increasingly forward and now to the point of action, namely: The increasing burden on India and the problem of maintaining a net flow with the burden shared more fairly among donors.

- Debt Service on existing debt to the convertible currency area in the next three years will be 27% of India's earnings, even on favorable assumptions about exports. This is a very high rate. Debt service to the Consortium members alone will total more than \$1.2 billion for this period, or 30 to 40% of new Consortium aid.
- Because of high interest and the short maturity aid offered by many other Consortium members, we are providing an expanding share of net aid. If present trends continue, within a decade the U.S., Canada and the UK would be the only Consortium nations providing net aid to India; the others would collect more than they provide in new aid. This trend has to be reversed.

The Consortium understands the need for action does not arise from Indian failure to meet debt payments nor does India threaten default. The Consortium has considered the debt problem as largely a problem of terms of aid. The rescheduling is thus proposed in a developmental context, not one of default.

The World Bank Proposal

The proposal before the March meeting calls for:

- Rescheduling of \$100 million a year
- For three years beginning April 1968

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Memory for  
The President

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- Postponement for 10 years of the rescheduled amounts
- Zero interest (or its equivalent) during the postponement period
- Sharing of the relief so that all creditors, including the U.S., participate but with a relatively heavier share imposed on those with the poorest past terms. The U.S. share of the \$100 million is proposed to be \$8.7 million.

Issues

Sharing the Burden (See TAB A)

The Consortium has reviewed a number of bases for allocating shares of relief. Two logical extremes exist:

- Straight Shares, or identical proportion of relief from each donor, and
- Harmonization, or allocation of relief shares against those whose debt service receipts from India exceed the Consortium average.

The straight shares approach would call for \$20 million a year from the U.S. while the harmonization approach would relieve the U.S., Canada and the Bank/IDA from any obligation.

The straight shares approach would perpetuate the adverse trend of net aid; harmonization would slow the adverse trend by bearing more heavily on those donors who have given the poorest terms.

The harmonization approach will not be accepted. Other than the U.S., only Canada and (at its cost) the UK would support it.

On the other hand, we have made it clear we will not accept the straight shares approach, and that in the near future some brake must be placed on the worsening trend of net aid.

The proposal for the March meeting advances a compromise position, about halfway between the harmonization and the straight shares formulas.

The compromise proposal establishes the principle of differential shares--the largest shares being required from those who have given the hardest terms. Acceptance of this formula by the harder term

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members and this is problematical, will not reverse the net aid trend in this exercise because the scale of the exercise is small and because other members have declared that the relief will be counted against their subsequent aid pledges. Acceptance of the compromise, however, provides a good basis in principle for later negotiations on aid shares.

The compromise proposal would secure some immediate gains for the United States relative to the harder term givers. It would require larger concessions on terms and on aid flexibility from others compared to those asked of the U.S., Canada and the UK. The 10 year postponement at zero interest represents significantly better terms than most of the Consortium members have given. The use of rescheduling improves immeasurably the quality of aid by many whose aid has been loaded with inflexibilities whereas it is less of a quality shift for the U.S. Thus on all qualitative aspects, others are required to make more concessions than the U.S. And, they are required to make these concessions on a much more significant portion of their aid (See TAB B).

The compromise proposal is the best we can hope to get and is a very useful and important step in the direction we want to go.

Debt Relief as Additive Aid. A sure and quick way to reverse the adverse trend of net aid would be to have debt relief recognized as additive to regular aid--and to seek to hold previous shares for the regular aid residue. The disproportionately higher relief share by the hard donors would thus increase their share of net aid. As stated above, most Consortium members have already rejected this approach, and we have little leverage to force a change with this exercise. We should, however, seek to do so but should not press this to the point of losing the chance for the modest but real gains for the U.S. in the proposal even without the additive feature.

Balance of Payments Impact. The proposal calls for relief in the form of rescheduling or cash refinancing. This relief gives India more free exchange and could be looked at as untied aid with possible adverse B/P effect. The proposed U.S. share in the relief exercise, however, is under 9% while the U.S. share of Indian imports with free exchange has been about 13%. We have no reason to believe that the U.S. would get less than 13% of the increased free exchange--if others, and we should insist that they do, provide completely free debt relief. Thus, there is likely to be no adverse balance of payments impact. In fact, if we can put the exercise through, we stand to gain.

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Furthermore, U.S. insistence on any form of protection would give France and Japan and others an excuse for the non-participation they clearly prefer, and grounds which they could use to blame the failure of the exercise on the U.S.

Participation by all Donors. Some who might be willing to participate have legal inhibitions against providing the relief at the desired standard--for ten years without interest. Alternate devices to secure equivalent "quality" of relief by all include: partial cancellation of debt or voluntary relief beyond the required share. These approaches can be reduced to a common denominator--the grant equivalent of the relief--and thus equivalence can be measured.

The Bank/IDA family is a special case, since interest must be charged and cancellation is not possible. George Woods has proposed to the World Bank Executive Directors (to meet February 23) that the Bank provide about 50% more relief than its share under the compromise proposal in order to partly compensate for its need to charge interest on the rescheduled amount. The Bank management cannot go beyond this without difficulty, and Executive Branch agencies are inclined to support Mr. Wood's proposition. With this partial exception for the Bank, only relief of quality equivalent to the agreed standard should be acceptable.

There is a question as to willingness of some, particularly Japan but to an extent Germany, France and Italy, to participate quantitatively to the level of the compromise sharing proposal which calls for a higher share from these harder-term lenders. Refusal by any of these nations to participate would endanger success of the exercise and should be grounds for U.S. refusal to participate.

Debt Relief by Bloc. India has been reluctant to agree to press for parallel relief from non-Consortium creditors, primarily the Soviet Bloc, on grounds that service to these creditors is not in free exchange but rather in the form of purchases of goods in India. India's claim is that these exports are not a substantial burden or not comparable to free exchange repayments to the Consortium.

We do not accept this argument nor do other Consortium members. The exports to the Bloc have their costs in materials, labor, power and transportation. Furthermore, we and others, would have political difficulties giving debt relief which could be said to or which could in fact allow India to continue its debt payments to the Soviet Bloc.

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At the least, India must agree to make an effort to secure parallel relief from the Bloc. India should also be advised that, if relief is not secured from the Bloc, continuation of Consortium relief for the contemplated three years, and, more particularly, any extension beyond that period, would become increasingly difficult.

Limiting Supplier Credits. Unrestrained Indian imports on short-term supplier credits could defeat the purpose of the debt relief exercise. This is not now a significant problem, but some countries might be tempted to leave the Consortium, or remain only in a nominal way, and extend to India extensive short-term credit. The Consortium relief, if granted, would then be used to finance these harder transactions. Accordingly, and as a condition of a relief exercise, the Consortium should ask India to agree to consult on the need to place limitations on the future use of supplier credits. We would expect that India will readily agree on this point.

Indian Debt to the United States

Indian scheduled repayments in the next three years (see TAB C) are on account of Export-Import Bank loans (\$50 million plus a year), A.I.D. development loans (about \$15 million a year) and the 1951 Wheat Loan (\$10 million a year). It is legally possible to reschedule any of these, in whole or part, for 10 years without interest. Rescheduling of Wheat Loan payments, however, has fewer policy difficulties than would be the case for either Ex-Im or A.I.D. The compromise sharing formula, which we should not exceed, calls for just under \$9 million a year as the U.S. share. Accordingly, the entire U.S. share, if agreement is reached in the Consortium, can be accommodated within the payments due under the Wheat Loan.

Recommendation: Believing it to be in the U.S. interest, particularly following a year of reduced aid availability, it is recommended that we take an active role in seeking agreement by the Consortium to debt rescheduling for India for \$100 million a year for three years, subject to the following terms and conditions:

- Rescheduling to be for 10 years at no interest or on such lesser terms as may be agreed, providing that the major members of the Consortium participate and that all participants, with the partial exception of the World Bank, provide relief of equivalent quality;

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- Relief to be shared among the participants on a basis no less favorable to the U.S. than that of the compromise formula which requires a small share from the U.S. and other donors who have provided better terms of aid;
- The U.S. share of not more than \$9 million to be provided by rescheduling of payments due under the 1951 Wheat Loan; and
- Provided India agrees to seek parallel relief from other creditors including the Bloc, and agrees to prudent limitation on future acceptance of supplier credits.
- Provided other Consortium members agree that at least part of the debt relief is additive in order to reverse the adverse trend of net aid, or, failing agreement, are put on notice that this remains a strong U.S. objective to be pursued in subsequent aid discussions.

The Department of State and the Export-Import Bank join in the above recommendation.

William S. Gaud

Attachments (3)  
TAB A, B and C

Approved: WSG

Disapproved: \_\_\_\_\_

Date: 24 February, 1968

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TAB A

Alternate Bases for Sharing \$100 Million Annual Relief  
(\$ in millions-rounded)

	<u>"HARMONIZATION"</u> (Heavier relief by harder donors)	<u>"COMPROMISE"</u> (Relief about midway between extremes)	<u>"STRAIGHT SHARES"</u> (Relief proportional to debt service)
Austria	1	1	1
Belgium	1	1	1
Canada	-	1	2
France	7	5	3
Germany	34	27	18
Italy	9	7	4
Japan	27	20	12
Netherlands	1	1	1
UK	20	18	16
Bank/IDA	<u>-</u>	<u>10</u>	<u>22</u>
Sub-total	100	91	80
United States	<u>-</u>	<u>9</u>	<u>20</u>
Total	100	100	100

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TAB B

Relative Incidence of "Quality" Concessions

	Historic Aid Share <sup>1/</sup> (\$ millions)	<u>Debt Relief Required: Compromise Formula</u>	
		<u>Relief in \$ millions</u>	<u>Percent of Aid in form of relief</u>
Japan	45	20	44%
Germany	63	27	42%
France	17	5	29%
U.S.	385	9	2%

<sup>1/</sup> For illustrative purposes, aid shares are shown on the basis of the allocation of the \$900 million Consortium support provided to back the Indian 1966 devaluation and import reform.

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TAB C

Estimated Payments Due U.S. From India  
(\$ in millions-rounded)

	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
<u>FY 1969</u>			
ExIm Bank	38	17	55
A.I.D.	-	14	14
1951 Wheat Loan	<u>6</u>	<u>4</u>	<u>10</u>
	44	35	79
<u>FY 1970</u>			
ExIm Bank	39	15	54
A.I.D.	-	15	15
1951 Wheat Loan	<u>6</u>	<u>4</u>	<u>10</u>
	45	34	79
<u>FY 1971</u>			
ExIm Bank	39	13	52
A.I.D.	-	15	15
1951 Wheat Loan	<u>6</u>	<u>4</u>	<u>10</u>
	45	32	77

LIMITED OFFICIAL USE

**PROCESSING NOTE**

Documents #10 and #10a in National Security File, Files of Edward K. Hamilton, "India," Box 2 were incorrectly filed in that location. They have been removed to their correct location in National Security File, Files of Edward K. Hamilton, "Swaziland," Box 4 and renumbered #3 and #3a.

Jennifer Cuddeback  
Archivist

July 22, 2002