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PRIME MINISTER

INDIA

I paid an official visit to New Delhi last week to lead the United Kingdom delegation to the Indo-British Economic Committee. I took the opportunity to call on a number of Indian Ministers in support of British exports and I addressed a Financial Times conference on "India as a Trading Partner".

Even in this short visit I was impressed by India's tremendous economic potential. Its agricultural expansion is already under way and a major industrial base has been established.

The market for British exports could be considerable, particularly as the public sector expansion is in areas where we have an obvious supply capability. Nonetheless, this is the area of the Indian economy which is most heavily politicised, and contracts are likely to be awarded on the basis of political decision as much as technical appraisal. India is determined to establish a balance in Government procurement between East and West (the latter, under Mrs Gandhi, meaning largely Europe). Within this Western share there is a disposition to play off Britain and France, with a certain political bias towards the latter because of their relative anti-American stance.

Notwithstanding this political analysis there are a number of areas where, if technological and financial considerations alone prevail, we are in a strong competitive position:

- Davy are the strong front-runners for constructing at least one steel mill during the present period;
- we are discussing a Memorandum of Understanding to provide an umbrella for the supply of mining equipment;

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Prime Minister -

You will wish to read,

I view the suggestion in the final paragraph with gloom. But given your impending visit & the scale of the contracts you may wish - exceptionally - to agree?

Yes not

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- we have presented proposals for a negotiated contract for a thermal power station, which should prove attractive to the Indians in view of their urgent need for power;
- British Rail's consultancy services may be able to co-operate on the development of rolling stock;
- there is a strong interest in System X both for installation in the urban areas of India and for collaborative sales to South East Asia;
- in the fields of fertiliser plant construction and offshore oil exploration Britain has the proven expertise which India needs urgently.

I had with me in Delhi a group of businessmen who are involved in these fields, and all expressed satisfaction with their discussions. A number of these projects which are currently under negotiation could be ready for conclusion in time for your visit in April.

(Clearly we wish to make your visit an economic success (and it will no doubt be compared with the recent visit by Giscard d'Estaing), but we shall have to be adroit to ensure that this desire does not allow the Indians to drive too hard a bargain.

Given the Indian anxiety to maintain something like a bilateral trade balance, we cannot expect to attain this growth in our exports without accepting higher imports from India. There is little likelihood that this can be achieved in the traditional areas of textiles, leather goods, jute and tea, either because of our import restrictions or because of stable patterns of United Kingdom consumption. The Indian Government thinks in terms of promotion of trade through the use of public funds and public agencies. But the area of the British economy



which I feel provides the greatest scope for expansion of Indian exports - to mutual advantage - is in engineering, and particularly where British companies selling to export markets are looking for ways of easing the pressure of the strong pound. The Indians are keen to exploit third country collaboration, but I emphasised that the normal criteria of the private sector will apply. I resisted their strong pressure for the establishment of a £200,000 a year export promotion fund, and instead invited to the United Kingdom a selling mission from Indian companies with competitive products to offer. I also offered training assistance in marketing techniques to help India's exports worldwide. If we are to avoid dispute with the Indian Government on the level of two-way trade we need to emphasise and make clear this difference on the role of Government.

I found Indian Ministers extremely sensitive to any discrimination against Indian exports. They mentioned a BBC report on inflammability of cotton fabrics, which had referred specifically to Indian dresses. They were also concerned about the detention by HM Customs of some "folkloric" textile products which they felt should be allowed into the United Kingdom outside quota restraints. More significantly, they are aggrieved that the restrictions on aflatoxin content in animal feedstuffs which we are introducing as an animal health matter will effectively block imports of cotton-seed oil and groundnut oil from India and other developing countries whilst opening the way for greater use of soya and maize products from the developed countries. I insisted that our action was solely on health grounds and no discrimination was involved, but this issue has clearly aroused strong feelings.

As Mrs Gandhi had to be out of Delhi, I did not have an opportunity to discuss defence sales, but obviously India is an important market. We already have a Jaguar programme, but the French are pouring in effort for a light combat aircraft (ICA) - the Mirage 2000 - which could threaten the final stage of Jaguar. I understand that although



there is no RAF requirement British Aerospace and Rolls Royce are keen to enter this field (the latter using the RB 199 engine which is in the Tornado), and the Indian aviation industry is looking for new work on the basis of real partnership. In view of the relatively low technology of the ICA compared with the Mirage 2000 the price might be a link with Tornado, which I realise raises security problems. But the potential long-term benefits of such a project mean that we must consider urgently how far we can go.

Although no Indian politician raised with me immigration and the Nationality Bill, I suspect that there is real anxiety about the admission of United Kingdom passport holders now resident in India, and I am minuting Willie Whitelaw separately on this.

Two Indian Ministers are coming to London in the next fortnight - Mr Sethi, the Minister for Petroleum, Chemicals and Fertilisers, and Dr Chanana, Minister of State for Industry. I met them both in Delhi and in view of the interest of these Ministers in the projects we are bidding for I would suggest that the offer of a short interview with you would be extremely valuable if your programme permits.

I am copying this minute to Peter Carrington, Keith Joseph, Peter Walker, John Nott, David Howell, Sir Robert Armstrong and to HM High Commissioner in New Delhi.

W. J. B.

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