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TO : Department of State

INFO: BOMBAY, CALCUTTA, COLOMBO, ISTANBUL, KABUL, KARACHI, KATHMANDU, LAHORE, MADRAS, NEW DELHI

FROM : AmEmbassy LONDON — DATE: January 27, 1971

SUBJECT : US/UK Discussions on South Asia, London, November 1970

REF : London 9196 (NOTAL)

Discussions between the US and UK Governments on South Asia were held in London on November 3 and 4, 1970. A summary report appeared in the referenced London telegram. This airgram provides a detailed account of the subject matter covered in the course of the two days of discussions. It devotes more space to agreed views and to the British presentation and comments than to US positions except where needed to provide a full account of the exchange. Participants in the discussions are listed in an enclosure.

The talks were considered useful by both sides and a high degree of consensus was apparent in the assessments presented. The greater part of the time available was devoted to Indian and Pakistani affairs and to the implications of Soviet and Chinese attitudes toward the area but profitable exchanges were also held on developments in Ceylon, the Maldives, Afghanistan, Nepal and Bhutan.

This airgram was cleared in draft with NEA/INC and NEA/PAF in December, 1970

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Both sides agreed that it was important that not only the substance but the fact of the talks be kept confidential.

I. Review of South Asia

A. General - Recalling early UK hopes of using the Commonwealth in Asia as a counter to Communist China, the British side felt that the intervening years have taught us that India and Pakistan remain of central importance even though they are not the kind of active ally the West might wish. It was agreed that the persistence of democracy and the rule of law in India continues to be of major importance. If Indian democracy fails, if developments show that democratic methods will not work in the giant country which is India, it would be extremely serious for Western interests. For this basic reason a major portion of US and UK assistance resources are devoted to India.

Within India and Pakistan major problems continue and intensify. Both the US and UK view developments on the subcontinent with growing concern. In Pakistan the efforts of the Martial Law Administration to move the country through the forthcoming elections, and the implications of those elections on the unity of the country are of major interest to the West.

B. Indo-Pakistan Relations - A major factor in the sub-continent continues to be relations between India and Pakistan. Unfortunately there are no grounds for optimism that relations will be substantially improved in the near future, although Pakistan under an elected East Wing leader could be more willing to try to normalize at least some aspects of relations with India.

The British noted that, in recent years, they have carefully avoided urging on either the Indians or Pakistanis ways in which their bilateral relations could be improved. The UK has told both that it will listen politely but will say or do nothing concerning relations between the two unless asked by both sides. The US noted that the general subject of Indo-Pakistan relations was mentioned during

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Yahya's recent visit to Washington but that the US hands-off policy parallels that of the British. India, as the status quo power, tends to like things as they are; Pakistan recognizes this and often attempts to involve the US on its behalf.

C. Military Supply Questions - The US provided the background of its recent decision to make, in favor of Pakistan, a one-time exception to its arms ban toward Pakistan and India. After reviewing the history of our military supply policy, the US side noted the careful full-scale review of general military supply policy inaugurated by the Nixon administration. The decision to sell Pakistan a limited quantity of arms on a one-time basis resulted from this review and frankly has a political content. It was intended to improve relations with Pakistan and to inhibit Pakistan from going elsewhere for new replacement aircraft. The entire package was responsive to specific Pakistani requests. The USG has taken considerable heat from India on this move, but believes the results will justify the decision.

The UK noted that there has been no recent special review of its military supply policy although the subject is kept under continuing study. Noting that the UK had imposed a selective ban in 1965 on all items of lethal equipment, the British recalled that their policy was changed in August 1966 to sales to both sides on a strictly commercial basis. This policy remains virtually unchanged. There is a very minor amount of grant assistance, almost all in the form of training in staff colleges in the UK.

The British noted that they follow a general guiding principle that their provision of arms should not encourage an arms race. New requests from either side are seriously studied against this guiding principle, particularly if new sophisticated equipment is involved. HMG tells both sides that it does not like to see too many resources devoted to arms at the expense of development. The Pakistanis complain that British policy tends to favor the Indians. The UK side admitted some justification in this complaint since available credit guarantees for major purchases are strictly limited and the Pakistanis have

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greater problems than the Indians in a tight credit situation. Political factors can be given weight in making credit guarantee decisions, but normally credit criteria govern sales decisions. The situation for Pakistan was particularly difficult at this time since it had already drawn almost all the credit available to it for all purposes, according to the Ministry's Export Guarantee Department which controls these matters.

Other inhibiting factors include requests from either country for equipment containing US-made components or affected by US-UK security controls. The British are reluctant to venture into further sales of equipment containing US-made components after the experience of the Canberra sale to India, but the question may rise again as a result of Indian interest in NIMROD. Regarding the security problem, the British are also sensitive to the fact that items of Western made military equipment could end up in the hands of Soviet or Chinese training missions.

The British have supplied to both armies and navies. More significant sales have been in the field of armament and aircraft to India. Pakistan, because of the credit problem, has made no major purchases from the UK in the last two and a half years, nor has it tabled any major requests since last spring. However, HMG knows that Pakistan is interested in some naval vessels--frigates--if it could raise the money. Since this is highly unlikely, the Pakistanis could go to the Soviets or Chinese although it is doubtful that the Chinese could help the Pakistanis on this one. India is interested in a new generation of aircraft but can be expected to go to the Soviets.

D. Implications of Soviet and Chinese Roles - The British pointed out that the Russians would regard the economic collapse of India as of benefit only to China and focus their aid policies accordingly. The Chinese agree with the Russians- and would welcome an Indian collapse. Soviet attitudes toward the sub-continent are influenced not only by the major factor of Sino-Soviet relations but additionally because India and Pakistan are border states and therefore a strategic element in Soviet thinking, because the Indian Ocean is of increasing importance to the Soviets, and because the Russians still feel a sense of competition with the West for the allegiance of the indigenous population.

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The Soviets, since 1965, have moved ahead of the West in working for India-Pakistan reconciliation. However, since Tashkent, they have had no more success than the West; India-Pakistan hostility persists and attitudes appear to be as intractable as ever. Nevertheless, there is some parallel between Soviet and Western objectives in the area. The Soviets want to avoid another India-Pakistan war, as do we. The Soviets also wish to counter Chinese pressures or influences in the area, as do we.

The US side explained that it views its role as the maintenance of some type of equilibrium in order that no single external power becomes dominant in the area generally or in any one country.

An important element of India's foreign and domestic policy, the British thought, is its "lurch to the left." Illustrative of this is the Indian attitude toward Indo-China; in accepting a role in the ICC, India should have attempted to be impartial but instead it increasingly openly favors the "liberation" movements in the area. It was agreed that India's position is not, however, dictated by the USSR but is defined by New Delhi from the point of view of its own national interest. Indian policy appears to be inspired by a desire to support the winning side in Indo-China rather than by any special desire to please the Soviets or discomfit the West. In the domestic area, the British saw "undemocratic moves" by Mrs. Gandhi and the possibility of a coalition government with the Communists as causes for concern about India.

In Pakistan, Soviet objectives appear to be more limited. There is a general desire to counter Chinese influence and the Soviets have involved themselves to a limited degree in the economy. They encouraged Pakistan to close down the US facility in Peshawar, but on military assistance Moscow appears at present to be dragging its feet after agreeing to some sales in 1968.

It was noted that there has been recently some revival of publicity for Brezhnev's June, 1969 proposal for a South Asian security arrangement. The proposal is probably a net plus for the Soviets and remains on the table to be picked up at some future date depending upon circumstances.

It may become more difficult for the West to work to counter Soviet influence in India in the future. There are signs that Indian society may be becoming less open, which makes it more difficult to put across the West's point of view. There

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is also concern over the direction of India's economic philosophy. The US side noted that it has reason to believe the Indians feel the US is interfering in Indian internal affairs through our aid programs. Mrs. Gandhi has talked about "economic or technical imperialism". There is a question whether the traditional ways of working through assistance programs will continue to be effective. The British side felt that it had not yet observed any particular relevance between these public statements of Indian economic philosophy and the West's specific aid programs and economic relations.

In looking ahead at the influence of the Soviets and Chinese on affairs in India and Pakistan it was generally agreed that the West could base future policies on the assumption that three contingencies could be considered improbable:

A Sino-Soviet reconciliation;

An Indo-Pakistan reconciliation; or

A Sino-Indian reconciliation.

There was general agreement that the Soviet role in India will continue to grow. At the same time, both the US and UK might find themselves forced to attempt to counter Soviet influence with fewer assistance resources since their respective legislatures are increasingly critical of Indian attitudes and increasingly likely to impose limitations on assistance programs.

II. Review of India Situation

The UK felt that we face a seriously deteriorating situation in India, first on the internal side where there is a crisis in authority in social and other aspects of Indian life which serves as a background to current disturbances, and secondly in the political situation where the old Congress has eroded and split. These pressures have brought to a head revolutionary change in the Indian political situation which will lead not necessarily to a right-left polarization but rather to fragmentation in the political spectrum. Major changes are in process on Center-State relationships with greater power shifting to the States. The Communist Parties have not succeeded as much as once expected, but remain major factors in both Kerala and Bengal. In brief, the traditional democratic processes are being subjected to increased stresses. Counterbalancing this are India's traditional ties with the West.

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There is some talk that Mrs. Gandhi might wish to go to the polls before 1972 but the UK reading is that she will probably go full term. Coalitions are hard to predict but it seems increasingly likely that groupings will be opportunistic, with alignments made in order to gain or retain power. We can expect more authoritarianism and more unpredictability in Mrs. Gandhi's style. There may be sudden risky decisions, along the lines of her bank nationalization move, which in conjunction with her Populist approach to ruling introduces a strong element of uncertainty in India's future. We can expect at the same time to see continued uncertainty in India's conduct of its foreign relations.

The US side was in general agreement but thought that internal political maneuverings during the coming election period would not necessarily lead to the destruction of the democratic process, nor necessarily to a situation where the democratic system will not be able to function. We tend to see some difference between Mrs. Gandhi's ministerial battles hitherto and her election battles coming up; the key will be what kind of grass roots political organization she will be able to build, and what kind of deals she must make with other parties. The US side estimated on balance that Mrs. Gandhi will emerge with the strongest party line-up. The voters will be impressed primarily by what Mrs. Gandhi or the other political leaders can actually deliver. Patronage will be important, and that Mrs. Gandhi recognizes this is shown by her attempts to win State majorities, although she was conspicuously unsuccessful in the UP.

III. Review of Pakistan Situation

There was agreement that elections would be held in Pakistan on December 7 as scheduled. US and UK assessments of the probable election outcome were close, with the US side estimating a slightly higher margin of victory for the Awami League. The AL will win by a vast majority in East Pakistan. In the West the picture is mixed, but essentially the elections will bring to power a mixture of conservative and traditional elements with some new radical ones.

The UK appeared to be under the impression that the new government would take power soon after elections. The US pointed out that elections will be followed by the deliberations of the Constituent Assembly which must produce a Constitution and gain Yahya's approval for it before the strongest party

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or a coalition in the Assembly will be asked to form a government. All of this will require a number of months. In the meantime Yahya's Martial Law Administration can be expected to continue.

The Constitution making process will be difficult. If there is to be continued unity between the two Wings, it must be ensured by ingenious compromise. The US felt that, if the maneuverings in the Assembly move it toward a choice between centrism and autonomy, there would be a drift toward autonomy. East Wing pressure for autonomy would not arouse major West Wing objections, the US thought, since the West does not need the East as much as in the past. For example, the West Wing now earns more foreign exchange than the East and increasingly considers the East Wing as a drain on West Pakistan's resources. The US put the long-term prospects for continued unity as less than 50%.

The British disagreed, arguing that Yahya and the Pakistan military are determined to preserve the unity of the country and that furthermore they have the power to do it. The UK argued also that East Wing autonomy would hurt the West Wing which has benefitted from trade with no tariff barriers and from the number of West Pakistani industrial investments which are earning good returns in the East. These benefits could be lost through East Wing autonomy.

Both sides agreed that, unless it is upset by the unity-autonomy issue, the Constituent Assembly can produce a Constitution within the time allotted, with much precedent to draw on. Yahya has also had his experts working on a draft. If the Assembly becomes sidetracked on the autonomy issue, he may well put forward his draft near the end of the allotted 120 days and insist that it be adopted. The US saw this as raising a question of the long-term durability of any such document; the UK thought it would demonstrate Yahya's determination to keep the country together.

The British have been giving some study to the question of Pan-Bengalism but are inclined to think that it is very unlikely to develop seriously in the near future. It could become relevant only if there is a strong move toward East Wing autonomy after the Pakistan elections. Both sides agreed that East Wing autonomy also exposes it to possible Chinese interference or exploitation.

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The consensus was that there is little the West can do to influence the continued unity of Pakistan. The US and UK can continue to try through the Consortium to persuade Pakistan to put more developmental funds in the East. However, Western planning on aid programs must remain uncertain until there is a clearer idea of Pakistan's political future. If the elections bring about a Center government dominated by East Bengal, it could mean moves toward a trade accomodation with India even within the framework of the continued unity of the two Wings. There may be some East Wing gestures toward closer ties with West Bengal, but even more likely would be general moves in the direction of improving relations with India.

Both sides agreed that an elected government will attempt to move Pakistan into a more truly non-aligned posture. This could well mean Pakistan pulling out of CENTO and SEATO. Pakistan is already showing more interest in the Middle East, and might well show even greater concern after elections.

IV. Economic and Assistance Matters

A. India - UK aid disbursements to India in FY 1969 total 47.6 million pounds, or 13.4%of all British overseas aid; the comparable percentage for the US is 14%. It was agreed that India and Pakistan are both good aid performers. The British noted that, nevertheless, during the past year they have had problems, particularly with project aid in India. In addition the UK's unfavorable trade balance with India gives HMG problems with the Commons and the public here while British aid levels remain high. It is not always easy to make plain that this is not the entire picture because of Britain's invisible earnings.

There was general agreement that the two greatest problems on the sub-continent are population control and food. Population pressures are probably the major problem in India. The UK felt that multi-lateral agencies such as the IBRD, the Consortium and the UN should get more involved in assisting population control programs. This category of assistance is easier on both donors and recipient countries when done in a multi-lateral context. The food problem in India is now assuaged but will continue in the long term. The "green revolution" is beginning to create its own problems-- for example, that the greatest benefits are accrueing to the major land owners. It is clear that in the future the Government will have to bring pressure on the farmers if present levels of production are to be maintained. Finally, areas into which the "green revolution" is now moving are more difficult i.e., semi-arid, etc. than the areas which produced the initi successes.

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The British pointed to the special problem of West Bengal. The UK has been approached by the Indians recently for a special grant for low-cost aid for Calcutta municipal development. There had been no mention of a consortium approach which the British thought would make it easier for them to help on programs such as Calcutta development. The UK regards the situation in Calcutta as one of major concern but would have to be convinced that both the central and local governments are prepared to face the hard problems that exist in the area before committing itself to any assistance.

The British felt that within the Consortium there was a lack of understanding on the part of donors other than the US and UK of the need to give soft loans. The British regard Indian bureaucratic inertia as another problem in the assistance field. It is extremely difficult to progress as needed in the face of the highly detailed Indian control of the economy. Relations between the Center and States is a further inhibiting factor since the States have sufficient autonomy to frustrate multi-State aid programs.

Another problem the British felt involves the Indian inclination toward doctrinaire socialism. However, the UK did not completely share US concern that the recent statements of Indian leaders in Lusaka and the UN expressing their fears of "economic and technical imperialism" portend Indian restrictions affecting US and UK aid efforts.

The US side thought that the British technique of carrying fewer technicians on direct HMG payroll might have applicability for the US. The UK side pointed out however that they are able, because of differences in their Civil Service system, to hire the type of technicians and experts under Civil Service that the US employs by contract.

The British reported that Cargill of the IBRD came through London on his return from the Tokyo DAC meeting with the news that the Japanese are not opposed to a debt relief operation for India. Cargill proposed that the current 3-year debt relief operation should be extended or a new operation inaugurated.

B. Pakistan - It was agreed that population and food are also significant problems for Pakistan. A continuing major concern that is peculiarly applicable to Pakistan is the question of

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division of assistance between the two Wings. In the past, the East Wing has suffered but there is a trend now in the direction of better balance with the East Wing being allocated more development funds than the West in the new Five Year Plan for the first time.

The major current inhibiting factor on Western aid programs in Pakistan is the political uncertainty of the near future. The British said that they would be cautious about moving ahead with aid planning for the East Wing until they have a clearer idea of what the future holds. The US side said that it shares many of the UK anxieties but is not discouraged to the same degree; the US is in fact pleased by Pakistan's assurances that it is going to carry out badly needed monetary reforms. The US is increasing its assistance package to encourage the Pakistanis to carry through, and believes it essential to continue as high a level of aid as possible for both wings.

The UK made the point that despite its anxieties it sees good progress in some development areas in Pakistan. Regarding debt relief, the UK is waiting to see what the IBRD will propose. In principle, the UK will not be found wanting if there is general agreement on Pakistan debt relief. The UK also strongly favors untying both bilateral and multilateral assistance but does not want to get out in front on this issue. Finally, with regard to the Asian Development Bank, the UK last year made a pledge of £6 million; there is concern in some HMG quarters as to how the Bank is using its special funds.

V. Ceylon

The British underscored the very grave Ceylonese economic situation, much of it traceable to the food subsidies problem now revived by the new Government's promise to restore the rice ration. Other problems include the Government's ousting of many competent people, the slump in tourism, and the Government's apparent determination to perform in a left-wing manner. The new "acquisitions of businesses" law is the most radical of its type anywhere in the free world except in countries about to succumb to Communism. It can only be regarded as a disaster. The British are very concerned because of heavy investments including a number of businesses such as tea estates which could be effected. All such businesses are now intensely studying the new regulation which at a minimum is bound to cause a further deterioration in business confidence in Ceylon.

The British referred to the field of foreign affairs where they feel Mrs. Bandaranake's Government has done a number of "very foolish things" such as its gratuitous recognition of the East Germans, North Koreans and the PRG. None of these seem to have served the national interests of Ceylon but

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Mrs. Bandaranaike is apparently trying to posture on the Afro-Asian stage in order to distract attention from her very serious domestic economic situation.

The British reported their feelings that there is a serious lack of organization within the Ceylon Government and expressed their view that Ceylon may slowly slide into a Burmese situation. The UK side disclosed that HMG has been postponing for some time giving the Ceylonese a firm indication of when they would receive the remainder of Britain's already committed £5 million of assistance. Now London must take action on this matter within a week to 10 days but hoped that this would cause no particular problems for the US. The US side said that it was not in a position to raise objections but pointed out that it would have appreciated an opportunity to have consulted with the British about this move at an earlier stage.

VI The Maldive Islands

The UK described the Maldives as "scarcely in this world", being isolated to an extraordinary degree. The Government is far more concerned about control of its outlying islands than about any relations it has with the outside world. The British recalled that when the RAF was kicked out of Ceylon and looked at Adu Atoll as a possible site, Adu Atoll declared its independence from Male in order to keep all the new wealth to itself. The Male Government was furious with HMG and some of this feeling still lingers.

The present President, the British opined, is "not a nice man". He is a complete dictator who utilizes the improved communications of recent years to re-establish close Male control of the Islands' most farflung territories. The UK has been able to rebuild confidence to a considerable degree and it is clear that the Maldivians want the British to stay on Gan and are genuinely concerned at the news of Britain's East of Suez rundown. Nevertheless, because of extreme Maldivian sensitivity, the British are very careful in their use of Gan.

The British have determined that the best way of treating with the Maldivians is to follow certain cardinal rules:

-- the fewer the contacts, the happier the relations;
-- the appearance of fussy paternalism must be avoided at all costs; the UK has observed that if the Maldivians ask for a certain item of aid and are advised that they actually need something else the net result is quite negative;
-- consequently, normal developmental criteria in the provision of aid must be avoided as far as possible.

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The US side expressed agreement and noted particularly that Washington will do all possible to respect the sensitive situation with regard to Gan and not to over-use it.

VII Nepal

Following a general review of recent developments in Nepal, the British noted King Mohendra's continued concern with his health. There was conjecture that a hand-over of the reigns of government to the Crown Prince sooner rather than later might be in Nepal's best interest. The Crown Prince seems more flexible in his views and might be more inclined to permit some sort of meaningful democratization.

Nepal continues to be overshadowed by its two giant neighbors. Mohendra's use of China to counter-balance India has kept him afloat but India continues to provide 50 per cent of Nepal's external aid and to absorb over 50 per cent of the country's exports. The current India-Nepal trade negotiations were discussed briefly with the US slightly more optimistic that they would come to a successful conclusion. Chinese technicians in Nepal, it was noted, act very correctly; Chinese influence seems to be exerted more through schools than through Chinese personnel present in country.

The UK saw Nepal as a moderate member of the Afro-Asian community of nations and thought its tour in the Security Council was not unhelpful. The British thought Nepal's non-alignment must be respected, particularly as between China and India. The Panchayat system impressed the British as a skillful adaptation of local custom into a way to minimize both Indian and Chinese influence. The system is probably for that reason the best tactic for Mohendra at present; the problem is how to find a way to make it appealing to the younger generation.

The American side generally agreed, noting that unrest is limited at present. There are nevertheless elements of weakness which may hurt in time. For example, there is the general ineffectiveness of the government, for which the King is to blame. Also important is the government's inability to mobilize its resources for development. The US has become rather disillusioned with the Panchayat system which has not developed as had been hoped. In the US view, the greatest danger continues to be the constant temptation for intervention by China or India, an eventuality which would pose the greatest danger to Western interests in Nepal. Excessive pressures from either giant neighbor inevitably generates counter pressures from the other. The US attempts through its assistance program not only to contribute to Nepal's internal

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stability but to do so in a way that does not threaten the giants, including China.

The British felt that possibly the most dangerous situation could arise out of a breakdown of order in India which might inspire the Chinese to intervene when India could do nothing about it.

The UK's military aid commitment to Nepal totalled £715,000 which is now virtually fully utilized. There have been no new requests from Nepal since April when the Nepalese gave some indication of interest in British equipment. The UK is currently providing a Sky Van aircraft for royal use and hopes the order might lead to sales of transport aircraft or aircraft for the Nepal military or for Royal Nepal Airlines.

VIII Bhutan

A brief reference was made to Bhutan, with the British interested in the US view of Bhutanese membership in the UN. It poses a problem for the UK because of its small size but HMG does not regard this as insurmountable. However, Bhutan's 1949 treaty governing its relationship with India might be a barrier. There was some indication that Pakistan and India might wish to co-sponsor Bhutanese membership but the fact seems to be that, if India will sponsor, Pakistan has committed itself to support.

The US noted that USG lawyers do not consider the 1949 treaty to be an obstacle; Bhutan would seem to have the necessary full sovereignty for membership in international organizations. However, the US does regard Bhutan as a micro-state with limited resources. Several Bhutanese have served on the Indian mission in New York and currently the Bhutanese there are exploring the costs of a possible mission of their own. The US believes an associate membership would be appropriate for Bhutan and the American Embassy in New Delhi has been instructed to explore this idea.

IX. Afghanistan

After a review of current developments in Afghanistan, the British asked how the West's vital interests are actually affected by what happens in that country. The US pointed out that continued Afghan independence and neutrality are important for both Pakistan and Iran. The Shah has shown some sensitivity concerning the degree of Afghan dependence on the Soviets. Quite clearly, however, the Afghans themselves are

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determined to the best of their ability to maintain a balance in their relations between the Soviets and the West.

The US assistance in Afghanistan is nevertheless more benevolent than anything else; present aid totals $6 million, almost entirely technical assistance. The British noted that HMG has decided to continue a small aid program in the belief that there is value in maintaining an appreciable Western assistance effort. The UK is doing nothing in the military field.

It was noted finally, and with some surprise, that the entire discussion of Afghanistan had been held without a single mention of Pushtunistan-- a sure sign that this once-troublesome dispute was fading.

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London, November 1970

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* A number of sessions were attended by other members of the South Asia Department, or by representatives of the Foreign and Commonwealth Office Planning Staff.

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