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PREM 19/4242

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FM NEW DELHI

TO IMMEDIATE FCO

TELNO 432

OF 231344Z APRIL 93

INFO PRIORITY ISLAMABAD, KARACHI, WASHINGTON, BOMBA

BOMBAY EXPLOSIONS

SUMMARY

1. INDIAN HOME MINISTER ACCUSES PAKISTAN OF INVOLVEMENT IN BOMBAY EXPLOSIONS DURING STATEMENT TO PARLIAMENT.

DETAIL

2. HOME MINISTER S B CHAVAN MADE A DETAILED STATEMENT TO PARLIAMENT ON 21 APRIL IN WHICH HE ACCUSED THE PAKISTANI AUTHORITIES OF BEING BEHIND THE BOMBAY EXPLOSIONS ON 12 MARCH. CHAVAN ACCUSED PAKISTAN OF HAVING 'HATCHED A CONSPIRACY' TOGETHER WITH THE BOMBAY UNDERWORLD LEADER DAWOOD IBRAHIM AND THE MEMON FAMILY.
3. IN WHAT APPEARED TO BE A SUMMARY OF POLICE EVIDENCE OBTAINED THROUGH INTERROGATION, CHAVAN'S STATEMENT WAS PARTLY AN ATTEMPT TO RECONSTRUCT EVENTS LEADING UP TO THE BOMBINGS ON 12 MARCH. CHAVAN GAVE DETAILS OF THE MOVEMENT OF ARMS AND EXPLOSIVE CONSIGNMENTS INTO INDIA AND OF THOSE INVOLVED IN SETTING UP THE EXPLOSIONS IN BOMBAY ON 12 MARCH. HE REFERRED TO A TRAINING CAMP OUTSIDE ISLAMABAD WHERE THOSE CARRYING OUT THE EXPLOSIONS HAD GONE IN FEBRUARY.
4. CHAVAN SAID THAT INSTEAD OF COOPERATING WITH THE INDIAN AUTHORITIES, 'PAKISTAN WOULD TRY TO SAFEGUARD AGAINST ANY REVELATION OF THEIR INVOLVEMENT IN THE EXPLOSIONS IN BOMBAY'.
5. THE OPPOSITION PARTIES IN THE LOWER HOUSE OF PARLIAMENT SOUGHT FURTHER INFORMATION FROM THE HOME MINISTRY, AND ASKED TO KNOW WHETHER THE INVESTIGATION INTO THE EXPLOSIONS WILL BE HANDED OVER TO THE CENTRAL BUREAU OF INVESTIGATION (CBI). MEMBERS OF THE BJP OPPOSITION STAGED A WALK-OUT TO PROTEST AGAINST CHAVAN'S OMISSION OF ANY STATEMENT ON THE BLASTS IN CALCUTTA.

COMMENT

6. THIS IS THE MOST DIRECT AND FORMAL ACCUSATION YET OF PAKISTANI COMPLICITY, MADE BY A SENIOR CABINET MINISTER TO THE INDIAN PARLIAMENT. THE EVIDENCE CITED BY CHAVAN FOR HIS ALLEGATIONS IS A COMPREHENSIVE SUMMARY OF THE VARIOUS CLAIMS MADE SO FAR, BUT DOES NOT CONTAIN ANY NEW NOR CONCLUSIVE EVIDENCE. CHAVAN'S STATEMENT IS ALSO NOTABLE FOR THE CATEGORICAL DISMISSAL OF PAKISTAN'S STATED READINESS, REPEATED BY THE NEW PRIME MINISTER, OF READINESS TO CO-OPERATE IN THE INVESTIGATIONS. IT IS UNCLEAR WHY THE INDIANS HAVE CHOSEN THIS MOMENT DIRECTLY TO ACCUSE THE PAKISTANI AUTHORITIES OR TO RULE OUT CO-OPERATION FROM THEM, ALTHOUGH CHAVAN'S ALLUSION TO THE PROSPECT OF A US DETERMINATION THAT PAKISTAN IS A STATE SPONSORING TERRORISM SUGGESTS THE INDIANS MAY HAVE BEEN MOTIVATED BY A DESIRE NOT TO LET THE NEW GOVERNMENT IN ISLAMABAD DISCLAIM RESPONSIBILITY FOR ACTIONS OF ITS PREDECESSOR. THE FORTHCOMING OIC CONFERENCE IN KARACHI MAY ALSO HAVE BEEN A FACTOR.

FENN

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Dr. L.M. Singhvi



- 1) C.I.M.
- 2) Prime Minister

Ann.

19/3

INDIA HOUSE

ALDWYCH

LONDON WC2

18 March, 1993

Dear Prime Minister,

My good friend, Dr. P.C. Alexander, Governor of Maharashtra, has asked me to convey to you the following message in reply to your message to him:

"I am grateful to you for your kind message of sympathy for the victims of heinous acts of terrorism in Bombay on the 12th March. I appreciate very much your kind sentiments and offer of support. With kind regards,

Yours sincerely,

(P.C. Alexander)"

Yours sincerely,

(L.M. Singhvi)

The Rt. Hon. John Major, MP,
Prime Minister of the United Kingdom,
10, Downing Street,
London.

UNCLASSIFIED

UNCLASSIFIED
FM NEW DELHI ✓
TO IMMEDIATE FCO
TELNO 319
OF 180925Z MARCH 93
INFO IMMEDIATE HOME OFFICE, DTI, SNUFFBOX, ACTOR, BOMBAY
INFO PRIORITY ISLAMABAD, COLOMBO, DHAKA

BOMBAY BOMBINGS: THE STOCK EXCHANGE: OUR TELNO 301 (NOT TO ALL)

1. THE BOMBAY STOCK EXCHANGE, WHICH HANDLES 80% OF ALL SHARES TRADED IN INDIA, WAS THE FIRST AND IN SOME WAYS THE PRINCIPAL VICTIM OF THE TERRORIST BOMBINGS ON FRIDAY 12 MARCH. THEY ACTED WITH SPLENDID DEFIANCE IN RE-OPENING BUSINESS ON MONDAY AFTERNOON.
2. THE IMMEDIATE PAST CHAIRMAN OF THE STOCK EXCHANGE, HEMENDRA KOTHARI, ASKED ME IN BOMBAY ON 17 MARCH WHETHER THE PRIME MINISTER'S OFFER OF HELP INCLUDED THE PRIVATE SECTOR. THIS KIND OF TERRORIST ONSLAUGHT ON PUBLIC ECONOMIC TARGETS WAS NEW TO INDIA. THERE WAS NO INDIGENOUS SOURCE OF EXPERTISE - BUT THIS WAS ALAS A PROBLEM OF WHICH WE HAD CURRENT AND SOPHISTICATED EXPERIENCE. COULD WE PROVIDE A CONSULTANT TO VISIT BOMBAY FOR TWO OR THREE DAYS TO ADVISE HIM AND HIS COLLEAGUES ON HOW BEST TO PROTECT A LARGE PUBLIC BUILDING TO WHICH MANY PEOPLE HAD TO HAVE ACCESS IN THE COURSE OF THE WORKING DAY?
3. THE PRESIDENT OF THE BOMBAY CHAMBER OF COMMERCE, SHEKAR DATTA, WHO WAS PRESENT AT THIS CONVERSATION, THOUGHT THAT THERE WOULD BE HUGE INTEREST AMONGST HIS MEMBERS IN A TALK BY ANY SUCH CONSULTANT. MANY OF THEM MIGHT SUBSEQUENTLY WISH TO CONSULT HIM PRIVATELY.

COMMENT

4. IN PRINCIPLE, THIS SEEMS TO ME AN APPEAL TO WHICH WE SHOULD RESPOND. ✓
5. WE WOULD NEED TO KEEP THE GOI INFORMED AND TO OFFER THE SAME SERVICE TO THEM THAT WE GAVE TO THE STOCK EXCHANGE. BUT I HAVE NO DOUBT THAT THE GOVERNMENT WOULD AGREE TO THE VISIT.
6. IT WOULD BE GOOD IN PUBLIC RELATIONS TERMS, AND THERE COULD

BE USEFUL **COMMERCIAL SPIN-OFF**, SINCE COMPANIES IN BOMBAY WILL NOW BE LOOKING TO PROTECT THEMSELVES AGAINST TERRORIST ATTACK AND ARE WELL ABLE TO PAY FOR THE PROTECTION THEY NEED.

7. THE ONLY BRITISH SECURITY COMPANY CURRENTLY ACTIVE IN INDIA IS GROUP FOUR. SECURICOR HAVE SHOWN SOME INTEREST IN OPERATING HERE, BUT HAVE NO PRESENCE AS YET. CONTROL RISKS FOLLOW EVENTS FROM LONDON, BACKED BY OCCASIONAL VISITS.

8. I HOPE WE SHALL RESPOND RAPIDLY. PERHAPS THE HOME OFFICE CENTRAL UNIT COULD PROVIDE A CONSULTANT, WHO MIGHT NEED TO BE IN INDIA FOR A WORKING WEEK. ALTERNATIVELY, I HOPE THAT HMG WOULD FUND A TOP-FLIGHT SECURITY ADVISER FROM THE PRIVATE SECTOR.

9. GRATEFUL FOR INSTRUCTIONS.

FENN

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RESTRICTED
FM BOMBAY
TO IMMEDIATE FCO
TELNO 84
OF 170730Z MARCH 93
INFO IMMEDIATE NEW DELHI, CALCUTTA, ISLAMABAD, COLOMBO
INFO IMMEDIATE DHAKA, ACTOR, SNUFFBOX

BOMBAY EXPLOSIONS: BOMBAY TELNO 81. (NOT TO CALCUTTA).

FOLLOWING FROM HIGH COMMISSIONER IN BOMBAY.

1. I CALLED ON THE CHIEF MINISTER ON 17 MARCH. HE WAS AFFABLE AND VERY MUCH IN CHARGE.
2. HE ASKED ME TO CONVEY HIS PERSONAL THANKS TO THE PRIME MINISTER FOR HIS SUPPORT. HE PARTICULARLY APPRECIATED HIS ACTION IN TELEPHONING SINGHVI OVER THE WEEKEND (FCO TELNO 258 TO NEW DELHI). IT WAS HELPFUL OF MR MAJOR TO HAVE SENT ME TO BOMBAY TO DISCUSS WHAT WE MIGHT DO TO HELP.
3. FOR THE MOMENT THERE WAS NO SPECIFIC NEED WHICH COULD IMMEDIATELY BE IDENTIFIED. THE POLICE INVESTIGATIONS HAD REACHED THE POINT WHERE THEY WERE CONFIDENT THAT THEY HAD IDENTIFIED THOSE WHO HAD PLACED THE BOMBS. BUT THE SCALE AND SOPHISTICATION OF THE ATTACK WAS BEYOND THE RESOURCES OF ANYONE IN INDIA AND THE MATERIALS CAME FROM OUTSIDE. HE CONFIRMED THAT THE EXPLOSIVE WAS SEMTEX WHICH SEEMED TO HAVE BEEN PROCURED IN AUSTRIA. WHEN THE INDIAN POLICE REACHED THE POINT WHERE THE TRAIL LED ABROAD, THEY WOULD NOT FAIL TO BE IN TOUCH WITH US. THE ATTACK WAS CLEARLY INTENDED TO DETER FOREIGN INVESTMENT AND PERHAPS ALSO TO INSTIGATE COMMUNAL DISTURBANCE. IF IT HAD SUCCEEDED, BOMBAY COULD HAVE BEEN IN FLAMES FOR DAYS. PAWAR WAS PROUD OF THE DIGNITY, RESTRAINT AND DETERMINATION WITH WHICH THE PEOPLE OF THE CITY HAD REACTED.
4. MY HIGH COMMISSION DOCTOR, DOROTHY EGGLETON, WAS VISITING HOSPITALS IN BOMBAY YESTERDAY AND OBTAINED FROM THE KEM HOSPITAL AN AMBITIOUS LIST OF BURN RELATED DRUGS AND EQUIPMENT (BY FAX TO DELHI). IN THE LIGHT OF PAWAR'S REPLY, I DID NOT THINK IT NECESSARY TO CONSULT HIM ABOUT THIS LIST. BUT IT PROVIDES A USEFUL INDICATION OF THE KIND OF THING TATOAZ BE NEEDED IF THE INDIANS SHOULD COME BACK TO US.

5. I HAVE ASKED DHC CALCUTTA TO BE IN TOUCH WITH THE GOVERNOR OF WEST BENGAL ABOUT THE BOMB IN CALCUTTA THIS MORNING; AND DHC DELHI TO EXPLAIN TO THE MEA THERE WHAT WE ARE DOING IN BOMBAY AND CALCUTTA. PAWAR HAD BEEN IN TOUCH THIS MORNING WITH THE CHIEF MINISTER OF WEST BENGAL. JYOTI BASU HAD BEEN PUZZLED. THE CALCUTTA EXPLOSION HAD TAKEN PLACE IN AN AREA OF NO PARTICULAR ECONOMIC SIGNIFICANCE AND OF MIXED MUSLIM AND HINDU POPULATION, SO IT WAS HARD TO IDENTIFY EITHER ECONOMIC OR COMMUNAL MOTIVATION. HE DID NOT EXCLUDE THE POSSIBILITY OF ACCIDENT.

FURNESS

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FM BOMBAY
TO IMMEDIATE FCO
TELNO 081
OF 160730Z MARCH 93
INFO IMMEDIATE NEW DELHI, ISLAMABAD, COLOMBO, DHAKA
INFO IMMEDIATE ACTOR, SNUFFBOX

BOMBAY EXPLOSIONS: NEW DELHI TELNO 301 AND FCO TELNO 258 TO DELHI.

FOLLOWING FROM HIGH COMMISSIONER IN BOMBAY

1. I CALLED ON THE GOVERNOR OF MAHARASHTRA ON 16 MARCH. HE THANKED ME FOR THE MESSAGES FROM THE PRIME MINISTER AND HM THE QUEEN WHICH HAD A 'HUGE SIGNIFICANCE' IN INDIA. HE WAS GRATEFUL FOR THE OFFER OF PRACTICAL HELP. HE WOULD DISCUSS WITH THE CHIEF MINISTER THE POSSIBILITIES OF A SPECIALIST MEDICAL TEAM: DRESSING AND DRUGS FOR BURNS, FORENSIC HELP TO THE POLICE. HE HOPED THAT SHARAD PAWAR MIGHT BE ABLE TO GIVE ME SOME SUBSTANTIVE REACTION WHEN (AS I HOPE) I CALL ON HIM TOMORROW.

2. DR ALEXANDER SAID THAT THE POLICE WERE NOW CLOSE TO IDENTIFYING THE IMMEDIATE CULPRITS. BUT IT WAS AN OPEN QUESTION WHO LAY BEHIND THEM. HIS OWN SPECULATION WAS THAT THIS WAS THE WORK OF GOLD AND NARCOTICS SMUGGLERS WHOSE PROFITABLE BUSINESS WAS BEING ERODED BY ECONOMIC REFORM AND WHO WISHED THEREFORE TO STRIKE AT THE HEART OF INDIA'S ECONOMY TO DETER FOREIGN INVESTMENT. BUT IT WAS ALWAYS POSSIBLE THAT A FOREIGN HAND WAS USING THEM FOR ITS OWN NEFARIOUS PURPOSES TO UNDERMINE THE STABILITY OF THE STATE. PAKISTAN WAS THE OBVIOUS SUSPECT BUT HE AGREED THAT IT WOULD BE IRRESPONSIBLE TO SPECULATE ON THESE LINES IN PUBLIC.

3. HE ACCEPTED THAT THERE WAS A DANGER OF RENEWED COMMUNAL VIOLENCE IF IT WAS ESTABLISHED THAT MUSLIMS WERE RESPONSIBLE.

4. BUT HE EXPRESSED CONFIDENCE IN THE NEW CHIEF MINISTER. SHARAD PAWAR BROUGHT STRONG, AUTHORITATIVE LEADERSHIP WHICH HAD BEEN DESPERATELY NEEDED. IT WAS NO DOUBT TRUE THAT HE HAD BEEN RELUCTANT TO RETURN TO MAHARASHTRA BECAUSE OF HIS LEGITIMATE POLITICAL AMBITIONS AT THE CENTRE. BUT HE HAD COME IN A SPIRIT OF LOYALTY AND PUBLIC SERVICE WHICH WAS IN THE INTERESTS OF INDIA, OF MAHARASHTRA, OF THE CITY OF BOMBAY - AND ALSO THE CONGRESS PARTY. DR ALEXANDER WAS CONFIDENT THAT PAWAR WOULD CONTAIN ANY

RENEWED OUTBREAK OF COMMUNAL VIOLENCE.

5. HE PAID TRIBUTE TO DR MANMOHAN SINGH'S BUDGET WHICH HAD SENT A STRONG SIGNAL THAT REFORM WOULD CONTINUE WHILE MEETING THE LEGITIMATE CONCERNS OF THE POOR. ECONOMIC REFORM DESERVED TO SUCCEED. THOSE WHO WERE TRYING TO DISRUPT IT WOULD BE BROUGHT TO BOOK.

FURNESS

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PS/MR LENNOX-BOYD

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**SUBJECT
MASTER**

Filed on:



10 DOWNING STREET
LONDON SW1A 2AA

file
Ji Rao. myj
cc FCO
HMT

THE PRIME MINISTER

15 March 1993

Dear Prime Minister,

When we met in New Delhi, you and Dr. Manmohan Singh were facing the task of producing a third budget to carry forward your policies of economic reform. In our talks we discussed the importance for confidence in India of a truly radical budget, against the background of the enormous political and financial difficulties which you face.

I have now seen Dr Mahmohan Singh's budget proposals. I wanted to let you and Dr Manmohan Singh have my support and congratulations for what you have been able to do, and I should like to encourage you to go further on structural reform, particularly tax and public sector reform. There is, I know, more to be done. I am confident, however, that the reform process is irreversible. I hope that you will be able to take the further steps needed for agreement with the IMF on access to concessional resources under a medium term economic programme.

Yours Ever,
John Major

Shri P V Narasimha Rao

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FM NEW DELHI

TO DESKBY 141300Z F C O

TELNO 301

OF 141015Z MARCH 93

INFO IMMEDIATE ISLAMABAD, COLOMBO, DHAKA, BOMBAY, ACTOR
INFO IMMEDIATE SNUFFBOX

BOMBAY EXPLOSIONS: FCO TELNOS 255, 256 AND 257

1. MESSAGES IN TURS DELIVERED. THE PRIME MINISTER'S MESSAGE TO NARASIMHA RAO IS WELL REPORTED IN TODAY'S PRESS, AS IS THE EC STATEMENT: HM THE QUEEN'S MESSAGE TO PRESIDENT SHARMA IS LIKELY TO EMERGE PUBLICLY LATER TODAY. OUR OFFER OF ASSISTANCE HAS BEEN REGISTERED BOTH HERE AND IN BOMBAY.

2. I SHALL BE GOING TO BOMBAY THIS EVENING FOR A 3-DAY VISIT PLANNED WELL BEFORE THESE EVENTS. I SHOULD BE SEEING THE GOVERNOR TOMORROW AND HOPE ALSO TO SEE CHIEF MINISTER PAWAR. I WILL TAKE THIS OPPORTUNITY TO PURSUE THE QUESTION OF ASSISTANCE DIRECTLY WITH THE AUTHORITIES IN BOMBAY.

3. BY FORTUNATE COINCIDENCE OUR UK-BASED HIGH COMMISSION DOCTOR IS DUE TO PAY A REGULAR PASTORAL VISIT TO BOMBAY STARTING TOMORROW. SHE HAD ALREADY PLANNED TO VISIT SOME OF THE MAJOR HOSPITALS WHERE MOST OF THE BOMB VICTIMS HAVE BEEN TAKEN. SHE SHOULD BE ABLE TO ESTABLISH DIRECTLY WITH THE HOSPITAL AUTHORITIES WHAT ASSISTANCE THEY MAY NEED.

4. ON THE POLICE/FORENSIC SIDE WE HAVE BEEN IN CLOSE TOUCH WITH THE SECURITY AUTHORITIES, WHO ARE KEEPING US INFORMED AS THEIR INVESTIGATIONS PROCEED. THEY WILL LET US KNOW OF ANY SPECIALIST ASSISTANCE THAT WOULD BE HELPFUL.

5. IT REMAINS UNCLEAR WHO MIGHT HAVE BEEN BEHIND THE EXPLOSIONS. NO-ONE HAS CLAIMED RESPONSIBILITY. A CONNECTION WITH THE RECENT INTERCOMMUNAL TROUBLES IN BOMBAY SEEMS UNLIKELY. THE LEVEL OF ORGANISATION AND TECHNICAL SOPHISTICATION INVOLVED IN THE BOMBINGS APPEARS BEYOND THE KNOWN CAPABILITIES OF SIKH OR KASHMIRI MILITANTS. THE LTTE ARE THOUGHT MORE LIKELY TO HAVE THE NECESSARY MATERIALS AND EXPERIENCE, BUT AN OFF-SHORE REVENGE ATTACK ON THIS SCALE WOULD BE SURPRISING. THERE HAVE BEEN SOME MANIFESTATIONS OF THE INSTINCTIVE INDIAN ASSUMPTION THAT PAKISTAN MUST SOMEHOW BE

INVOLVED IN ANYTHING LIKE THIS. BUT THE FACT IS THAT SO FAR THE EVIDENCE DOES NOT POINT CLEARLY IN ANY PARTICULAR DIRECTION.

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UNCLASSIFIED

FCO
TO DESKBY NEW DELHI
TELNO 256
OF 121927Z MARCH 93
AND TO DESKBY 130400Z BOMBAY

SUBJECT
MASTER

Filed on:

MIPR: BOMBS IN BOMBAY: FROM PRIVATE SECRETARY

MIPT: BOMBS IN BOMBAY

1. Please deliver the following messages from the Prime Minister.

To the Indian Prime Minister

I was shocked to hear of the terrible explosion on Bombay today. Please convey my deepest sympathy to those who suffered loss or injury.

Our sympathy is all the greater because we ourselves have also suffered from terrorist acts. I am asking our High Commissioner to find out if there is any practical help we can usefully offer, for example in the treatment of injuries.

All of India's many friends in the United Kingdom will be saddened by today's events.

With my best wishes.

Yours sincerely,

John Major.

To Dr. Alexander, the Governor of Bombay

Recalling the warmth of my reception in your City only two months ago, I was appalled to hear news of the devastating explosions which struck Bombay today.

I would like to express the heartfelt sympathy of all the British people for those who have suffered loss or injury as a result of these acts of terrorism. May I send you our support in dealing with this very tragic situation?

With best wishes.

Yours sincerely,

John Major.

HURD

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[McGlennan]

OCMIAN 0174



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

12 March 1993

BOMBAY TRAGEDY

We spoke. Thank you for your letter of this evening.

Could you please telegraph the following messages from the Prime Minister as soon as possible:

To the Indian Prime Minister

I was shocked to hear of the terrible explosions in Bombay today. Please convey my deepest sympathy to those who suffered loss or injury.

Our sympathy is all the greater because we ourselves have also suffered from terrorist acts. I am asking our High Commissioner to find out if there is any practical help we can usefully offer, for example in the treatment of injuries.

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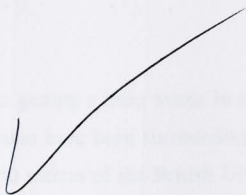
We agreed that you would explore ways in which we could make a rapid offer of practical help to the Indians, as envisaged in the message to the Prime Minister.

RODERIC LYNE

J. S. Smith, Esq.,
Foreign and Commonwealth Office

CC-Deliver
to Press
-dugo file

PRIME MINISTER



Also Mr. Alexander
(publish here)
Can we help?

MESSAGE FROM ROD LYNE

1. There has been a series of bomb blasts in Bombay. 185 people have been killed. The Press Office are making a statement to express your sympathy and condolences and to say that you will be writing to the Indian Prime Minister (see attached minute).

2. American bases in Europe. The Americans are making a statement in Washington about changes in armed forces at about 5pm our time today (see letter attached). What it will say about Europe is the following:

- the Department of Defence is also reviewing an additional 32 sites in Europe for return or partial return to host governments. These will involve a further draw-down of about 4575 military, 680 US civilian employees and 665 local nationals.

Comment

The figure of 665 strikes the MOD as wrong or misleading, because it is very different from the figures that we had earlier, as you know. Let us not draw any conclusions from that figure at the moment.

MOD have been told that the American consultation period with host nations, ie, the UK and Germany, will now extend until 31 March, so that in early April they will make further announcements about precisely what cuts they are going to make overseas.

3. Bosnia. The situation in Bosnia is getting a little worse in that the Serbs have now been shelling the Moslems who have been surrounding the 11 British soldiers. One shell fell within about 50 metres of the British UN group. No casualties. They were not actually being targeted. In the shelling, however, two Moslems were killed and 9 injured. The shelling has now stopped and the latest news is that the British Major in charge is now said to be pulling out. (However, so far, there are no British casualties.)



PAM

12 March 1993

JONATHAN HASLAM

News has come this afternoon of a series of bomb blasts (between 12 and 14) in Bombay's business district, killing around 200 people and injuring perhaps 500. It is not yet known who was responsible. The Indian Government has declared a state of alert.

The Foreign Office have recommended that the Prime Minister should put out a statement and write to the Indian Prime Minister. I am sure this is right. Grateful if you could clear the following as necessary and issue:

Statement by the Prime Minister

"I have been shocked to hear of the huge loss of life and number of injuries in the bomb attacks in Bombay. I would like to extend my deepest sympathy to all who have been affected. I am writing to the Indian Prime Minister, Mr Narasimha Rao, to assure him of our full support for the Indian authorities in responding to terrorist acts, and to express our horror at these outrages."

GR
RODERIC LYNE

FL
12 March 1993

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RL
RODERIC LYNE

RL
12 March 1993

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GR

RP **RODERIC LYNE**

12 March 1993



Foreign &
Commonwealth
Office

London SW1A 2AH

Type for signature

11 March 1993

Sum.
m

Dear Roderic,

Indian Economy: 1993/94 Budget

In his letter of 3 March Stephen Wall asked for advice on whether the Prime Minister should write to either the Indian Finance Minister, or to the Indian Prime Minister, following the presentation of the Indian budget. Sir N Fenn has advised that there would now be a case for a message from the Prime Minister, preferably to Narasimha Rao (New Delhi telno 276, copy enclosed). Meanwhile, our delegation to the IMF/IBRD have reported the views of IMF staff that there are several areas where additional action will be required before they can bring a medium term programme to the Executive Board (UKDEL IMF/IBRD Washington telno 68, copy enclosed).

I enclose a draft. This suggests the Prime Minister might express general support for the direction of India's reforms, whilst encouraging the Indians to take the necessary additional measures.

I am copying this letter to Owen Barder (HM Treasury).

Yours ever,

Stephen

(J S Smith)
Private Secretary

Roderic Lyne Esq CMG
10 Downing Street

DRAFT LETTER FROM THE PRIME MINISTER TO:

R V Narasimha Rao
Prime Minister

When we met in New Delhi, you and Dr Manmohan Singh were facing the task of producing a third budget to carry forward your policies of economic reform. In our talks we discussed the importance for confidence in India of a truly radical budget, against the background of the enormous political and financial difficulties which you faced.

I have now seen Dr Mahmohan Singh's budget proposals. I wanted to let you and Dr Manmohan Singh have my support and congratulations for what you have been able to do, and I should like to encourage you to go further on structural reform, particularly tax and public sector reform. There is, I know, more to be done. I am confident, however, that the reform process is irreversible. I hope that you will be able to take the further steps needed for agreement with the IMF on access to concessional resources under a medium term economic programme.

DS

RESTRICTED
FM NEW DELHI
TO DESKBY 051130Z FCO
TELNO 276
OF 051029Z MARCH 93
INFO IMMEDIATE UKDEL IMF/IBRD WASHINGTON, DTI INTRA, ODA
INFO IMMEDIATE BANK OF ENGLAND, HM TREASURY, ECGD
INFO PRIORITY ISLAMABAD, BOMBAY

MY TELNO 267 AND YOUR TELNO 227 (NOT TO ALL): INDIAN BUDGET

1. AS I COMMENTED IN FIRST TUR, MANMOHAN SINGH'S THIRD BUDGET HAS SKILLFULLY, AND IN SOME RESPECTS BOLDLY, CARRIED FORWARD THE REFORM AND LIBERALISATION OF THE INDIAN ECONOMY. IT HAS BEEN WELL CRAFTED IN BOTH ECONOMIC AND INTERNAL POLITICAL TERMS AND HAS BEEN WIDELY WELCOMED DOMESTICALLY. DESPITE THE INEVITABLE, BUT SO FAR RATHER MUTED, CRITICISM FROM OPPOSITION PARTIES IT HAS SO FAR BEEN SEEN AS NOT ONLY RESTORING THE MOMENTUM OF ECONOMIC REFORM BUT AS GOING SOME WAY TO RESTORING THE MORALE AND CONFIDENCE OF CONGRESS (I) AND THE STANDING OF PRIME MINISTER NARASIMHA PERSONALLY. IT HAS HELPED THAT THE MARKET RATE OF THE RUPEE UNDER THE NEW UNIFIED EXCHANGE RATE HAS SO FAR ACTUALLY STRENGTHENED.

2. THERE IS THEREFORE A GOOD CASE FOR A PERSONAL MESSAGE FROM THE PRIME MINISTER EXPRESSING GENERAL CONGRATULATIONS AND SUPPORT. THIS COULD EITHER BE TO DR MANMOHAN SINGH HIMSELF OR (PERHAPS PREFERABLY) TO NARASIMHA RAO BUT INCORPORATING A REFERENCE TO THE MEETING WITH MANMOHAN SINGH ON 25 FEBRUARY AND WITH A SIDE COPY TO HIM.

3. THERE ARE, HOWEVER, SOME DELICATE IMPLICATIONS WHICH NEED TO BE WATCHED. APART FROM THE BROAD QUESTIONS OF JUDGEMENT AS TO WHETHER THE BUDGET GOES FAST ENOUGH OR WHETHER ITS ASSUMPTIONS MIGHT RISK PROVING SOMEWHAT TOO OPTIMISTIC: THERE IS THE MORE SPECIFIC QUESTION OF THE EXTENT TO WHICH THE BUDGET DELIBERATELY DOES NOT MEET THE IMF'S PREFERRED TARGET FOR THE 1993-4 FISCAL DEFICIT. THE GOI SEEM ALREADY TO HAVE OVER-ENCOURAGED THEMSELVES IN THIS BY THE 25 FEBRUARY CONVERSATION BETWEEN THE PRIME MINISTER AND MANMOHAN SINGH. IT WOULD NOT BE PRUDENT TO GIVE A GENERAL ENDORSEMENT OF THE BUDGET, INCLUDING THIS ELEMENT, IF THIS WERE TO BE AT ODDS WITH THE LIKELY REACTION OF THE IFIS OR WERE IN ANY WAY TO RISK BEING TAKEN BY THE INDIANS AS AN

INDICATION THAT THEY COULD SLACKEN THE FUTURE PACE OF REFORM IN RESPONSE TO DOMESTIC PRESSURE. MIFT SUGGESTS THE POSSIBLE TEXT OF A MESSAGE WHICH TRIES TO EVADE THESE RISKS. BUT IT WOULD STILL BE AS WELL TO HAVE COMMENT FROM UKDEL IMF/IBRD WASHINGTON BEFORE ANY MESSAGE ISSUES.

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TO DESKBY 080900Z FCO

TELNO 68

OF 052300Z MARCH 93

AND TO DESKBY 080900Z HM TREASURY, BANK OF ENGLAND, ODA
AND TO PRIORITY NEW DELHIFCO FOR TEBBIT (ERD), HM TREASURY FOR PS/CHANCELLOR, CUNLIFFE,
BANK OF ENGLAND FOR BULLOCH, ODA FOR POWER (IFID)INDIAN BUDGET: IMF REACTION AND COMMENT ON DRAFT MESSAGE
FROM PRIME MINISTER

SUMMARY

1. FUND STAFF WELCOME MOST OF THE MEASURES IN THE INDIAN BUDGET, BUT SAY THERE ARE SOME SERIOUS SINS OF OMISSION WHICH WOULD NEED TO BE ADDRESSED BEFORE CONSIDERATION OF AN EFF/ESAF. THERE WILL BE A FUND MISSION TO INDIA LATER THIS MONTH. WE SUGGEST TONE OF MESSAGE FROM PM LAYS A TOUCH MORE EMPHASIS ON NEED FOR PERSEVERANCE THAN IN DRAFT OF NEW DELHI TELNO 277.

DETAIL

2. DORRINGTON DISCUSSED INDIAN BUDGET WITH GOLDSBROUGH, IMF DIVISION CHIEF FOR INDIA, TODAY. OVERALL HE SAID THE BUDGET WAS 'VERY POSITIVE' BUT HE WAS NOT 'OVER ENTHUSIASTIC'. HE WELCOMED THE 'GOOD THINGS' SUCH AS EXCHANGE RATE UNIFICATION, REDUCTIONS IN TARIFFS AND SOME OF THE RESTRUCTURING OF EXPENDITURE, BUT THE OVERALL FISCAL ADJUSTMENT HAS STOPPED.

3. BASED ON PRELIMINARY WORK, HE ESTIMATES THAT THE OUTTURN FOR THE DEFICIT WILL BE SLIGHTLY MORE THAN THE 4.7 PER CENT OFFICIAL FORECAST, DUE TO OVERESTIMATION OF REVENUES. BUT HE STRONGLY EMPHASISED THAT HIS CONCERNS WERE NOT SO MUCH RELATED TO THE PARTICULAR FIGURE FOR THE DEFICIT AS THE UNDERLYING TREND AND PARTICULARLY THE LACK OF PROGRESS ON SOME STRUCTURAL MEASURES. HE WOULD CERTAINLY NOT WELCOME A REDUCTION IN THE DEFICIT AS A RESULT OF A TEMPORARY TAX INCREASE WHICH CREATED DISTORTIONS.

4. FOREMOST AMONGST THE MEASURES THAT WERE 'CONSPICUOUSLY LACKING' WAS ANY MOVE TOWARDS A VAT. HE HAD NOT BEEN EXPECTING 'ANYTHING DRAMATIC', BUT HAD HOPED FOR SOMETHING MORE POSITIVE THAN ANOTHER STUDY. HE FULLY RECOGNISED THAT THE INTRODUCTION OF AN EFFICIENT VAT WOULD TAKE TIME AND WOULD REQUIRE THE AGREEMENT OF THE STATES, BUT MUCH COULD BE DONE THAT WOULD NOT BE SUBJECT TO A VETO FROM THE STATES. IN PARTICULAR HE MENTIONED BROADENING THE INDIRECT TAX BASE TO INCLUDE MORE SERVICES AND CUTTING EXEMPTIONS.

5. ON EXPENDITURE, THE OVERALL BUDGET FIGURES REFLECTED THE FULL YEAR EFFECT OF MEASURES TAKEN LAST YEAR RATHER THAN ANYTHING NEW - 'ADJUSTMENT HAS STOPPED'. WHILST THE PROPOSED INCREASES IN SOCIAL SPENDING, PARTICULARLY ON HEALTH AND EDUCATION, WERE VERY WELCOME, HE THOUGHT THAT THE PACE OF EXPANSION OWED MORE TO POLITICAL CONSIDERATIONS THAN REGARD FOR EFFICIENT IMPLEMENTATION. THAT DEFENCE EXPENDITURE WAS TO BE ESSENTIALLY UNCHANGED AS A PER CENT OF GDP WAS A DISAPPOINTMENT, AS THIS IMPLIED THAT THE SAVINGS AS A RESULT OF THE MILITARY DEBT NEGOTIATIONS WITH RUSSIA, ABOUT 0.2 PER CENT OF GDP, HAD BEEN ABSORBED ELSEWHERE WITHIN THE DEFENCE BUDGET. HE ALSO REGRETTED THAT THERE HAD BEEN NO ACTION ON PUBLIC SECTOR WAGE INDEXATION OR ON OVERSTAFFING.

6. NOTWITHSTANDING ALL THIS, GOLDSBROUGH NOTED SOME REPORTS OF THE BUDGET HAD ERRONEOUSLY GIVEN THE IMPRESSION THAT A MAJOR EXPANSION OF PUBLIC INVESTMENT WAS PLANNED. CENTRAL GOVERNMENT INVESTMENT IS EXPECTED TO BE BROADLY FLAT AS A PER CENT OF GDP, THE BIG INCREASE IS IN INVESTMENT BY PUBLIC ENTERPRISES, AND MUCH OF THIS IS ACCOUNTED FOR BY PRIVATE SECTOR PARTICIPATION. IN ANY EVENT IT IS DEBATABLE WHETHER THIS WILL TAKE PLACE AS RAPIDLY AS PLANNED.

7. ON STRUCTURAL MEASURES, HE OBVIOUSLY WELCOMED THE EXCHANGE RATE UNIFICATION, WHICH HAD COME FASTER THAN HE HAD EXPECTED, AND THE TARIFF REFORM. HE WAS HOPING THAT THE TRADE POLICY STATEMENT EXPECTED IN APRIL WOULD ANNOUNCE THE LIBERALISATION OF IMPORTS OF CONSUMER GOODS. THE FINANCIAL SECTOR REFORMS WERE WELCOME, BUT THERE WAS A NEED FOR FURTHER MEASURES. PUBLIC ENTERPRISE REFORM HAD MADE ONLY SLOW PROGRESS THROUGHOUT THE SBA, WHILST IT WAS

DISAPPOINTING THAT THERE WAS NO ACTION ANNOUNCED IN THE BUDGET, GIVEN THE POLITICS, NONE WAS EXPECTED. NEVERTHELESS, HE FELT THAT FASTER PROGRESS COULD HAVE BEEN MADE DESPITE THE POLITICAL SITUATION - SOME ENTERPRISES CLEARLY DID NOT BELONG IN THE PUBLIC SECTOR.

8. IN GENERAL MONETARY POLICY WAS 'NOT A MAJOR ISSUE' DESPITE THE FACT THAT MONETARY GROWTH HAD BEEN FASTER THAN TARGETED, THIS REFLECTED AN UNDERESTIMATION OF MONETARY DEMAND, AND HAD NOT PREVENTED A GOOD REDUCTION IN INFLATION. THE OVERALL LEVEL OF INTEREST RATES WAS 'NOT A PROBLEM'.

9. OVERALL THE SBA HAD ACHIEVED ITS OBJECTIVES OF STABILISING THE ECONOMY AND RESCUING IT FROM A BALANCE OF PAYMENTS CRISIS. BUT CURRENT POLICIES WOULD NOT IN THE STAFF'S VIEW BE SUFFICIENT TO JUSTIFY AN EFF/ESAF - IF SUCH A PROGRAM WERE TO BE BROUGHT TO THE BOARD HE WOULD EXPECT STRONG CRITICAL COMMENTS FROM A NUMBER OF CHAIRS. THE MAIN MEASURES THAT WOULD BE REQUIRED WERE ON TAX REFORM, THE TREND IN PUBLIC EXPENDITURE (INCLUDING DEFENCE EXPENDITURE), PUBLIC ENTERPRISE REFORM AND FURTHER FINANCIAL SECTOR REFORMS. WITH REGARD TO THE LATTER, HE MENTIONED DEVELOPMENT OF THE MARKET IN PUBLIC SECTOR DEBT (INDIA IS CURRENTLY RECEIVING FUND TECHNICAL ASSISTANCE ON THIS AND HE EXPECTS THIS TO HAPPEN), A REDUCTION IN IMPLICIT INTEREST SUBSIDIES FOR PREFERRED CREDITORS, AND A REDUCTION IN DIRECTED CREDIT TO THE GOVERNMENT. THIS OVERALL IMF ASSESSMENT WAS UNDERSTOOD IN INDIA.

10. A FUND MISSION WILL BE GOING TO INDIA IN THE SECOND HALF OF MARCH TO COMPLETE THE SBA AND TO DISCUSS WHAT ELSE IS NEEDED TO JUSTIFY AN EFF/ESAF. IT IS POSSIBLE THERE WILL BE FURTHER MEASURES ANNOUNCED IN THE MIDDLE OF THE YEAR. THERE WILL HAVE TO BE SOME FURTHER PRIOR ACTIONS AS WELL AS ARTICULATED PLANS. THERE CAN BE NO EFF UNTIL 'SERIOUS TAX REFORMS' HAVE BEEN ANNOUNCED, BUT FULL IMPLEMENTATION WOULD NOT BE A PRIOR ACTION.

COMMENT

11. THUS THE FUND, AND WE, WOULD BROADLY AGREE WITH NEW DELHI THAT THE BUDGET DESERVES TWO CHEERS. THE MISSING CHEER IS MAINLY RELATED TO STRUCTURAL MEASURES. IT IS IMPORTANT THAT INDIA IS NOT LEFT IN ANY DOUBT AS TO THE

IMPORTANCE OF THESE MEASURES. WE WILL DO THE INDIANS NO SERVICE IF WE SUGGEST THEY HAVE DONE ENOUGH YET TO QUALIFY FOR AN EFF/ESAF, WHEN THE FUND STAFF VIEW IS CLEARLY THAT THEY HAVE NOT. SO I SUGGEST MAKING THE PRIME MINISTER'S MESSAGE A TOUCH STRONGER ON THE NEED FOR FURTHER ACTION - PERHAPS BY ADDING A NEW PENULTIMATE SENTENCE 'THERE IS I KNOW MORE TO BE DONE. BUT I AM ...'.

PERETZ

YYYY

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NNNN

Spoke to FCO.

Advice to come.

Copied to you B F on 10 March if
the morning received

PROCESSES OF SAD/FCO Paper.

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COMMENT:

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TO DESKBY 051130Z FCO

TELNO 276

OF 051029Z MARCH 93

INFO IMMEDIATE UKDEL IMF/IBRD WASHINGTON, DTI INTRA, ODA

INFO IMMEDIATE BANK OF ENGLAND, HM TREASURY, ECGD

INFO PRIORITY ISLAMABAD, BOMBAY

MY TELNO 267 AND YOUR TELNO 227 (NOT TO ALL): INDIAN BUDGET

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COMMENT:

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OF 051243Z MARCH 93
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INFO IMMEDIATE BANK OF ENGLAND, HM TREASURY, ECGD
INFO PRIORITY ISLAMABAD, BOMBAY

MIPT: INDIAN BUDGET: DRAFT MESSAGE FROM THE PRIME MINISTER

1. WHEN I HAD THE GREAT PLEASURE OF TALKING TO YOU DURING MY VISIT TO NEW DELHI RECENTLY, YOUR FINANCE MINISTER DR MANMOHAN SINGH WAS FACING THE TASK OF PRODUCING A THIRD BUDGET TO CARRY FORWARD YOUR POLICIES OF ECONOMIC REFORM.

2. IN OUR TALKS I STRESSED THE IMPORTANCE FOR CONFIDENCE IN INDIA OF A TRULY RADICAL BUDGET, EVEN WHILE UNDERSTANDING SOMETHING OF THE ENORMOUS POLITICAL AND FINANCIAL DIFFICULTIES WHICH YOU FACED. WITHOUT ENTERING INTO THE DETAIL OF THE BUDGET PROPOSALS, MAY I MERELY SEND TO YOU AND TO DR MANMOHAN SINGH THIS BRIEF LINE OF SUPPORT AND CONGRATULATION ON WHAT YOU HAVE BEEN ABLE TO DO, AND ENCOURAGEMENT TO GO FURTHER IN THIS DIRECTION. I AM MORE THAN EVER CONFIDENT THAT THE REFORM PROCESS IS IRREVERSIBLE, IS IN GOOD HANDS AND WILL SUCCEED IN RELEASING INDIA'S ENORMOUS POTENTIAL.

FENN

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[WRAGG]		



F/Indian-Econ
cc RS

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

3 March 1993

INDIAN ECONOMY: 1993/1994 BUDGET

The Prime Minister has seen New Delhi telno 259 reporting on the Indian Budget.

The Prime Minister accepted the advice of our High Commissioner that he should not write to the Indian Finance Minister before the Budget. He thinks, however, that there may be a case for writing now that the Budget is over, either to the Finance Minister or to Narasimha Rao.

If you agree, I should be grateful if you could let us have a draft letter by Tuesday 9 March.

I am copying this letter to Owen Barder (HM Treasury).

J S WALL

J S Smith Esq
Foreign and Commonwealth Office

SM

UNCLASSIFIED
FM NEW DELHI
TO DESKBY FCO
TELNO 259

OF 011100Z MARCH 93
AND TO DESKBY 011200Z DTI
AND TO DESKBY 011200Z ODA
AND TO DESKBY 011200Z BANK OF ENGLAND
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INFO PRIORITY IMF/IBRD WASHINGTON, ISLAMABAD, BOMBAY, CALCUTTA
INFO PRIORITY MADRAS

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Stephan / Wash a letter now?
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INDIAN ECONOMY: 1993/94 BUDGET

SUMMARY

1. ECONOMIC STRATEGY OF CONTINUING REFORM WHILE STIMULATING INDUSTRIAL AND AGRICULTURAL PRODUCTION AND INCREASING EXPENDITURES IN THE SOCIAL SECTORS. DUAL EXCHANGE RATE ABOLISHED. INTEREST RATES CUT BY ONE PERCENT. BUDGET PROJECTS FISCAL DEFICIT OF 5.3 PERCENT OF GDP IN 1992/93 AND 4.7 PERCENT OF GDP IN 1993/94, THE LATTER AT LEAST WELL ABOVE WHAT THE IMF IS SEEKING. MONEY SET ASIDE TO RECAPITALISE BANKS, WHO CAN ALSO RAISE EQUITY FUNDS. OTHER THAN INTEREST PAYMENTS NON PLAN EXPENDITURE, PARTICULARLY SUBSIDIES, REDUCED SUBSTANTIALLY. DEFENCE EXPENDITURE INCREASED BY 9.6 PERCENT. LARGE INCREASE IN RECURRENT PLAN EXPENDITURE TO FINANCE SOCIAL AND RURAL SECTORS. TAX CHANGES FOCUSED ON CUTS IN CUSTOMS AND EXCISE DUTIES. MAXIMUM CUSTOMS TARIFF CUT FROM 110 PERCENT TO 85 PERCENT, AND MAIN CAPITAL GOODS RATE FROM 55 PERCENT TO 35 PERCENT, WITH LOWER RATES FOR POWER, COAL AND PETROLEUM PROJECTS. LARGE CUTS IN DUTIES ON CHEMICAL AND METAL RAW MATERIALS AND INTERMEDIATES, FOR THE DRUG INDUSTRY AND AGRICULTURE. EXCISE DUTIES REDUCED ON CONSUMPTION ITEMS, CONSUMER DURABLES, VEHICLES AND TEXTILES. SHORT TERM CAPITAL GAINS TAX FOR FOREIGN INSTITUTIONAL INVESTORS REDUCED TO 30 PERCENT.

2. DETAILED COMMENT TO FOLLOW. AT FIRST SIGHT THE BUDGET LOOKS TO BE A SKILFUL COMPROMISE, WITH SOMETHING IN IT FOR NEARLY EVERYONE. MANMOHAN SINGH HAS SENT A MESSAGE ABROAD THAT ECONOMIC REFORMS WILL CONTINUE. BUT IT IS NOT AS RADICAL AS HAD BEEN HOPED. MIXED REACTIONS DOMESTICALLY.

DETAIL

3. THE MINISTER OF FINANCE, MANMOHAN SINGH, PRESENTED HIS THIRD BUDGET TO PARLIAMENT ON 27 FEBRUARY. IT WAS LISTENED TO RESPECTFULLY, INCLUDING BY THE BJP. THE KEY POINTS ARE AS FOLLOWS.

ECONOMIC STRATEGY

4. MANMOHAN SINGH SAID THE SENSE OF CRISIS WAS OVER BUT THERE WAS NO ROOM FOR COMPLACENCY. THE EARLY RESULTS OF REFORM WERE ENCOURAGING, WITH INFLATION DOWN AND PRODUCTION BEGINNING TO RECOVER, THE RUPEE STABLE IN SPITE OF IMPORT LIBERALISATION, AND

AN IMPROVED INVESTMENT CLIMATE, INCLUDING DOLLARS 2.3 BILLION OF FOREIGN INVESTMENT APPROVALS SINCE AUGUST 1991. BUT THERE WERE STILL LARGE FISCAL IMBALANCES, INFLATIONARY EXPECTATIONS REMAINING AND THE DISTURBANCES IN DECEMBER/JANUARY HAD CAST DOUBTS ON THE STABILITY OF THE POLITY AND SOCIETY AND THE GOVERNMENT'S DETERMINATION TO PURSUE THE DIFFICULT TASK OF ECONOMIC REFORM. QUOTE WE CAN ILL AFFORD SUCH DOUBTS UNQUOTE. WITHOUT REFORMS, INDIA WOULD FACE THE CERTAIN PROSPECT OF ENTERING THE 21ST CENTURY AS NEARLY THE POOREST COUNTRY IN ASIA. WITH THEM, INDIA COULD BECOME A POWERHOUSE OF THE WORLD ECONOMY.

5. HIS ECONOMIC STRATEGY WAS:

- TO CONTINUE WITH FISCAL CORRECTION
- GIVE HIGH PRIORITY TO SOCIAL SECTOR AND RURAL DEVELOPMENT EXPENDITURE
- PROVIDE IMPETUS TO THE HESITANT INDUSTRIAL RECOVERY
- MAKE FURTHER PROGRESS WITH TAX REFORM
- SUPPORT AGRICULTURE ON WHICH THE WELLBEING OF THE MAJORITY DEPENDED
- AND ENCOURAGE FURTHER EXPORTS TO END AS QUICKLY AS POSSIBLE THE NEED FOR EXCEPTIONAL FINANCING FROM ABROAD.

6. AS A GENERAL STIMULUS TO THE ECONOMY, MANMOHAN SINGH ANNOUNCED A ONE PERCENT CUT IN BANK LENDING AND DEPOSIT RATES.

EXCHANGE RATE

7. THE RUPEE EXCHANGE RATE WILL HENCEFORTH BE FULLY MARKET DETERMINED. THE DUAL RATE IS ABOLISHED.

FINANCIAL SECTOR REFORM

8. TO HELP MEET THE ESTIMATED BAD DEBT PROVISION BY THE NATIONALISED BANKS OF RS 100 BILLION, AND THE NEW CAPITAL ADEQUACY NORMS, THE GOVERNMENT WOULD PROVIDE RS 57 BILLION THIS YEAR IN THE FORM OF BONDS WHICH WOULD NOT COUNT AS IMMEDIATE BUDGETARY EXPENDITURE ALTHOUGH THE INTEREST AND THE ULTIMATE REDEMPTION WOULD. THE STATE BANK OF INDIA, AND OTHER NATIONALISED BANKS ABLE TO DO SO, WOULD ALSO BE ALLOWED DIRECT ACCESS TO THE CAPITAL MARKETS TO INCREASE THEIR RESERVES, ALTHOUGH GOVERNMENT MAJORITY CONTROL WOULD REMAIN. A BOARD FOR FINANCIAL SUPERVISION IN THE RBI WOULD BE SET UP AND THE POWERS OF THE SECURITIES AND EXCHANGE BOARD (SEBI) WOULD BE FURTHER STRENGTHENED. A COMMITTEE WOULD ALSO REPORT IN THE NEXT SIX MONTHS ON THE EXTENSION OF REFORMS TO THE INSURANCE INDUSTRY. MANMOHAN SINGH REPEATED THE COMMITMENT TO REDUCE THE STATUTORY LIQUIDITY RATIO TO 25 PER CENT OVER THE NEXT THREE YEARS, WITH PHASING TO BE ANNOUNCED BY THE RBI.

FOREIGN INVESTMENT

9. SINGH SAID THAT THE GOVERNMENT WOULD SHORTLY ACCEDE FORMALLY TO THE MULTILATERAL INVESTMENT GUARANTEE AGENCY (MIGA). IT WAS ALSO WILLING TO NEGOTIATE BILATERAL TREATIES WITH COUNTRIES SUCH AS THE UK, GERMANY AND THE USA. MORE GENERALLY, THE GOVERNMENT WOULD CONTINUE TO IMPROVE THE INCENTIVES FOR PRIVATE SECTOR INVESTMENT IN INFRASTRUCTURE. TO IMPROVE IMPLEMENTATION, A SPECIAL REVIEW GROUP WOULD BE SET UP IN EACH MINISTRY TO REFORM ARCHAIC AND CUMBERSOME PROCEDURES AND LAWS.

10. TOTAL REVENUE IN 1992/93 IS EXPECTED TO BE 3.4% HIGHER THAN ORIGINAL ESTIMATES, WITH CORPORATION AND INCOME TAX NEARLY 10 PERCENT HIGHER. HOWEVER EXPENDITURE WILL EXCEED PROJECTIONS BY 4.7 PERCENT, BECAUSE OF INCREASES IN FOOD, FERTILISER AND EXPORT SUBSIDY PROVISION (HIGHER THAN EXPECTED IN SPITE OF PRICE INCREASES AND FERTILISER DECONTROL), UNANTICIPATED LAW AND ORDER EXPENDITURE, ADDITIONAL SOCIAL SECTOR EXPENDITURE CONNECTED WITH THE SOCIAL SAFETY NET, AND ADDITIONAL ASSISTANCE TO STATES, MAINLY TO IMPROVE THE IMPLEMENTATION OF EXTERNALLY AIDED PROJECTS. OVERALL THE MAIN OVERSHOOT IS ON REVENUE EXPENDITURE (UP BY 6 PERCENT) WHILE CAPITAL EXPENDITURE IS UNDER 1 PERCENT HIGHER. EVEN WITH THE CREDITING OF AN EXTRA RS 10 BILLION TO FISCAL REVENUES FROM ASSET SALES, THE FISCAL DEFICIT IS 6.7 PERCENT ABOVE ESTIMATES AT RS 367 BILLION (WHICH WE ESTIMATE AT 5.3 PERCENT OF GDP). THE FINANCE MINISTER SAID THIS WAS WITHIN TOLERABLE LIMITS FOR MACROECONOMIC STABILITY. NOR DOES IT MEAN THE IMF 5 PERCENT TARGET IS NECESSARILY EXCEEDED ONCE ADJUSTMENTS ARE MADE, PARTICULARLY ON THE OIL ACCOUNT WHICH SHOULD SHOW A SURPLUS.

1993/94 EXPENDITURE

11. THE MAIN OBJECTIVE IS TO GIVE A LARGE BOOST TO PLAN EXPENDITURES, PARTICULARLY IN THE SOCIAL SECTORS AND RURAL DEVELOPMENT. EMPLOYMENT GENERATION, HEALTH AND FAMILY WELFARE, EDUCATION, RURAL WATER SUPPLY, AGRICULTURE, AND OTHER SAFETY NET SCHEMES RECEIVE EXTRA RESOURCES. THERE ARE ALSO LARGE INCREASES IN PLAN OUTLAY IN THE KEY INFRASTRUCTURAL SECTORS, BUT MAINLY FINANCED FROM THE INTERNAL RESOURCES AND BORROWING OF PUBLIC SECTOR ENTERPRISES. THUS, WHILE THE TOTAL CENTRAL PLAN OUTLAY INCREASES BY RS 142 BILLION (28.6 PERCENT), THE BUDGETARY OUTLAY TO SUPPORT THIS RISES BY ONLY RS 36 BILLION (18.4 PERCENT). TOTAL BUDGETARY EXPENDITURE ON THE CENTRE AND STATE PLANS INCREASES BY A RELATIVELY MODEST 11.6 PERCENT, WITH CAPITAL EXPENDITURE GROWING BY ONLY 3.7 PERCENT. INTEREST PAYMENTS ARE PROJECTED TO INCREASE FROM RS 325 TO RS 380 BILLION BUT OTHER NON PLAN EXPENDITURE IS CUT SUBSTANTIALLY IN CASH TERMS. TOTAL SUBSIDIES ARE CUT FROM RS 121 TO RS 84 BILLION. DEFENCE EXPENDITURE RISES BY 9.6 PERCENT, FALLING AS A SHARE OF GDP TO 2.5 PERCENT. TOTAL EXPENDITURE IS ESTIMATED AT RS 1313 BILLION, UP BY 5.3 PERCENT.

1993/94

12. THE FINANCE MINISTER SAID HE ACCEPTED THE BROAD THRUST OF THE CHELLIAH TAX REFORM COMMITTEE ON BOTH DIRECT AND INDIRECT TAXES. INDIA MUST MOVE TO MODERATE TAX RATES AND CUSTOMS DUTIES AND INTRODUCE VAT. BUT THIS COULD NOT BE DONE OVERNIGHT. THE CHANGES HAD TO BE PHASED, BEARING IN MIND SHORT TERM REVENUE LOSSES AND OTHER IMMEDIATE PROBLEMS. THE MOST CRITICAL AREA FOR ACTION WAS CUSTOMS DUTIES. HE WOULD THEREFORE DEFER THE REFORM OF DIRECT TAXES, INCLUDING CORPORATE TAX, TO NEXT YEAR. BUT HE OFFERED A FIVE YEAR HOLIDAY TO NEW POWER PROJECTS AND TO ALL NEW PROJECTS IN INDUSTRIALLY BACKWARD STATES. HE INCREASED TAX ALLOWANCES TO ENCOURAGE INVESTMENT IN POLLUTION CONTROL AND RANDD AND MADE OTHER MINOR CHANGES IN DIRECT TAXATION. AS WIDELY EXPECTED HE REDUCED THE SHORT TERM CAPITAL GAINS TAX FOR FOREIGN INSTITUTIONAL INVESTORS, TO 30 PERCENT.

CUSTOMS DUTIES

13. SINGH ANNOUNCED A RANGE OF RATIONALISATION AND REDUCTIONS ON CUSTOMS DUTIES. THE FIRST PRIORITY WAS FOR CAPITAL GOODS AND

PROJECT IMPORTS. THE GENERAL RATE ON MACHINERY IMPORTS WAS REDUCED FROM 55 PERCENT TO 35 PERCENT, COMPARED TO 80 PERCENT BEFORE THE LAST BUDGET. IN PETROLEUM AND COAL PROJECTS THE RATE WOULD BE 25 PERCENT, AND 20 PERCENT IN POWER PROJECTS BECAUSE OF THEIR SPECIAL IMPORTANCE. TO PROTECT THE LEGITIMATE INTERESTS OF THE DOMESTIC CAPITAL GOODS INDUSTRY, THE IMPORT DUTY ON COMPONENTS WOULD ALSO BE LOWERED TO 25 PERCENT. HE RATIONALISED THE DUTY STRUCTURE ON MACHINE TOOLS WITH THREE RATES FROM 40-60 PERCENT, AGAINST 40-110 PERCENT HITHERTO. TO HELP THE DOMESTIC INDUSTRY FURTHER, HE REDUCED DUTIES ON METALS BY VARYING AMOUNTS. FOR CHEMICAL FEEDSTOCKS, DUTIES WERE REDUCED FROM 25-80 PERCENT TO A UNIFORM RATE OF 15 PERCENT OR 40 PERCENT. DUTIES ON INTERMEDIATES WERE ALSO REDUCED, AND UNIFIED AT 70 PERCENT TO GIVE ADEQUATE PROTECTION TO DOMESTIC PRODUCERS. FOR THE SAME REASON THE DUTY ON CAPROLACTAM WAS INCREASED FROM 50 PERCENT TO 60 PERCENT.

14. IN PRIORITY EXPORT SECTORS, INCLUDING ELECTRONICS AND TEXTILES, CAPITAL GOODS DUTIES ARE ALSO REDUCED TO 25 PERCENT WITH CORRESPONDING REDUCTIONS FOR RAW MATERIAL IMPORTS. THERE WERE OTHER CONCESSIONS FOR SHIP-BREAKING, THE FILM INDUSTRY, NON CONVENTIONAL ENERGY, THE PRESS, AND THE IMPORT OF BANGLADESHI SARIS. TO BENEFIT AGRICULTURE, DUTIES ON MACHINERY WERE REDUCED FROM 55 PERCENT TO 25 PERCENT, WITH LARGER REDUCTIONS FOR SPECIFIC ITEMS. DUTIES ON PESTICIDES WERE CUT FROM 110 PERCENT TO 75 PERCENT, AND ON INTERMEDIATES FROM 60 PERCENT TO 50 PERCENT. DUTIES ON BULK DRUGS WERE CUT FROM 80-110 PERCENT TO 25 PERCENT, AND TO 50 PERCENT FOR INTERMEDIATES.

15. FOLLOWING THE RECENT REDUCTIONS FOR SPECIFIED BAGGAGE IMPORTS, THE GENERAL RATE WAS LOWERED FROM 255 PERCENT TO 150 PERCENT. FINALLY THE MAXIMUM RATE OF DUTY ON ALL GOODS, OTHER THAN BAGGAGE AND ALCOHOLIC DRINKS, WAS LOWERED FROM 110 PERCENT TO 85 PERCENT.

EXCISE DUTIES

16. THE FINANCE MINISTER RELIEVED COFFEE AND TEA FROM EXCISE DUTY. HE REDUCED DUTIES ON VEGETABLE OIL, FOOTWEAR, AND SEVERAL ITEMS OF MIDDLE CLASS CONSUMPTION AND REDUCED EXCISE ON CAPITAL GOODS TO A UNIFORM RATE OF 10 PERCENT, AND 5 PERCENT FOR POWER. TO ALLEVIATE THE IMPACT OF THE RECESSION HE REDUCED DUTIES ON VEHICLES, COLOUR TELEVISIONS, REFRIGERATORS AND AIRCONDITIONERS. DUTIES ON PLASTICS INTERMEDIATES WERE REDUCED, AND REDUCED AND RATIONALISED ON FERROUS AND NON-FERROUS METALS. DUTIES ON COSMETICS AND TOILET PREPARATIONS WERE REDUCED FROM 120 PERCENT TO 70 PERCENT. VARIOUS CONCESSIONS WERE ANNOUNCED TO BENEFIT THE SMALL-SCALE SECTOR. TRACTOR EXCISE DUTIES WERE ALSO LOWERED AND THERE WAS A PACKAGE OF CUTS IN THE TEXTILE INDUSTRY.

DEFICITS

17. WITH RS 35 BILLION ASSET SALES IN 1993/94, THE FISCAL DEFICIT WOULD HAVE BEEN RS 330 BILLION AT 1992/93 RATES OF TAX. BUT THE REDUCTIONS IN CUSTOMS DUTIES BY A GROSS RS 32.7 BILLION AND EXCISE BY RS 12.5 BILLION, REPRESENT A NET LOSS TO THE CENTRE OF RS 39.8 BILLION (THE STATES LOSE A RS 5.4 BILLION SHARE OF EXCISE REDUCTIONS). THE ESTIMATED FISCAL DEFICIT IS THEREFORE RS 370 BILLION, WHICH WE ESTIMATE AT 4.7 PERCENT OF GDP. THIS IS WELL ABOVE THE 3-4 PERCENT OF GDP THE IMF HAS BEEN DISCUSSING WITH GOVERNMENT IN PRELIMINARY NEGOTIATIONS ON THE EFF/ESAF LOAN. HOWEVER THE PRIMARY DEFICIT, NET OF INTEREST PAYMENTS, HAS BEEN ERADICATED, AFTER PEAKING AT 5.1 PERCENT OF GDP IN 1990/91.

COMMENT

18. [REDACTED] FILED COMMENT WILL FOLLOW. AT FIRST SIGHT, MANMOHAN SINGH SEEMS TO HAVE DONE A SKILFUL JOB IN BALANCING THE CONFLICTING PRESSURES ON HIM FROM THE IFIS, INDUSTRY AND POLITICIANS. THERE IS SOMETHING IN IT FOR NEARLY EVERYONE. INDIAN ECONOMIC REFORM IS SET TO CONTINUE IN SPITE OF THE POLITICAL DIFFICULTIES. AS EXPECTED, THERE HAS BEEN SOME TRIMMING AT THE EDGES AND SOME AREAS LEFT UNTACKLED. BUT IN MAKING THE RUPEE CONVERTIBLE ON THE TRADE ACCOUNT, MANMOHAN SINGH HAS CONFOUNDED THE SCEPTICS AND SENT THE RIGHT SIGNALS ABROAD. INITIAL REACTION FROM INDUSTRY WAS MAINLY POSITIVE, BUT THERE WAS SOME DISAPPOINTMENT ABOUT THE ABSENCE OF DIRECT TAX CUTS AND THE SMALL INTEREST RATE REDUCTION. STOCK MARKETS, REFLECTING THIS, FELL SHARPLY. OPPOSITION REACTIONS HAVE BEEN PREDICTABLY HOSTILE.

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INFO SAVING BOMBAY, CALCUTTA, MADRAS

INDIA: INTERNAL

SUMMARY

1. ON THE EVE OF THE BUDGET SESSION OF PARLIAMENT THE CONGRESS (I) PARTY AND GOVERNMENT ARE IN POOR SHAPE. THEY FACE A BJP CHALLENGE, AND AWKWARD CONDITIONS IN WHICH TO FORM ANOTHER CRUCIAL BUDGET. IT IS LIKELY TO CONTAIN JUST ENOUGH TO SUSTAIN INTERNATIONAL CONFIDENCE. WE ARE IN FOR A BUMPY RIDE BUT THE GOVERNMENT IS LIKELY TO SURVIVE.

DETAIL

2. THE WINTER SESSION OF PARLIAMENT (FEBRUARY TO MAY) BEGINS ON 22 FEBRUARY. THE BUDGET WILL BE PRESENTED ON 27 FEBRUARY. IT WILL BE PRECEDED BY A TRIAL OF STRENGTH OVER A THREATENED BJP RALLY ON 25 FEBRUARY WHICH THE GOVERNMENT HAVE BANNED ON THE GROUNDS OF THE THREAT TO PUBLIC ORDER. THE BJP HAVE SAID THE RALLY WILL GO FORWARD AND ARE REPORTED TO BE INFILTRATING PARTY WORKERS INTO DELHI. THEIR TACTICS MAY INCLUDE DISRUPTION OF THE PARLIAMENTARY SESSION: THEY HAVE ANNOUNCED THAT THEY WILL BOYCOTT PRESIDENT SHARMA'S ADDRESS AT THE STATE OPENING OF PARLIAMENT TODAY.

3. THE CONGRESS PARTY IS IN POOR SHAPE, WITH OPEN DISSENSION IN SEVERAL STATES. IN THE MAJOR STATE OF MAHARASHTRA, A TRADITIONAL STRONGHOLD, CHIEF MINISTER NAIK IS UNDER STRONG CRITICISM FOR INACTION DURING THE BOMBAY RIOTS BUT SEEMS TO BE BACKED BY HOME MINISTER CHAVAN AND OTHERS AGAINST EFFORTS LED BY DEFENCE MINISTER PAWAR TO FORCE HIS RESIGNATION OR REMOVAL. EARLIER DISSIDENCE HAS AGAIN RESURFACED IN THE CONGRESS (I) RULED STATES OF KARNATAKA AND ANDHRA PRADESH, WHILE IN ORISSA PERSONAL RIVALRIES BROKE OUT IN PHYSICAL BRAWLS. IN GUJARAT THE BJP WAVE WOULD SWEEP CONGRESS (I) FROM POWER IF ELECTIONS HAD TO BE HELD

NOW. IN TAMIL NADU, CHIEF MINISTER JAYALALITHA IS AGAIN THREATENING TO WITHDRAW FROM HER ALLIANCE WITH CONGRESS. THE PARTY MANAGERS HAVE FAILED TO NEGOTIATE AN ARRANGEMENT WITH THE 20 REBEL JANATA DAL MPS LED BY AJIT SINGH.

4. AT THE CENTRE, NARISIMHA RAO COMFORTABLY SURVIVED A MEETING OF THE CONGRESS WORKING COMMITTEE AT WHICH ARJUN SINGH HAD THREATENED TO MOUNT AN OPEN CHALLENGE. BUT THE PARTY STILL FACES A FUNDAMENTAL POLICY DILEMMA BETWEEN THOSE, LED BY ARJUN SINGH, WHO CALL FOR ALL-OUT CONFRONTATION AGAINST THE BJP, AND THOSE WHO, FEARFUL FOR THEIR SEATS IN THE HINDI BELT, ADVOCATE A 'PALE SAFFRON' LINE TO REGAIN 'HINDU' SUPPORT. RAO HAS ADDRESSED ONE SUCCESSFUL CONGRESS (I) RALLY IN UTTAR PRADESH, AND MORE ARE PROMISED BUT OTHERWISE NO PROGRESS HAS BEEN MADE IN FORMING A STRATEGY TO RECOVER GROUND IN THE GANGETIC PLAIN. FORTUNATELY FOR CONGRESS THE BJP HAS ITS OWN TACTICAL PROBLEMS IN BALANCING AGITATION BASED ON RELIGIOUS FERVOUR AGAINST THE NEED TO REASSURE BUSINESSMEN AND OTHERS FEARING MORE CIVIL DISORDER.

5. FOR NARASIMHA RAO THE NEXT WEEK WILL BE OF PARTICULAR IMPORTANCE, BOTH FOR THE EXPECTED CLASH OVER THE BANNED RALLY ON 25 FEBRUARY AND FOR THE SUCCESS OR FAILURE OF THE BUDGET IN PROJECTING AN IMAGE, DOMESTICALLY AND ABROAD, OF CONTINUED PURPOSE AND PROGRESS IN ECONOMIC REFORM. HE FACES A SESSION OF THE ALL INDIA CONGRESS COMMITTEE AT THE END OF MARCH WHICH COULD BECOME A FOCUS OF RENEWED CRITICISM AND DISSENSION IF THE BUDGET HAS GONE BADLY.

6. FORTUNATELY FOR HIM, THE LEFT WING OPPOSITION, THOUGH SEVERELY CRITICAL OF THE GOVERNMENT'S ECONOMIC POLICY, IS STILL MORE CONCERNED TO AVOID THE FRESH ELECTIONS THAT WOULD FOLLOW THE GOVERNMENT'S DEFEAT. JANATA DAL AND CPI(M) LEADERS IN PARTICULAR HAVE MADE CLEAR BOTH PUBLICLY AND PRIVATELY THAT THEIR AIM IS TO KEEP THE BJP OUT (EG. BY TACTICAL ABSTENTIONS). THIS SHOULD ENABLE THE GOVERNMENT TO SURVIVE THE BUDGET VOTES.

THE BUDGET

7. NEVERTHELESS THIS IS A DIFFICULT POLITICAL BACKGROUND AS DR MANMOHAN SINGH PREPARES HIS THIRD BUDGET, ONE THAT WILL BE KEENLY SCRUTINISED FOR THE SIGNALS IT SENDS ON THE GOVERNMENT'S DETERMINATION TO PRESS ON WITH ECONOMIC REFORM. IT MAKES STILL MORE DIFFICULT ANY MOVES THAT COULD BE REPRESENTED AS 'ANTI-FARMER' OR 'ANTI-LABOUR'. MEANWHILE, WITHIN THE BUSINESS

WORLD THERE IS SOME PRESSURE ON HIM NOT TO TAKE STEPS THAT COULD EITHER CONTINUE TO DEFLATE THE ECONOMY OR EXPOSE INDIAN COMPANIES TO INTERNATIONAL COMPETITION TOO FAST AND TOO SOON.

8. CURRENT SIGNALS ARE MIXED ABOUT WHAT THE BUDGET IS LIKELY TO CONTAIN. DR MANMOHAN SINGH MAY YET SURPRISE US ALL. OUR GUESS IS THAT IT WILL BE LESS RADICAL THAN WE HAD HOPED, BUT WILL NEVERTHELESS BE SKILFULLY DESIGNED TO GIVE THE APPEARANCE OF CHANGE. THE FISCAL DEFICIT TARGET FOR 1993/4 WILL BE LOWER THAN THIS YEAR'S FIVE PER CENT OF GOP, BUT MAY NOT BE AS LOW AS THE FOUR PER CENT ADVOCATED BY THE IMF. TARIFF REDUCTIONS MAY ALSO FALL SHORT OF THE WORLD BANK'S HOPES. THE POSITIONS ON RUPEE CONVERTIBILITY AND FINANCIAL SECTOR REFORM ARE UNCLEAR, WITH THE GOVERNMENT PARTICULARLY KEEN TO KEEP THE MARKETS GUESSING. MEANWHILE MANMOHAN SINGH MAY WELL TAKE STEPS TO STIMULATE PRODUCTION, NOTABLY BY SOME REDUCTION IN THE CURRENT HIGH INTEREST RATES.

9. THE IMF HERE NOW SAY THAT THEY WILL NOT TAKE IT TOO TRAGICALLY IF THE BUDGET REFORM MEASURES ARE NOT ENOUGH IN THEMSELVES TO ALLOW AN EFF/ESAF LOAN TO BE APPROVED IMMEDIATELY. INDIA'S RESERVES ARE STILL AT A SATISFACTORY LEVEL, AND A FURTHER STANDBY DRAWING IS DUE IN MAY. THERE SHOULD THEREFORE BE A BREATHING SPACE UNTIL THE EARLY AUTUMN WHICH WOULD ALLOW THE GOI TO INTRODUCE FURTHER REFORM MEASURES WHEN POLITICAL PRESSURES MAY BE LESS INTENSE, AND WITHOUT THE NEED FOR PARLIAMENTARY APPROVAL. THIS COULD TRIGGER AN EFF/ESAF ARRANGEMENT LATER IN THE YEAR.

COMMENT

10. THE GOVERNMENT FACES A CRISIS THIS WEEK WHICH I AM SURE IT WILL SURVIVE. THE BUDGET WILL DISAPPOINT THE RADICALS, BUT WILL CONTAIN ENOUGH TO SUSTAIN INTERNATIONAL CONFIDENCE IN INDIA. THE POST-AYODHYA CONFRONTATION WILL BECOME SHARPER WITH THE THREAT OF RENEWED PARLIAMENTARY DISRUPTION. WE ARE IN FOR A BUMPY RIDE.

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16 February 1993

1/2 Christine Lardas
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Dear Sir

You asked, in your letter of 4 February, for an explanation of the two versions of the second point of our three-point formula on Kashmir.

The shorter version which we have been using ("genuine political process") is succinct and accurate. The Indians recognise that a political process is necessary and, as Narasimha Rao told the Prime Minister, as far as the form of process is concerned, they are aiming at elections. The key word from our point of view is "genuine". The root of the latest round of violence and dissent in Kashmir lies in the elections of 1987. It will be important therefore in achieving a solution for the people of Kashmir to accept that they have been able to play their part and that the elections have been free and fair. This will not be easy in circumstances where a heavy-handed security policy has alienated the Muslim majority in the Vale of Kashmir.

The use of the longer formula including the phrase "in which the aspirations of the population can be accommodated", was originally intended to amplify a little our view of what constitutes a "genuine" process.

As the Prime Minister himself made clear during his visit to India, it is not our intention to prescribe the form the process should take.

The phrase itself has its origins in a speech made by the Secretary of State in Luton in December 1991 and has subsequently been used frequently, most recently in the Secretary of State's statement following his meeting with the All-Party Committee on Kashmir on 18 January. But the Foreign Secretary agrees that we should in future stick to the shorter formulation on the understanding that a "genuine political process" means free elections.

Yours ever,
J S Smith
(J S Smith)
Private Secretary

J S Wall Esq
10 Downing Street

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 February 1993

LETTER FROM THE PRIME MINISTER OF PAKISTAN
ON KASHMIR

Thank you for your letter of 4 February enclosing a draft reply from the Prime Minister to Prime Minister Nawaz Sharif. I enclose the letter, signed, and would be grateful if you can arrange for it to be delivered.

You referred to the tragic events following the destruction of Ayodhya. This certainly provided a useful background to my visit. Throughout my public speeches, as well as in my talks with Nawaz Sharif and other Pakistani officials, I made a particular point of stating my clear support for India's secular democracy. As you know, I went to Bombay as well as Delhi.

My visit had an important economic content. A number of leading British businessmen came with me. We were glad to find evidence for continuing confidence in India's economic prospects and a desire to continue with the reform programme. This provided a background for discussion about the benefits of bilateral cooperation and non-proliferation of nuclear weapons. As you would expect, I repeated our wish to see the early conclusion of a Non-Proliferation Treaty, and placed as much emphasis as possible on the need for a comprehensive and effective international system of nuclear control.

J. S. WALL

J. S. Smith, Esq.,
Foreign and Commonwealth Office

Ali SM
k/f/sharif.sh

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10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

8 February 1993

Dear Prime Minister,

Thank you for your letter of 17 January which I received shortly before my departure for India. I was grateful to you for sharing your views with me about your country's relations with India.

You referred to the tragic events following the destruction at Ayodhya. This certainly provided a sombre background to my visit. Therefore in my public speeches, as well as in my talks with Narasimha Rao and his colleagues, I made a particular point of stating my clear support for India's secular democracy. As you know, I went to Bombay as well as Delhi.

My visit had an important economic content. A number of leading British businessmen came with me. We were glad to find evidence for continuing confidence in India's economic prospects and a determination to continue with the reform programme. This provided a background for a discussion about the burdens of defence expenditure and non-proliferation of nuclear weapons. As you would expect, I repeated our wish to see the number of signatories to the Non-Proliferation Treaty extended as far as possible. Prime Minister Narasimha Rao placed at least equal emphasis on reducing the burden of conventional arms expenditure.

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- 2 -

We also exchanged views on Kashmir and relations between India and Pakistan. I sought to focus on the three points which I mentioned in my December letter to you. These were a real dialogue between Pakistan and India, as envisaged under the Simla Agreement; a genuine political process and improvement on human rights inside Kashmir; and an end to support for Kashmiri militants from within Pakistan. I am happy to note that some steps forward have been taken in all three areas, but more are needed.

On the first point, Narasimha Rao spoke much as you did to Douglas Hurd, paying tribute to the warmth of the personal relationship between himself and yourself, but also expressing his wish to translate this atmosphere into real progress on the substantive issues. In this context we discussed the value of confidence building measures.

On human rights, I mentioned the concerns expressed in the British Parliament and by British citizens, many of them originally from the sub-continent. For his part, Narasimha Rao told me about his plans for establishing a Human Rights Commission in India.

We discussed the need for a genuine political process in Kashmir. We also talked about the question of external support for militancy. Overall I urged that everything possible should be done to keep the dialogue going between India and Pakistan, and that efforts should continue to be made by both sides to enhance mutual confidence.

I was glad to see the assurance in your own letter that Pakistan will not give material support to Kashmir militants. I hope that you will do all you can to ensure that the Indian Government appreciates the strength of your resolve,

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and your success in fulfilling this pledge.

I greatly value our exchanges on these issues. It is vital to the stability and prosperity of the sub-continent that sustained efforts are made to solve them. I was grateful too for your kind invitation to me to visit Pakistan. I hope to be able to do so before too long.

Your sincerely,
Rajiv Gandhi

The Prime Minister was given two formulae for the summit to be during his visit to India, but he stated that the summit would have to be based on two different formulae. In one we call for a genuine political process in Kashmir. In a second, longer formula we call for a genuine political process in Kashmir "in which the aspirations of the population can be accommodated".

In the event, the Prime Minister did not use this longer formula because he was our clear exactly what we mean by it.

In letters which we have been writing about Kashmir since the visit we have stuck to the shorter formulation. I think the Prime Minister would be prepared to use the longer formula if he can have an explanation of what we mean by it. Is the formula intended for some form of elections or plebiscite?

Stephen Smith Esq
Foreign and Commonwealth Office

His Excellency Muhammad Nawaz Sharif

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Jl Kashmir. jd

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

4 February 1993

KASHMIR

The Prime Minister was given our three-point formula on Kashmir to use during his visit to India, but he noted that the second of the three points itself took two different forms. In one we call for a genuine political process in Kashmir. In a second, longer formula, we call for a genuine political process in Kashmir "in which the aspirations of the population can be accommodated".

In the event, the Prime Minister did not use this longer formula because he was not clear exactly what we meant by it.

In letters which we have been writing about Kashmir since the visit we have stuck to the shorter formulation. I think the Prime Minister would be prepared to use the longer formula if he can have an explanation of what we mean by it. Is the formula shorthand for some form of elections or plebiscite?

J. S. WALL

Stephen Smith Esq
Foreign and Commonwealth Office

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Foreign &
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London SW1A 2AH

4 February 1993

RF

Dear Stephen,

Letter from Pakistan Prime Minister on Kashmir

You asked for advice and a draft reply to Nawaz Sharif's letter of 17 January about Kashmir (copy enclosed for ease of reference). I enclose detailed comments by officials. None of the points in the letter was sufficiently new to be worth raising specifically with the Indians.

With the communal violence that followed the destruction of the Babri Mosque at Ayodhya, and with the cancellation of the South Asian Association for Regional Cooperation summit which would have provided an opportunity for a further meeting between Nawaz Sharif and Narasimha Rao, it is difficult to see what positive contribution we can make, at least in the short term, to a substantive advance in relations between the two countries. It was noteworthy that Narasimha Rao told the Prime Minister that he considered that Nawaz Sharif was not strong enough politically to call the shots on Kashmir policy within the Pakistan establishment, and thus deliver a deal.

I enclose a draft reply from the Prime Minister to Nawaz Sharif.

Yours ever,

Stephen Smith

(J S Smith)

Private Secretary

DRAFT LETTER FROM THE PRIME MINISTER:

His Excellency Muhammad Nawaz Sharif
Prime Minister of the
Islamic Republic of Pakistan
ISLAMABAD

me

Dear Prime Minister

Thank you for your letter of 17 January which I received shortly before my departure for India. I was grateful to you for sharing your views with me about your country's relations with India.

You referred to the tragic events following the destruction at Ayodhya. This certainly provided a sombre background to my visit. Therefore in my public speeches, as well as in my talks with Narasimha Rao and his colleagues, I made a particular point of stating my clear support for India's secular democracy. As you know, I went to Bombay as well as Delhi.

My visit had an important economic content. A number of leading British businessmen came with me. We were glad to find evidence for continuing confidence in India's economic prospects and a determination to continue with the reform programme. This provided a background for a discussion about the burdens of defence expenditure and non-proliferation of nuclear weapons. As you would expect, I repeated our wish to see the number of signatories to the Non-Proliferation Treaty extended as far as possible. Prime Minister Narasimha Rao placed at least equal emphasis on reducing the burden of conventional arms expenditure.

We also exchanged views on Kashmir and relations between India and Pakistan. I sought to focus on the three points which I mentioned in my December letter to you. These were a real dialogue between Pakistan and India, as envisaged under the

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Simla Agreement; a genuine political process and improvement on human rights inside Kashmir; and an end to support for Kashmiri militants from within Pakistan. I am happy to note that some steps forward have been taken in all three areas, but more are needed.

On the first point, Narasimha Rao spoke much as you did to Douglas Hurd, paying tribute to the warmth of the personal relationship between himself and yourself, but also expressing his wish to translate this atmosphere into real progress on the substantive issues. In this context we discussed the value of confidence building measures.

On human rights, I mentioned the concerns expressed in the British Parliament and by British citizens, many of them originally from the sub-continent. For his part, Narasimha Rao told me about his plans for establishing a Human Rights Commission in India.

We discussed the need for a genuine political process in Kashmir. We also talked about the question of external support for militancy. Overall I urged that everything possible should be done to keep the dialogue going between India and Pakistan, and that efforts should continue to be made by both sides to enhance mutual confidence.

I was glad to see the assurance in your own letter that Pakistan will not give material support to Kashmir militants. I hope that you will do all you can to ensure that the Indian Government appreciates the strength of your resolve, and your success in fulfilling this pledge.

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I greatly value our exchanges on these issues. It is vital to the stability and prosperity of the sub-continent that sustained efforts are made to solve them. I was grateful too for your kind invitation to me to visit Pakistan. I hope to be able to do so before too long.

Now that we have the following comments:

(i) The dispute goes back to the partition of India. The international community is actively involved through past UN Security Council Resolutions and treaties which were their forerunners.

Comment: We continue to recognize the validity of the UN Resolutions on Kashmir adopted in the year 1948, but in practice we view the Resolutions as having been overtaken by events. The key provision of the Resolutions was a call for a plebiscite to be held in Kashmir which allowed the inhabitants to decide whether they would seek to become part of India or Pakistan. The Indians have always rejected the idea of a plebiscite on such a basis. Nevertheless, a favorable solution to the Kashmir dispute will be found without the consent of both India and Pakistan.

(ii) India has deflected Pakistan's overtures for a political dialogue on Kashmir on the pretext that the troubles have been caused by Pakistan-assisted insurgents.

Comment: The Indians overstate their case. Pakistan has however exploited the indigenous unrest even if it has not caused it. We have urged the Indians not to tie progress on of the political process in Kashmir and on the dialogue with Pakistan to preconditions about Pakistan's support for Kashmiri militants. Nawaz Sharif himself recognizes that the question of talks is still open.

COMMENTS ON NAWAZ SHARIF'S LETTER OF 17/1/93 TO THE PM

Nawaz Sharif makes 5 key points on which we have the following comments:

(i) the dispute goes wider than Pakistan and India. The international community is morally involved through past UN Security Council Resolutions on Kashmir which were never honoured.

Comment: We continue to recognise the validity of the UN Resolutions on Kashmir adopted in the late 1940s, but in practice we view the Resolutions as having been overtaken by events. The key provision of the Resolutions was a call for a plebiscite to be held in Kashmir which allowed the inhabitants to decide whether they would wish to become part of India or Pakistan. The Indians have always rejected the idea of a plebiscite on such a basis. Nevertheless no durable solution to the Kashmir dispute will be found without the consent of both India and Pakistan.

(ii) India has deflected Pakistani overtures for a political dialogue on Kashmir on the pretext that the troubles have been caused by Pakistan-assisted insurgency.

Comment: The Indians overstate their case. Pakistan has however exploited the indigenous unrest even if it has not caused it. We have urged the Indians not to tie progress on the political process in Kashmir and on the dialogue with Pakistan to preconditions about Pakistani support for Kashmiri militants. Nawaz Sharif himself recognises that the question of talks is still open.

(iii) Pakistan rejects India's assertion that a political process in Kashmir can only take place within the context of the Indian constitution.

Comment: India has always refused to countenance any process which questions its sovereignty over Kashmir. India regards any debate about Kashmir as a threat to the Indian union and to the position of Muslims elsewhere in India.

(iv) international condemnation of Indian human rights abuses in Kashmir needs to be backed up by practical steps to prevent these and political action to permit self-determination for the Kashmiris.

Comment: There are undoubtedly human rights abuses committed by the Indian security forces and by the militants. We are continuing to press the Indians about their performance. Any attempt to intervene publicly in the management of the human rights situation will only force India to harden her stance. Our own three points are precisely an attempt to tackle the political root of the problem.

(v) the Pakistan Government will not materially assist the Kashmiri militants. This could be checked by neutral observers along the Kashmiri Line of Control.

Comment: The Pakistan Government has recently been concerned by the prospect of being included on the US Government list of countries which sponsor state terrorism. For the moment they are not on the list which is subject to six monthly review.

This may explain the use of "will". But, the reference to "Government" and "will" suggests that official support has not yet ended and that if it does continue it will either come from non-official sources (eg Islamists) or from deniable official covert action. The proposal on observers has been repeatedly forwarded by Pakistan but rejected by India. The UN observer group (UNMOGIP) is already there precisely to monitor the Line of Control but the Indians have consistently refused to allow them to operate effectively on their side.



I enclose a copy of a letter which the Prime Minister has received from the Prime Minister of Pakistan.

I should be grateful if you would provide advice and a draft for the Prime Minister's signature, to reach this office by Wednesday 3 February.

J. S. WALL

J S Wall Esq
Foreign and Commonwealth Office

KW



10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

20 January 1993

no ack

I enclose a copy of a letter which the Prime Minister has received from the Prime Minister of Pakistan.

I should be grateful if you would provide advice and a draft for the Prime Minister's signature, to reach this office by Wednesday 3 February.

J. S. WALL

J S Smith Esq
Foreign and Commonwealth Office



PRIME MINISTER

Prof. Dr. Iqbal

gill

Ad.

Islamabad
17 January, 1993

Dear Prime Minister,

copy sent

Thank you for your letter dated 9 December, 1992. I wish you every success in your visit to India and hope that you will be able to visit Pakistan separately at your earliest convenience. You can be assured of a warm welcome and it will give me an opportunity to reciprocate, in a small way, the generous hospitality and consideration that was shown to me during my visit to Britain in June last year.

Foreign Secretary Douglas Hurd's visit to Pakistan was indeed most useful. I was able to have a long and valuable exchange with him, almost exclusively on Kashmir and I am sure our discussions have deepened mutual understanding. I appreciate very much your asking me to share some thoughts with you on our relations with India. The three items mentioned in your letter raise pertinent questions and I shall endeavour, briefly, in this letter to elaborate on them.

Of course no government more than yours with its deep historical insight has a better understanding of Pakistan-India problems but before I answer the three specific points, permit me to make two general observations. First, Kashmir is not simply a bilateral dispute between Pakistan and India but a moral issue encompassing solemn pledges given to the people of Kashmir upholding their right to self determination. These pledges were given by the



governments of India and Pakistan and subsequently sanctified in Security Council Resolutions. The passage of time cannot be deemed to erode fundamental principles which today, more than ever before, are being respected and applied across the globe.

Second, I firmly believe that the Kashmir dispute is the root cause of the tension and confrontation that has bedevilled Pakistan-India relations for over four decades. It is my conviction that if we can address and resolve the Kashmir dispute, other disputes between us, including the nuclear issue, can easily be resolved. During five meetings with Mr. Narasimha Rao and two with his predecessor Mr. Chandra Shekhar, I have been stressing that both countries, now under democratic leadership, owe it to their people to turn back from 45 years of confrontation and dissipation of our resources to tackle this basic issue. Despite the discouraging response, I remain committed to this objective.

I shall now briefly outline the position of Pakistan on the three "items" identified by you. The first is "a real dialogue between Pakistan and India, as envisaged under the Simla Agreement". I would like to mention that since early 1990, the uprising in the Kashmir Valley has been spontaneous, self sustained and unrelenting in the face of massive Indian repression. Since then, we have persistently tried to engage India in a dialogue to resolve the Jammu and Kashmir problem. Our desire for negotiations has been reiterated during my meetings with the Prime Minister of India, as well as in talks at the level of Ministers and the Foreign Secretaries.



In August 1992, in a letter addressed to Prime Minister Narasimha Rao, I formally proposed negotiations on Jammu and Kashmir specifically under Article 6 of the Simla Agreement. Prime Minister Rao's reply was most disappointing. Whilst stating willingness to engage in discussions to resolve all outstanding issues, including Jammu and Kashmir, Indian Prime Minister restated New Delhi's well known thesis that the situation in Kashmir was caused entirely by "destabilisation efforts from Pakistan". The Indian Government has not yet responded to my proposal that representatives of our two countries meet at an appropriate level to initiate negotiations on the Jammu and Kashmir problem.

The second "item" refers to "a genuine political process" and "improvement on human rights inside Kashmir". As your Government is aware, the Kashmiris in Indian held Kashmir have rejected New Delhi's proposals for talks on a solution "within the Indian Constitution". Today, no Kashmiri citizen is willing to negotiate with the Indian Government in the framework of Jammu & Kashmir's "accession" to India. It is, therefore, necessary to state that a "genuine political process" must not be predicated on treating the disputed State of Jammu & Kashmir on the basis of India's unilateral claim that it is an integral part of India. It is obvious that the status quo is untenable.

As for human rights, the international community has so far confined its role to condemnation of the horrendous violations of human rights by Indian forces regrettably balancing it with denunciation of alleged violations committed by Kashmiris. Such condemnations are likely to degenerate into a sterile exercise unless they are backed by initiatives that



would make it impossible for India to persist in its brutal crackdown. The international community must recognise that the human rights violations perpetrated by the Indian forces in Kashmir are actually aimed at exterminating the Kashmiri struggle for freedom. It must, therefore, supplement its efforts for improving "the human rights situation" by endeavours to resolve the underlying political problem of the continued denial of the right of the Kashmiris to determine their own destiny.

The third "item" mentioned by you calls for "an end to support for Kashmiri militants from within Pakistan". Pakistan, owing to its historic commitment and position on Kashmir, has extended wholehearted political, moral and diplomatic support to the struggle waged by the Kashmiris for self-determination. We will continue to extend this support. However, I assure you that Pakistan will not give material support to Kashmiri militants. There are no training camps and no weapons are being provided by the Government of Pakistan to Kashmiri militants. The situation on the ground on our side of the Line of Control can be verified by any representative journalists or parliamentarians who would be free to visit Pakistan, unhindered and unrestricted, to establish the truth for themselves. I make this offer to you with a view to burying the spurious charge that the uprising in Kashmir is essentially being fuelled by Kashmiri militants trained and equipped in Pakistan.

You are aware that India has rejected our offer of stationing neutral observers all along the LOC, on both sides of the ceasefire line, to check the traffic of persons and goods. We are, nonetheless, willing to discuss this subject with a view to allaying the fears of our friends and would



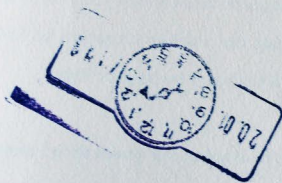
expect that all countries interested in peace and security in South Asia would take a more active interest in bringing the volatile situation in Indian Held Kashmir to an end and in promoting a just and lasting solution.

I trust you would be able to discuss our views with Prime Minister Narasimha Rao. I believe Britain alongwith other countries that have friendly relations with both countries can play a vital role in persuading India to engage in meaningful discussions to resolve the Kashmir dispute, a matter which needs to be addressed with even greater urgency after the Ayodhya crisis. I wish you every success in your endeavour to bring peace and stability in our region.

Please accept, Excellency, the assurances of my highest consideration.

(Muhammad Nawaz Sharif)

His Excellency
Mr. John Major
Prime Minister of the United Kingdom
London.



13th January 1993

MR WALL

INDIA

I promised to let you have a few impressions of developments in India over the past month. I should stress that apart from a few days in Delhi, the airline strike meant that I was confined to West Bengal and Orissa so these thoughts may have a regional bias. My impression that the BJP has been strengthened by the demolition was confirmed by anecdotal evidence. In the Press Club

The demolition of the Babri Masjid on 6th December dominates the political scene and there is a good chance of it having profound ramifications for years yet. Before arriving in Delhi I thought that the loss of control of the main leadership of the BJP (Advani, Joshi, Vajpayee) over the small group of RSS and fanatics who broke through the fences around the mosque and the precipitated events heralded the demise of the BJP as a serious contender for power. I thought that the riots would die down and Congress be strengthened by the naked extremism of the advocates of Hindutva, ie a Hindu polity and Hindu raj. I could not have been more wrong.

An opinion poll in India Today (December) indicated that a majority of the population disapproved of the demolition of the mosque (52.6 per cent). However there was enormous regional diversity in the poll with widespread support for the VHP/RSS/BJP

line in the cow belt of the north (54.2 per cent), especially in United Provinces. In the south 70.8 per cent disapproved. On the basis of these numbers, an election now would increase the support of the BJP in the lower house from 119 to 170, and Congress would fall from 245 to 233, out of a total of 537 occupied seats (no MPs from Kashmir). The Congress would still be the largest party, but would depend on coalition with the Left Front and the communists (CPI(M)) in order to form a government.

This impression that the BJP has been strengthened by Ayodhya was confirmed by anecdotal evidence. In the Press Club bar in Delhi there was deep pessimism about the rise of 'Hindu fascism'. I was told by a number of people who live in the bustees of Calcutta that in the slums even in Bengal there was a widespread feeling that the demolition was just and that RSS workers were spreading simple but effective propaganda.: Lord Ram was there first, Babri had no right to build his mosque in that spot. At dinner parties respectable middle class people were expressing pure anti-Muslim prejudice that, while probably always there, has not been voiced as openly before.

It is hard to judge what is really fuelling the ongoing riots in the West. In Calcutta the riots in the days that followed 6th December seem to have been less communal and more faction fighting for control of the slums between rival gangs of goondas who were taking advantage of the situation. Equally, some

of the slum burning might have been on contract from property developers keen to get squatters off prime land. Some of these factors may also apply to Bombay, but there at least in December it was the police shooting protesting Muslims rather than riots which caused many of the casualties.

If the BJP has succeeded in tapping a deep and unattractive vein in the Hindu psyche, the way the Government has reacted has only worsened the situation. Rao has been shown to be weak and entirely indecisive. He misjudged the situation before the 6th December. Worse, immediately afterwards he did nothing, and then was pushed by the Arjun Singh faction in his Cabinet into dismissing not just the UP state government (which had already resigned) but also the three other BJP state governments. Constitutionally he now faces elections in the heartland of BJP support within a year, unless a constitutional amendment is approved by two thirds of both houses. The RSS was banned and the national leadership of the BJP arrested, allowing them to appear the aggrieved party and the persecuted minority. The scenes surrounding Advani's and Joshi's release this week have confirmed that the Government's actions have enabled the BJP to escape the the dock as offending party and become the offended party.

Rao's own position is not immediately threatened. The BJP has adopted the single goal of forcing a mid-term election, but they are unlikely to succeed in this. The two most widely-tipped

rivals to Rao within Congress, Arjun Singh and Sharad Pawar, seem unlikely to be able to oust him as he has the solid support of the southern MPs, who now dominate the Congress in the Lok Sabha. Nevertheless, Arjun Singh's position has been enhanced by his advocacy of a strong line before 6th December. There were reports last week that Rao might try to neutralise Singh by appointing him to the vacant post of Foreign Minister, thus taking him out of the immediate domestic scene.

One of the most concerning consequences of all this is the threat posed to the economic liberalisation programme. Congress is now likely to be beholden to some extent to the Left Front and the CPI(M) who are implacably opposed to reform. Even within Congress the real believers in reform are few, and Rao is probably not one of them. The only Cabinet Minister I spoke to on this trip was Pranab Mukherjee, the head of the Planning Commission. He denied that reform would slow, but then he would, and has ambitions to replace Manmohan Singh at the Economic Ministry. The businessmen I met confirmed that there had been real progress in reform, particularly in scrapping license controls and freeing up access to foreign exchange. However, they said that the most important next step, changing the laws on complete protection of employment, or 'exit strategy' as the Indians call it, is less likely now. Certainly foreign investors, whom India desperately needs and who have been slow in coming forward so far, are now likely to view India in an even dimmer

light. The only hopeful sign is that India's continued external and fiscal deficits make it dependent on external donors and investors, so real economics should protect some aspects of liberalisation.

Conclusion

The Prime Minister is going to India at a very difficult time, but for that reason Rao is desperate for him to come in order to show that he is in control and rising above domestic problems. We will have to be very, very careful to stay out of domestic politics, which is why I was worried by reports that the Babri Masjid Action Committee was calling for a boycott of Republic Day.

The main objective of the visit must in these circumstances to be to lend whatever help we can to the economic reform programme: trade, inward investment and help in know-how (privatisation, union and employment reform, export promotion, power and communications etc.).

I had a fascinating talk with George Verghese, the eminent journalist, who has been doing work on Kashmir, including quite extensive contacts with Pakistanis on the subject. His suggestion was that there was much that could be learnt from the way the Northern Ireland situation has developed. The parallels in some

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ways are quite close. Could we offer to brief the Indians and Pakistanis on what we and the Irish have learnt?

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RIFT - DISTURBANCE IN SONGAY.

FOR EAO

COMMENT

Alan Rosling

ALAN ROSLING

1. THERE IS NO SIMPLE EXPLANATION WHY TROUBLE IN THE PRESENT SCENE HAS BROKEN OUT IN CONNECTION WITH THE DISTURBANCES IN GUJARAT. FOLLOWING THE ABOLITION OF THE STATES IN INDIA, THERE HAS BEEN NO REPEAT OF WIDESPREAD COMMUNAL DISTURBANCES IN SONGAY SINCE 1956.
2. THE SITUATION IN AHMEDABAD IN GUJARAT, WHERE COMMUNAL DISTURBANCES HAVE ALSO BEEN GOING ON IN RECENT DAYS, WITH NO REPORTED DEATHS, IS DIFFERENT. IN AHMEDABAD, COMMUNAL DISTURBANCES HAVE BEEN COMPARETIVELY FREQUENT IN RECENT YEARS AND HAS ALREADY OCCURRED AT A NUMBER OF PLACES IN VARIOUS PARTS OF THE CITY.
3. THE REASON FOR THE TROUBLE IN SONGAY, PARTICULARLY IN THE BACH AREA, IS A STRONGER ONE SPACE, WITH CRIMINALS WHOSE 'LORDS' CONSIDER TO DRIVE OUT UNWANTED OCCUPANTS, SO THAT THEY CAN REPLACE THEM WITH ALTERNATIVE PEOPLE WHO WILL PAY THEM. THIS ACTIVITY GOES WITH TRICKS OR A COMMUNAL ASPECT.
4. THERE HAS ALSO BEEN A VERY WIDESPREAD BACKGROUND AGAINST THE MUSLIM COMMUNITY IN SONGAY, AND EXAMPLES OF SPECIFIC ATTACKS ON MUSLIM PROPERTY (AREA 4 OF RIPT) HAVE BEEN WIDESPREAD. EVEN THE NON-BLIND ASHED HINDUS TAKE ENJOY AT THEIR EXPENSES WITH THE ASHED SPECIAL TREATMENT GIVEN TO THE MUSLIM IMMUNITY THROUGHOUT INDIA. THE AYODHYA DISPUTE MAY HAVE CAUSED THESE FEELINGS TO INCREASE, BUT I DO NOT THINK THAT THE LEGAL ENTICEMENTS OF THE VARIOUS SOLUTIONS PROPOSED FOR THE AYODHYA SITE ARE CLOSELY FOLLOWED BY MANY IN SONGAY.
5. THERE ARE ALSO LINKS BETWEEN CRIMINAL ELEMENTS AND THE POLITICAL PARTIES, WITH EACH GIVING SUPPORT FROM THE OTHER. THIS ASPECT

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MIPT : DISTURBANCES IN BOMBAY.

FOR SAD

COMMENT

- File*
1. THERE IS NO SIMPLE EXPLANATION WHY TROUBLE ON THE PRESENT SCALE HAS BROKEN OUT IN BOMBAY. EXCEPT FOR THE DISTURBANCES IN DECEMBER, FOLLOWING THE DEMOLITION OF THE MOSQUE AT AYODHYA, THERE HAS BEEN NO (REPEAT NO) WIDESPREAD COMMUNAL DISTURBANCES IN BOMBAY SINCE 1984.
 2. THE SITUATION IN AHMEDABAD IN GUJARAT, WHERE COMMUNAL DISTURBANCES HAVE ALSO BEEN GOING ON IN RECENT DAYS, WITH 50 REPORTED DEATHS, IS DIFFERENT. IN AHMEDABAD, COMMUNAL DISTURBANCES HAVE BEEN COMPARATIVELY FREQUENT IN RECENT YEARS AND ARE ALMOST REGARDED AS A NORMAL FEATURE OF LIFE IN CERTAIN AREAS OF THE CITY.
 3. ONE REASON FOR THE TROUBLE IN BOMBAY, PARTICULARLY IN THE SLUM AREAS, IS A STRUGGLE FOR SPACE, WITH CRIMINAL/SLUM 'LORDS' CONCERNED TO DRIVE OUT UNWANTED OCCUPANTS, SO THAT THEY CAN REPLACE THEM WITH ALTERNATIVE PEOPLE WHO WILL PAY MORE. THIS ACTIVITY VERY OFTEN TAKES ON A COMMUNAL ASPECT.
 4. THERE HAS ALSO BEEN A VERY WIDESPREAD BACKLASH AGAINST THE MUSLIM COMMUNITY IN BOMBAY, AND EXAMPLES OF SPECIFIC ATTACKS ON MUSLIM PROPERTY (PARA 4 OF MY MIPT) HAVE BEEN WIDESPREAD. EVEN THE MOST EDUCATED HINDUS TALK FREELY OF THEIR IMPATIENCE WITH THE ALLEGED SPECIAL TREATMENT GIVEN TO THE MUSLIM COMMUNITY THROUGHOUT INDIA. THE AYODHYA DISPUTE MAY HAVE CAUSED THESE FEELINGS TO INCREASE, BUT I DO NOT THINK THAT THE LEGAL INTRICACIES OF THE VARIOUS SOLUTIONS PROPOSED FOR THE AYODHYA SITE ARE CLOSELY FOLLOWED BY MANY IN BOMBAY.
 5. THERE ARE ALSO LINKS BETWEEN CRIMINAL ELEMENTS AND THE POLITICAL PARTIES, WITH EACH DERIVING SUPPORT FROM THE OTHER. THIS SEEMS

TO HAVE PARALYSED SEVERAL SPONTANEOUS PEACE MAKING ACTIVITIES IN SLUM AREAS.

6. SEVERAL COMMENTATORS HAVE ALSO POINTED OUT THAT, COMPARED WITH PAST YEARS, BOMBAY HAS AN INCREASING NUMBER OF IMMIGRANTS FROM OTHER PARTS OF INDIA, AND IT IS SUGGESTED THAT THESE PEOPLE HAVE BROUGHT WITH THEM TO BOMBAY THE VIOLENT HABITS THAT ARE MORE NORMAL IN UTTER PRADESH AND BIHAR.

7. UNHAPPILY THE VIOLENCE HAS BEEN SO WIDESPREAD THAT IT SEEMS IMPOSSIBLE TO ATTRIBUTE IT TO ANY ONE CAUSE. AND INEVITABLY THERE HAS BEEN A GREAT TENDANCY TO SETTLE OLD SCORES UNDER COVER OF THE PREVAILING DISORDER.

8. A GOOD DEAL OF IMPATIENCE HAS BEEN WIDELY EXPRESSED AT THE APPARENT RELUCTANCE OF THE AUTHORITIES, INCLUDING THE DEFENCE MINISTER, TO INVOLVE THE ARMY IN RESTORING ORDER. IN RELATION TO THE SIZE OF THE CITY, THE POLICE (WHOSE ACTIVE MANPOWER IS AROUND 30,000) AND THE FIRE BRIGADE HAVE BEEN ACTIVE AND ENERGETIC BUT UP TILL NOW, THE ARMY, THOUGH PRESENT, HAS NOT BEEN BROUGHT INTO ACTION.

9. IT IS GENERALLY UNDERSTOOD THAT THE PRESENCE OF SHARAD PAWAR AND THE DEPLOYMENT OF THE ARMY IS DUE TO PRESSURE FROM MAJOR BOMBAY BUSINESS HOUSES, CONCERNED AT THE ECONOMIC DAMAGE IT SUFFERED BECAUSE OF THE DISTURBANCES. THE COST OF THE DISTURBANCES, BOTH THE IMMEDIATE DESTRUCTION OF PROPERTY AND THE STANDSTILL OF MOST ECONOMIC ACTIVITY IN THE CITY, MUST BE ENORMOUS.

10. SEVERAL BRITISH CITIZENS HAVE COMPLAINED TO US, WITH I THINK SOME JUSTIFICATION, THAT THE REPORTING OF RECENT EVENTS IN BOMBAY BY THE BBC WORLD SERVICE (BOTH RADIO AND TELEVISION) HAS NOT GIVEN AN ADEQUATE IMPRESSION OF THE SCALE OF THE TROUBLES.

11. FEARS HAVE BEEN EXPRESSED THAT THE TROUBLE IN BOMBAY MIGHT SPREAD TO PUNE, LESS THAN A HUNDRED MILES AWAY, BUT WE HAVE SO FAR RECEIVED NO REPORTS OF VIOLENCE THERE.

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PS/MR LENNOX-BOYD

PS/PUS

MR LANKESTER

MR APPELYARD

SIR J COLES

MR AINSCOW

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MR BONE

MR MANNING

MR MASEFIELD

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CAOFF//MR BALMER

MOD//SEC(O)(C)HOWARD

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TO IMMEDIATE FCO

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INFO IMMEDIATE NEW DELHI,

INFO ROUTINE CALCUTTA AND MADRAS

I have asked for an assessment of the possible implications for your visit.

MY TELNO 11 : DISTURBANCES IN BOMBAY

FOR SAD

Sojha

=SUMMARY=

11/1

1. DISTURBANCES AND ARSON HAVE GREATLY INCREASED IN BOMBAY OVER THE WEEKEND. DEATH TOLL NOW REPORTED TO BE 170. DEFENCE MINISTER ARRIVED ON 8 JANUARY AND ANNOUNCED ON BOTH 9 AND 10 JANUARY THAT ARMY WOULD BE DEPLOYED ON THE STREETS. LIFE IN CITY SERIOUSLY AFFECTED. SEVERAL BRITISH CITIZENS STUCK IN CURFEW BOUND AREAS. ROAD TRAFFIC TO AND FROM THE AIRPORT DISTURBED.

=DETAIL=

2. THE DISTURBANCES AND ATTACKS OF ARSON HAVE SPREAD MORE WIDELY OVER THE CITY DURING THE WEEKEND. THE OFFICIAL FIGURE FOR DEATHS SINCE 6 JANUARY IS NOW 116, MOSTLY STABBINGS, BUT INCLUDING SOME DEATHS BY POLICE FIRING. UNOFFICIAL FIGURES ESTIMATE THE NUMBER OF DEAD AT 170. TWO MAJOR FIRES IN THE DOCK AREA PRODUCED A SPECTACULAR PALL OF SMOKE WHICH HUNG OVER THE SOUTHERN PART OF THE CITY DURING SUNDAY 10 JANUARY.

3. THE BOMBAY FIRE BRIGADE HAS BEEN BADLY STRETCHED IN COPING WITH THE NUMEROUS FIRES THAT HAVE BEEN STARTED AND THERE ARE REPORTS THAT EXTRA FIRE TENDERS ARE BEING DESPATCHED FROM PUNE.

4. REPORTS THAT THE POLICE WERE FIRED ON IN A MUSLIM NEIGHBOURHOOD BY AK 47 WEAPONS HAVE NO DOUBT PROMPTED THE FORMER GOVERNOR OF MAHARASHTRA, C SUBRAMANIAM, TO TALK OF A 'FOREIGN HAND' BEHIND THE DISTURBANCES. OUR IMPRESSION IS THAT MANY OF THE ATTACKS ON PEOPLE AND PROPERTY HAVE BEEN DIRECTED AT THE MUSLIM COMMUNITY. TWO LARGE SHOPS, OWNED

BY MUSLIMS IN SO FAR PEACEFUL AREAS IN SOUTH BOMBAY, WERE SET ON FIRE OVER THE WEEKEND. ONE OF OUR MUSLIM DRIVERS WAS DRIVEN AT KNIFE-POINT WITH HIS FAMILY FROM THEIR HOME IN A NORTHERN SUBURB LAST NIGHT, WHICH WAS THEN BURNT DOWN.

5. MUSLIM RIOTERS HAVE BEEN REPORTED TO HAVE BURNT DOWN THE OFFICE OF THE NOTORIOUS CRIMINAL, BASED IN DUBAI, DAWOOD IBRAHIM, ON THE GROUNDS THAT HIS HENCHMEN HAD FAILED TO PROTECT THEIR COMMUNITY.

6. THE HOME MINISTER, MR S B CHAVAN, ARRIVED IN BOMBAY ON 7 JANUARY AND THE DEFENCE MINISTER, SHARAD PAWAR, LATE ON 8 JANUARY. THEY HAVE BOTH HELD LENGTHY DISCUSSIONS WITH THE CHIEF MINISTER, S NAIK. SHARAD PAWAR HAS ANNOUNCED ON SUCCESSIVE DAYS THAT THE ARMY WILL BE DEPLOYED FOR ACTION IN THE CITY AGAINST THE RIOTERS AND HOOLIGANS. THERE HAVE, HOWEVER, BEEN MANY COMPLAINTS, INCLUDING AN OPEN LETTER BY THE EDITORS OF THE MAIN BOMBAY PAPERS, THAT THE POLICE HAVE SO FAR TAKEN INSUFFICIENT ACTION TO RESTORE PEACE IN CITY. WE NOTICED ONLY TWO FLIGHTS OVER THE DISTURBED SOUTH AND CENTRAL PART OF THE CITY BY A MILITARY HELICOPTER ON 10 JANUARY.

7. LIFE THROUGHOUT THE CITY HAS BEEN VERY SERIOUSLY AFFECTED WITH MANY AREAS UNDER CONTINUOUS CURFEW AND MANY OTHERS UNDER NIGHT CURFEW. ALL BUSES SEEMS TO HAVE BEEN OFF THE ROAD SINCE 10 JANUARY, MANY OF THEM AND MANY TAXIS HAVING BEEN BURNT BY MOBS OVER THE WEEKEND. TRAIN SERVICES HAVE BEEN MAINTAINED, ALTHOUGH NOT FULLY, AND SEVERAL THOUSAND PEOPLE ARE REPORTED TO HAVE LEFT THE CITY OVER THE WEEKEND BY TRAIN.

8. SOME BRITISH CITIZENS HAVE BEEN STUCK IN CURFEW BOUND AREAS, AND ROAD TRAFFIC TO AND FROM THE AIRPORT HAS BEEN DISTURBED. I MYSELF DROVE TO THE AIRPORT LATE ON 9 JANUARY, IN ORDER TO ESCORT CHILDREN LEAVING BOMBAY AT THE END OF THE CHRISTMAS HOLIDAYS, AND DROVE THROUGH CURFEW BOUND STREETS LITTERED WITH BURNT OUT CARS AND THE BURNT CONTENTS OF LOOTED SHOPS. SEVERAL HUTMENTS HAD RECENTLY BEEN SET ON FIRE BEFORE WE PASSED, AND THE FIRE BRIGADE WAS ATTENDING TO THESE FIRES ON OUR WAY BACK INTO THE CITY.

9. SEE MIFT FOR COMMENT.

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DTI//HD PEP
HO//MS JACKSON F4D
HO//IND B3D SEC D

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**SUBJECT
MASTER**

**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. ... T276 A / 92**

Filed on:

PRIME MINISTER

New Delhi
December 29, 1992

Dear Prime Minister,

Thank you for your letter of 15 December 1992. *- attached*

We have been through a rough period and one which India can least afford at a time when our energies are concentrated on economic reforms and social development. The events to which we were witness were a rude reminder of the pernicious forces that are at work in the body politic of any country which cannot be given chance to prosper. In this effort, I gain confidence from the sanity, levelheadedness and, above all, patriotism of our people. We are trying our best to see that our progress in various fields continues apace, unhindered.

Your letter carried great reassurance for me and I thank you for it. I know that your countrymen and women will continue to retain and, indeed, enhance their practical interest in India, thus further strengthening our excellent relationship.

We are all looking forward to your visit in the New Year and take this opportunity to renew to you the very best wishes of the season.

Yours sincerely,

sd/-

(P.V.Narasimha Rao)

The Rt.Hon. John Major, MP
Prime Minister of the United Kingdom,
10 Downing Street,
London, SW1.

RESTRICTED
FM NEW DELHI
TO PRIORITY FCO
TELNO 1307

OF 240523Z DECEMBER 92

AND TO PRIORITY ODA, DTI, BANK OF ENGLAND, HM TREASURY, ECGD
INFO PRIORITY UKDEL IMF/IBRD WASHINGTON, BOMBAY
INFO SAVING CALCUTTA, MADRAS

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*Prime Minister
Early background
Alas*

INDIAN ECONOMY: IMF

SUMMARY

1. IMF MISSION FINDS STANDBY ARRANGEMENT REMAINS BROADLY ON TARGET, DESPITE SOME CONCERN ABOUT GOVERNMENT BORROWING FROM THE RBI. RESERVES HAVE FALLEN PARTLY BECAUSE OF LARGE SHORT TERM DEBT REPAYMENT. PRESSURES ON EXPENDITURE MAY MOUNT FOLLOWING AYODHYA BUT FISCAL DEFICIT TARGET ACHIEVABLE. MISSION FOCUSED ON THE BUDGET, SEEKING EXCHANGE RATE UNIFICATION, LOW FISCAL DEFICIT TARGET, SIGNIFICANT FURTHER TRADE REFORM, AND FASTER PROGRESS TOWARDS OPEN MARKET BORROWING BY GOVERNMENT. A GOOD BUDGET WOULD ALLOW QUICK FINALISATION OF THE EFF/ESAF PROGRAMME IN MARCH/APRIL 1993. FINANCE MINISTRY OFFICIALS DO NOT APPEAR UNDULY CONCERNED ABOUT THE IMPACT OF AYODHYA.

DETAIL

2. LINDE, IMF REPRESENTATIVE, BRIEFED US ON THE VISIT OF NEISAND GOLDSBOROUGH IN THE WEEK 14-18 DECEMBER FOR PRE-BUDGET DISCUSSIONS WITH THE MINISTRY OF FINANCE AND DISCUSSION OF THE POLICY FRAMEWORK PAPER FOR THE EFF/ESAF LOAN.

STANDBY ARRANGEMENT (SBA)

3. THE GOVERNMENT WAS LARGELY ON TRACK TO MEET THE DECEMBER TARGETS UNDER THE SBA. BUT RBI CREDIT TO GOVERNMENT WAS IN DANGER OF OVERSHOOTING BECAUSE OF INCREASED EXPENDITURE PRESSURES, INCLUDING INCREASED TRANSFERS FOR STATES TO FINANCE EXTERNALLY AIDED PROJECTS. NEVERTHELESS, BECAUSE OF THE LARGE MARGIN OF UNDERSHOOT IN SEPTEMBER, THE OVERALL BORROWING TARGET FOR DECEMBER DID NOT SEEM ENDANGERED. THE OTHER TARGETS SHOULD ALL BE MET. PART OF THE RECENT DROP IN RESERVES WAS ATTRIBUTABLE TO FURTHER SHORT TERM DEBT REDEMPTION BY THE INDIAN OIL CORPORATION, BRINGING SHORT

TERM DEBT DOWN TO ABOUT USD1.3 BILLION AGAINST OVER USD2 BILLION IN JUNE. RESERVES HAD ALSO FALLEN BECAUSE OF LOWER EXTERNAL AID RECEIPTS ARISING FROM SHORTFALLS IN EXCEPTIONAL FINANCING AND LOWER PROJECT AID DISBURSEMENTS BECAUSE OF DEVALUATION AND SLOW PROJECT IMPLEMENTATION.

4. FOR THE FINANCIAL YEAR END TARGETS IT WAS TOO EARLY TO PREDICT. BUT THE FINANCE MINISTRY WAS SLIGHTLY WORRIED BY INCREASED SPENDING PRESSURES FOLLOWING AYODHYA. PRESSURE FROM THE MILITARY HAD INCREASED BECAUSE OF DOMESTIC DISTURBANCES AND HEIGHTENED TENSION WITH PAKISTAN. THE GOVERNMENT MIGHT ALSO ATTEMPT TO SPEND ITS WAY BACK TO POWER IN THE FOUR PREVIOUSLY BJP RUN STATES NOW UNDER PRESIDENTS RULE. EVEN SO LINDE THOUGHT THE 5 % OF GDP FISCAL DEFICIT TARGET ACHIEVABLE, ALTHOUGH HE WAS NOT SO CERTAIN ABOUT RBI CREDIT TO GOVERNMENT.

5. MUCH OF THE DISCUSSION CENTRED ON THE FEBRUARY BUDGET. THE IMF IS SEEKING FOUR MAIN OBJECTIVES: REUNIFICATION OF THE EXCHANGE RATE, FURTHER FISCAL DEFICIT REDUCTION, SIGNIFICANT FURTHER TRADE REFORM, AND SOLID PROGRESS ON FINANCIAL SECTOR REFORM. LINDE THOUGHT EXCHANGE RATE UNIFICATION IN THE BUDGET STILL POSSIBLE, AND THE IMF WERE PRESSING HARD FOR IT. FOLLOWING THE SMALL RUPEE DEVALUATION IN EARLY DECEMBER, A MOVE TO A 70.30 RATIO FOR FOREIGN EXCHANGE REMITTANCES HAD BEEN PLANNED BUT DROPPED FOLLOWING AYODHYA.

6. ON THE FISCAL DEFICIT, THE IMF WOULD LIKE TO SEE A TARGET OF 3.5% OF GDP FOR 1993-94 BUT THERE IS A POTENTIAL CONFLICT WITH WORLD BANK PLANS FOR RAPID TARIFF REDUCTION. IN A TRIPARTITE MEETING IT WAS AGREED THAT A DESIRABLE PACKAGE OF TARIFF REFORMS SHOULD FIRST BE DEvised. IF THAT PRODUCED A FISCAL PROBLEM THEN THE IMF WOULD CONSIDER A LESS STIFF DEFICIT TARGET. BUT BOTH THE WORLD BANK AND THE IMF WANTED TO AVOID BEING PLAYED OFF AGAINST EACH OTHER FOR WHAT WERE EQUALLY VALID OBJECTIVES. IN ANY CASE THE BUDGET SHOULD SHOW A FISCAL DEFICIT IN THE RANGE OF 3.5 TO 4.0% GDP. THE WORLD BANK WANTS THE MAXIMUM TARIFF REDUCED TO 50%, BUT LINDE WOULD REGARD 80%, WITH CORRESPONDING REDUCTIONS IN INTERMEDIATE AND CAPITAL GOODS, AS A USEFUL OUTCOME. OTHER THAN TARIFFS THE IMF WAS LOOKING FOR SIGNIFICANT INROADS INTO THE CONSUMER GOODS NEGATIVE LIST TO ALLOW EFFECTIVE COMPETITION FROM FOREIGN IMPORTS. THE MAIN

TAX CHANGE WOULD BE A REDUCTION IN CORPORATION TAX OF ABOUT 5 %. NO MAJOR CHANGES IN EXCISE DUTIES OR MOVES TO VAT WERE EXPECTED. ON THE FINANCIAL SECTOR THE PRIORITY WAS TO REVAMP THE STRATEGY FOR REDUCING RESERVE RATIOS TO ENCOURAGE THE QUICKER DEVELOPMENT OF AN OPEN MARKET IN GOVERNMENT SECURITIES. THE FINANCE MINISTRY HAD SAID THAT ROOM COULD BE MADE IN THE BUDGET FOR INCREASED INTEREST PAYMENTS EQUIVALENT TO 0.5% OF GDP IF GOVERNMENT SECURITIES WERE REMOVED FROM SLR REQUIREMENTS. RBI, NOW UNDER RANGARAJANS GOVERNORSHIP, WAS LIKELY TO AGREE TO THIS. BUT THE DETAILS OF THE NEW STRATEGY ARE STILL BEING WORKED OUT.

EFF/ESAF

7. ONLY ONE DAY WAS SPENT ON THE POLICY FRAMEWORK PAPER, WITH PARTICIPATION BY SHIRAZI OF THE WORLD BANK. THIS WAS NOT A DRAFTING SESSION AS THE MAIN OBJECTIVE WAS TO ENSURE THAT THE BUDGET PROVIDED THE PROPER PLATFORM FOR FINALISATION OF THE PROGRAMME AND INSERTION OF THE FIRST YEAR NUMBERS. IF THIS HAPPENED, TYING UP THE EFF/ESAF PROGRAMME IN MARCH/APRIL WOULD NOT BE A PROBLEM.

PUBLIC SECTOR DISINVESTMENT

8. PUBLIC SECTOR ASSET DISPOSAL WOULD CONTINUE TO FEATURE IN 1993/94 AT THE REDUCED LEVEL OF RS 25 BILLION. NEITHER THE MINISTRY OF FINANCE NOR THE IMF ARE HAPPY WITH ITS INCLUSION IN THE BUDGET, OR THE STRATEGY ADOPTED, BUT IT IS BEING RETAINED FOR PRESENTATIONAL PURPOSES.

BALANCE OF PAYMENTS

9. LINDE CONFIRMED THAT HE SAW NO REASON FOR THE IMF TO CHANGE ITS MEDIUM TERM FORECASTS OF THE CURRENT ACCOUNT DEFICIT, OR EXCEPTIONAL FINANCING. EXPORT PERFORMANCE IN 1992/93 TO OCTOBER (6% GROWTH OVERALL, 13% TO HARD CURRENCY MARKETS) WAS BETTER THAN EXPECTED. THE MINISTRY OF FINANCE HAD RECALCULATED THEIR PROJECTIONS AND THE RESULTS SUGGESTED AN EXCEPTIONAL FINANCING REQUIREMENT NEARER THE LOWER END OF THE IMF RANGE OF USD6.2-9.6 BILLION IN 1993/1996.

COMMENT

10. LINDE SAID THAT THE DISCUSSIONS HAD NOT BEEN SIGNIFICANTLY AFFECTED BY THE POLITICAL RAMIFICATIONS OF AYODHYA. THERE HAD BEEN NO ATMOSPHERE OF PANIC AND, WHILE CONCERN ABOUT INCREASED SPENDING PRESSURES, FINANCE MINISTRY OFFICIALS SHOWED NO INCLINATION TO PUT THE BRAKES

ON REFORM. THE IMF EXPECTATION IS THEREFORE THAT THE BUDGET SHOULD BROADLY MEET IMF/WORLD BANK CRITERIA. IT IS OF COURSE STILL POSSIBLE THAT WIDER POLITICAL PRESSURES WILL SPILL OVER INTO THE BUDGET DECISION MAKING PROGRESS. BUT THERE IS NO EVIDENCE OF THIS SO FAR.

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INDIA INTERNAL : AYODHYA : NEW DELHI TELNO 1276

SUMMARY

1. THREE REMAINING BJP STATE GOVERNMENTS DISMISSED AND PRESIDENT'S RULE IMPOSED. BJP CALLS A ONE DAY STRIKE IN RESPONSE. PARLIAMENT LIKELY TO BE FURTHER DISRUPTED. THE CRISIS DEEPENS.

DETAIL

2. FOLLOWING A CABINET MEETING ON 15 DECEMBER, THE BJP STATE GOVERNMENTS OF RAJASTHAN, MADHYA PRADESH, HIMACHAL PRADESH WERE DISMISSED, THE STATE ASSEMBLIES DISSOLVED, AND THE STATES PLACED UNDER PRESIDENT'S RULE. ARMY AND PARAMILITARY FORCES HAVE BEEN PUT ON PRECAUTIONARY ALERT. THE DECISION FOLLOWED RECEIPT OF DETAILED REPORTS FROM THE STATE GOVERNORS ON EVENTS SINCE 6 DECEMBER.

3. THE DECISION HAS BEEN WELCOMED BY NON-BJP OPPOSITION PARTIES. THERE HAS BEEN A STRONG REACTION FROM THE BJP ITSELF WHICH HAS CALLED A ONE DAY STRIKE TODAY (16 DECEMBER). IT IS WIDELY EXPECTED THAT THE BJP WILL TRY TO DISRUPT PARLIAMENT WHEN IT RESUMES TODAY AFTER LAST WEEK'S ADJOURNMENT. THERE IS ALSO SPECULATION THAT BJP MPS IN THE LOK SABHA MAY RESIGN EN BLOC.

COMMENT

4. BY AWAITING DETAILED REPORTS FROM THE STATE GOVERNORS BEFORE DISMISSING THE BJP GOVERNMENTS THE CENTRAL GOVERNMENT HAS PROVIDED ITSELF WITH SOME CONSTITUTIONAL BASIS FOR ITS ACTION. BUT TO MOST OBSERVERS, THE JUSTIFICATION LOOKS PRETTY THREADBARE. LAW AND ORDER PROBLEMS WERE WORSE IN THE CONGRESS CONTROLLED STATES OF MAHARASHTRA AND GUJARAT (AND IN COMMUNIST WEST BENGAL)

THAN IN ANY OF THE BJP CONTROLLED STATES. IN HIMACHAL PRADESH NO VIOLENCE WAS REPORTED AT ALL. ALL THREE CHIEF MINISTERS ARE MEMBERS OF THE RSS, THE MOST INFLUENTIAL OF THE MILITANT HINDU ORGANISATIONS BANNED LAST WEEK. BUT THEIR GOVERNMENTS HAD UNDERTAKEN TO IMPLEMENT THE BAN, AND APPEARED TO BE DOING SO.

5. THE GOVERNMENT'S DECISION DEEPENS THE CRISIS. IT IS A VICTORY FOR THE HARDLINERS IN CONGRESS OVER NARASIMHA RAO'S MORE CONCILIATORY INSTINCTS. IT WILL INCREASE THE ALREADY HIGH LEVEL OF POLITICAL POLARISATION, AND THE RISK OF A DAMAGING BACKLASH NOT ONLY FROM THE BJP BUT FROM GRASS-ROOTS HINDU OPINION. MUCH WILL DEPEND ON REACTIONS IN PARLIAMENT AND THE RESPONSE IN THE COUNTRY TO THE BJP STRIKE.

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MR APPELYARD

SIR J COLES

MR AINSCOW

SIR T DAUNT

MR BONE

MR MANNING

MR MASEFIELD

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MOD//DI ROW/MAJOR MORGAN
MOD//SQN LDR GREEN DI(ROW)

PS/PM
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DTI//HD PEP
HO//MS JACKSON F4D
HO//IND B3D SEC D

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**SUBJECT
MASTER**

Filed on:



**10 DOWNING STREET
LONDON SW1A 2AA**

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**PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T.2681A/92**

THE PRIME MINISTER

15 December 1992

Dear Prime Minister,

Thank you for your letter of 11 November. I am grateful to you for setting out your thinking and concerns on Kashmir.

The destruction of the ancient mosque at Ayodhya was a provocative and irresponsible act which has appalled all who wish India well. I have been distressed by the disturbances and loss of life, in India and elsewhere, which have ensued.

I welcome the rapid and firm action which your Government has taken in order to restore peace and harmony. We attach the greatest importance to the principle of religious freedom and protection of religious minorities, to which your Government is committed.

I enclose for your information a copy of the statement about the destruction of the mosque which my Government issued on 7 December. I wish you success in handling this most difficult issue.

I am looking forward to my visit in January for Republic Day.

*Yours Sincerely,
Shri P.V.*

Shri P.V. Narasimha Rao

h

STATEMENT BY HMG

The British Government support the appeal by the Indian Prime Minister Narasimha Rao for calm, following the demolition by Hindus of the mosque at Ayodhya in Uttar Pradesh. They condemn those responsible for provoking violence and express their concern at the loss of life in various parts of India.

They also appeal to Hindu and Muslim communities everywhere to show restraint and to avoid further provocations or reprisals.

DRAFT LETTER FROM THE PRIME MINISTER TO:

Shri P V Narasimha Rao
Prime Minister of India

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I enclose for your information a copy of the statement about the destruction of the mosque which my Government issued on 7 December. I wish you ~~all~~ ^{hardly the} success.

I am looking forward to my visit in January for Republic Day.

most difficult time.

CONFIDENTIAL



Foreign &
Commonwealth
Office

10 December 1992

London SW1A 2AH

Dear Stephen,

Letter from Indian Prime Minister on Kashmir

Thank you for your letter of 26 November enclosing one to the Prime Minister from the Prime Minister of India. I enclose a draft reply for the Prime Minister's signature.

Although Narasimha Rao's letter dealt with Kashmir, the demolition of the Babri Mosque in Ayodhya by Hindu zealots and the later inter-communal clashes between Hindus and Muslims in many parts of India (about which I wrote to you on 7 December) has overtaken Kashmir as the main topic of concern. The Foreign Secretary recommends that the Prime Minister's reply should therefore concentrate on the disturbances.

I am copying this letter to Joan MacNaughton (Home Office).

Yours ever,

Stephen Smith.

(J S Smith)

Private Secretary

J S Wall Esq CMG LVO
10 Downing Street

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10 DOWNING STREET
LONDON SW1A 2AA

Statement by HMG

The British Government support the appeal by the Indian Prime Minister Narasimha Rao for calm, following the demolition by Hindus of the mosque at Ayodhya in Uttar Pradesh. They condemn those responsible for provoking violence and express their concern at the loss of life in various parts of India.

They also appeal to Hindu and Muslim communities everywhere to show restraint and to avoid further provocations or reprisals.

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 263 A 192



SUBJECT
"MASTER"
Filed on:

Handwritten notes: "Handwritten notes" and "cc. FO"

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

9 December 1992

Douglas Hurd has told me about his recent visit to Islamabad, which he found most interesting and enjoyable though too short. He especially appreciated the long discussion he was able to have with you about Kashmir, and he has told me of his undertaking that we would consider further what we could most usefully do to help the search for a settlement of this situation, which has been unresolved for too long.

I was grateful for your renewed invitation to me to visit Pakistan, which Douglas Hurd passed on to me. I look forward to making the visit when our own parliamentary pressures relent sufficiently to make it easier to plan ahead. Certainly I see my visit as another opportunity to take forward our concern for progress over the issue of Kashmir.

In the meantime, I am conscious that the history of the matter is riddled with disagreements and controversies, and strong emotions are, quite understandably, invested in the dispute on all sides - in Pakistan, in India and, not least, in Kashmir itself. Accordingly, we want to be particularly careful that, despite our deep concern to help bring to an end the suffering and dangerous tension, we do not make matters worse by exacerbating existing suspicions and lack of confidence.

We remain convinced that, as Douglas Hurd suggested at the end of his visit to Islamabad, three items are needed to

make progress: a real dialogue between Pakistan and India, as envisaged under the Simla Agreement; a genuine political process and improvement on human rights inside Kashmir; and an end to support for Kashmiri militants from within Pakistan. I am happy to note that some steps forward have been taken in all three areas, but more are needed.

My own visit to India in January offers a special opportunity to talk frankly to the Indian Government about our concerns over Kashmir, and our wish to see progress towards resolving this long-standing problem. I shall be looking especially for signs of movement in the three areas suggested above. I shall want to repeat our offer to help find a solution in any way that both sides agree would be helpful.

We shall, of course, be in touch again after that visit. In the meantime, if you have further thoughts, please do not hesitate to share them with me.

*Yours Sincerely,
John Hope*

His Excellency Mr. Muhammad Nawaz Sharif



F/Kashmir

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

8 December 1992

RELATIONS BETWEEN INDIA AND PAKISTAN: KASHMIR

The Prime Minister has seen the Foreign Secretary's minute of 30 November. He has approved the draft letter to the Prime Minister of Pakistan, and I enclose the signed version. I should be grateful if you could arrange for it to be delivered.

J. S. WALL

J.S. Smith, Esq.,
Foreign and Commonwealth Office.

to



cc RB

Foreign &
Commonwealth
Office

7 December 1992

London SW1A 2AH

me
Dear Stephen,

India: Destruction of Mosque at Ayodhya

New Delhi have reported that disturbances have broken out between Muslims and Hindus in several Indian cities, after Hindu zealots on 6 December demolished the mosque at Ayodhya, which is said to be on the reputed birth place of the Hindu god Ram. So far around 50 deaths have been reported, but this number is almost certain to rise. Police and security forces are on the alert throughout India. The Chief Minister of Uttar Pradesh, the state in which Ayodhya is situated, has resigned, and direct rule from Delhi has been imposed on the state. The Indian Prime Minister, Narasimha Rao, spoke on television yesterday evening. He called the attack on the mosque a matter of great shame and concern to all Indians, and called on the nation to maintain calm, peace and harmony.

Politicians in Pakistan and Bangladesh have spoken out strongly against the events in Ayodhya. The Pakistani Government is reported to have called for a national day of peaceful protest tomorrow. Some Hindu temples in Karachi are reported to have been destroyed. A Hindu temple in Bradford is reported to have been burned, but the circumstances are not yet clear.

/ I attach a statement which FCO News Department will issue at 1230 today. The Foreign Secretary will refer to the statement, if asked, at the Foreign Affairs Council press conference this afternoon.



We would give the press statement to the Indian Government. We shall keep under review the possibility of the Prime Minister sending a personal message to Narasimha Rao, but consider that at present the most effective way of demonstrating support for him, and also appealing for calm outside India, is through the proposed public statement.

(I am copying this letter to Joan MacNaughton (Home Office) & Melvyn Leech, (Cabinet Office),

Yours ever,

R. H. T. Gozney

(R H T Gozney)
Private Secretary

J S Wall Esq
10 Downing Street

Statement by HMG

The British Government support the appeal by the Indian Prime Minister Narasimha Rao for calm, following the demolition by Hindus of the mosque at Ayodhya in Uttar Pradesh. They condemn those responsible for provoking violence and express their concern at the loss of life in various parts of India.

They also appeal to Hindu and Muslim communities everywhere to show restraint and to avoid further provocations or reprisals.



SRB

PM/92/066

JW ok

PRIME MINISTERRelations between India and Pakistan: Kashmir

1. As you know I visited Pakistan at the end of last month, seeing the President, Chief of the Army Staff, Minister of State for Foreign Affairs, and the Prime Minister. I deployed the arguments set out in my Private Secretary's letter of 26 October. I think it all went well.
2. Nawaz Sharif warmly reciprocated your personal greetings, expressing the hope that he would be able to welcome you to Pakistan in the near future. He confirmed, in passing, that you were absolutely right to make separate visits to India and Pakistan (I told him that you hoped to go to New Delhi for Republic Day).
3. Nawaz Sharif picked up the discussions about Kashmir which he had with you in London this summer. He reported that his meetings with Narasimha Rao had been friendly and constructive so far as they went, but there had been no concrete progress.
4. Nawaz Sharif thought that both Narasimha Rao and he were keen to divert much of the money their governments spend on defence to economic development. He was prepared to be flexible in his approach to Kashmir. Speaking personally, he wondered, for example, if plebiscites held at district levels might help provide an answer, knowing that this would give parts of the disputed territory, (eg Jammu) to India and parts to Pakistan.



5. Nawaz Sharif invited us to produce an analysis pointing towards practical proposals for moving forward or resolving the issue. I confirmed that we would be glad to help if both sides wanted us to, and said that I would reflect further on what we might do.

6. Sir John Coles visited New Delhi after my visit to Pakistan. He took the opportunity to sound out the Indians on our possible involvement in some form of mediation. They showed no interest. The Americans have previously considered, very tentatively, some kind of initiative (perhaps by the P5) on Kashmir, but they will be unable to do anything new until the new Administration settles in. We will consult them closely.

7. It is difficult to be optimistic about the prospects of a solution on Kashmir, and there are many potential pitfalls, to our becoming involved. But there are a few glimmers of hope: the cordial personal relations between the two Prime Ministers, the regular talks between Foreign Secretaries, and those that are just beginning between Defence Secretaries. Both leaders have ambitious plans to re-orient their economies on market principles and need all the money they can divert away from defence for social and economic development. The end of the Cold War leaves India without Soviet backing for intransigence, while China's internal preoccupations make her less of a potentially negative factor.

8. Accordingly, my officials will continue to look at possible ways of making progress on Kashmir, and will be in touch with the new US administration as soon as it is ready to discuss this issue. We need to find a way to convince the Indians that they cannot persist indefinitely with their present policy of seeking simply to repress Kashmiri disaffection. Your own visit to India in January will be



an opportunity to emphasise the importance of a genuine political process within Kashmir, which will allow Kashmiri aspirations to be expressed openly. I hope you will also be able to visit Pakistan later in 1993, so that you can take forward the dialogue further.

9. In the meantime we need to assure Nawaz Sharif of our continued constructive interest in the topic, while discouraging him from building up unreal expectations of us. The best way of doing this might be for you to write to him, as in the enclosed draft. If you would prefer me to write at this stage, I should be happy to do so.

A handwritten signature in blue ink, appearing to be 'DH'.

(DOUGLAS HURD)

Foreign and Commonwealth Office

30 November 1992

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DRAFT LETTER FROM THE PRIME MINISTER

His Excellency Mr Nawaz Sharif
Prime Minister
The Islamic Republic of Pakistan

Douglas Hurd has told me about his recent visit to Islamabad, which he found most interesting and enjoyable though too short. He especially appreciated the long discussion he was able to have with you about Kashmir, and he has told me of his undertaking that we would consider further what we could most usefully do to help the search for a settlement of this situation, which has been unresolved for too long.

I was grateful for your renewed invitation to me to visit Pakistan, which Douglas Hurd passed on to me. I look forward to making the visit when our own parliamentary pressures relent sufficiently to make it easier to plan ahead. Certainly I see my visit as another opportunity to take forward our concern for progress over the issue of Kashmir.

In the meantime, I am conscious that the history of the matter is riddled with disagreements and controversies, and strong emotions are, quite understandably, invested in the dispute on all sides - in Pakistan, in India and, not least, in Kashmir itself. Accordingly, we want to be particularly careful that, despite our deep concern to help bring to an end the suffering and dangerous tension, we do not make matters worse by exacerbating existing suspicions and lack of confidence.

We remain convinced that, as Douglas Hurd suggested at the end of his visit to Islamabad, three items are needed to make progress: a real dialogue between Pakistan and India, as envisaged under the Simla Agreement; a genuine political process and improvement on human rights inside Kashmir; and an end to support for Kashmiri militants from within Pakistan. I am happy to note that some steps forward have been taken in all three areas, but more are needed.

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My own visit to India in January offers a special opportunity to talk frankly to the Indian Government about our concerns over Kashmir, and our wish to see progress towards resolving this long-standing problem. I shall be looking especially for signs of movement in the three areas suggested above. I shall want to repeat our offer to help find a solution in any way that both sides agree would be ~~most~~ helpful.

We shall, of course, be in touch again after that visit. In the meantime, if you have further thoughts, please do not hesitate to share them with me.

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K: F/SINGHVI. AB.

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

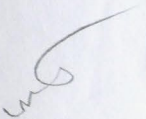
26 November 1992

I enclose a copy of a letter which the Prime Minister has received from Dr L M Singhvi covering one from the Prime Minister of India.

I should be grateful if you would provide advice and a draft reply for the Prime Minister's signature, to reach this office by Thursday 10 December.

J. S. WALL

Stephen Smith Esq
Foreign and Commonwealth Office



cc PB

Dr. L.M. Singhvi



INDIA HOUSE,
ALDWYCH,
LONDON, W.C.2

26th November, 1992

Dear Prime Minister,

I have the honour to enclose a letter addressed to you
by Prime Minister P.V. Narasimha Rao.

May I add that we look forward to receiving you in India
in January 1993 and confidently expect that your visit will be an
important landmark in the intensification of close and cordial
Indo-British cooperation.

with my warm personal regards,

Yours sincerely,

L.M. Singhvi

(L.M. Singhvi) .

The Rt. Hon. John Major, MP
Prime Minister
10, Downing Street
London SW1A 2AA.

Encl: As above.



सत्यमेव जयते

PRIME MINISTER

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T 2476/92

SUBJECT
MASTER

Filed on:

New Delhi
November 11, 1992

My dear Prime Minister,

I was very happy to receive your letter confirming your acceptance of our invitation to visit India as the Chief Guest at our Republic Day on January 26, 1993. Our bilateral cooperation over a broad spectrum of activity is proceeding in an encouraging manner, and your visit will be an important step forward in strengthening such cooperation.

Sir John Coles conveyed to us the substance of the discussions Mr. Douglas Hurd held at Islamabad, which was of interest to us. We appreciate the stand taken by Mr. Hurd in support of the Simla process and concern at Pakistan's support for terrorism from across our borders.

Britain coming out against terrorism in Punjab and its support of our efforts to revive the democratic process, had helped us promote the progressive normalisation of the situation in that State. An equally categorical position in respect of Kashmir would be helpful. The Kashmir issue demands patience, determination and a measure of goodwill on the part of all sides if a solution is to be found. We have begun the delicate and difficult process of initiating political contacts, including with some who feel alienated for one reason or another. The real need now is for Pakistan to desist from doing anything, whether on the ground or in the international arena, which would encourage the depredations and armed action by terrorists. As in Punjab, the success of our efforts to revive the political process would be enhanced by declining levels of terrorist activity.

While it may be attractive to view the solution of this issue in terms of simultaneous progress on an Indo-Pakistan dialogue under the Simla Agreement, Pakistan's withdrawal of support to terrorists, and the revival of democratic processes in the State - it would be realistic to recognise that the healing touch of the democratic process will depend on the extent to which terrorist activity is curbed and freedom from fear assured to the electorate and the people at large. An all-party delegation of our Members of Parliament which has recently visited Kashmir shares this view.



-: 2 :-

Our Home Minister has held wide-ranging discussions with representatives of all political parties on the prevailing situation and on ways of moving towards a revival of the electoral process. We convened last week a meeting of persons who had represented the State in its Legislature and in our National Parliament. A multi-party Advisory Council to the State Governor has been constituted to help bridge the gap between the administration and the people. We are committed to persevering with such efforts.

The recent discussions at the Defence Secretary level with Pakistan on the Siachen question and other topics of common concern, show that progress can be made on outstanding issues provided we are enabled to address them bilaterally and in the right atmosphere. I have written to you as part of our regular contacts on matters that are of concern. I was glad to hear of the results of the recent House of Commons vote on the Maastricht Treaty and look forward to hearing from you about the many important developments taking place in Europe.

With regards, and looking forward to welcoming you to India, I remain,

Yours sincerely,

(P.V. Narasimha Rao)

The Rt. Hon. John Major
Prime Minister of the United Kingdom
London

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INDIA: POLITICAL AND ECONOMIC SCENE

SUMMARY

1. UPDATE IN ADVANCE OF THE PARIS AID INDIA MEETING. RAO'S GOVERNMENT LOOKS STABLE, REASONABLY POPULAR, AND NOT SERIOUSLY THREATENED BY THE OPPOSITION, ALTHOUGH ONE OR TWO RECENT DEVELOPMENTS HAVE PUT THEM ON THE DEFENSIVE. GENERAL STRIKE CALLED BY THE LEFT-WING UNIONS TO PROTEST AT GOVERNMENT POLICIES ONLY PATCHILY SUPPORTED AND UNLIKELY TO SWAY THE GOVERNMENT.

2. IMPRESSIVE PROGRESS IN ECONOMIC REFORM, BUT A RECENT PAUSE IN MAJOR ANNOUNCEMENTS, REFLECTING POLITICAL PRESSURES, THE DIFFICULTY OF SOME OF THE DECISIONS, AND WORRIES ABOUT THE ECONOMY. NEVERTHELESS NO REASON TO DOUBT COMMITMENT TO FURTHER REFORM, THOUGH LIKELY TO BE PURSUED IN A LOWER-KEY WAY TO MINIMIZE CONFRONTATION. BOMBAY SECURITIES SCANDAL HAS NOT HELPED, PARTICULARLY ON FINANCIAL SECTOR REFORM. INDIA CONTINUES TO DESERVE OUR SUPPORT.

DETAIL

3. A SUMMARY OF WHERE INDIA NOW STANDS POLITICALLY AND ECONOMICALLY MAY BE USEFUL IN ADVANCE OF THE PARIS AID INDIA CONSORTIUM MEETING ON 25/26 JUNE.

3. THE GOVERNMENT OF NARASIMHA RAO HAS BEEN IN OFFICE FOR ALMOST A YEAR. ON THE WHOLE IT CONTINUES TO SHOW REMARKABLE STABILITY, RESILIENCE AND COMMITMENT TO POSITIVE CHANGE. ALTHOUGH TECHNICALLY STILL A MINORITY GOVERNMENT, IN PRACTICE NARASIMHA RAO'S ABILITY TO MUSTER A PARLIAMENTARY MAJORITY WHEN HE NEEDS IT IS SCARCELY IN DOUBT. THE OPPOSITION PARTIES ON THE LEFT REMAIN IN DISARRAY. ON THE RIGHT THE HINDU REVIVALIST BJP, THE LARGEST SINGLE OPPOSITION PARTY, HAS FAILED TO CAPITALIZE ON ITS GOOD PERFORMANCE IN LAST SUMMER'S GENERAL ELECTIONS, AND APPEARS TO HAVE LOST ITS DRIVE FOR THE MOMENT. THERE IS LITTLE DOUBT THAT, IN THE UNLIKELY EVENT OF FRESH ELECTIONS BEING HELD NOW, THE

CONGRESS PARTY WOULD WIN AN OVERALL MAJORITY.

4. NARASIMHA RAO HIMSELF SHOWS FEW SIGNS OF FLAGGING. HIS HEALTH APPEARS NO WORSE THAN WHEN HE TOOK OFFICE A YEAR AGO, AND POSSIBLY BETTER. HIS SHREWD CONSENSUS-BUILDING APPROACH HAS BROUGHT HIM A SIGNIFICANT DEGREE OF DOMINANCE OVER BOTH THE GOVERNMENT AND CONGRESS PARTY, AND HE RETAINS A HIGH POPULARITY RATING IN THE COUNTRY. HE STILL FACES PLENTY OF POLITICAL PROBLEMS. THE NECESSARY PARTY COMPROMISES FOR THE PRESIDENTIAL ELECTIONS HAVE STILL TO BE FINALIZED. HIS NOMINATIONS TO CONGRESS(I) POSTS ARE BEING CRITICISED AND SEEM UNIMPRESSIVE. THE REVIVAL OF THE BOFORS ISSUE, LEADING TO FOREIGN MINISTER SOLANKI'S RESIGNATION, PUT THE GOVERNMENT ON THE DEFENSIVE. THESE HAVE NOW BEEN FOLLOWED BY THE BOMBAY SECURITIES SCANDAL. CONGRESS PARTY RUMBLINGS ABOUT THE DIRECTION OF RAO'S POLICY, PARTICULARLY IN THE ECONOMIC FIELD, ARE MUTED BUT NOT ENDED. BEHIND THE SCENES IN-FIGHTING AMONGST HIS WOULD-BE SUCCESSORS CONTINUES. BUT THE FACT REMAINS THAT THERE SEEMS NO SERIOUS POLITICAL THREAT TO RAO OR TO THE GOVERNMENT AT PRESENT.

5. THE MOST SIGNIFICANT ACHIEVEMENT OF RAO'S YEAR IN OFFICE HAS BEEN THE DETERMINATION WITH WHICH HE, FINANCE MINISTER MANMOHAN SINGH AND COMMERCE MINISTER CHIDAMBARAM HAVE STABILIZED THE ECONOMIC AND FINANCIAL CRISIS THEY INHERITED AND HAVE STARTED TO PUSH THROUGH RADICAL ECONOMIC REFORMS. MOST INDUSTRIAL LICENSING HAS BEEN ABOLISHED, TRADE POLICY LIBERALIZED, FOREIGN INVESTMENT WELCOMED, A START MADE ON OPENING UP THE FINANCIAL MARKETS, AND CLEAR SIGNALS GIVEN OF A SHIFT OF RESOURCES AND PRIORITY FROM THE PUBLIC TO THE PRIVATE SECTOR. OPPOSITION CALLS TO RESIST CONFORMING TO THE STRUCTURAL ADJUSTMENT PROGRAMMES SET BY THE IMF AND WORLD BANK HAVE BEEN STEADFASTLY IGNORED.

6. THE TRADE UNIONS SPONSORED BY THE LEFT-WING OPPOSITION PARTIES CALLED A GENERAL STRIKE ON 16 JUNE TO PROTEST AGAINST THESE POLICIES, PARTICULARLY PLANS TO CLOSE LOSS-MAKING ENTERPRISES AND INTRODUCE PRIVATE CAPITAL. WHILE LIFE WAS VIRTUALLY PARALYSED IN A FEW STATES (WEST BENGAL AND BIHAR - BOTH LEFT-WING DOMINATED - AND KERALA) ELSEWHERE THERE WAS A PATCHY RESPONSE. MOST BANKS WERE CLOSED, AIR SERVICES WERE BADLY AFFECTED AND ATTENDANCE AT MANY INDUSTRIAL ENTERPRISES DISRUPTED. BUT ROAD AND RAIL TRANSPORT RAN NEAR NORMALLY IN MOST PLACES AND MOST ENTERPRISES AND OFFICES STAYED OPEN. THE GOVERNMENT HAD CRITICIZED THE STRIKE BEFOREHAND AS UNNECESSARY AND DAMAGING TO THE ECONOMY. THEY CLAIM NOW THAT IT WAS A FLOP, WHILE THE UNIONS

CLAIM AN OVERWHELMING SUCCESS. IN PRACTICE, IN A COUNTRY WHERE POLITICALLY MOTIVATED ONE-DAY STRIKES ARE RELATIVELY COMMONPLACE AND EASILY ORGANIZED, THE GOVERNMENT ARE PROBABLY RELIEVED THAT NO GREAT POPULAR ENTHUSIASM AGAINST THEIR ECONOMIC POLICIES MANIFESTED ITSELF, AND WILL SEE NO REASON TO BE DEFLECTED FROM THEIR COURSE.

7. NEVERTHELESS SOME MAJOR QUESTION MARKS REMAIN ABOUT THE ECONOMY IN THE SHORT TERM. INFLATION REMAINS STUCK AT AROUND 12.5 PER CENT. GROWTH HAS YET TO RESUME AND THERE IS NO SIGN OF THE DEGREE OF REVIVAL IN EXPORTS SO DESPERATELY NEEDED. MOREOVER THERE ARE WIDESPREAD EXPECTATIONS OF A POOR MONSOON, ALTHOUGH OFFICIAL PREDICTIONS SAY IT WILL BE ONLY JUST BELOW AVERAGE. PUBLIC GRAIN PROCUREMENT HAS FALLEN SIGNIFICANTLY BELOW THE GOVERNMENT'S TARGETS AND A POOR MONSOON WOULD HAVE AN EARLY ADVERSE EFFECT ON INFLATION, FISCAL TARGETS AND, PRESUMABLY, THE GOVERNMENT'S IMAGE.

8. SOME INTERNAL AND EXTERNAL COMMENTATORS HAVE SUGGESTED THAT THE PACE OF REFORM HAS SLOWED DOWN DRASTICALLY AND THAT THE GOVERNMENT'S COMMITMENT TO IT HAS WEAKENED. THE EVIDENCE FOR THIS IS LIMITED. A STEADY TRICKLE OF LIBERALIZING CHANGE CONTINUES, EG RECENTLY ABOLITION OF THE 15 PER CENT TAX ON FOREIGN EXCHANGE FOR TRAVEL, AND ABOLITION OF THE CAPITAL ISSUES CONTROL ACT, THUS ALLOWING COMPANIES TO ISSUE SHARES AND FIX THE PREMIUM WITHOUT GOVERNMENT INTERFERENCE. FURTHER TRADE REFORMS, WHICH MAY INCLUDE FRESH TARIFF REDUCTIONS, ARE DUE TO BE ANNOUNCED NEXT MONTH.

9. NEVERTHELESS THERE HAS BEEN A PAUSE IN MAJOR REFORMS IN THE LAST TWO MONTHS. HAVING MADE AN INITIAL IMPACT IN VARIOUS AREAS, THE GOVERNMENT NOW AIMS AT LOW-KEY GRADUAL CHANGE, DESIGNED TO ATTRACT AS LITTLE POLITICAL FLAK AS POSSIBLE. IN THE KEY AREA OF CLOSURE OF UNECONOMIC ENTERPRISES AND LABOUR FLEXIBILITY, THEY ARE MOVING SLOWLY. BUT THEY ARE GRADUALLY TURNING THE FINANCIAL SCREW ON SICK COMPANIES, BUILDING A CONSENSUS FOR CLOSURES, AND PUTTING IN PLACE THE ELEMENTS OF A BASIC SAFETY NET FOR THOSE WHOSE JOBS ARE LOST. THE NATIONAL RENEWAL FUND, TO BE FINANCED LARGELY BY THE WORLD BANK, IS BEGINNING TO TAKE SHAPE. THE NEGATIVE TERM 'EXIT POLICY' HAS BEEN REPLACED BY THE LESS POLITICALLY CHARGED ONE OF 'RESTRUCTURING'. FASTER AND MORE PUBLIC PROGRESS WOULD CERTAINLY HELP TO STIMULATE FOREIGN INVESTMENT, WHICH REMAINS SLOW TO MATERIALIZE. BUT THIS IS PERHAPS THE MOST DIFFICULT AREA OF REFORM, WHERE THE GOVERNMENT

CANNOT AFFORD TO FAIL THROUGH RUSHING ITS FENCES. WE SHOULD KEEP UP THE PRESSURE BUT ALSO BE READY TO SHOW UNDERSTANDING OF THE GOVERNMENT'S REASONS FOR A CAUTIOUS APPROACH.

10. IN FINANCIAL SECTOR REFORM, THE GOVERNMENT'S CLAIM TO HAVE DONE MORE THAN THEY ARE GIVEN CREDIT FOR ALSO HAS SOME SUBSTANCE TO IT. THEY WANT TO GO FURTHER. BUT THE BOMBAY SECURITIES SCANDAL HAS INCREASED RESISTANCE TO GREATER FREEDOM OF ACTIVITY FOR PRIVATE AND FOREIGN BANKS, AND IS TAKING UP MUCH GOVERNMENT TIME. THE END OF THE SCANDAL IS NOT IN SIGHT AND IT MAY YET PROVE MORE DAMAGING FOR THE GOVERNMENT THAN CURRENTLY THOUGHT (NAMES OF MINISTERS SAID TO BE INVOLVED IN STOCK MARKET SPECULATION ARE NOW CIRCULATING). BUT IT SHOULD NEVERTHELESS LEAD TO FASTER COMPUTERIZATION AND TRANSACTION-HANDLING METHODS, WHICH WILL MODERNIZE AND OPEN UP THE SECTOR, EVEN IF PRIVATISATION OF PUBLIC SECTOR BANKS GOES ON TO THE BACK BURNER.

11. OVER THE NEXT TWO OR THREE MONTHS, THE GOVERNMENT FACE SOME VERY AWKWARD ECONOMIC DECISIONS, PARTICULARLY OVER FERTILIZER AND FOOD PRICE SUBSIDIES, IF THEY ARE TO MEET IMF AND WORLD BANK FISCAL TARGETS. THEY ALSO NEED TO BITE THE BULLET ON NEGOTIATING AN EFFESAF LOAN, WHICH INVOLVES COMMITMENT TO A MEDIUM-TERM STRUCTURAL ADJUSTMENT PROGRAMME. THEY ARE APPROACHING THESE POTENTIALLY EXPLOSIVE ISSUES WITH CONSIDERABLE CARE AND ARE LIKELY TO WAIT AT LEAST UNTIL AFTER THE PRESIDENTIAL ELECTION (13 JULY) AND PROBABLY AFTER THE MONSOON, IE SEPTEMBER, BEFORE TAKING ACTION.

12. THEIR READINESS TO PRESS AHEAD IN THESE AREAS WILL BE THE CRUCIAL TEST OF THEIR POLITICAL COURAGE AND CONTINUING COMMITMENT TO REFORM. THEIR NEED FOR EXTERNAL SUPPORT GIVES DONORS SOME LEVERAGE. BUT WITHOUT CONTINUING AND ADEQUATE EXTERNAL SUPPORT IT WILL BE MUCH MORE DIFFICULT TO OVERRIDE DOMESTIC OPPOSITION TO SOME OF THE DIFFICULT STEPS WHICH LIE AHEAD. PRESENT INDICATIONS ARE THAT THE GOVERNMENT HERE IS CONVINCED THAT INDIA HAS NO ALTERNATIVE BUT TO CONTINUE DOWN THE PATH OF MARKET REFORM AND FISCAL DISCIPLINE AS FAST AS POSSIBLE. THERE MAY BE SOME FUDGING AND PROGRESS IN SOME AREAS MAY BE TOO CAUTIOUS AND TOO SLOW IN THE EYES OF OUTSIDE OBSERVERS. BUT OVERALL THIS GOVERNMENT STILL DESERVES AS MUCH ENCOURAGEMENT AND SUPPORT AS WE CAN MUSTER.

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NNNN



MINISTRY OF DEFENCE
 WHITEHALL LONDON SW1A 2HB
 Telephone 071-21 82111/3

SECRETARY OF STATE

MO 6/19/3G

10th February 1992

Dear Stephen,

file 2

AID AND NUCLEAR DEVELOPMENTS IN INDIA AND PAKISTAN

My Secretary of State has seen Owen Barder's recent letter to you on this subject.

The Defence Secretary endorses the views set out in Richard Gozney's earlier letter of 13th December: that our applying unilateral pressure on India and Pakistan over nuclear proliferation would be ineffective; and that the best way forward lies in securing agreement for international action.

He also shares the Foreign Secretary's concern about the impact that unilateral pressure might have on our other national interests - including our commercial interests. In this regard, we disagree with the suggestion in Owen Barder's letter that the potential sale of BAe Hawk training aircraft to India, worth up to £600M, might be put in jeopardy.

Whilst he sees the point of 'Good Government' principles, the Defence Secretary believes that care is needed in applying them to individual countries. The Indian defence budget has fallen in real terms over the last two years, and is widely expected to decline further in the future. As a large country with unsettled neighbours, India can be considered to have a legitimate requirement for a modern air force and advanced jet trainers. Their purchase cannot be regarded as an excessive or distorting burden on government expenditure.

Finally, he is conscious of the fierce international competition BAe will face, certainly from the French, and possibly also from the USA. British Aerospace are facing an enhanced gap in

J S Wall LVO CMG
 10 Downing Street



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SECRETARY OF STATE

the loading of their airframe capacity in the North East. The Defence Secretary was lobbied this week by local MPs to produce MOD work. Export orders will relieve a very real pressure. In these circumstances, the Defence Secretary believes that we should be prepared to give as much support as possible to UK industry in its bid to win this large and important export order.

I am copying this letter to Richard Gozney (FCO), Owen Barder (Treasury) and Sonia Phippard (Cabinet Office).

Yours,

Bryan Wells

(B H WELLS)
Private Secretary





Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

January 1992

Stephen Wall Esq CMG LVO
Private Secretary to the
Prime Minister
10 Downing Street
LONDON
SW1

Dear Stephen,

AID AND NUCLEAR DEVELOPMENTS IN INDIA AND PAKISTAN

The Chancellor was interested to see Richard Gozney's letter of 13 December on this subject, and the Prime Minister's endorsement of this approach in your letter of 31 December. He has asked me to write indicating his own support for the action which the FCO proposes, and to mention a number of further points.

The Chancellor agrees that the issue of nuclear proliferation in India and Pakistan is a matter of serious and long-standing concern to the UK and to other major donors. He agrees that we should lose no opportunity to urge India and Pakistan to engage in bilateral or, preferably, the proposed multilateral meetings to discuss the issue of nuclear restraint in the sub-continent.

It is worth examining all possible forms of joint international pressure on both countries to reduce their arms spending. We agree that asking the IFIs to make any future help conditional on nuclear restraint would be problematical, for the reasons which the FCO mentions. It is important nonetheless that the IFIs should be ready to raise with both India and Pakistan the issue of their arms expenditure, including the nuclear developments. It was at our initiative that the London Summit Communique encouraged the IFIs to take account of arms expenditure in their consideration of the economic prospects and programmes of developing countries. It is a welcome and promising development that the IFIs have agreed to take on this role. We shall continue to do everything we can to ensure that they pursue this in their

at floor



dialogue with particular countries, and in their policy thinking more generally.

The Chancellor welcomes the suggestion that we should pursue further in the G7 and in discussion with other key donors the scope for linking aid and economic assistance with the various aspects of Good Government, of which restraint in military expenditure is a key principle. The Chancellor would not want to find the UK behind the other main donors in its preparedness to act on these principles and to make our own aid conditional on the changed policies we consider so desirable. Another area where we must make sure our actions reflect our principles is our own arms sales, especially those financed on credit. Given, the principles of the Good Government initiative and, above all, the parlous state of these economies, the Chancellor would not want the UK to be involved in any large scale arms sales to them, least of all financed on ECGD cover. He was not therefore persuaded that the possibility of jeopardising a £600 million sale of jet trainers to India should in any way inhibit our activities on the Good Government front.

The Chancellor therefore welcomes and supports the Foreign Secretary's proposals, but thinks at the same time that we should be prepared to use all of the various levers which are available to us - political and economic, bilateral and multilateral - in parallel to achieve our objectives.

I am copying this letter to Richard Gozney (FCO), Simon Webb (MOD), and Sonia Phippard (Cabinet Office).

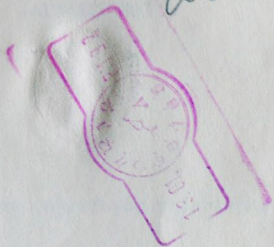
Yours sincerely,

Owen Barder

OWEN BARDER
Assistant Private Secretary

INDIA: For B1

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c/for/Gozney

Ech

bc PC

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

31 December 1991

**AID AND NUCLEAR DEVELOPMENTS IN INDIA
AND PAKISTAN**

Thank you for your letter of 13 December which the Prime Minister has read.

The Prime Minister endorses the course of action set out in your letter. The way is therefore now clear for you to discuss your ideas with the US Government before the Foreign Secretary visits India in mid January.

I am copying this letter to Jeremy Heywood (HM Treasury), Simon Webb (Ministry of Defence) and Sonia Phippard (Cabinet Office).

(J.S. WALL)

Richard Gozney, Esq.,
Foreign and Commonwealth Office.

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Foreign &
Commonwealth
Office

London SW1A 2AH

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Content

13 December 1991

Prime Minister ①

Dear Stephen,

*See last two pages in particular.
This approval is said.*

Aid and Nuclear Developments in India
and Pakistan

*in John's
purple box?*

AM
17 Dec

My letter of 1 July reported that the Foreign Secretary had commissioned a study of the problem of nuclear proliferation in the subcontinent. This has been completed. Its principal conclusion is that the only means of putting effective pressure on India and Pakistan is by working with other countries, and specifically the G7. The American experience with Pakistan has shown that the use by a single country of bilateral aid as a lever is ineffective: such pressure by all the main industrial countries may work better.

Although we assess that both India and Pakistan possess nuclear weapons capability, the situation in the two countries is different. There is evidence that Pakistan has an active nuclear weapons programme, although no explosion has been carried out. India carried out a nuclear test in 1974 (the so-called "peaceful nuclear explosion"), but we have no clear evidence of a subsequent weapons programme. We deduce, however, that the Indians have maintained their capability.

/We

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We and other countries have for years been urging both countries to join the Non-Proliferation Treaty (NPT). We have made no headway. India refuses "on principle" to accede, because it considers the NPT discriminatory (in that it permits some countries to have nuclear weapons, but not others). Pakistan will not accede without India. The recent change of heart towards the NPT by China, France and South Africa offers some hope that India will feel more uncomfortably isolated. So we intend to keep pressing; but the prospects of persuading India to sign the NPT are slender.

NPT accession would require both countries to renounce nuclear weapons. It would bring all nuclear installations in both countries under full-scope International Atomic Energy Agency (IAEA) safeguards. If the NPT route is not available, modest regional arrangements are conceivable. Both countries might agree to a freeze on their nuclear programmes combined with inspection procedures; or to an increase in the number of installations under safeguards (more difficult for Pakistan than for India because it has fewer installations); or to confidence-building measures working from the agreement already reached not to attack each other's nuclear facilities.

Arrangements of these kinds could grow from a proposed 5-power meeting between Pakistan, India, US, USSR and China on nuclear restraint in the subcontinent. The Pakistani Prime Minister proposed such talks last June. India rejected the proposal. Now the United States has suggested a slight variant of Nawaz Sharif's

/proposal,

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proposal, for 5-power talks in Washington early in 1992. This time India appears to be considering the initiative seriously, although it has not yet formally agreed.

When the Prime Minister spoke to Narasimha Rao at CHOGM about the NPT, Rao referred to the psychological complexities involved, but thought he and Nawaz Sharif might need to discuss the issue. Nawaz Sharif had previously told the Prime Minister that Rao had responded positively to his proposal of bilateral negotiations. So if the 5-power talks do not get off the ground India and Pakistan may agree to bilateral discussions. The Foreign Secretary believes we should lose no opportunity of urging both countries to engage in either bilateral or, preferably, the proposed 5-power meetings. We will discuss with the Americans what we and our Community partners can do to back their proposal.

However India may stick to her previous refusal to meet or a meeting may prove unproductive. We have been considering other means of putting pressure on both countries.

Nationally the UK has insufficient leverage to influence either country to drop its programme, as both are driven by what they see as national imperatives. Even the withdrawal of US aid to Pakistan (\$540 million per year) has had no discernible effect on its nuclear ambitions. We need to consider some form of joint international pressure.

One possible means of pressure would be for the IFIs (especially the IMF, to which both countries are having

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recourse, and the Bank) to relate future help to Indian and Pakistani agreement to exercise nuclear restraint. However the Articles governing the Bretton Woods institutions require them to operate without regard to political or other non-economic considerations. HMG has strongly supported this aspect of their operations. Any attempt to step up the conditionality for countries suspected of possessing a nuclear programme would represent a major change in our approach to the IFIs, might not be acceptable to other donors, would certainly not be acceptable to the developing countries represented on the IFIs boards and could perhaps even prejudice the limited progress which has recently been made in getting the IFIs to take account of military expenditure. Accordingly, although the Foreign Secretary was attracted to this approach, he has reluctantly concluded that we should not pursue it.

The Foreign Secretary considers that the most effective way of applying pressure would be to use the G7. Germany and Japan (major donors to both countries) have recently been placing increasing emphasis on excessive defence expenditure, and in the case of Japan on nuclear programmes in particular, as a factor in determining their aid. Excessive defence spending was one of the principal grounds why Germany announced last month 25% cuts in aid to India, Pakistan and certain other countries. The Japanese sought at the London G7 Summit to make bilateral aid conditional on signature of the NPT. The US could not accept their proposal which would prejudice American aid to Israel, but the Munich G7 Summit will be an opportunity to

/consider

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consider the issue further. If bilateral aid to the USSR is made conditional on dismantling of weapons systems, the same argument could gain support for putting pressure on India and Pakistan to adopt some form of nuclear restraint.

The problems about putting joint pressure through the G7 countries are

(i) some G7 countries might be unwilling to take part and instead present themselves as the true friends of India or Pakistan. That could damage our own interests. Our commercial interests include a potential jet trainer contract with India worth some £600 million for BAe.

(ii) It might be hard to justify putting serious pressure on India and Pakistan unless we took comparable action against other threshold states, especially Israel. The US might well not be prepared to go along with such moves, precisely because of the likely implications for Israel.

(iii) If India and Pakistan gave up their nuclear programmes, they might fall back on CW or BW instead. It would not be easy to guard against this possibility.

(iv) India and Pakistan might try to rally other NAM countries to their support, which could become divisive internationally. They might even offer to share nuclear technology in return, which might lead to increased proliferation. We would need to find ways of minimising these risks.

/(v)

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(v) Indian (and Chinese) policies on issues related to the global environment (eg CO 2 emissions) will be particularly important in bringing the major developing countries into a global convention on climate change; the Indians could choose to link this issue with the pressure we are considering here.

Despite these difficulties, the Foreign Secretary believes that in the interest of making progress on non-proliferation, it is worth being prepared to put real pressure on India and Pakistan. The first step would be discussion with the US, particularly to avoid any risk of cutting across their efforts to arrange 5-power talks in Washington.

To sum up, the Foreign Secretary believes that we should

✓ (i) continue to urge India and Pakistan, particularly India, to accede to the NPT;

✓ (ii) continue to urge both countries, again particularly India, to be prepared to enter some regional agreement on nuclear restraint including safeguards, whether in the context of the 5-power talks or through direct bilateral talks;

✓ (iii) discuss, with the US in the first place, the possibility of applying joint pressure on India and Pakistan to exercise nuclear restraint, with a view to further discussion at the Munich G7 summit;

/(iv)

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✓ (iv) reject the idea of trying to get the IFIs to take account of nuclear programmes in deciding whether or not to provide aid or economic support.

✓ If the Prime Minister agrees with this approach we shall, as a first step, discuss our ideas in the next couple of weeks with the US government, especially in the light of the recent US proposal for 5-power talks. Following these consultations, the Foreign Secretary will consider how best to address the issue when he visits India in January.

I am copying this letter to Jeremy Heywood (HM Treasury), Simon Webb (MOD) and Sonia Phippard (Cabinet Office).

Yours ever

(R H T Gozney)

Private Secretary

Stephen Wall Esq CMG LVO
10 Downing Street

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Dr. L.M. Singhvi

ccjk



INDIA HOUSE

ALDWYCH

LONDON WC2

4th November, 1991

Dear Prime Minister,

I have pleasure in enclosing two letters addressed to you by our Prime Minister in reply to your letters of October 17 and October 22 to him. If I may say so, your messages of sympathy, concern and support add a significant dimension to Indo-British togetherness.

with my warm personal regards
and choicest good wishes,
Yours sincerely,
L.M. Singhvi
(L.M. Singhvi)

The Rt.Hon. John Major, MP,
Prime Minister of the United Kingdom,
10 Downing Street,
London SW1

Ue DA



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

30 October 1991

Dear Sir

LETTER FROM THE PRIME MINISTER OF
AZAD KASHMIR

Thank you for your letter of 29 October.
I agree that our High Commissioner in
Islamabad should acknowledge the letter on
the Prime Minister's behalf.

Yours
Sincerely

J.S. WALL

Simon Gass, Esq.,
Foreign and Commonwealth Office.

SG



Foreign &
Commonwealth
Office

London SW1A 2AH

29 October 1991

Dear Stephen,

Letter from the Prime Minister of Azad Kashmir

Thank you for your letter of 16 October, in which you asked for a draft reply to a letter the Prime Minister has received from the Prime Minister of Azad Kashmir.

Our policy has been not to give substantive replies to messages from the Azad Kashmir government, which Pakistan considers to be a separate administration. We do not recognise it as such, and have avoided any formal correspondence which could be construed as recognition. We therefore recommend that our High Commissioner in Islamabad be asked to acknowledge the letter informally, without addressing its substance directly.

Yours ever,
S L Gass

(S L Gass)
Private Secretary

Stephen Wall Esq CMG LVO
10 Downing Street

PRIME MINISTER'S

PERSONAL MESSAGE

SERIAL No. T 262 Aii/91



सत्यमेव जयते

PRIME MINISTER

SUBJECT
MASTER
OPS
FILED ON:

New Delhi
October 22, 1991

Dear Prime Minister,

I would like to thank you for your kind message of sympathy and support over the tragic loss of life and property caused by the recent earthquake in Uttar Pradesh.

I deeply appreciate your offer of assistance.

Yours sincerely,

P.V. Narasimha Rao

[P.V. Narasimha Rao]

The Rt. Hon. John Major
Prime Minister of the United Kingdom
London

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T2618/91



PRIME MINISTER

SUBJECT
MASTER
OPS
FILED ON:

New Delhi
October 21, 1991

Dear Prime Minister,

I am grateful for your message of condolences on the outrageous killing of people in a bomb attack in Uttar Pradesh.

Yours sincerely,

[P.V. Narasimha Rao]

The Rt. Hon. John Major
Prime Minister of the United Kingdom
London



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

21 October 1991

Dear Madam,

EARTHQUAKE IN INDIA

I should be grateful if you could arrange for the following message from the Prime Minister to be delivered to Prime Minister Rao.

"I was shocked to hear of the earthquake in Uttar Pradesh and of the tragic loss of life. I send my heartfelt sympathies to the families of those whose lives have been devastated by the earthquake and, through you, to the people of India as a whole. We shall help in whatever way we can."

Jaw,
Stephen

J. S. WALL

Richard Gozney, Esq.
Foreign and Commonwealth Office

UNCLASSIFIED
PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T.258191

file

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MDADAN 2757

SUBJECT
MASTER
OPS
FILED ON:

UNCLASSIFIED
FM UKDEL CHOGM
TO IMMEDIATE NEW DELHI
TELNO 001
OF 210637Z OCTOBER 91
INFO IMMEDIATE FCO

ADVANCE COPY

FROM PS/FOREIGN SECRETARY

EARTHQUAKE IN INDIA

1. PLEASE ARRANGE FOR THE FOLLOWING MESSAGE FROM THE PRIME MINISTER TO BE DELIVERED TO PRIME MINISTER RAO:

BEGINS

I WAS SHOCKED TO HEAR OF THE EARTHQUAKE IN UTTAR PRADESH AND OF THE TRAGIC LOSS OF LIFE. I SEND MY HEARTFELT SYMPATHIES TO THE FAMILIES OF THOSE WHOSE LIVES HAVE BEEN DEVASTATED BY THE EARTHQUAKE AND, THROUGH YOU, TO THE PEOPLE OF INDIA AS A WHOLE. WE SHALL HELP IN WHATEVER WAY WE CAN.
ENDS

2. FOR FCO: PLEASE LET US KNOW WHAT HELP ODA IS PLANNING.

HURD

YYYY

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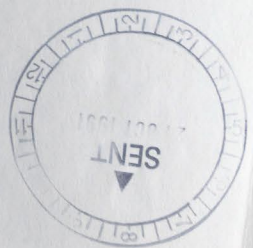
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INDIA
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PS/PUS
~~SIR J COLES~~
MR BURNS.
HD/SAD -

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PS/PM.
~~RESIDENT CLERK~~

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PAGE 1
UNCLASSIFIED





10 DOWNING STREET
LONDON SW1A 2AA

PRIME MINISTER'S
PERSONAL MESSAGE
SERIAL No. T255191

SUBJECT
MASTER
OPS
FILED ON:

THE PRIME MINISTER

17 October 1991

Dear Prime Minister,

I was greatly saddened to learn of the bomb attack in Uttar Pradesh which killed so many and left even more injured. Such attacks are in their nature cowardly, but to bomb a ceremony attended by women and children and then to follow this with an attack on the hospital to which the injured were being taken is an act of evil which can barely be credited. No cause could justify such actions. Please convey my condolences and those of everyone in Britain to the families of the bereaved and injured.

I know you will not be deflected by such an outrage from the course you believe is right. All those who believe in the rule of law will support you.

*Yours Ever,
John Major*

Shri P. V. Narasimha Rao



10 DOWNING STREET
LONDON SW1A 2AA

PRIME MINISTER'S
PERSONAL MESSAGE

SERIAL No. T255191

SUBJECT

MASTER

OPS

FILED ON:

THE PRIME MINISTER

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I know you will not be deflected by such an outrage from the course you believe is right. All those who believe in the rule of law will support you.

*Yours Ever,
John Major*

Shri P. V. Narasimha Rao



W
NO ACK

10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

16 October 1991

I attach a copy of a letter the Prime Minister has received from the Prime Minister of the Azad Government of the State of J&K Muzaffarabad.

I should be grateful if you could provide an appropriate draft reply. It would be helpful to have this by Thursday 30 October.

J. S. WALL

Simon Gass, Esq.,
Foreign and Commonwealth Office.

کشمیر کے پاکستان



THE RT HON JOHN MAJOR
PRIME MINISTER OF BRITAIN

PRIME MINISTER
Azad Govt. of the State of J&K
Muzaffarabad.

for the above should be kept
[Signature]

Dear Prime Minister,

On the occasion of the Commonwealth Heads of Government meeting, I wish to draw your attention to the horrible situation in the disputed state of Jammu and Kashmir. The endless massacres by the Indian military threatens the very existence of the Kashmiri race. This explosive situation unless resolved may result in sharply escalating Indo-Pakistan involvement; and this may draw in the Commonwealth in a situation far more graver than now.

Indian military aggression, illegal occupation, gross violation of human rights bordering genocide, and denial of right of self-determination, as guaranteed by the UN, has pushed the people of Jammu and Kashmir against the wall. This dangerous situation must be diffused. Indian atrocities against the people of Jammu and Kashmir, and gross violations of human rights must be investigated, and brought to an end. I appeal to you to take serious note of the Indian repression and genocide which has caused untold misery to the people of the occupied state. Pangs of Indian perpetrated horror are already vibrating around.

Kashmir has been under Indian military occupation since October 1947. The people of Jammu and Kashmir have been denied the right of self-determination under the UN Charter, and under several Security Council Resolutions; more specifically under UN (UNCIP) Resolutions of August 13, 1948, and January 5, 1949. These and subsequent UN Resolutions have affirmed that, "THE QUESTION OF ACCESSION OF THE STATE OF JAMMU AND KASHMIR TO INDIA OR PAKISTAN WILL BE DECIDED THROUGH THE DEMOCRATIC METHOD OF FREE AND IMPARTIAL PLEBISCITE". The full text of UN Resolution of January 5, 1949 is attached at Annex "A".

India and Pakistan have fought three wars, two of them over Jammu and Kashmir. The freeze in Indo-Pakistan relations is due to the Jammu and Kashmir dispute. This inter-alia is the sole cause of the huge military build-up by both the neighbours. The arms race in South-Asia, which has imposed a very heavy economic burden on India and Pakistan is due to the Jammu and Kashmir dispute. The nuclear weapon threat due to the hesitancy of both India and Pakistan to sign the Nuclear Non-Proliferation Treaty (NPT) underlines the very festering nature of this problem. In fact this is the only problem between India and Pakistan.

Geographically, demographically, religiously, economically, culturally and socially Jammu and Kashmir should have been a natural part of Pakistan. Its population, four million in 1947; twelve million now is 80% Muslim. As the principle and basis of partition of the Sub-continent was religion, the decision of the Hindu Maharaja Hari Singh in collusion with the leaders of the Indian Congress to accede to India was totally illegitimate. It was in total violation of the basis of the partition of British India, and in total disregard of the wishes of the 80% population of the state, who wanted to join Pakistan.

The highly cultured, educated, peace-loving and mild mannered Kashmiri people are devoted Muslims. Kashmir is the home of great Islamic scholars, thinkers, and philosophers, which include Syed Ali Hamdani, and poet philosopher Dr Sir Mohammad Iqbal, who was one of the first to conceive the idea of Pakistan. The religious,

cultural, ethnic, and emotional attachment to Pakistan cannot be challenged. A plebiscite in 1947, or a referendum today will prove it.

Geographically and economically Jammu and Kashmir and Pakistan are inter-dependent. With long common borders, common mountains and hill ranges, rivers and tributaries, and road network, Jammu and Kashmir has been aligned economically, socially and culturally since ages with provinces which now form Pakistan. Kashmir's agriculture produce and handicrafts always found a ready market in the Punjab and NWFP provinces of Pakistan. Its delicious fruit, now used as animal fodder, used to fetch very high prices in the adjoining cities in Pakistan. The bulk of the tourists visiting Kashmir used to be from what is now Pakistan.

During winter its hardy people used to move-over to adjoining towns and were readily absorbed in the local industry and economy. Illegal annexation and unnatural strangulation of Jammu and Kashmir by India has caused economic, social, and cultural havoc, and political chaos compelling the people to rise in revolt against occupation.

India's Illegal annexation, and the false claim that Jammu and Kashmir is an integral part of India, and Indian rejection of UN Resolutions, is the root cause of the problem. Illegal annexation and intransigence to block the implementation of UN Resolutions for a just solution of this explosive problem, and refusal even to discuss the dispute is the real cause of the uprising and protest movement in Jammu and Kashmir. Indian brutality has turned the peaceful protest into an armed struggle. Indian resolve to distort it as foreign aided terrorism, and crush it with naked and brute military force now seriously threatens peace and amity in the region.

Pandit Jawaharlal Nehru the first Prime Minister of India repeatedly declared that the people of Jammu and Kashmir will be allowed to exercise their inalienable right to determine their future through a plebiscite to be held under UN auspices. Nehru made these declarations and promises on the floor of

the Indian Parliament, to the Indian masses at hundreds of public meetings and mass rallies, and to the people of Jammu and Kashmir. Addressing the Indian nation on November 3, 1947, Pandit Nehru said, "We have declared that the fate of Kashmir is ultimately to be decided by the people. That pledge we have given, and the Maharaja has supported it, not only to the people of Kashmir, but to the whole world. We will not, and cannot walk out of it. We are prepared to have a referendum held under international auspices like the United Nations. We want it to be a fair and just referendum to the people, and we shall accept their verdict. I can imagine no fairer and just offer." What an irony that few years later the same international figure i.e. Nehru backed out from his solemn declaration made to the Indian nation.

In a telegram dated 31 October 1947, addressed to the Prime Minister of Pakistan Nehru said, "Kashmir's accession to India was accepted by us on the condition that as soon as law and order had been restored, the people of Kashmir would decide the question of accession. It is open to them to accede to either dominion then". On November 3, 1947 in a radio broadcast Pandit Nehru said, "We have declared that the fate of Kashmir is ultimately to be decided by the people. That pledge we have given not only to the people of Kashmir, but to the world. We will not and cannot back out of it". In his address to the Indian Parliament on March 5, 1948 Nehru said, "Even at the moment of accession, we went out of our way to make a unilateral declaration that we would abide by the will of the people of Kashmir as declared in a plebiscite or referendum."

Pandit Nehru during his tenure as Prime Minister of India made several categorical declarations and promises, that the future of Jammu and Kashmir and question of accession of the state to Pakistan or India would be decided by a plebiscite or referendum under the auspices of the United Nations. Indian Presidents, political leaders, Union Ministers, state Governors, Indian ambassadors at the United Nations, and representatives at other world forums repeatedly assured that India was committed to implement the UN Resolutions, and was prepared to work with the United Nations to enable the people of Jammu and Kashmir to determine their own future by a plebiscite. Other important statements of Pandit Nehru, the Prime Minister of India, promising implementation of UN Resolutions and plebiscite in Jammu and Kashmir are reproduced at Annex "B".

Having committed itself to hold a plebiscite in Jammu and Kashmir, the Government of India decided to wriggle out from its solemn pledges on flimsy charges against Pakistan. Typical to their cult, India levelled false allegations to back out of its commitment. The charge that Pakistan had delayed the withdrawal of troops and civilians was incorrect, because such a withdrawal had to be simultaneous with the withdrawal of bulk of Indian forces. The charge that Pakistan was engaged in friendly overtures towards the United States of America, including discussions for a mutual defence pact, was a totally illogical pretext for India to backout from its commitment for holding a plebiscite to enable the Kashmiri people to determine their own fate. Instead of implementing UN resolutions India in fact was engaged in a conspiracy to nullify UN Security Council Resolutions by creation of a puppet Kashmir Constituent Assembly to vote and pass a resolution for the accession of Jammu and Kashmir to India.

The UN Security Council was informed of this Indian conspiracy by Sir Owen Dixon the head of the UNCIP at the time. The UN Security Council took immediate note of Indian motives and vide Resolution 91 of March 30, 1951 warned India that, "Convening of a Constituent Assembly as recommended by the General Council of the All Jammu and Kashmir National Conference and any action that such an assembly might attempt to take to determine the future shape and affiliation of the entire state or any part thereof would not constitute a disposition of the state in accordance with the principle that the Governments of India and Pakistan have accepted the provisions of the UN Commissions for India and Pakistan UNCIP resolutions of 13 August 1948 and 5 January 1949, and have affirmed their desire that the future of the state of Jammu and Kashmir shall be decided through the democratic method of a free and impartial plebiscite conducted under the auspices of the United Nations" Indian decision to annex the state on the vote of a rubber stamp Assembly therefore is unconstitutional and illegal. It was and is indicative of India's contempt for the UN decisions and for the UN Charter. The truth is that having grabbed the state by military aggression, Pandit Nehru and his successors have applied the law of the jungle i.e. might is right to keep Jammu and Kashmir in chains, and the Kashmiri people permanently enslaved.

Having suffered from acute economic and political exploitation, under Indian colonialism, the people of Jammu and Kashmir have been expressing their resentment with increasing anger over forcible occupation of their land by India. But as the Indian's tightened their grip the peaceful protest movement exploded into an armed struggle in January 1990. The real cause was the discriminatory, ruthless and unsympathetic attitude of Indian rulers and their puppets in Kashmir towards the common people. By mid 80 the people of Kashmir were totally alienated. They boycotted all state and Union elections. In the 1989 elections to the Lok Sabha the turn out was less than 2%. By 1989 the resentment against

India was so great, as to cause total administrative paralysis. Instead of attending to people's grievances with honesty and sincerity, India decided to crack down and use its military to beat the people of Jammu and Kashmir into silence and submission.

Before the 1965 Indo-Pak war over Kashmir, India has three infantry divisions in Jammu and Kashmir. After the 1965 war two Indian Army divisions were added. But after the January 1990 peoples uprising, 29 Infantry Div was moved from Kangra, No 8 Mountain Div from Nagaland, No 57 Infantry Div from Mizoram and No 20 Infantry Div from NE Agency into the narrow Kashmir valley. The average strength of each Indian Army Division was 15000 troops. But the manpower of all ten Indian Army divisions has been reinforced by 18000 personnel. The three hundred and thirty thousand Indian troops are backed by 120000 personnel of the infamous Border security Forces (BSF) and Central Reserve Police Force, and 30000 state police troops. This half a million strong Army was unleashed 22 months back to silence the Kashmiri people into submission, but it has failed in its murderous task.

This is because of the nature of the peoples uprising against Indian domination and ruthlessness. No people have suffered so much or paid such a heavy price for the attainment of their fundamental rights as the peace loving people of Jammu and Kashmir. No colonial country has been as harsh with its claimed subjects as India is with the people of Jammu and Kashmir. Unable to crush them with bullets and bayonets the Indian military especially the BSF and the CRPF have been ordered to crush the spirit of the valiant people of Kashmir by house searches, body searches of women, followed of rapes of women and girls; torture and permanent maiming of the menfolk and imprisonment without trial of thousands in sub-human Indian jails to ensure their demise during captivity.

According to the Kashmir Human Rights Forum, by September 1, 1991, 27834 Kashmiri men, women and children had been killed by the Indian military. Statistics prepared by the Jammu and Kashmir Human Rights Movement reveal that since January 1990, 1500 Kashmiri's are being killed, tortured and maimed every month. Justice Bahuddin and eminent Kashmiri jurist residing in Srinagar the state capital of Occupied Kashmir revealed to the representative of Guardian London on August 3 1991, that he had received over 4 thousand petitions of parents, wives, mothers, sons and daughters in respect of ten thousand dead or missing relations. Justice Bahuddin stressed that the information about Kashmiris killed compiled by him is "the tip of the iceberg", because thousands of people from distant villages, are unable to reach him and report the loss of their dear ones. Considering the small population of only 3.8 million in the Kashmir Valley, the massacres of 28000 innocent people during 22 months is virtual genocide of the Kashmiri race.

I earnestly appeal to the leaders and people of all Commonwealth Countries, through your good offices, that this massive slaughter of the Kashmiri people be stopped. The leaders assembled here should adopt a forth right resolution condemning India for its policy of death and genocide against people yearning for their rights granted to them under the UN Charter and the UN Resolutions. I strongly urge that by another Summit Resolution the Commonwealth heads of Governments and states should order an investigation into Indian atrocities and massacres by well known human rights organizations. London based Amnesty International being the most reputable human rights organization be officially tasked to investigate and report human right violations by India in Kashmir. The recent statements of Lord Avebury chairman of the United Kingdom Parliamentary Human rights group, Sir John Wheeler Chairman of (UK) Parliamentary Human Right Committee, US

Congressman Dan Burton, Rt Honourable Sir Frederick Bennet, British MP's Tom Cox, Neil Thorne, Mr Peter Duffy Chairman of the Executive committee of Amnesty International, Mr Gerald Kaufmann Deputy Leader of British Labour Party and Shadow Foreign Secretary, and several other eminent personalities, are highly significant. The recent statement of Rt Honourable John Major the Prime Minister of Great Britain on the subject of human right is important. India cannot continue with its genocide and scorched earth policy in the face of displeasure and anguish jointly expressed by the Commonwealth leaders assembled here. The frightened and threatened people of Jammu and Kashmir are looking towards your excellencies to take note of their plight and suffering; and to save them from Indian policy of revenge and possible extinction.

I appeal to your good offices to intervene not only to bring an end to Indian policy of revenge against the people of Kashmir; but to help create an environment of peace in Jammu and Kashmir so as to enable the thousands of Kashmiri's to return to the comfort of their huts and homes. Thousands of men women and children who have fled Occupied Kashmir need sympathy and help. I invite your excellencies to visit Azad Kashmir, and see for yourself the misery of the children who have been orphaned, the women who have been raped and widowed, and the men who have lost their sons and daughters. I am convinced that your excellencies are leaders of conscience, and are courageous enough not to be intimidated or misled by Indian outrageous lies, that the freedom Movement in Jammu and Kashmir is only Pakistan sponsored terrorism. This Indian propaganda is a blatant lie. An entire people, known for their high culture and peaceful nature, cannot turn into paid terrorists overnight. I invite your esteemed Governments to send officials to interrogate thousands of Kashmiri men women and children, who have fled Indian bayonets and have taken shelter in Azad Kashmir. Your officials are free to interrogate them to verify facts to their satisfaction.

Having contemptuously rejected and disallowed the implementation of UN Resolutions for a plebiscite in Jammu and Kashmir, Indian allegations levelled against the freedom fighters are being made with malafide intentions. Indian greed and lust for the land of Kashmir is unscrupulously blatant. Aware of the hate that the people of Kashmir have for India, the Government of India has resorted to every possible trick and guile to malign and divide the freedom struggle. In addition to the allegations that the freedom struggle is foreign sponsored and aided is the canard that it is a fundamentalist movement, out to turn Jammu and Kashmir into the middle ages. We reject such falsehood. I wish to assure your excellencies that my Government and people, like the Government and people of Pakistan are committed to a peaceful solution of the Jammu and Kashmir dispute in accordance with the UN Resolutions and in the spirit of the UN Charter. We are against strife and conflict, and wish that this festering dispute be resolved peacefully through negotiations and dialogue. But India has rejected both the UN Resolutions and the offers of dialogue made repeatedly by Pakistan. The implications of Indian attitude and policy are extremely serious.

Having assembled massive forces in Indian Held Kashmir, Punjab and Rajistan, India in effect is taunting Pakistan to go to war to get Kashmir. With about ten Indian Infantry, mountain and armour divisions in Jammu and Kashmir, sixteen in Indian Punjab and six in Rajistan, and with bulk of the Indian Air Force deployed at forward air bases, India appears to be gunning for war. With half a million Indian troops in Occupied Kashmir, and another half million close to Pakistans borders in Punjab and Rajisthan, both Azad Kashmir and

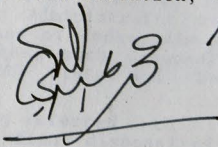
Pakistan are seriously threatened. Continuous Indian shelling in several sectors along the line of control since several months could be pretext for full scale Indian military forays and sweeps into Azad Jammu and Kashmir. With Indian Army positioned along the forward defence line (FDL's), engaged in intensive shelling of our villages and towns the situation could suddenly take a serious turn. May I appeal ;to your excellencies to intervene individually and collectively to diffuse this explosive situation and avert the danger of another war between two important member states of the Commonwealth.

I am constrained to end this letter on a note of grief and deep concern. I say with a heavy heart, that instead of the call of the nightingale in my beautiful land, one only hears the wail of men, women and children who have been mercilessly tortured, the rattle of gunfire hacking innocents, and the barking of dogs and hounds eating human limbs. This paradise on earth is being turned into a graveyard by Indian predators, while the world watches helplessly. I appeal to your excellency in the name of humanity to help end this sordid drama and holocaust being perpetrated in Jammu and Kashmir by India.

The talk about bilateral discussions and Indo-Pak dialogue is an eye-wash, because India is insistent that there is no dispute, and Kashmir is its integral part. I submit that Kashmir is not an issue of territory, frontiers or private fief of India. It is a question to determine the destiny of 12 million enlightened and cultured people who have the right to reject Indian yoke and slavery, because they were promised the right of self-determination by the United Nations itself. India, Pakistan and the United States of America were signatories to this promise, It is a question of fundamental human rights of 12 million people duly enshrined in the Charter of the United Nations. It is the question concerning the sanctity and implementation of UN Resolutions, duly stressed by the US President Mr George Bush in his recent address to the United Nations General Assembly. May I request your excellency to view the moral, humanitarian, historical, political, economical, ethnic, religious, cultural, social and demographic aspects of this festering problem with total impartiality and sense of justice.

I appeal to your excellency to support the efforts of several human rights organizations to bring an end to the ongoing genocide in Indian Held Kashmir. I appeal to the Commonwealth leaders to individually and collectively support the demand of the besieged people that the Jammu and Kashmir dispute be resolved in the light of the UN Resolutions, and in the spirit of the UN Charter. May I also appeal to your excellency to take serious note of the human rights violations, and exercise your influence to bring an end to the misery and agony of the suffering people of Jammu and Kashmir, with a sense of priority and urgency.

Thank you for your kind consideration,

Zoran Sibir


Dated Oct 8, 1991

(Sardar Mohammad Abdul Qayyum Khan)

Prime Minister of Azad Jammu and Kashmir

RESOLUTION ADOPTED BY THE UNITED NATIONS
COMMISSION FOR INDIA AND PAKISTAN
ON 13 AUGUST, 1948

THE UNITED NATIONS COMMISSION FOR
INDIA AND PAKISTAN

PART III

The Government of India and the Government of Pakistan reaffirm their wish that the future status of the State of Jammu and Kashmir shall be determined in accordance with the will of the people and to that end, upon acceptance of the Truce Agreement both Governments agree to enter into consultations with the Commission to determine fair and equitable conditions whereby such free expression will be assured.

RESOLUTION ADOPTED AT THE MEETING
OF THE UNITED NATIONS COMMISSION FOR INDIA
AND PAKISTAN ON 5 JANUARY, 1949

Having received from the Governments of India and Pakistan in communications, dated December 23rd and December 25, 1948 respectively their acceptance of the following principles which are supplementary to the Commission's Resolution of August 13, 1948;

1. The question of the accession of the State of Jammu and Kashmir to India or Pakistan will be decided through the democratic method of a free and impartial plebiscite.

2. A plebiscite will be held when it shall be found by the Commission that the cease-fire and truce arrangements set forth in Parts I and II of the Commission's resolution of 13 August 1948, have been carried out and arrangements for the plebiscite have been completed.

3. (a) The Secretary-General of the United Nations will, in agreement with the Commission, nominate a Plebiscite Administrator who shall be a personality of high international standing and commanding general confidence. He will be formally appointed to office by the Government of Jammu and Kashmir.

(b) The Plebiscite Administrator shall derive from the State of Jammu and Kashmir the powers he considers necessary for Organising and conducting the plebiscite and from ensuring the freedom and impartiality of the plebiscite.

(c) The Plebiscite Administrator shall have authority to appoint such staff or assistants and observers as he may require.

4. (a) After implementation of Parts I and II of the Commission's resolution of 13 August 1948, and when the Commission is satisfied that peaceful conditions have been restored in the State, the Commission and the Plebiscite Administrator will determine, in consultation with the Government of India, the final disposal of Indian and State armed forces, such disposal to be with due regard to the security of the State and the freedom of the plebiscite.

(b) As regards the territory referred to in A 2 of Part II of the resolution of 13 August final disposal of the armed forces in that territory will be determined by the Commission and the Plebiscite Administrator in consultation with the local authorities.

5. All civil and military authorities within the State and the principal political elements of the State will be required to cooperate with the Plebiscite Administrator in the preparation for and the holding of the plebiscite.

6. (a) All citizens of the State who have left it on account of the disturbances will be invited and be free to return and to exercise all their rights as such citizens. For the purpose of facilitating repatriation there shall be appointed two Commissions, one composed of nominees of India and the other of nominees of Pakistan.

The Commissions shall operate under the direction of the Plebiscite Administrator. The Governments of India and Pakistan and all authorities within the State of Jammu and Kashmir will collaborate with the Plebiscite Administrator in putting this provision to effect.

(b) All persons (other than citizens of the State) who on or since 15 August 1947, have entered it for other than lawful purpose, shall be required to leave the State.

7. All authorities within the State of Jammu and Kashmir will undertake to ensure, in collaboration with the Plebiscite Administrator, that:

(a) There is no threat, coercion or intimidation, bribery or other undue influence on the voters in plebiscite:

(b) No restrictions are placed on legitimate political activity throughout the State. All subjects of the State, regardless of creed, caste or party, shall be safe and free in expressing their views and in voting on the question to the accession of the State to India or Pakistan. There shall be freedom of the press, speech and assembly and freedom of travel in the State, including freedom of lawful entry and exit:

(c) All political prisoners are released:

(d) Minorities in all parts of the State are accorded adequate protection:

(e) There is no victimization:

8. The Plebiscite Administrator may refer to the United Nations Commission for India and Pakistan problems on which he may require assistance, and the Commission may in its discretion call upon the Plebiscite Administrator to carry out on its behalf any of the responsibilities with which it has been entrusted.

9. At the conclusion of the plebiscite, the Plebiscite Administrator shall report the result thereof to the Commission and to the Government of Jammu and Kashmir. The Commission shall then certify to the security council whether the plebiscite has or has not been free and impartial.

10. Upon the signature of the truce agreement the details of the foregoing proposals will be elaborated in the consultation envisaged in part III of the Commission's resolution of 13 August 1948. The plebiscite administrator will be fully associated in these consultations.

Commends the Governments of India and Pakistan for their prompt action in ordering a cease-fire to take effect from one minute before midnight of first January 1949, pursuant to the agreement arrived at as provided for by the Commission's resolution of 13 August 1948:

Resolves to return in the immediate future to the sub-contention to discharge the responsibilities imposed upon it by the resolution of 13 August 1948, and by the foregoing principles.

1. In his statement in the Indian Constituent Assembly, (Legislature) of India, March 3, 1948. Pandit Nehru said:
"I should like to make it clear that the question of ending Kashmir in this emergency is not designed in any way to influence the State to accede to India. Our view which we have repeatedly made public is that the question of accession in any disputed territory or State must be decided in accordance with wishes of people and we adhere to this view."

2. In another telegram to the Prime Minister of Pakistan, (Telegram No. 255 dated 31 Oct., 1947). Pandit Nehru said:

"Kashmir's accession to India was accepted by us at the request of the Maharaja's Government and the most numerously representative popular organization in the State which is pre-dominantly Hindu. Even then it was accepted on condition that as soon as law and order had been restored, the people of Kashmir would decide the question of accession. It is open to them to accede to either Dominion now."

3. In his broadcast to the nation, (All India Radio: 2 November 1947). Pandit Nehru said:

"We are anxious not to finalize anything in a matter of such vital and without the fullest opportunity to be given to the people of Kashmir to have their say. It is for them ultimately to decide."

4. In another broadcast to the nation (All India Radio: November 3, 1947). Pandit Nehru said:

"We have declared that the fate of Kashmir is ultimately to be decided by the people. That pledge we have given not only to the people of Kashmir but to the world. We will not and cannot back out of it."

5. In his letter to the Prime Minister of Pakistan (letter No. 368 Prinia dated 21 November, 1947). Pandit Nehru said:

"I have repeatedly stated that as soon as peace and order have been established, Kashmir should decide of accession by plebiscite or referendum under international auspices such as those of United Nations."

6. In his statement in the Indian Constituent Assembly, Pandit Nehru said:

"In order to establish our bonafides, we have suggested that when the people are given the chance to decide their future, this should be done under the supervision of an impartial tribunal such as the United Nations Organization. The issue in Kashmir is whether violence and naked force should decide the future or the will of the people."

7. In his statement in the Indian Constituent Assembly, (Legislature) of India, March 3, 1948. Pandit Nehru said:

PUBLIC STATEMENTS AND DECLARATION MADE BY PANDIT JAWAHARLAL NEHRU,
THE PRIME MINISTER OF INDIA ON THE SUBJECT OF PLEBISCITE AND
REFERENDUM IN JAMMU AND KASHMIR.

1. In his telegram to the Prime Minister of Pakistan and to the Prime Minister of United Kingdom, (Telegram No.402 Primin-2227 dated 27 Oct., 1947). Pandit Nehru said:

"I should like to make it clear that the question of aiding Kashmir in this emergency is not designed in any way to influence the State to accede to India. Our view which we have repeatedly made public is that the question of accession in any disputed territory or State must be decided in accordance with wishes of people and we adhere to this view."

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3. In his broadcast to the nation, (All India Radio: 2 November 1947). Pandit Nehru said:

"We are anxious not to finalize anything in a moment of crisis and without the fullest opportunity to be given to the people of Kashmir to have their say. It is for them ultimately to decide"

4. In another broadcast to the nation (All India Radio: November 3,1947). Pandit Nehru said:

"We have declared that the fate of Kashmir is ultimately to be decided by the people. That pledge we have given not only to the people of Kashmir but to the world. We will not and cannot back out of it."

5. In his letter to the Prime Minister of Pakistan (letter No.368 Primin dated 21 November,1947). Pandit Nehru said:

"I have repeatedly stated that as soon as peace and order have been established, Kashmir should decide of accession by plebiscite or referendum under international auspices such as those of "United Nations."

6. In his statement in the Indian Constituent Assembly, Pandit Nehru said:

"In order to establish our bonafides, we have suggested that when the people are given the chance to decide their future, this should be done under the supervision of an impartial tribunal such as the United Nations Organisation. The issue in Kashmir is whether violence and naked force should decide the future or the will of the people."

7. In his statement in the Indian Constituent Assembly, (Legislature) of India, March 5,1948. Pandit Nehru said:

12. In his statement in the Indian Parliament, dated August 7, 1952. Pandit Nehru said:

"Let me say clearly that we accept the basic proposition that the future of Kashmir is going to be decided finally by the goodwill and pleasure of her people. The goodwill and pleasure of this Parliament is of no importance in this matter, not because this parliament does not have the strength to decide the question of Kashmir but because any kind of imposition would be against the principle that this Parliament holds.

"Kashmir is very close to our minds and hearts and if by some decree or adverse fortune, Kashmir ceases to be a part of India, it will be a wrench and a pain and torment for us. If, however, the people of Kashmir do not wish to remain with us, let them go by all means we will not keep them against their will, however painful it may be to us."

"I want to stress that it is only the people of Kashmir who can decide the future of Kashmir. It is not that we have merely said that to the United Nations and to the people of Kashmir, it is our conviction and one that is borne out by the policy that we have pursued, not only in Kashmir but everywhere. Though these five years have meant a lot of trouble and expense and in spite of all we have done, we would willingly leave Kashmir if it was made clear to us that the people of Kashmir wanted us to go. However sad we may feel about leaving, we are not going to stay against the wishes of the people. We are not going to impose ourselves on them at the point of the bayonet."

13. In his statement in the Indian Council of State on 18 May, 1954, Pandit Nehru said:

"Every assurance we have given, every international commitment we have made in regard to Kashmir holds good and stands. Difficulties have come in the way but may come in its fulfillment, but the difficulties are not of our seeking but of others. But so far as the Government of India is concerned, every assurance and international commitment in regard to Kashmir stands."

14. In his statement in the Lok Sabha (House of the People) on 31st March, 1955 and (Hindustan Times, New Delhi, April 1, 1955). Pandit Nehru said:

"Kashmir is perhaps the most difficult of all these problems between India and Pakistan. However, while it is the problem between India and Pakistan, we should also remember that Kashmir is not a thing to be bandied about between India and Pakistan but it has a soul of its own and an individuality of its own. Nothing can be done without the goodwill and consent of the people of Kashmir."

15. In his statement in the Security Council, (Debate on Kashmir in the 765th meeting of the Security Council: 24 January, 1957, paragraphs 147 and 149). Mr. Kirshna Menon said:

"So far as we are concerned, there is not one word in the statements that I have made in this Council which can be interpreted to mean that we will not honour our international obligations. I want to say for the purpose of the record that there is nothing that has been said on behalf of the Government of India which in the slightest degree indicates that the Government of India or the Union of India will dishonour any international obligations it has undertaken."

"Even at the moment of accession, we went out of our way to make a unilateral declaration that we would abide by the will of the people of Kashmir as declared in a plebiscite or referendum. We insisted further that the Government of Kashmir must immediately become a popular government. We have adhered to that position throughout and we are prepared to have a plebiscite, with every protection for fair voting, and to abide by the decision of the people of Kashmir.

8. In his Press Conference in London, January 16, 1951. Pandit Nehru said:

"India has repeatedly offered to work with the United Nations with reasonable safeguards to enable the people of Kashmir to express their will and is always ready to do so. We have always right from the beginning accepted the idea of the Kashmir people deciding their fate by referendum or plebiscite. In fact, this was our proposal long before the United Nations came into the picture. Ultimately, the final decision of the settlement, which must come, has first of all to be made basically by the people of Kashmir and, secondly as between Pakistan and India directly. Of course, it must be remembered that we (India and Pakistan) have reached a great deal of agreement already. What I mean is that many basic features have been thrashed out. We all agreed that it is the people of Kashmir who must decide for themselves about their future externally or internally. It is an obvious fact that, even without our agreement, no country is going to hold on to Kashmir against the will of the Kashmiris."

9. In his report to the All India Congress Committee, New Delhi, 9 July, 1951. Pandit Nehru said:

"Kashmir has been wrongly looked upon as a prize for India or Pakistan. People seem to forget that Kashmir is not a commodity for sale or to be bartered. It has an individual existence and its people must be the final arbiters of their future. It is here today that a struggle is being fought, not in the battlefield but in the minds of men."

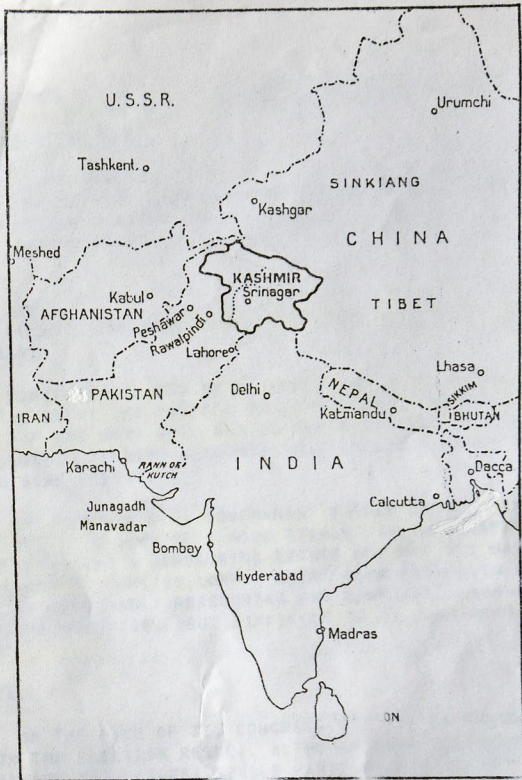
10. In a letter to the United Nations Representative, dated 11 September, 1951., see S.2375 Annexure, 3. Pandit Nehru said:

"The Government of India not only reaffirms its acceptance of the principle that the question of the continuing accession of the State of Jammu and Kashmir to India shall be decided through the democratic method of a free and impartial plebiscite under the auspices of the United Nations, but is anxious that the conditions necessary for such a plebiscite should be created as quickly as possible."

11. Replying to Dr. Mookerji's question in the Indian Legislature as to what was the Congress Government going to do about "one third of Kashmir territory still held by Pakistan." (Amrita Bazar Patrika, Calcutta, January 2, 1952. Pandit Nehru said:

"Kashmir is not the property of either India or Pakistan. It belongs to the Kashmiri people. When Kashmir acceded to India, we made it clear to the leaders of the Kashmiri people that we would ultimately abide by the verdict of their plebiscite. If they tell us to walk out, I would have no hesitation in quitting Kashmir."

"We have taken the issue to the United Nations and given our word of honour for a peaceful solution. As a great nation, we cannot go back on it. We have left the question for final solution to the people of Kashmir and we are determined to abide by their decision."



Kashmir and its Neighbours
At the time of Ceasefire
(1 January 1949)

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NEW DELHI TELNO 863: INDIA'S GENERAL ELECTIONS: ASSESSMENT
SUMMARY

1. CONGRESS (I) CAN BE SATISFIED WITH THE RESULT BUT SERIOUS DOUBTS REMAIN ABOUT THE PARTY'S REAL POLITICAL STRENGTH AND HEALTH. THE BJP HAS DONE WELL AND IS NOW A NATIONAL PARTY. JANATA DAL IS THE LOSER. INDIAN DEMOCRACY HAS SURVIVED RAJIV'S ASSASSINATION WITH SOME CREDIT.
2. THE NEW MINORITY GOVERNMENT SHOULD SURVIVE IN THE SHORT TERM BUT NEEDS TO ACQUIRE A MORE STABLE PARLIAMENTARY MAJORITY SOON. NARASIMHA RAO A REASSURING FIGURE BUT MAY NOT HAVE THE POLITICAL STRENGTH TO SURVIVE LONG. SHORT-TERM PROSPECTS FOR ECONOMIC POLICY REASONABLY REASSURING AND MANMOHAN SINGH A GOOD CHOICE AS FINANCE MINISTER. BUT DIFFICULT TO BE CONFIDENT ABOUT THE LONGER TERM.

DETAIL

3. ON THE FACE OF IT, CONGRESS (I) CAN BE REASONABLY SATISFIED WITH THE ELECTION RESULT. ALTHOUGH SHORT OF AN OVERALL MAJORITY, THEY ARE THE LARGEST SINGLE PARTY BY A VERY COMFORTABLE MARGIN AND HAVE MOVED SMOOTHLY BACK INTO GOVERNMENT. NO-ONE WANTS (OR COULD AFFORD) ANOTHER ELECTION SOON AND THE OTHER PARTIES APPEAR CONTENT TO BE IN OPPOSITION FOR THE TIME BEING. PREDICTIONS THAT CONGRESS (I) WOULD FALL APART HAVE PROVED FALSE.
4. BUT ON CLOSER INSPECTION THERE ARE PLENTY OF OMINOUS SIGNS FOR THE PARTY. ITS OVERALL SHARE OF THE VOTE IS DOWN TO 37 PERCENT FROM 39.5 PERCENT IN 1989, EVEN THOUGH IT WON 30 MORE SEATS THIS TIME (225 AGAINST 195) OWING TO THE QUIRKS OF THE ELECTORAL SYSTEM. EVEN THIS PERFORMANCE OWES A GOOD DEAL TO A SIGNIFICANT

SYMPATHY VOTE MAINLY IN THE SOUTH, FOLLOWING RAJIV GANDHI'S ASSASSINATION. WITHOUT THIS SYMPATHY VOTE, CONGRESS (I) WOULD PROBABLY HAVE GOT LESS THAN 200 SEATS. ITS DISASTROUS PERFORMANCE IN THE TWO MOST POPULOUS STATES OF BIHAR AND UPPER PRADESH SUGGESTS IT HAS LOST ITS TOUCH WITH ITS TRADITIONAL HINDI-SPEAKING BASE. MOREOVER THE REFUSAL TO HOLD A SECRET BALLOT TO ELECT NARASIMHA RAO AS LEADER OF THE PARLIAMENTARY PARTY SUGGESTS THAT THE PARTY HAS NOT YET LEARNT THE LESSON THAT ITS LACK OF INTERNAL DEMOCRACY IS AN ELECTORAL LIABILITY. THIS IMPRESSION IS REIN FORCED BY THE NUMBER OF CABINET POSTS GIVEN TO THE SO-CALLED COTERIE OF GANDHI-NEHRU HANGERS-ON. THERE REMAINS A GOOD DEAL ROTTEN IN THE STATE OF CONGRESS (I).

5. THE CONTINUED RISE OF THE BJP IS A STRIKING FEATURE OF THIS ELECTION. ALTHOUGH ITS 119 SEATS FALL SHORT OF THE 150-160 SOME HAD PROJECTED, THE PARTY'S OVERALL SHARE OF THE VOTE HAS DOUBLED TO JUST OVER 23 PERCENT COMPARED TO 1989. IT CAN NOW CLAIM WITH SOME JUSTIFICATION TO BE A NATIONAL PARTY. IT CERTAINLY SEES ITSELF AS A GOVERNMENT IN WAITING AND APPEARS TO BE MODERATING ITS RELIANCE ON EXCLUSIVELY HINDU ISSUES AS A RESULT. BUT IT FACES A MAJOR CHALLENGE TO MAKE A SUCCESS OF STATE GOVERNMENT IN UTTAR PRADESH, NOT LEAST SINCE IT HAS NOT DONE WELL ELECTORALLY IN THE THREE STATES WHICH IT WAS GOVERNING BEFORE.

6. APART FROM CHANDRA SHEKHAR'S JD(S) (WHICH, WITH THE EXCEPTION OF SHEKHAR HIMSELF, WAS VIRTUALLY OBLITERATED), THE MAJOR LOSER OF THE ELECTION IS THE JANATA DAL, WITH ONLY 55 SEATS

COMPARED TO 140 IN 1989. IT DID WELL IN BIHAR IN SPECIAL CIRCUMSTANCES BUT LOST VOTES AND SEATS VIRTUALLY EVERYWHERE ELSE. V P SINGH'S PERSONAL APPEAL AND THE PARTY'S SUPPORT FOR MORE JOB RESERVATIONS FOR THE BACKWARD CASTES HAVE NOT BEEN ENOUGH TO OUTWEIGH ITS LACK OF PARTY ORGANISATION AND RESOURCES. THE LEFT PARTIES HAVE MARGINALLY IMPROVED THEIR NUMBER OF SEATS FROM 52-55 BUT REMAIN ESSENTIALLY CONFINED TO KERALA (WHERE THEY HAVE BEEN PUSHED OUT OF GOVERNMENT) AND WEST BENGAL.

7. THE BIGGEST WINNER FROM THE ELECTION IS INDIAN DEMOCRACY ITSELF. THE LEVEL OF POLL VIOLENCE AND CHEATING WAS CERTAINLY HIGH, BUT NO-ONE HERE DOUBTS THE VALIDITY OF THE OVERALL RESULT. ALTHOUGH THE TURN-OUT WAS RELATIVELY LOW, INDIAN VOTERS SHOWED SOME SOPHISTICATION IN THEIR CHOICES. ANY FEARS ABOUT THE SURVIVAL OF INDIAN DEMOCRACY IN THE WAKE OF RAJIV GANDHI'S ASSASSINATION HAVE PROVED QUITE UNFOUNDED.

8. THE PROSPECTS FOR THE NEW GOVERNMENT ARE MIXED. IT HAS THE MAJOR ADVANTAGE IN THE SHORT TERM THAT NO OTHER PARTY CAN AFFORD TO BRING IT DOWN FOR AT LEAST 6 MONTHS AND PROBABLY LONGER. THE BJP AND JANATA MAY BE ABLE TO GRANT THEMSELVES THE LUXURY OF VOTING AGAINST THE GOVERNMENT ON SOME ISSUES, IN THE KNOWLEDGE THAT THE LEFT PARTIES HAVE PROMISED SO-CALLED ISSUE-BASED SUPPORT. BUT IN A COUNTRY FACING SO MANY SERIOUS PROBLEMS, A MINORITY GOVERNMENT EXPECT TO LAST VERY LONG. CONGRESS (I) WILL NEED TO FIND A MORE STABLE MAJORITY SOON. IT IS NO DOUBT ALREADY WORKING BEHIND THE SCENES TO ENCOURAGE THE DEFECTION OF ENOUGH JANATA DAL MMS TO GIVR IT AN OVERALL MAJORITY.

9. NARASIMHA RAO AS PRIME MINISTER IS BEING PRESENTED, WITH SOME JUSTIFICATION, AS A REASSURING FIGURE WITH A BROAD RANGE OF NATIONAL AND INTERNATIONAL EXPERIENCE. HITHERTO HIS MAIN CHARACTERISTICS WERE SEEN AS LOYALTY TO THE PARTY, AN ABILITY TO KEEP HIS HEAD DOWN AND A GIFT FOR PROCRASTINATION. BUT HE IS A SHREWD, THOUGHTFUL, SCHOLARLY MAN AND SOME SENIOR OFFICIALS WHO HAVE WORKED UNDER HIM CLAIM THAT HE HAS CONSIDERABLE STRENGTH OF CHARACTER AND WAS A GOOD DEPARTMENTAL MINISTER. CERTAINLY HE HAS DONE WELL IN HIS FIRST FEW DAYS TO BEAT OOF A CHALLENGE FROM SHARAD PAWAR, ANNOUNCE A LARGE NUMBER OF MINISTERS AND MAKE AN EFFECTIVE POLICY STATEMENT ON NATIONAL TELEVISION. NEVERTHELESS THERE MUST BE QUESTIONS ABOUT HIS LONGEVITY. HE IS RELATIVELY OLD (70) AND HAS HAD A RECENT HEART OPERATION. HE HAS NO POLITICAL POWER BASE OF HIS OWN. THE SUCCESS OF THE QUOTE COTERIE UNQUOTE IN PENETRATING THE GOVERNMENT RAISES DOUBTS ABOUT HOW FAR HE IS THE MASTER IN HIS OWN HOUSE. AND SHARAD PAWAR IS ALMOST CERTAIN TO MAKE ANOTHER BID FOR POWER BEFORE TOO LONG.

10. THE MAIN POLICY FOR THE NEW GOVERNMENT IS THE ECONOMY. HERE THE SIGNS SO FAR ENCOURAGING. THERE IS GENERAL AGREEMENT IN THE PRESS AND ELSEWHERE THAT SWIFT AND RADICAL ACTION IS NOW REQUIRED TO REDRESS THE SITUATION. IN HIS TELEVISED POLICY STATEMENT ON 22 JUNE, NARASIMHA RAO STRESSED THE NEED FOR GENERAL BELT-TIGHTENING AND FISCAL DISCIPLINE. HE SAID THAT THE DIALOGUE WITH TH EIMF WOULD BE MAINTAINED AND PROMISED GREATER LIBERALISATION AND MEASURES TO ATTRACT MORE FOREIGN INVESTMENT. A NEW BUDGET WOULD BE INTRODUCED WITHIN A MONTH, AND INDIA WOULD MAINTAIN ITS UNBLEMISHED RECORD IN MEETING ITS INTERNATIONAL OBLIGATIONS.

11. THERE HAS ALSO BEEN A GENERAL WELCOME FOR THE APPOINTMENT OF DR MANMOHAN SINGH AS FINANCE MINISTER. MANMOHAN SINGH IS

HIGHLY RESPECTED NATIONALLY AND INTERNATIONALLY AND A KNOWN ADVOCATE OF MEASURED LIBERALISATION OF THE INDIAN ECONOMY. HIS INITIAL STATEMENTS HAVE ALSO BEEN REASSURING FROM AN INTERNATIONAL POINT OF VIEW. HE WILL TRY TO DO MOST OF THE RIGHT THINGS. BUT HE IS A BUREAUCRAT WITH NO POLITICAL CLOUT AND HOW FAR HE CAN PUSH THROUGH THE PAINFUL AND UNPOPULAR MEASURES NOW REQUIRED (MANY OF WHICH WILL BE HARD TO RECONCILE WITH THE PROMISES IN THE CONGRESS MANIFESTO) WILL DEPEND CRUCIALLY ON HOW FAR NARASIMHA RAO AND OTHER SENIOR MINISTERS ARE PREPARED TO BACK HIM UP.

12. THERE ARE OF COURSE FORMIDABLE PROBLEMS CONFRONTING THE GOVERNMENT ELSE WHERE TOO, PARTICULARLY PUNJAB AND KASHMIR. THERE IS NO SIGN OF ANY NEW THINKING ON THESE ISSUES SO FAR, BUT IT IS EARLY DAYS. NEW INITIATIVES WILL CERTAINLY BE NEEDED IF NARASIMHA RAO'S COMMITMENT TO PRESERVING INDIA'S TERRITORIAL INTEGRITY IS TO MEAN MUCH IN PRACTISE. MEAN WHILE THE LAST MINUTE DECISION TO PUT OFF THE PUNJAB ELECTIONS, AGAINST THE ADVICE OF THE GOVERNOR (WHO HAS RESIGNED), CAN ONLY INCREASE DISAFFECTION IN THE STATE.

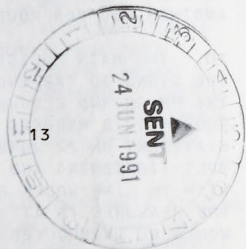
13. OVERALL, THE OUTCOME OF THE ELECTION COULD HAVE BEEN A GOOD DEAL WORSE. THE AIR OF GLOOM WHICH HUNG OVER INDIA FOR THE LAST FEW MONTHS HAS LIFTED SOMEWHAT, AT LEAST FOR THE MOMENT. THE NEW GOVERNMENT MAY ENJOY A HONEYMOON PERIOD FOR LONG ENOUGH TO GET THROUGH THE IMMEDIATE ECONOMIC CRISIS. BUT IN THE LONGER TERM I DOUBT NARASIMHA RAO'S ABILITY TO CONTROL THE CONGRESS(I) BARONS OR TACKLE EFFECTIVELY THE DEEP-SEATED COMMUNAL AND REGIONAL PROBLEMS FROM WHICH INDIA IS SUFFERING. SO THE BAROMETER REMAINS SET AT STORMY.

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31 May 1991

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Pear Stead

India : Rihand II Power Station

You may find it useful to know of the latest developments in the long story of GEC-Alsthom's (GECA) bid for the second 1000 MW stage of the Rihand power station in North India. It is possible that GECA may approach the Prime Minister and other senior Ministers in the light of a meeting today between Sir Robert Davidson for GECA and Sir Peter Gregson and Tim Lankester. This will discuss the major difficulties which stand in the way of aid and export credit financing for the project.

The first 1000 MW stage of Rihand was installed by NEI with the support of an aid and export credit package agreed in 1982. It is now in operation. In 1986 the Indian Government invited HMG to submit proposals for the second stage of the project and to nominate a single UK company as project leader. Ministers decided in January 1987 that, in view of NEI's poor performance in the early stages of Rihand II (since corrected), GEC should be nominated to lead the bid for Rihand II. An outline aid offer, conditional on appraisal and on availability of ECGD cover, was made in support of GEC's bid in September 1988. Protracted negotiations have followed between the Indian client, the National Thermal Power Corporation, and GECA on the one hand and a competing partnership between Siemens and the India parastatal Bharat Heavy Electricals on the other.

The present position is that both GECA and Siemens' bids are being evaluated by an Indian price negotiating committee. Both bids are well above the price sought by NTPC, with GECA's bid significantly the higher of the two. In the absence of a German offer of aid, the indications are that NTPC are still seriously interested in a deal with GECA at the right price.

GEC sought a revalidation of our aid offer, which was time-expired last December. Sir Peter Gregson and Tim Lankester advised GEC at that time of the doubts which officials had about GECA's price which looked economically unattractive and expensive to finance. There were in addition a number of other issues which remain unresolved including contractual and environmental aspects.



Sir Robert Davidson professed himself keen to resolve the issue of price and indicated in confidence GECA's final negotiating margin. The ODA therefore commissioned further work on the economics of the project based on the latest GECA bid. The results of this work indicate that the project is not economically viable at a price acceptable to GECA and that GECA's bid is not internationally competitive. At the same time, the deterioration of India's economic situation puts in question the availability of ECGD cover, while the aid programme faces heavy pressure. It is unclear what priority a new Indian Government will give to the project at a time of economic crisis.

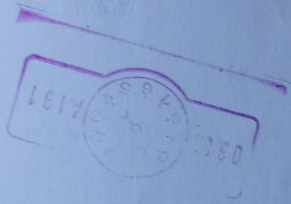
In the light of today's meeting the ODA intend to submit to Ministers for a decision on the project.

It is quite possible that GECA will lobby in favour of their case. The purpose of this letter is merely to forewarn you of the possibility.

I am copying this letter to Martin Stanley (DTI) and to Jeremy Heywood (HM Treasury).

Jawson
S L Gass
(S L Gass)
Private Secretary

J S Wall Esq
10 Downing Street



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MIPT: CONGRESS PARTY LEADERSHIP

1. FOLLOWING IS UPDATED LPR OF P V NARASIMHA RAO:
CONGRESS (I) PARTY PRESIDENT.

BORN ANDHRA PRADESH (THEN HYDERABAD STATE) 1921. EDUCATED AT OSMANIA UNIVERSITY, HYDERABAD AND BOMBAY AND NAGPUR UNIVERSITIES (BSC, LLB). VICE-PRESIDENT ANDHRA PRADESH CONGRESS COMMITTEE IN 1956. MEMBER OF THE ANDHRA PRADESH LEGISLATIVE ASSEMBLY, 1957-77. STATE MINISTER (VARIOUS PORTFOLIOS) 1962-71. CHIEF MINISTER OF ANDHRA PRADESH 1971-73. MEMBER OF THE LOK SABHA, 1977-91. MINISTER OF EXTERNAL AFFAIRS, 1980-84, MINISTER OF HOME AFFAIRS, 1984. MINISTER FOR DEFENCE, 1985. MINISTER OF HUMAN RESOURCES DEVELOPMENT, 1985-88. MINISTER OF HEALTH AND FAMILY WELFARE 1986-88. MINISTER OF EXTERNAL AFFAIRS, 1988-89. CONGRESS (I) QUOTE SHADOW UNQUOTE MINISTER OF EXTERNAL AFFAIRS, 1989-91.

AN EXPERIENCED, WELL-RESPECTED POLITICIAN BUT WITHOUT A POLITICAL BASE OF HIS OWN. BEFORE HIS ASSASSINATION RAJIV GANDHI HAD RETAINED NARASIMHA RAO IN THE SHADOW CABINET BUT HE DID NOT REGARD HIM AS A DYNAMIC OR IMAGINATIVE COLLEAGUE. (HE CHAIRED THE CABINET SUB-COMMITTEE ON PUNJAB IN 1988-89 WITH NO VISIBLE RESULT). IN PARLIAMENT, NARASIMHA RAO HAD A COURTEOUS AND SCHOLARLY APPROACH AND WAS, AS A MINISTER, ADEPT AT DEFLECTING CRITICISM. HE DECIDED NOT TO CONTEST THE 1991 LOK SABHA ELECTIONS FOR HEALTH REASONS. MANY COMMENTATORS FELT THAT THIS WAS A PRELUDE TO NARASIMHA RAO'S RETIREMENT FROM ACTIVE POLITICS. (THEY ALSO DOUBTED WHETHER HE WOULD HAVE RETAINED HIS SEAT AT RAMTEK IN NORTHERN

MAHARASHTRA). ONE OF THE FEW SENIOR CONGRESSMEN TO COMMAND RESPECT FROM ALL WINGS OF THE PARTY, NARASIMHA RAO IS A COMPROMISE CHOICE AS PRESIDENT. AT THE AGE OF 70 HE IS UNLIKELY TO BE A LONG-TERM SOLUTION TO THE CONGRESS (I) LEADERSHIP PROBLEM.

HE HAS LECTURED AT VARIOUS UNIVERSITIES IN THE US AND GERMANY ON INTERNATIONAL AND POLITICAL AFFAIRS. HIS INTERESTS INCLUDE INDIAN PHILOSOPHY AND CULTURE, LITERATURE AND COMPUTER LITERACY. HIS HOBBIES INCLUDE MUSIC, CINEMA AND THEATRE.

A POET AND SOMETHING OF A PHILOSOPHER. SPEAKS PERSIAN, TELUGU, MARATHI AND URDU AND WELL AS HINDI, ENGLISH, FRENCH AND SPANISH. HAS PUBLISHED TRANSLATIONS OF TELUGU AND MARATHI LITERATURE. HE VISITED LONDON FOR THE MINISTERIAL SUMMIT ON AIDS IN JANUARY 1988.

A WIDOWER, THREE SONS AND FIVE DAUGHTERS. STRICT VEGETARIAN (NO EGGS).

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How nice, sad underwear.

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*Has some chips also should. For chavme.*NEW DELHI TELNO 747: INDIA INTERNAL: CONGRESS PARTY LEADERSHIP *Ab*

SUMMARY

1. NARASIMHA RAO'S ELECTION AS CONGRESS PARTY PRESIDENT GENERALLY WELCOMED. LEADER OF THE PARLIAMENTARY PARTY TO BE CHOSEN AFTER THE GENERAL ELECTION. GANDHI FAMILY LINKS WITH CONGRESS (I) MAY NOT BE COMPLETELY BROKEN. PRESIDENT ANNOUNCES THAT THE NEXT LOK SABHA WILL BE CONVENED BY 20 JUNE.

DETAIL

2. AS EXPECTED, THE CONGRESS (I) WORKING COMMITTEE UNANIMOUSLY ELECTED P V NARASIMHA RAO AS PARTY PRESIDENT YESTERDAY (29 MAY). UNDER THE TERMS OF THE CONGRESS (I) CONSTITUTION, THE APPOINTMENT REMAINS PROVISIONAL UNTIL APPROVED BY THE ALL INDIA CONGRESS COMMITTEE-I (AICC-I). ACCORDING TO PARTY SPOKESMAN PRANAB MUKHERJEE, THE AICC-I IS UNLIKELY TO MEET BEFORE THE ELECTIONS ARE OVER. MUKHERJEE ALSO CONFIRMED THAT THE LEADER OF THE CONGRESS (I) PARLIAMENTARY PARTY WILL BE CHOSEN BY PARTY MEMBERS IN THE LOK SABHA AFTER THE ELECTIONS.

3. FOLLOWING HIS ELECTION, NARASIMHA RAO ISSUED A WRITTEN STATEMENT IN WHICH HE SAID THAT ONLY CONGRESS (I) COULD PROVIDE STABLE GOVERNMENT. QUOTE THE FUNDAMENTAL FACT IN INDIA IS THAT THERE CAN BE NO STABILITY WITHOUT SECULARISM UNQUOTE. HE CRITICISED THE BJP AS A QUOTE PARTY TAINTED BY COMMUNALISM UNQUOTE AND DESCRIBED THE NATIONAL FRONT AS QUOTE AN OPPORTUNIST CONGLOMERATION THAT ACCEPTED CASTEISM AS ITS CREED FOR POLITICAL ENDS UNQUOTE.

4. NARASIMHA RAO'S APPOINTMENT HAS BEEN GENERALLY WELCOMED. SEE MIFT FOR LPR. HE IS CONSIDERED BY MANY OBSERVERS AS THE PERSON BEST PLACED TO UNITE CONGRESS IN THE REMAINDER OF THE ELECTION CAMPAIGN. TODAY'S EDITORIAL IN THE QUOTE TIMES OF INDIA UNQUOTE, WHICH IS TYPICAL, DESCRIBES HIM AS QUOTE A PRESIDENT WHO CAN BE TRUSTED TO STEER THE PARTY ON THE ROAD TO RECOVERY WITH CARE AND CIRCUMSPECTION UNQUOTE. HE IS WIDELY RESPECTED FOR HIS LONG EXPERIENCE OF GOVERNMENT, HIS LEARNING AND HIS POLITICAL SUBTLETY. ON THE OTHER HAND, HE LACKS VIGOUR AND POPULAR APPEAL AND THIS MAY WEAKEN HIS CHANCES IN THE CONTEST FOR PARLIAMENTARY LEADER AND POTENTIAL PRIME MINISTER. (IF HE WAS APPOINTED PRIME MINISTER HE WOULD NEED TO GET ELECTED TO PARLIAMENT WITHIN SIX MONTHS, SINCE HE IS NOT STANDING IN THE CURRENT ELECTION).

5. THERE HAVE BEEN SOME INDICATIONS THAT THE GANDHI FAMILY'S LINKS WITH CONGRESS (I) MAY NOT YET BE OVER. FORMER MEMEBRS OF THE JAN MORCHA GROUP OF THE JANATA DAL WHICH INCLUDE ARUN NEHRU, A DISTANT RELATIVE OF RAJIV GANDHI, INDICATED YESTERDAY THAT THEY WOULD OFFER QUOTE UNILATERAL SUPPORT UNQUOTE TO THE CONGRESS PARTY. THIS COULD BE THE FIRST STEP IN ARUN NEHRU'S RETURN TO CONGRESS (I). SEPARATELY, RAJIV GANDHI'S DAUGHTER PRIYANKA, HAS BEEN INVITED TO JOIN THE INDIAN NATIONAL YOUTH CONGRESS. HER REACTION IS NOT KNOWN. THERE HAVE ALSO BEEN UNSUBSTANTIATED RUMOURS THAT MANEKA GANDHI, NOW A MEMBER OF CHANDRA SHEKHAR'S BJP, COULD RETURN TO CONGRESS IN THE FUTURE.

6. MEANWHILE PRESIDENT VENKATARAMAN, IN A COMMUNIQUE ISSUED ON 29 MAY, SAID THAT THE TENTH LOK SABHA WILL BE CONSTITUTED ON OR BEFORE 20 JUNE. THE PRESIDENT HAD ORIGINALLY CALLED FOR CONSTITUTION OF THE NEW HOUSE BY 5 JUNE. THIS DATE HAD TO BE PUT BACK FOLLOWING THE POSTPONEMENT OF POLLING AFTER RAJIV GANDHI'S ASSASSINATION.

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SIC U2H

NEW DELHI TELNO 720: INDIA INTERNAL: PROSPECTS AFTER RAJIV
GANDHI'S DEATH

SUMMARY

1. SONIA GANDHI HAS MAINTAINED HER REFUSAL OF THE PRESIDENCY OF CONGRESS (I). PARTY LEADERS NOW HOPE TO CHOOSE ANOTHER LEADER, POSSIBLY ON A TEMPORARY BASIS, ON 29 MAY AND TO BENEFIT THEREAFTER FROM A SYMPATHY WAVE AT THE RESUMED POLLS ON 12 A ND 15 JUNE. THE BJP IS TRYING TO PROTECT ITSELF AS NOW THE ONLY VIABLE MEANS OF ACHIEVING STABILITY. THE ECONOMIC IMPLICATIONS OF THE FURTHER DELAY IN FORMING A NEW GOVERNMENT ARE WORRYING. INDIA IS QUIET FOR THE TIME BEING.

DETAIL

2. ON THE EVENING OF 23 MAY SONIA GANDHI DECLINED THE PRESIDENCY OF CONGRESS (I) WHICH HAD BEEN OFFERED TO HER THE PREVIOUS DAY (TUR). IN HER PRESS STATEMENT, SHE SAID: QUOTE THE TRAGEDY THAT HAS BEFALLEN MY CHILDREN AND MYSELF DOES NOT MAKE IT POSSIBLE TO ACCEPT THE PRESIDENTSHIP OF THE PARTY UNQUOTE. ALTHOUGH A NUMBER OF SENIOR CONGRESS (I) LEADERS CONTINUED TO PRESS HER TO ACCEPT, THE STRENGTH OF HER DETERMINATION NOT TO DO SO IS NOW SINKING IN.

3. CONGRESS (I) LEADERS HAVE THEREFORE RESUMED THEIR EFFORTS TO FIND A SUCCESSOR TO RAJIV GANDHI AS PARTY PRESIDENT. THE PRINCIPAL CANDIDATES IN ORDER OF PROBABILITY APPEAR TO BE FORMER EXTERNAL AFFAIRS MINISTER P V NARASIMHA RAO, FORMER CHIEF MINISTER OF UTTAR PRADESH AND UNION MINISTER N D TIWARI, FORMER CHIEF MINISTER OF MADHYA PRADESH ARJUN SINGH AND PARTY SPOKESMAN AND ECONOMIC ADVISER PRANAB MUKHERJEE. THE

CONGRESS WORKING COMMITTEE HOPES TO REACH A DECISION ON 29 MAY, IF ONLY ON A TEMPORARY BASIS UNTIL AFTER THE GENERAL ELECTION, AND ON THE UNDERSTANDING THAT THE PARLIAMENTARY LEADER (AND PUTATIVE PRIME MINISTER) MIGHT BE A DIFFERENT PERSON. (MAHARASHTRA CHIEF MINISTER SHARAD PAWAR, WHO HAS HIS OWN AMBITIONS TO BE PARLIAMENTARY LEADER, CALLED PUBLICLY FOR THIS SEPARATION OF FUNCTIONS ON 26 MAY.) THE IDENTITY OF THE NEXT PRIME MINISTER CANNOT THEREFORE BE PREDICTED AT THIS STAGE, EVEN IF CONGRESS (I) WINS THE ELECTION OUTRIGHT. AND IF THE RESULT OBLIGES CONGRESS (I) TO ACCEPT A COALITION THE NUMBER OF POSSIBLE CANDIDATES COULD INCREASE FURTHER E.G. TO INCLUDE CHANDRA SHEKHAR.

4. SOME CONGRESS (I) LEADERS ARE CALLING FOR THE DATES OF RESUMED POLLING TO BE BROUGHT FORWARD FROM THE DATES OF 12 AND 15 JUNE WHICH WERE ANNOUNCED LAST WEEK. SO FAR CHIEF ELECTION COMMISSIONER SESHAN HAS RESISTED THIS. BUT CONGRESS (I) CHIEF MINISTERS FROM SOUTHERN STATES WHERE THE MONSOON SETS IN EARLY IN JUNE, ARE POINTING TO THE DISRUPTION THAT THIS WILL CAUSE TO ORDERLY POLLING. SESHAN IS ALSO MAINTAINING THE PREVIOUS DATES FOR POLLING IN ASSAM (6-8 JUNE) AND PUNJAB (22 JUNE).

5. AT FIRST SIGHT, CONGRESS (I) MIGHT BE EXPECTED TO SUFFER FROM THE DISAPPEARANCE OF ITS UNCHALLENGED LEADER (AND THE ONLY POLITICAL FIGURE TO ATTRACT NATIONWIDE SUPPORT). BUT IT IS IN FACT EXPECTING TO BENEFIT FROM A STRONG SYMPATHY VOTE AT THE RESUMED ELECTIONS WHICH MAY REDUCE THE EXPECTED LOSS OF SEATS IN THE SOUTHERN STATES OF ANDHRA PRADESH, KERALA AND KARNATAKA, AND SHOULD STRENGTHEN CONGRESS (I)'S RESISTANCE TO THE BJP CHALLENGE IN UTTAR PRADESH, MADHYA PRADESH, RAJASTHAN AND GUJARAT. IT IS IMPOSSIBLE TO JUDGE AT THIS STAGE WHETHER THIS EXPECTATION IS WELL FOUNDED: IT SEEMS UNLIKELY TO MATERIALIZE IF CONGRESS (I) FAIL TO RESOLVE THE LEADERSHIP QUICKLY.

6. ALL PARTIES WILL HAVE TO ADJUST THEIR ELECTION CAMPAIGNING TO TAKE ACCOUNT OF THE DISAPPEARANCE OF RAJIV GANDHI. CONGRESS (I) WILL NO DOUBT SEEK MAXIMUM MILEAGE FROM HIS MEMORY. THE BJP ARE SUPPRESSING ALL CRITICISM OF RAJIV FROM THEIR CAMPAIGN THEMES. INSTEAD THEY ARE TRYING TO EXPLOIT THE DISARRAY IN CONGRESS (I) OVER THE LEADERSHIP BY APPROPRIATING THE CONGRESS (I) STABILITY SLOGAN: ONLY BJP CAN NOW PROVIDE A VIABLE PROSPECT OF STABILITY. BUT THIS RATHER CHEEKY

LINE CONCEALS A GOOD DEAL OF BJP CONCERN THAT THE FLOATING VOTER (ABOUT 20 PERCENT WERE STILL UNDECIDED IN THE LATEST OPINION POLLS) WILL NOW RUN FOR THE COVER OF A SAFE CONGRESS (D) VOTE. THEY ALSO FEAR THAT WOMEN VOTERS MAY SWITCH FROM BJP TO CONGRESS (I) AS SYMPATHY FOR THE BEREAVED FAMILY REPLACES HINDU SENTIMENT.

6. ON THE ECONOMIC FRONT, THE POSTPONEMENT OF THE ELECTIONS CAN ONLY DEEPEN THE IMPENDING RISKS. EVEN ON THE BEST SCENARIO, THE BUDGET WILL NOT NOW BE PRESENTED BEFORE THE END OF JULY OR AUGUST. THE VOTE ON ACCOUNT, WHICH EXPIRES AT THE END OF JULY, WILL HAVE TO BE EXTENDED. UNLESS THE IMF CAN AGREE EMERGENCY MEASURES WITH THE INTERIM GOVERNMENT (A DOUBTFUL PROSPECT ON WHICH WE WILL BE COMMENTING SEPARATELY), IT MAY NOW BE OCTOBER BEFORE ANY IMF FUNDS CAN BE MADE AVAILABLE. MOREOVER, THERE IS A NEW QUESTION MARK OVER CONGRESS (I)'S ECONOMIC POLICY. RAJIV GANDHI HAD ACCEPTED THE NEED FOR AN IMF PROGRAMME AND, OF ALL THE PARTY LEADERS, SEEMED THE MOST WILLING TO IMPOSE HARSH MEASURES TO SECURE IT IF ELECTED. A NEW, AND POSSIBLY STOPGAP LEADER, WOULD BE MUCH LESS ABLE TO ADMINISTER THE NECESSARY MEDICINE, ESPECIALLY IF THE RESULT OF THE ELECTION IS A HUNG PARLIAMENT. APART FROM PRICES, ECONOMIC ISSUES HAVE BARELY FEATURED IN THE ELECTION CAMPAIGN, AND THERE ARE FEW SIGNS THAT MORE THAN A HANDFUL OF POLITICIANS RECOGNISE AND UNDERSTAND THE SEVERITY OF THE CRISIS. MEANWHILE, THE IMPACT OF THE POLITICAL SITUATION ON FOREIGN INVESTOR AND BANKING CONFIDENCE CAN ONLY BE NEGATIVE. THE LATEST OFFICIAL FIGURES, FOR 17 MAY, SHOWED THE FOREIGN EXCHANGE RESERVES STILL OVER US DOLLARS 1.2 BILLION, BUT IT WOULD BE SURPRISING IF THE EVENTS OF LAST WEEK DID NOT LEAD TO SOME DRAIN ON THE RESERVES. OVERALL THE CHANCES OF DEFAULT MUST HAVE INCREASED.

7. IN THE LONGER TERM, THE REMOVAL OF THE DYNASTIC STRANGLEHOLD ON CONGRESS (I) THROUGH THE DEATH OF RAJIV GANDHI MAY FACILITATE SOME HEALTHY CHANGES IN THE WORKING OF CONGRESS (I). A LESS OLYMPIAN LEADER MAY FIND HIMSELF SUBJECTED TO MORE DEMOCRATIC CONTROLS. THE SOUTHERN SUPPORTERS OF THE PARTY (ESPECIALLY IF IT DOES WELL IN THE SOUTH) MAY BE ABLE TO ACHIEVE A MORE PROPORTIONATE REPRESENTATION IN THE LEADERSHIP. BUT FOR THE TIME BEING, BOTH CONGRESS (I) AND INDIA ARE LEFT WITH NO OBVIOUS LEADER AROUND WHOM TO RALLY, AND PRECIOUS LITTLE TIME IN WHICH TO FIND THEIR FEET BEFORE A NEW GOVERNMENT MUST BE FORMED AND THE ECONOMIC CRISIS FACED.

S. BUT THE COUNTRY HAS (SO FAR) ONE BLESSING WHICH ELUDED IT IN 1984 WHEN MRS GANDHI DIED. THERE HAS BEEN NO SERIOUS VIOLENCE SINCE THE ASSASSINATION. SECURITY THROUGHOUT THE COUNTRY REMAINS TIGHT. SIKHS, WHO RAN FOR COVER ON THE NIGHT OF 22 MAY, ARE RESUMING THEIR NORMAL LIVES. TAMILS MAY BE FEELING NERVOUS, AS THE FINGER OF SUSPICION CONTINUES TO POINT TO A FEMALE TAMIL ASSASSIN, BUT THERE HAS BEEN NO FURTHER DISORDER IN TAMIL NADU. HOWEVER, THE RESUMPTION OF ELECTION CAMPAIGNING MAY WELL PRESAGE A RESUMPTION OF THE EARLIER ELECTORAL VIOLENCE.

CONCLUSION

10. GANDHI'S DEATH LAST WEEK SEEMS LIKELY ON BALANCE TO HELP CONGRESS (I) IN THE NEXT ROUNDS OF VOTING, BUT ONLY IF THE PARTY ENDS UNCERTAINTY OVER ITS CHOICE OF LEADER. THE BJP IS TRYING TO STEAL ITS QUOTE STABILITY UNQUOTE MANTLE, BUT THIS CONCEALS NERVOUSNESS THAT THEIR ADVANTAGE WILL BE LOST IN A SYMPATHY WAVE. MEANWHILE THE COUNTRY IS TEMPORARILY RUDDERLESS AS IT HEADS INTO THE ECONOMIC STORM.

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SIC U2H

FUNERAL OF MR RAJIV GANDHI: ROYAL AND MINISTERIAL VISIT

SUMMARY

1. THE ONE DAY VISIT BY HRH THE PRINCE OF WALES, YOURSELF, MR KINNOCK, MR HEATH AND SIR D STEEL FOR RAJIV GANDHI'S FUNERAL PROMINENTLY REPORTED AND MUCH APPRECIATED. BESIDES ACCOMPANYING HRH FOR A CALL ON THE PRESIDENT AND LUNCHEON WITH VICE-PRESIDENT QUAYLE YOU HAD BILATERALS WITH OTHER VISITING MINISTERS AND MET THE BRITISH PRESS. MR KINNOCK HAD A FULL PROGRAMME. AN ARDUOUS BUT WORTHWHILE VISIT.

DETAIL

2. RAJIV GANDHI WAS CREMATED ON 24 MAY ON THE BANKS OF THE YAMUNA RIVER IN DELHI, WHERE HIS MOTHER WAS CREMATED SEVEN YEARS AGO. HRH THE PRINCE OF WALES REPRESENTED HM THE QUEEN. YOU REPRESENTED HMG. ACCOMPANYING YOU WERE MR KINNOCK, LEADER OF THE OPPOSITION: MR HEATH: AND SIR D STEEL. BY ITS SENIORITY AND BREADTH OF COMPOSITION THIS WAS THE MOST NOTABLE OF ALL THE 50 OR MORE FOREIGN DELEGATIONS. I AM MOST GRATEFUL TO THE PRINCE OF WALES, TO YOU AND TO THE OTHER PARTICIPANTS FOR UNDERTAKING THIS VISIT TO DELHI IN THE SUMMER HEAT AND AT VERY SHORT NOTICE.

3. ON ARRIVAL ON THE MORNING OF 24 MAY, THE PRINCIPAL GUESTS CALLED AT TEEN MURTI HOUSE WHERE MR GANDHI'S BODY WAS LYING IN STATE AMID A JOSTLING CROWD OF MOURNERS AND A PHALANX OF INTRUSIVE PRESS PHOTOGRAPHERS TO PAY THEIR FORMAL RESPECTS, TO OFFER WREATHS AND TO SIGN THE CONDOLENCES BOOK. YOU TNE ACCOMPANIED

THE PRINCE OF WALES ON A COURTESY CALL ON PRESIDENT VENKATARAMAN. HE SPOKE WITH AUTHORITY OF THE PROBLEMS FACING INDIA, WHICH HE SAID WERE AS SERIOUS AS A MAJOR WAR: AND HE EXPLAINED HIS REASONS FOR FLOATING THE IDEA OF A NTAIONAL GOVERNMENT, COMMENTING RUEFULLY THAT THE PROSPECT OF AN ELECTION WHICH ALL THE PARTIES HOPED TO WIN EFFECTIVELY PREVENTED THEM FROM TAKING THE IDEA SERIOUSLY.

4. IN THE AFTERNOON THE PRINCIPAL GUESTS ALL ATTENDED THE FUNERAL. IT TOOK NEARLY FOUR HOURS FOR THE BODY, TRANSPORTED IN PROCESSION ON A GUN CARRIAGE, TO REACH TJE CREMATION SITE FROM TEEN MURTI HOUSE. THE WAITING FOREIGN GUESTS BORE THE MIDSUMMER HEAT WITH VARYING DEGREES OF STOICISM UNDER A BURNING SUN AND TO THE ACCOMPANIMENT OF NON-STOP CHANGING OF VEDIC MANTRAS OVER THE PUBLIC ADDRESS SYSTEM. BUT WHEN THE CORTEGE FINALLY ARRIVED (50 MINUTES LATE), THERE WAS NO DENYING THE DRAMA OF THE BURNING PYRE AND PATHOS OF THE GRIEVING GANDHI FAMILY.

5. IN THE EVENING THE PRINCE OF WALES LED ALL THE BRITISH VISITORS IN A BRIEF CALL ON MRS SONIA GANDHI, WHO WAS ACCOMPANIED BY HER TWO CHILDREN AND BY NATWAR SINGH, MINISTER OF STATE FOR FOREIGN AFFAIRS IN RAJIV GANDHI'S LAST GOVERNMENT. SHE WAS CALM AND DIGNIFIED. HIS ROYAL HIGHNESS SPOKE TO HER WITH A GENTLE KINDNESS WHICH CLEARLY MADE A DEEP IMPRESSION.

6. YOU HAD USEFUL BILATERAL MEETINGS (REPORTED SEPARATELY) WITH NAWAZ SHARIF, PRIME MINISTER OF PAKISTAN SEMICOLON WITH THE CHINESE VICE PREMIER WU XUEQIAN SEMICOLON WITH THE DEPUTY PRIME MINISTER OF NEW ZEALAND, DON MCKINNON: AND WITH THE AUSTRALIAN AND CANADIAN FOREIGN MINISTERS. YOU ALSO ACCOMPANIED THE PRINCE OF WALES TO LUNCH WITH VICE PRESIDENT QUAYLE AT THE US EMBASSY.

7. AT YOUR MEETING WITH THE BRITISH PRESS (TRANSCRIPT FOLLOWS) YOU EXPRESSED CONFIDENCE IN THE SURVIVAL OF INDIA'S DEMOCRATIC INSTITUTIONS AND IN THE ABILITY OF THE INDIAN PEOPLE TO MAKE THOSE INSTITUTIONS WORK. IN ANSWER TO QUESTIONS YOU DENIED REPORTS FROM LONDON, PICKED IN THE INDIAN PRESS, OF AN ALLEGED APPROACH TO HMG ABOUT A PLOT TO KILL MR GANDHI (NEW DELHI TELNO 725). YOU GAVE SEPARATE INTERVIEWS TO BBC RADIO AND DOORDARSHAN TV, PAYING TRIBUTE TO MR GANDHI.

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PAGE 2

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8. MR KINNOCK PURSUED A BUSY SEPARATE PROGRAMME INCLUDING CALLS (ACCOMPANIED BY MY MINISTER) ON THE PRESIDENT AND PRIME MINISTER. MR KINNOCK FIELDERD ANXIOUS QUESTIONS FROM CHANDRA SHEKHAR, FLANKED BY MUCHKUND DUBEY THE FOREIGN SECRETARY, REGARDING LABOUR POLICY ON KASHMIR. MR KINNOCK ALSO MET THE AUSTRALIAN FOREIGN MINISTER (AT THE LATTER'S REQUEST) AND GAVE MEDIA INTERVIEWS, INCLUDING CHANNEL 4 TV.

9. THAT SUCH A DISTINGUISHED GROUP OF BRITISH VISITORS SHOULD COME TO SHARE IN INDIA'S MOURNING WAS A MOST VALUABLE GESTURE AND ONE THAT WILL BE WIDELY NOTED HERE. TWICE DURING THE DAY NATWAR SINGH COMMENTED APPRECIATIVELY THAT IT WAS THE LARGEST HIGH-LEVEL DELEGATION FROM THE UK TO HAVE VISITED INDIA SINCE INDEPENDENCE. THE PRESIDENT THANKED THE PRINCE OF WALES WITH SPECIAL WARMTH FOR COMING, AND PRESSED HIM TO REINSTATE HIS OFFICIAL VISIT TO INDIA AS SOON AS THIS COULD BE MANAGED. MEA OFFICIALS WERE PROFUSE IN THEIR APPRECIATION AND THE HEAD OF PROTOCOL ALSO AMDE A POINT, IN THANKING HRH, OF EXPRESSING THE HOPE THAT HE WOULD SOON RETURN TO INDIA TO TAKE UP HIS PROPOSED VISIT. VIRTUALLY ALL INDIAN NEWSPAPERS TODAY CARRY PHOTOGRAPHS OF THE PRINCE OF WALES AT THE FUNERAL OR AT THE LYING IN STATE, AND LEAVE THE READERS IN NO DOUBT ABOUT THE EXTENT, SPONTANEITY AND SINCERITY OF THE BRITISH RESPONSE. THE MEDIA ALSO COVER THE RESPONSE IN BRITAIN, INCLUDING PHOTOGRAPHS OF THE PRIME MINISTER SIGNING THE CONDOLENCES IN LONDON. YOUR OWN COMMENTS AT YOUR PRESS CONFERENCE AND TO THE BBC WERE REPRODUCED. MR KINNOCK'S PRESENCE AND ACTIVITIES ARE WIDELY NOTED.

11. THE DAY WAS ARDUOUS AND HOT AND INEVITABLY MARKED BY MUCH IMPROVISATION AND CONFUSION AS HARRASSED INDIAN OFFICIALDOM COPEL AT SHORT NOTICE WITH THE LARGE FOREIGN INFLUX AND MASSIVE CROWDS OF INDIA. BUT THE EFFORT HAS UNDOUBTEDLY CONTRIBUTED SIGNIFICANTLY TO OUR STANDING HERE AND I AM MOST GRATEFUL.

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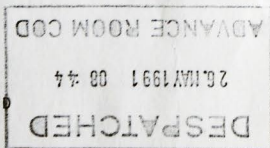
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23 May 1991

Dear Stephen, 16

India

You asked for a very swift up-date on the situation in India. I enclose a copy of New Delhi telno 720 which is the latest report I have seen (although I understand that another telegram is on its way). The Department tell me that the atmosphere in India is tense and apprehensive. The security forces are on full alert and have managed by and large to contain the sporadic violence which has so far cost over 200 lives (severe in itself, not massive by Indian standards). The violence does not seem to be targetted against any particular group - no doubt because the culprits of the assassination have not yet been identified.

On the political front, Mrs Gandhi has declined the nomination as President of Congress (I) - although I understand that there is some dispute (I do not know how serious) about whether she is permitted to do so under Congress (I) rules. The predominant response in India to her nomination has been to regard it as a cheap gimmick.

Voting in the elections, which began on 20 May, will now continue on 12 and 15 June with the elections in Punjab delayed until 22 June. Counting in the election will probably begin on 15 June.

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Private Secretary

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NEW DELHI TELNO 709: ASSASSINATION OF RAJIV GANDHI: CONGRESS
PARTY LEADERSHIP

SUMMARY

1. SONIA GANDHI ELECTED PRESIDENT OF CONGRESS(I). HER REACTION IS STILL UNCERTAIN. THE APPOINTMENT MAY BE ONLY A TEMPORARY MOVE TO AVOID IMMEDIATE DIVISIONS IN THE PARTY. AN INCREASED SYMPATHY VOTE MAY HELP CONGRESS(I) IN THE RESUMED POLLING NEXT MONTH.

DETAIL

2. THE CONGRESS(I) WORKING COMMITTEE (CWC) ON 22 MAY UNANIMOUSLY ELECTED RAJIV GANDHI'S WIDOW, MRS SONIA GANDHI, AS PARTY PRESIDENT. PRESS REPORTS SUGGEST THAT SHE WAS CONSULTED BEFORE HER NAME WAS PUT FORWARD, BUT IT IS STILL NOT CERTAIN THAT SHE HAS ACCEPTED OR ON WHAT TERMS. CONGRESS(I) SPOKESMAN SAY THAT THE APPOINTMENT HAS QUOTE BEEN CONFIRMED UNQUOTE, BUT HAVE AVOIDED QUESTIONS ABOUT MRS GANDHI'S REACTION OR ABOUT WHETHER SHE MIGHT SERVE AS PRIME MINISTER IF CONGRESS(I) FORM THE NEXT GOVERNMENT.

3. MRS GANDHI HAS LITTLE EXPERIENCE OF INDIAN POLITICS OTHER THAN HER INVOLVEMENT IN HER LATE HUSBAND'S WORK WHICH HAS INCLUDED POLITICAL WORK IN HIS CONSTITUENCY. NOW 43, SHE WAS A STUDENT WHEN THEY MET AT CAMBRIDGE, AND MARRIED RAJIV GANDHI AT 19. SHE WAS GENERALLY THOUGHT TO BE UNINTERESTED IN POLITICS, ALTHOUGH SOME BELIEVE THAT SHE IS TOUGH BEHIND THE SCENES AND THAT RAJIV GANDHI TOOK NOTE OF HER ADVICE ON A NUMBER OF DECISIONS, INCLUDING THE DISMISSAL OF ADVISERS. AS A FOREIGNER (AN ITALIAN BY BIRTH) AND A PRACTISING CHRISTIAN, HER APPOINTMENT MAY ATTRACT CRITICISM FROM SOME HINDUS IN INDIA.

4. SO FAR, INITIAL REACTIONS TO THE APPOINTMENT HAVE BEEN EITHER INCREDULOUS OR GENERALLY UNDERSTANDING. THE PRESS (INCLUDING THE HINDI PRESS) SEE IT AS A MOVE TO GAIN THE SYMPATHY VOTE AND AS A NECESSARY MOVE TO AVOID A SPLIT IN THE CONGRESS PARTY FOLLOWING THE LOSS OF RAJIV GANDHI. MRS GANDHI'S APPOINTMENT HAS ALSO ATTRACTED LITTLE COMMENT SO FAR FROM LEADERS OF OTHER POLITICAL PARTIES THOUGH THE BJP SPOKESMAN SAID IT SHOWED THE QUOTE UTTER BANKRUPTCY UNQUOTE OF THE PARTY.

5. BY MOVING QUICKLY TO APPOINT A NEW PARTY LEADER, CONGRESS (I) CLEARLY DOES INDEED HOPE TO BENEFIT FROM A WAVE OF SYMPATHY IN THE REMAINING TWO ROUNDS OF VOTING FOR THE GENERAL ELECTION (ON 12 AND 15 JUNE) AND TO PREVENT SPLITS EMERGING DURING THE ELECTIONS BETWEEN THE VARIOUS FACTIONS OF THE PARTY. MOST COMMENTATORS BELIEVE THAT THE APPOINTMENT OF MRS GANDHI WILL BE A TEMPORARY ONE WITH FURTHER PARTY REORGANISATION AND POSSIBLY PARTY ELECTIONS TO FOLLOW AFTER THE GENERAL ELECTION, BUT A FEW ARE SPECULATING THAT HER NAME COULD EVEN BE PUT FORWARD FOR PRIME MINISTER IF CONGRESS (I) FORM THE NEXT GOVERNMENT.

6. THE ELECTION RESULTS FROM THE NEXT TWO ROUNDS OF VOTING (JUNE 12 AND 15) AND POLITICAL DEVELOPMENTS THEREAFTER WILL NOW DEPEND UPON THE EXTENT TO WHICH CONGRESS (I) BENEFITS FROM A SYMPATHY VOTE. THE EXPECTED EXIT POLLS DID NOT APPEAR AFTER THE FIRST ROUND OF VOTING ON 20 MAY, BUT SOME ANALYSTS BELIEVE THAT THE BJP DID EVEN BETTER THAN EXPECTED. THIS ADVANTAGE MAY NOW BE REDUCED IN THE CHANGED CIRCUMSTANCES OF THE NEXT TWO ROUNDS OF VOTING. PRESIDENT VENKATARAMAN MET A NUMBER OF PARTY LEADERS YESTERDAY (22 MAY) AND REPORTEDLY DISCUSSED THE IDEA OF A NATIONAL GOVERNMENT, WHICH HE HAD PREVIOUSLY RAISED AFTER THE COLLAPSE OF V P SINGH'S GOVERNMENT IN 1990.

7. MEANWHILE FORENSIC EXPERTS IN MADRAS ARE REPORTED TO BELIEVE THAT A WOMAN WITH THE BOMB STRAPPED TO HER WAS RESPONSIBLE FOR THE EXPLOSION THAT KILLED MR GANDHI AND 15 OTHERS ON 21 MAY. THERE APPEARS TO BE NO EVIDENCE SO FAR TO LINK HER WITH ANY PARTICULAR TERRORIST ORGANISATION BUT THERE IS GROWING OPEN SPECULATION ABOUT A LTTE CONNEXION TO THE ASSASSINATION.

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PERSONAL MESSAGE

SERIAL No. T 12791



SUBJECT *u*
MASTER
OPS

File

cc to
10
MMI
DTI
CST
ODA

10 DOWNING STREET
LONDON SW1A 2AA

THE PRIME MINISTER

24 April 1991

Dear Prime Minister,

Thank you for your letter of 20 March.

I have been following the evolution of India's economic position closely and I am concerned to learn of the serious problems which India is now facing. I appreciate that India's difficulties have been exacerbated by the effects of the Gulf crisis. We welcomed the timely action you took in January in approaching the IMF and we were happy to lend our full support. We hoped that this, together with the measures your Government was taking to alleviate the pressures on the balance of payments, would provide India with a breathing space for you to devise and agree an extended programme with the IMF.

I appreciate, of course, that the agreement of a programme with the IMF will now have to await the outcome of the forthcoming elections. It will be important, nonetheless, that a programme is agreed with the IMF as soon as possible after the elections. I understand that you have authorised your officials to engage in preliminary discussions with IMF staff in the near future. I have instructed our Executive Director at the Fund to express to Fund management our hope that some progress can be made on technical issues in advance of the elections. If the new Government were able to come to a firm agreement with Fund staff on a programme, and this were reflected in the budget, we would be willing to join with others in considering providing bridging finance until India was able to draw down Fund resources.

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As you know our bilateral aid programme is very substantial and has been increasing in size in recent years. There is scope for the size of the programme to increase to £90 million in the current financial year and there could be the potential for using some of the intended funding to provide direct balance of payments assistance in the support of a programme agreed with the IMF. In the IMF Board, India can expect the UK's active support for an extended arrangement which addresses both your immediate liquidity problem and the underlying structural factors which adversely affect the performance of the Indian economy. We will be willing to look positively at various mechanisms for providing funding from the IFIs.

One possibility which might arise in this context is the question of India's access to ESAF. If India wished to reconsider its decision to forego access to ESAF resources, we would be prepared to look sympathetically at the proposition although it would be necessary to restrict access below the normal maximum levels.

*Your sincerely,
John Major*

Shri Chandra Shekhar



FILE

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10 DOWNING STREET

LONDON SW1A 2AA

From the Private Secretary

22 April 1991

POSSIBLE CALL OF NEW INDIAN
HIGH COMMISSIONER

Thank you for your letter of 17 April.

The Prime Minister would be happy to see
the new Indian High Commissioner at 1115 on
Friday 26 April.

I should be grateful for a brief to
reach me by lunchtime on Thursday 25 April.

(J. S. WALL)

Simon Gass, Esq.,
Foreign and Commonwealth Office.

to



10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

22 April 1991

INDIA: CHANDRA SHEKHAR'S APPEAL FOR ASSISTANCE

The Prime Minister was grateful for the Chancellor's minute of 18 April about Chandra Shekhar's appeal for assistance. The Prime Minister has approved the draft with some minor amendments. I enclose the amended version and you may wish to arrange for the FCO to telegraph it to our High Commission in New Delhi for delivery there. A signed original will follow in due course.

The new Indian High Commissioner will be calling on the Prime Minister at 1115 on Friday 26 April. He may well raise the issue then. The Prime Minister will be able to say that he has already replied direct to the Indian Prime Minister.

I am copying this letter and enclosure to Richard Gozney (Foreign and Commonwealth Office), Martin Stanley (Department of Trade and Industry), Nicholas Holgate (Chief Secretary's Office) and Suma Chakrabarti (Overseas Development Administration).

(J. S. WALL)

Jeremy Heywood, Esq.,
H.M. Treasury.

81



10 DOWNING STREET

Prime Minister

This approach (which is agreed with FCO/OEA) makes sense. Agree the deal? I think it probably should come before you see the Indian High Commissioner (I've suggested 20 April). Then you can refer to your letter and not have to get into a great discussion.

Stephen 19/4



Treasury Chambers, Parliament Street, SW1P 3AG
071-270 3000

Prime Minister (1)

PRIME MINISTER

19/4

Context with

INDIA: CHANDRA SHEKHAR'S APPEAL FOR ASSISTANCE

As
Chandra Shekhar has written to you to ask for assistance to help alleviate a serious liquidity crisis which India is facing. He does not specify precisely the form of assistance which he is seeking, but he is likely to have in mind quick disbursing balance of payments support in the form of a large scale grant or a loan on concessional terms. Chandra Shekhar is, of course, a caretaker Prime Minister and elections are scheduled for May. Thus, there is no credible Government in place which can start to grapple with India's problems.

will they oppose us on S.A. matters??
21.4.

2. Chandra Shekhar places his appeal in the context of the effects of the Gulf crisis on the Indian economy. While India, like many other developing countries, was undoubtedly adversely affected by the Gulf crisis, India's present difficulties are the result of macroeconomic mismanagement dating from the late 1980s. The Indian economy also suffers from long term structural problems which affect the rate of economic growth. I attach a paper which briefly describes how India has come to be in its present situation; what policy measures it needs to adopt to address its problems in the longer term; and possible steps the UK and other major donors might take.

3. We do not have access to comprehensive, official information on India's current financial position; but we understand from the



IMF team which was recently in New Delhi that India is facing a serious crisis. Information on the level of reserves is sketchy but it is clear that they are being run down. The Bank of England is in close touch with the commercial banks to monitor their response to the situation. The broad picture is that the banking community is nervous and cautious; some are drawing back, others are hanging in; but no one anticipates offering any new money. It is becoming difficult for India to borrow on short term capital markets. It is possible that the Indians will be able to take some additional measures themselves to alleviate the immediate liquidity problem (by mobilising gold reserves, for example) but there is a real danger that India will become unable to meet its external commitments within the next few months. This could lead the Indians to default and force a rescheduling of some debt, something they have not done before. Such a default would be a serious blow to India and her creditors in the light of the significant build up of debt in recent years.

4. Of course, India will need to agree a programme with the IMF in order to gain access to Fund resources: agreement with the IMF will also help with India's other creditors. But given the fact that elections are scheduled for May it is unlikely that an IMF programme can be agreed before September at the earliest, even if a new Government is formed quickly and gets to grips with its economic problems immediately. I should point out that both the Fund and the World Bank are likely to press India very hard both to tighten its macroeconomic stance and to engage in the comprehensive programme of structural reform that is urgently needed. India is a classic case of an economy with quite excessive state involvement although it has begun to move slowly in the right direction in recent years.

5. India has made similar appeals for assistance to Japan and Germany and has asked the US to help put pressure on Japan and Germany. There are indications that the Japanese are sympathetic



and might be prepared to find up to \$500 million provided India gives firm commitments to necessary stabilisation measures in advance of a fund programme. It appears that the Germans might also make balance of payments support available in advance of a Fund agreed programme. The Germans have also apparently had confidential discussions with Camdessus about a possible bridging loan (either Bundesbank or BIS) secured on Indian gold. The Bank of England has investigated this kind of possibility. Our conclusion is that the restrictions on the use which can be made of the gold (including that at least 85 per cent must stay within the country) means that the prospects for using the gold to create extra liquidity via this route are not good. We should, however, be prepared to consider any proposition which might be put to us. But we now understand that GOI has definitely decided not to ship the gold abroad, which means that it cannot be used as collateral.

6. ODA have considered the potential for speeding up the disbursement of the aid they have planned to make available to India in the current financial year. But they judge that to do so on the basis of existing project funding would result in payment in advance of need. There would be the possibility however, of switching funds from projects to programme aid if an IMF programme were agreed. (see para 10 below)

7. Clearly we will want to express sympathy for India's predicament; but in the short term the possibilities for helping India to cope with the immediate liquidity crisis are very limited.

8. Looking a little further ahead, India will need to agree an IMF programme as soon as possible. I suggest we should therefore urge Chandra Shekhar to pursue preliminary discussions with the IMF before the elections, so that initial proposals on the necessary policy adjustments are ready for the new Government to consider when it takes office. At a recent meeting at the Bank of



England, the Governor of the Reserve Bank of India indicated that all political parties were in agreement about the measures needed. If the new Government were able to reach quick and firm agreement with IMF staff we should be prepared to consider providing bridging finance to cover the period before drawing on IMF resources were possible.

9. When India has agreed a resolute programme with the IMF we and other friendly countries will obviously want to support them in drawing from the various facilities available. In this context, the question of Indian access to concessional IMF resources under the Enhanced Structural Adjustment Facility (ESAF) could be raised. The interest rate on ESAF loans is subsidised by grant contributions from donors. The UK is the largest contributor to the interest subsidy costs - we have pledged up to £327 million over the 14 year life of the facility. India's low per capita GNP qualifies it for ESAF drawings, but it indicated when the ESAF was established that it would not seek to draw unless it ran into serious balance of payments difficulties. It is not certain that India would apply for an ESAF loan (including commitment to a three-year adjustment programme). It appears that Camdessus is not in favour of Indian access to ESAF. If Indian access to ESAF was contemplated it would be necessary to limit access to well below the 150 per cent of IMF quota provided to other borrowers, if India was not to 'scoop the pool'. I believe that we should be prepared to support a drawing of up to 50 per cent of quota (\$1.1 billion). On the basis of 50 per cent of quota the UK contribution to the interest subsidy costs would be about £70 million over the life of the facility. This could be contained within our existing pledge - at the expense of other potential borrowers; there might be some acceleration in the draw down of our contribution from 1992/93 onwards, but this would not substantially affect the provision ODA has already made for our contribution to the ESAF.



10. If an IMF programme were agreed this year, there could be appeals for additional bilateral assistance to help fill any financing gap. The ODA's aid framework includes £90 million for India in 1991-92 and in each of the next two years while the contingency reserve is set at £70 million in 1991-92 with £120 million in 1992-93. I understand that given other likely claims the ODA do not believe that they can make additional resources available for the Indian bilateral programme in either 1991-92 and 1992-93. However, if an IMF programme were agreed, consideration could be given to switching planned funding from projects to balance payments support.

... 11. I attach a suggested draft reply from you to Chandra Shekhar which is along the lines described above.

12. It is likely that there will be a meeting on India in Washington at the time of the Spring meetings. We have supported the view that this should be a 'briefing meeting' rather than a meeting to raise additional assistance from bilateral donors. Clearly we will want to take a line in these discussions which is consistent with the response to Chandra Shekhar. You may like to bear in mind that the new Indian High Commissioner has requested a call on you to deliver another message from Chandra Shekhar. This may be a good opportunity for you to discuss the Indian economy, but you may wish to transmit this message in advance.

13. I am copying this to Douglas Hurd, Peter Lilley, David Mellor and Lynda Chalker.

A handwritten signature in blue ink, appearing to be 'N.L.'.

[N.L.]

18 April 1991

SCANNED

DRAFT LETTER TO:

Shri Chandra Shekhar
Indian Prime Minister

Thank you for your letter of 20 March.

I have been following the evolution of India's economic position closely and I am concerned to learn of the serious problems which India is now facing. I appreciate that India's difficulties have been exacerbated by the effects of the Gulf crisis. We welcomed the timely ~~and appropriate~~ action you took in January in approaching the IMF and we were happy to lend our full support. It was ^{we} ~~our~~ hoped that this, together with the measures your Government was taking to alleviate the pressures on the balance of payments, would provide India with a breathing space for you to devise and agree an extended programme with the IMF.

I appreciate, of course, that the agreement of a programme with the IMF will now have to await the outcome of the forthcoming elections. It will be important, nonetheless, that a programme is agreed with the IMF as soon as possible after the elections. I understand that you have authorised your officials to engage in preliminary discussions with IMF staff in the near future. I have instructed our Executive Director at the Fund to express to Fund management our hope that some progress can be made on technical issues in advance of the elections. If the new Government were able to come to a firm agreement with Fund staff on a programme,

and this were reflected in the budget, we would be willing to join with others in considering providing bridging finance until India was able to draw down Fund resources.

As you know our bilateral aid programme is very substantial and has been increasing in size in recent years. There is scope for the size of the programme to increase to £90 million in the current financial year and there could be the potential for using some of the intended funding to provide direct balance of payments assistance in the support of a programme agreed with the IMF.

In the UK Fund

India can expect the UK's active support ~~in the IMF Board~~ for an extended arrangement which addresses both your ~~the~~ immediate liquidity problem and the underlying structural factors which adversely affect the performance of the Indian economy. We will be willing to look positively at various mechanisms for providing funding from the IFIs.

One possibility which might arise in this context is the question of India's access to ESAF. If India wished to reconsider its decision to forego access to ESAF resources, we would be prepared to look sympathetically at the proposition although it would be necessary to restrict access below the normal maximum levels.

JOHN MAJOR

INDIA : BACKGROUND NOTE ON CHANDRA SEKHAH'S APPEAL FOR ASSISTANCE**RECENT HISTORY OF INDIAN ECONOMY**

1. India is the world's seventh largest country by area and, with a population of about 830 million the second most populous. It is also among the poorest countries. Per capita income is about \$340 (1989). Agriculture dominates the economy, accounting for over 60 per cent of employment. It is, however, the world's tenth largest industrial nation. GDP growth has averaged nearly 6 per cent pa in the last 5 years (1985-90), and this has been achieved without a rapid rise in inflation (average 6.8 per cent).

2. However, the last five years has also seen major macroeconomic imbalances steadily build up and India has allowed internal and external deficits to develop to unsustainable levels. Government spending has outstripped revenues. The government deficit has risen from about 5 per cent of GDP at the end of the 1970's to average nearly 10 per cent in 1985-90.

3. On balance of payments, export performance has been strong (average real growth of 12 per cent pa over past 5 years). However, investment demand and rapidly rising government consumption and defence expenditures combined to create an excess of demand which spilled over into the trade account. Over the period 1985-90, the trade deficit averaged \$8 billion pa, up from an average of \$6.3 billion in the first half of the decade.

4. At the same time the traditional positive balance on invisibles deteriorated as interest payments abroad increased and private remittances stagnated. Net invisible receipts averaged \$1 billion in 1985-9 compared to \$3.2 billion in 1980-85. Consequently there was a steady build up in the annual current account deficit from an average of \$3.2 billion in 1980-85 to \$7.2 billion in 1985-90. The current account deficit in 1990 was about \$8.5 billion. The following table shows trends in the trade

balance, invisibles and the current account deficit between 1985 and 1989:

	1985	1986	1987	1988	\$million 1989
Trade Balance	-7834	-7268	-7168	-9641	-8202
Invisibles	1939	1277	771	726	164
Current account deficit (before aid transfers)	-5895	-5991	-6397	-8915	-8038

5. In the absence of significant foreign investment, the persistent current account deficits of recent years have led to a corresponding rapid accumulation of external debt. Total medium and long term debt (ie maturity greater than a year) has risen from about \$19 billion in 1980, to \$33 billion in 1985, and \$56 billion in 1990. The debt service/exports ratio has risen to about 30 per cent, and the interest due/exports ratio is about 16 per cent. So far, India has always paid its debts. ECGD medium and long term exposure to India stands at about \$1 billion and banks' exposure is approaching \$1500 million. ECGD remains 'on cover' for India at present but new cover is only made available as repayments are received. No significant new commitments are expected to be made before the end of May at the earliest.

6. The steady increase in commercial external debt (ie private flows and export credit), and the associated rise in debt service has been accompanied by a reduced level of concessional (aid) flows in recent years. These factors have combined to make India very vulnerable to external shocks, lack of confidence in the markets and internal political disruption.

7. The Gulf crisis contributed to India's problems through higher bills for oil imports (now reduced as prices return to pre-crisis levels), reduced remittances from migrant workers in the Gulf, and a fall in tourism revenues. In January, the authorities secured \$1.8 billion of finance from the IMF, and

agreed to a three month programme. However, any follow-on programme would require much more adjustment. The Indian Government was hoping to agree a new programme with the IMF in late Spring/early Summer; however the fall of Chandra Shekhar's government means that no credible authority is in place for the IMF to negotiate with.

WHAT POLICIES DOES INDIA NEED TO FOLLOW?

8. The recent Fund staff report on India's application for resources in January outlined a number of measures which were described as the "authorities' intentions". But it is reasonable to assume that the Fund staff would endorse them and that they would form a starting point for discussions. The main points were as follows:

- (a) a reduction in the fiscal deficit from 9 per cent in 1990-91 to 6½ per cent of GDP in 1991-92, with it being reduced to 3-4 per cent over three years by measures which should include:
 - an across the board increase in excise taxes;
 - a reduction in subsidies and better targeting of food subsidies;
 - a concentration on expenditure restraint on current spending with higher internal generation of funds within public enterprises;
- (b) a limit on credit from the reserve bank of 1½ per cent of GDP and expansion of net banking system credit to the government of no more than 14.4 per cent;
- (c) a limit of new, guaranteed non-concessional external borrowing of \$2.5 billion (excluding Fund resources);

- (d) simplification of industrial licensing requirements, measures to increase the scope for foreign investment, and measures to simplify the tariff structure and shift away from quantitative restrictions on imports.

9. We would generally endorse this general approach. Other more general aims which India might be expected to pursue would be structural reforms to reduce the role of government intervention and protection and the size of the government service.

10. Precisely what policies India would need to follow will depend ultimately on the conditions pertaining at the time of the programme being agreed.

FUTURE PROSPECTS

11. Future prospects depend critically on when and if the Indian government can agree a new IMF programme and bring the fiscal deficit under control. However, it is clear that even if India does quickly agree a new programme, reduces its fiscal deficit, maintains a competitive real exchange rate, and hence reduces its trade deficit, the external position will remain under considerable pressure as the invisibles account continues to deteriorate. Recent Whitehall projections suggest that, even under this scenario, in 1995 foreign exchange reserves would remain low (about 1.9 months imports), and the debt service ratio would remain at about 30 per cent.

12. Even if the authorities are able to put in place later this year the policies outlined in paragraph 8, and so create conditions for a more sustainable medium term position, the short term prospects are extremely difficult. There is a very real risk that India could start to accumulate arrears sometime this year; and there is concern that they could be forced to reschedule both Paris Club and bank debt sometime thereafter.

POSSIBLE RESPONSES

13. The potential for assisting India with its short term difficulties is very limited. We and most other major donors have a policy of not providing balance of payments support in the absence of a IMF programme. Speeding up disbursements of aid for this year, while a gesture of good will, would not make an appreciable difference to India's cash flow; in any case, ODA advise that there is no flexibility to speed up the spending on projects because it would result in payment in advance of need. The Germans have apparently discussed with the IMF the possibility of arranging some kind of bridge secured on Indian gold; but this does not seem to present a viable option, not least because the Indians do not appear willing to allow the gold to leave the country.

14. In the longer term, there are a numbers of possible measures which the international community could take to help India following the agreement of a programme with the IMF. These fall under three main headings: bilateral aid; access to IFIs' resources; and debt rescheduling.

Bilateral aid

15. As noted above, concessional flows to India have declined over the past decade; but they remain very large. In 1988 total concessional flows to India totalled just over \$2 billion. The largest bilateral donors are the USA, Japan, Germany and the Netherlands. The UK is the fifth largest bilateral donor. It can be expected that some major donors (particularly Japan) would be prepared to provide additional bilateral assistance in support of an IMF programme.

16. The UK's bilateral aid programme to India is substantial. Traditionally, India has received the largest share of our aid. In 1989, project aid and technical corporation funding totalled £80 million. In the period 1991-92 to 1993-94, the ODA plans to

make £90 million available for aid to India each year. The ODA also holds a contingency reserve which over the next three years amounts £70/120/160 million. However, ODA do not consider that they could make additional aid available for India in either the current or the next financial year. There is, however, scope for switching resources within the £90 million from project funding to balance of payments support in the context of an IMF programme.

Access to IFIs resources

17. The IMF's Enhanced Structural Adjustment Facility (ESAF) was established in 1988 to lend to the poorest countries on highly concessional terms. At the time of the creation of the IMF's ESAF, India stated that, in the absence of a fundamental deterioration in their balance of payments, it did not expect to use ESAF resources. China took a similar stance and the size of the facility was set on the assumption that neither country would draw.

18. The fourteen which have so far borrowed from ESAF have drawn an average of 150 per cent of quota. If India were to seek eligibility for ESAF, it would be necessary to restrict access far below this level to ensure that sufficient resources remained for other ESAF eligible countries. But an ESAF drawing could be combined with a drawing on the IMF's non-concessional funds.

World Bank and Asian Development Bank

19. The World Bank would not consider providing balance of payments assistance to India in the absence of an IMF programme. All World Bank lending to India has been related to particular projects. The Asian Development Bank has, unusually, just agreed a loan to India which, in effect, amounts to balance of payment support.

20. In World Bank terms India is a 'blend' country, which means that it receives a mixture of IBRD loans on roughly commercial

terms and IDA credits at concessional rates. Outstanding loans to India account for 8.6 per cent of the IBRD's portfolio; India has the third biggest share, after Mexico and Indonesia. World Bank (IBRD and IDA) commitments to India total around \$35.5 billion about \$20 billion of which is outstanding and \$12 billion is undisbursed. This is due, in part, to Indian bureaucracy holding up disbursements and partly to a lack of counterpart funding. Around forty projects with a total potential investment value of \$5 billion are in preparation; of these four projects totalling around \$780 million are due for discussion by the Board between now and the end of May. IFC investments total around \$450 million.

21. India does not have access to loans at concessional rates from the Asian Development Fund: all loans are on commercial terms. Commitments to end-1990 totalled \$2.4 billion, of which \$350 million had been disbursed. India accounts for just over 15 per cent of the Bank's total commitments, third after Indonesia (34 per cent) and the Philippines (16 per cent). The 1991-93 'pipeline' contains 15 loan proposals, with a potential lending total of \$2.9 billion.

22. The IBRD accounts for 22 per cent of India's medium and long term debt, above the established guideline of 20 per cent. Given this level of exposure, the Bank has stated that the pursuit of projected lending levels will require that India should implement a strong stabilisation programme and continue to pursue prudent external debt management. They have also said that a significantly more restrictive macroeconomic policy than that pursued by the Indian Government in recent years is required.

23. Both the World Bank and the Asian Development Bank are already heavily exposed to India, and will need to take a prudent attitude to further increases in exposure.

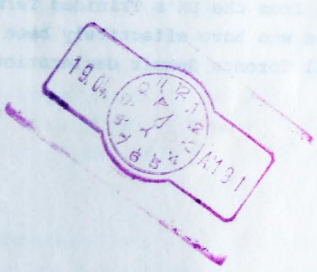
Debt rescheduling

24. If India does default on officially supported medium term debt the Paris Club would consider rescheduling. But only after India has agreed a new economic reform programme with the IMF, and conditional on equivalent treatment being agreed with the commercial banks. A series of reschedulings may be needed. India would not be eligible for any concessional debt relief from the Paris Club. Although poor, India claims to be able to pay all its commercial debt. It therefore continues to be able to borrow limited quantities of money at market interest rates from the banks, IFIs and ECA's. It does not presently meet the criteria for Toronto Terms which require that eligible countries only qualify for concessional loans from the World Bank. India will not benefit from the UK's Trinidad Terms initiative which is aimed at countries who have effectively been uncreditworthy since before the original Toronto Summit declaration.

INDIA: (at Ser 72

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It is this Government's official position that the Government of India will continue to support the United States program for the development of atomic energy in India. The Government of India is not in a position to discuss the details of the program at this time. It is the Government's policy to be guided by the interests of the Indian people. The Government of India is not in a position to discuss the details of the program at this time. It is the Government's policy to be guided by the interests of the Indian people.



CONFIDENTIAL



Foreign &
Commonwealth
Office

RESTRICTED

17 April 1991

London SW1A 2AH

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Dear Stephen,

Prime Minister

Jan could see him at 1115 a

Possible Call by New Indian High Commissioner 26 April.

Dr Singhvi, the new Indian High Commissioner, arrived in London to take up his appointment on 2 April. He has asked for a call on the Prime Minister to deliver a message from Chandra Shekhar, the Indian Prime Minister. The Foreign Secretary hopes that the Prime Minister can agree to see Dr Singhvi for a brief introductory call. Indeed when Dr Singhvi pressed the point with him on 16 April, he indicated that the Prime Minister would do this when a suitable time could be found.

18/4

Dr Singhvi is a distinguished Indian lawyer, who has been active in promoting Indo-British legal links. His appointment is a political one. He has told us that the message from Chandra Shekhar emphasises that Dr Singhvi's appointment enjoys the support of all sections of political opinion in India (an important point given that Chandra Shekhar is now only a caretaker, pending elections in late May).

Although Indo-British relations have improved in recent years, they remain fragile and could be put under further strain if Rajiv Gandhi is returned to power at the Indian election in late May. A call on the Prime Minister would show how seriously we continue to take our relations with India. Conversely, to decline could well be interpreted by the Indians as a snub.

Although the last Indian High Commissioner did not ask to call on Mrs Thatcher on his arrival, both his immediate predecessors, Mr Rasgotra and Dr Alexander, did see her on their arrivals in 1988 and 1985 respectively. Sir D Goodall called on Mr Gandhi after his arrival in 1987, and we shall be looking for similar access when his successor arrives in New Delhi in the autumn.

The Foreign Secretary recognises the pressure on the Prime Minister's time and would not normally recommend a call by a newly arrived Head of Mission except from our closest allies (and, of course, by High Commissioners representing The Queen's other Realms who have formal letters of introduction

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to present to the Prime Minister). But he believes that there are good reasons for the Prime Minister to see Dr Singhvi for a brief introductory call in the first few weeks after his arrival.

I am copying this letter to Jeremy Heywood (HM Treasury) and Suma Chakrabarti (ODA).

Jews ever
S L Cass
(S L Cass)
Private Secretary

J S Wall Esq
10 Downing Street

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10 DOWNING STREET
LONDON SW1A 2AA

From the Private Secretary

ant 25 March 1991

I attach a copy of a letter the Prime Minister has received from Mr. S. Haidar, the Acting Indian High Commissioner.

I should be grateful for a draft Private Secretary reply. It would be helpful to have this by Monday 8 April please.

J. S. WALL

Simon Gass, Esq.,
Foreign and Commonwealth Office.

NR transferred to HMT

|||



S. Haidar,
Acting High Commissioner.

भारत का हाई कमिश्न
लन्दन

THE HIGH COMMISSION OF INDIA,

DEPARTMENT

TELEPHONE: 071-836 8484 EXT.
TELEGRAMS: HICOMIND, LONDON. W.C.2
TELEX: 267166 HCI LDN
FAX: 44 071-836 4331

PRIME MINISTER INDIA HOUSE,
ALDWYCH,
LONDON WC2B 4NA

PERSONAL MESSAGE

SERIAL No. T101/91

subject a raster
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No:193/AHC/91.

March 22, 1991.

My dear Private Secretary,

I have been instructed to convey the following message to Prime Minister John Major from the Prime Minister of India.

Begins

New Delhi,
March 20, 1991.

Dear Prime Minister,

You are aware of the serious impact of the Gulf crisis and its aftermath on the economies of many developing countries. As a major importer of oil, India has been severely affected. In addition, we have had to bear the burden of repatriating a large number of expatriate Indians from the Gulf area. These developments would have been serious under any circumstances and have been rendered even more telling in their consequences as they come on top of the difficult external payment situation confronting us.

In the wake of the Gulf developments, we have taken several measures to meet the situation, notably by raising additional revenue, restraining Government expenditure and limiting imports. In January 1991, the IMF approved two loans equivalent to Dollars 1.8 billion. Our application to the International Monetary Fund was supported by your representative for which we are thankful to your Government.

We have initiated discussions with the International Monetary Fund and other international financial institutions for support on a longer term basis. These can, however, be finalised only after a new Government assumes office following the national elections in mid-May. Meanwhile, we are facing a serious liquidity problem in the short run to meet essential import and debt service payments.

-: 2 :-

In the context of the difficult situation confronting us and UK's known commitment to the economic development of India and the long tradition of our economic cooperation, I am writing to request for the assistance of the Government of United Kingdom to meet our short run problems.

With Best regards,

Yours sincerely,

CHANDRA SEKHAR

Ends.

Yours sincerely,


(S. Haidar)

Private Secretary to the Prime Minister,
Prime Minister's Office,
10 Downing Street,
London SW1A 2AA.

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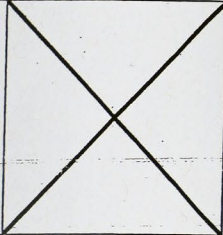
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The National Archives

DEPARTMENT/SERIES <i>PREM 19</i>	Date and sign
PIECE/ITEM <i>4242</i> (one piece/item number)	
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Instructions for completion of Dummy Card

Use black or blue pen to complete form.

Use the card for one piece or for each extract removed from a different place within a piece.

Enter the department and series,
eg. HO 405, J 82.

Enter the piece and item references, .
eg. 28, 1079, 84/1, 107/3

Enter extract details if it is an extract rather than a whole piece.
This should be an indication of what the extract is,
eg. Folio 28, Indictment 840079, E107, Letter dated 22/11/1995.
Do not enter details of why the extract is sensitive.

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3a-b *cepc*

SECRET

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FCS/90/135

DEFENCE SECRETARY

Kashmir *Map*

1. Thank you for your minute of 9 July, in which you confirmed that you are doing your best to ensure sales of lethal equipment to India and Pakistan are routed through the manufacturer rather than direct from Government stocks. I have no difficulty in accepting the specific recommendations in your paragraphs 5 and 6 for two direct sales to the Pakistan Navy. Equally, I agree that the sale of surplus stock to the Indian Navy on which an offer has already been made - your paragraph 3 - should be allowed to go ahead. Given our longstanding defence sales relationship, it is right that India and Pakistan should continue to be included in the list of countries to be offered surplus Royal Navy vessels, also referred to in your paragraph 3.

2. I agree that we should keep our policy on defence sales to India and Pakistan under review in the light of the Kashmir situation. Meanwhile I should be grateful if

/your

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your officials would keep me informed about any significant requests for direct sales that may be made under MOUs or other pre-existing arrangements. We may wish to recommend some administrative delay in meeting certain requests, but in any case I note you would deal with them in as low key a way as possible.

3. There now appears to be a temporary lull as the monsoon sets in and both sides prepare for a round of senior official talks on 18-20 July to discuss confidence-building measures. The next danger period could be in September/October, when the harvest is in and weather conditions again allow large scale military operations. It would be sensible to ask our officials to review the situation then, say in mid-October. In the meantime, and for contingency planning purposes, work should continue on defining the scope of any arms embargo that might be required, as suggested in my minute of 24 May to the Prime Minister.

4. I am copying this minute to the Prime Minister and to Sir Robin Butler.

(DOUGLAS HURD)

Foreign and Commonwealth Office
15 July 1990

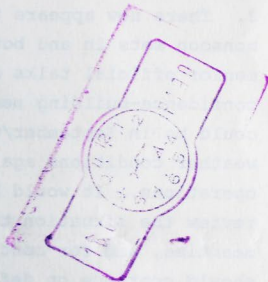
SECRET

INDIA: Foreign Policy Pt 2



your officials would have been informed about any
significant requests for direct talks that may be made
under MOUs or other pre-existing arrangements. We will
also be recommending some administrative delay in handling
certain requests, but in any case I hope you would have
with them in as low key a way as possible.

1. The above appears to be a temporary till we see
some progress and both sides prepare for a round of
talks on 19-20 July in Geneva.
The next paper period
will be 20-21 October, when the harvest is in and
we will have to give some more serious attention
to the situation. It would be desirable to see our officials
in the field, say in Washington, in the
meantime, to define the scope of any arms embargo
that might be required, as suggested in my minute of
19 July 1972.



Dr

(Signature)

Secretary and Commonwealth Office

19 July 1972

SECRET



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FOREIGN SECRETARY

KASHMIR

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You minuted the Prime Minister on 24th May making various proposals as to how we should react in this period of tension between India and Pakistan and subsequently if, as we all hope does not happen, conflict should break out. As I said in my minute of the 1st June I agree with the broad thrust of your proposals.

2. One of your detailed recommendations was that we should endeavour to avoid any future sales of lethal equipment direct from Government stocks to either Pakistan or India. We have tried to do this and for two current sales prospects to India (the cluster bomb and barmines) and one to Pakistan (depth charges) we have been able to meet our obligations to those countries by supplying the manufacturer with some equipments surplus to our current requirements. The sale is then between the manufacturer and the country concerned. We could not withdraw altogether from this arrangement without causing great offence to India and Pakistan and long term harm to our defence sales interests.

3. However, before the current tension arose over Kashmir we had in fact made an offer to the Indians under our normal surplus disposal arrangements for a range of ship stores including some Orlikon guns and unfused shells. It would be very difficult to withdraw this offer now and I propose to treat these as achieved rather than future sales and to supply them direct from MOD stocks.

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Equally, we are in the normal way, about to offer to the full range of countries, including India and Pakistan, some surplus Royal Navy ships. These would not become available until the end of the year at the earliest, and are likely to require considerable refit work putting back their delivery date even further. It would be potentially damaging to our relations with India and Pakistan to omit them from this offer when they are, by tradition, normally offered such ships. In view of the long timescale of this I have instructed that the offer brochure be sent to all the normal countries.

4. There are, however, two prospective sales on which we have not yet made a firm offer but which it would also be very difficult to withdraw from or to divert to a commercial supplier.

5. First, we have been discussing with the Pakistan Navy the sale of 50 rounds of anti-submarine Mk 10 mortar shells. Our discussions started before the current bout of tension over Kashmir. The direct sale of these shells is covered by the memorandum of understanding we signed with Pakistan on the sale of the Leander Frigates. In the course of the discussions we have already made clear that we have these shells surplus to our current requirements and could therefore supply them. Our Naval attache in Islamabad has reported that the Pakistan Navy is upset by the already long delay in this sale. They are bound to react very badly if there is a further delay because of the Kashmiri situation or if we were to suggest that they, contrary to the terms of the Leander MOU, should now seek the mortar shells through some third party. They would see no logistic sense in such an arrangement and we could give no convincing explanation for it particularly since they bought some mortar shells directly from us some while ago.

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6. Second, the Pakistani Navy has also asked to purchase direct from us 12 SEACAT missiles under their normal MOU arrangements. We would normally be able to make these missiles available without immediate detriment to RN capability and the Pakistanis may well have a shrewd idea that this is so. There is little advantage in trying to divert the enquiry to Shorts since that company does not have any off the shelf SEACAT missiles and would in any case require to divert any SEACAT missile packs back to the MOD for assembly and proofing. Although we might be able to devise an arrangement whereby they appeared to be routed through the Company, this would cost Pakistan more and again they would see no logistic sense in such an arrangement.

7. In both these cases I believe we would stand to lose more than we would gain by refusing to allow direct sale. We would be seen by Pakistan certainly to be running counter to the spirit of the MOU we have with them. This could only be to our longer term disadvantage in relation to future sales.

8. I hope therefore that you can agree that we should proceed immediately with these two direct sales. We for our part would continue to seek to minimise direct sales of lethal equipment to either India or Pakistan. Where this is not practicable because of our MOU obligations or because of pre-existing arrangements, I believe that we have no alternative but to allow direct sale - but in as low key a way as possible. I should add that I do not know of any additional and imminent request for a direct sale from UK stocks. This is not an entirely comfortable position, however, and I believe that MOD and FCO officials should immediately review the

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general position if the situation over Kashmir changes for the better and certainly in the Autumn when we may see more clearly how things are developing.

9. I am copying this minute to the Prime Minister and to Sir Robin Butler.

A large, stylized handwritten signature, possibly initials, in black ink.

Ministry of Defence
9th July 1990

(T K)

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INFO ROUTINE ISLAMABAD, WASHINGTON, MODUK, ACTOR
INFO SAVING BOMBAY, CALCUTTA, MADRAS

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RAJIV GANDHI'S VIEWS ON KASHMIR AND THE INDIAN POLITICAL SCENE

SUMMARY

1. GANDHI CRITICAL OF THE GOI'S HANDLING OF KASHMIR BUT THINKS RISK OF WAR RECEDING. BELIEVES V P SINGH FACES SERIOUS DIFFICULTIES WITH HIS OWN PARTY AND THE GOVERNMENT'S FUTURE UNCERTAIN. CONGRESS (I) NEEDS SIX TO TEN MONTHS TO BE READY TO FACE A GENERAL ELECTION: APPEARS CONFIDENT OF RETURNING TO POWER THEREAFTER. PLANS TO VISIT BRITAIN, PROBABLY IN NOVEMBER.

DETAIL

2. I CALLED ON MR RAJIV GANDHI ON 4 JUNE TO GET HIS VIEWS ON KASHMIR AND THE CURRENT POLITICAL SCENE IN INDIA. I FOUND HIM RELAXED AND CONFIDENT THAT CONGRESS (I) WAS ON COURSE TO BENEFIT FROM THE GOVERNMENT'S CURRENT DIFFICULTIES.
3. ON KASHMIR, MR GANDHI THOUGHT THAT THE GOVERNMENT'S MISHANDLING OF THE ARREST AND SUBSEQUENT RELEASE OF THE BBC STRINGER, JAMEEL (MY TELNO 756) WOULD FURTHER ERODE THEIR CREDIBILITY AMONG KASHMIRIS. THE NEW GOVERNOR, SAXENA, WOULD HAVE A QUOTE SOFTER UNQUOTE APPROACH THAN HIS PREDECESSOR, JAGMOHAN, BUT WOULD BE HANDICAPPED BY HIS CAREER BACKGROUND AS AS POLICEMAN AND INTELLIGENCE OFFICER. AT THE SAME TIME, MR GANDHI THOUGHT THE RISK OF WAR WITH PAKISTAN OVER KASHMIR HAD DEFINITELY RECEDED. THE MILITARY CONFRONTATION LOOKED LESS THREATENING AND THE MOMENTUM OF THE CRISIS WAS QUOTE ON THE WAY DOWN UNQUOTE. THE GOI'S PROPOSED PACKAGE OF CBMS, ALTHOUGH LITTLE MORE THAN A REHASH OF MEASURES WHICH HE HAD HIMSELF

PROPOSED TO THE GOP WHEN HE WAS PRIME MINISTER, WAS A SENSIBLE MOVE: HE HOPED THERE WOULD BE A CONSTRUCTIVE PAKISTANI RESPONSE.

4. MR GANDHI AGREED THAT IT WAS DIFFICULT TO BE SURE TO WHAT EXTENT SUPPORT FOR THE MILITANTS FROM WITHIN PAKISTAN WAS BEING ORGANISED OR CONNIVED AT BY THE GOP. HIS OWN PERSONAL HUNCH WAS THAT IT DID NOT HAVE MS BHUTTO'S ENDORSEMENT. HE WAS LESS SURE ABOUT ISID, PRESIDENT ISHAK KHAN OR GENERAL BEG; AND NAWAZ SHARIF, WHO WAS KNOWN TO HAVE BEEN BEHIND PAKISTANI SUPPORT FOR SIKH EXTREMISTS IN PUNJAB, COULD WELL BE PLAYING THE SAME GAME IN KASHMIR.

5. MR GANDHI THOUGHT THAT MR V P SINGH'S DIFFICULTIES WITH HIS OWN SUPPORTERS WOULD INTENSIFY OVER THE NEXT FEW WEEKS. ARUN NEHRU AND HIS FOLLOWERS WERE INCREASINGLY DISILLUSIONED WITH THE PRIME MINISTER'S POOR PERFORMANCE AND THE FACTIONS HEADED BY DEVI LAL AND GEORGE FERNANDES WERE ALSO JOCKEYING FOR POSITION. JHOTI BASU'S STOCK WAS RISING: BUT HE DID NOT HAVE ENOUGH PARLIAMENTARY SUPPORT TO DISPLACE V P SINGH AS PRIME MINISTER. MR GANDHI DISMISSED THE IDEA OF A DEAL BETWEEN CONGRESS (I) AND THE CPM. AS FOR THE BJP, HE WOULD NOT TOUCH THEM WITH A BARGEPOLE.

6. MR GANDHI SAID HE DID NOT EXPECT THE GOVERNMENT TO FALL YET, BUT THERE WOULD BE SOME EXTENSIVE RE-SHUFFLING OF MINISTERS. THE GOVERNMENT ITSELF WOULD STAGGER ON. CONGRESS (I) HAD NO INTENTION OF TRYING TO BRING THE GOVERNMENT DOWN IN THE SHORT TERM: HE NEEDED FROM SIX TO TEN MONTHS TO PUT THE PARTY'S MEMBERSHIP LISTS IN ORDER FOR PARTY ELECTIONS, WHICH HE PLANNED TO HOLD IN NOVEMBER OR DECEMBER. HE WAS NOT INTERESTED IN RETURNING TO POWER ON THE BASIS OF FACTIONAL RE-ALIGNMENTS AND PARTY MANOEUVRING (ALTHOUGH SOME CONGRESSMEN FAVOURED THIS): THERE MUST BE ANOTHER GENERAL ELECTION FIRST. CONGRESS (I) SHOULD BE READY TO FACE A GENERAL ELECTION SOON AFTER THE TURN OF THE YEAR. ORIGINALLY HE HAD EXPECTED MR V P SINGH TO CALL A SNAP ELECTION AROUND FEBRUARY 1991, ON THE BASIS OF AN QUOTE ADEQUATE UNQUOTE PERFORMANCE BY HIS GOVERNMENT: NOW THE GOVERNMENT LOOKED AS IF IT MIGHT INSTEAD FALL VICTIM TO ITS OWN WEAKNESSES AND FAILURES.

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7. MR GANDHI SAID HE HAD TWO INVITATIONS TO VISIT BRITAIN IN THE AUTUMN. LORD ROMSEY HAD INVITED HIM TO GIVE THE NEHRU MEMORIAL LECTURE IN LONDON IN OCTOBER OR NOVEMBER, AND THE CAMBRIDGE UNION HAD ASKED HIM TO BE GUEST OF HONOUR AT ITS 175TH ANNIVERSARY CELEBRATIONS IN NOVEMBER. HE WOULD LIKE TO ACCEPT BOTH INVITATIONS AND WAS EXPLORING WAYS OF COMBINING THE TWO OCCASIONS. IF HE CAME TO LONDON HE WOULD WELCOME AN OPPORTUNITY OF MEETING MINISTERS AND OTHERS. THE CONSTRAINING FACTOR WAS UNCERTAINTY ABOUT THE DOMESTIC POLITICAL SITUATION IN INDIA BY THEN. HE WOULD LET ME KNOW AS SOON AS HIS PLANS WERE FIRM.

COMMENT

8. THERE IS A STRONG ELEMENT OF WISHFUL THINKING IN MR GANDHI'S NEGATIVE ASSESSMENT OF THE V P SINGH GOVERNMENT'S PROSPECTS. BUT THERE IS LITTLE DOUBT THAT THE GOVERNMENT'S INTERNAL DIFFICULTIES ARE INCREASING, AND MR GANDHI SPOKE WITH CLARITY AND APPARENT CONFIDENCE ABOUT HIS OWN STRATEGY AND TIMETABLE FOR REVIVIFYING THE CONGRESS (I) AND GETTING IT READY TO WIN AN EARLY GENERAL ELECTION. HE CLEARLY DID NOT (NOT) EXPECT A WAR WITH PAKISTAN.

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MAIN 103

.KASHMIR
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PS
PS/MRS CHALKER
PS/LORD BRABAZON
PS/MR WALDEGRAVE
PS/MR SAINSBURY
PS/PUS
MR P J WESTON
MR MCLAREN
MR SLATER

LEGAL ADVISERS

PAGE 3
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MR BURNS

MISS SPENCER

ADDITIONAL 8

KASHMIR

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SECRET



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Rich. Austin

mb *COO*
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MO 6/19/4D

PRIME MINISTER

KASHMIR

I have seen a copy of Douglas Hurd's minute of you of 24th May on Kashmir. I believe that the approach proposed is correct, and that if conflict breaks out we should seek international support for an arms embargo to both India and Pakistan.

2. However, this leaves open the question of how we should react if we fail to achieve co-ordinated international action. Although I note that the Foreign Secretary believes we cannot do less than in the Iran/Iraq war, the circumstances in the case of India and Pakistan are somewhat different, with very large defence sales interests which would inevitably be jeopardised by unilateral action. I therefore believe we would need to consider our course of action very carefully should hostilities develop and the Five fail to agree co-ordinated approach.

3. Copies of this go to all members of OD and to Sir Robin Butler.

D.

Ministry of Defence
lsc June 1990

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INDIA: Foreign Pol - May 79



PART 1 ends:-

ukhis New York Tel 637 25 5 90

PART 2 begins:-

SS/Defence 6 PM 1.6.90