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From the Private Secretary

21 March 1985

Dear Peter,

PRIME MINISTER'S MEETING WITH MR. L.K. JHA
ON THURSDAY 21 MARCH 1985 AT 1630 HOURS

The Prime Minister received Mr. L.K. Jha this afternoon to take delivery of a message from Mr. Gandhi. The Indian Acting High Commissioner was also present. I enclose a copy of the message. As you will see it was simply a ticket of entry. Mr. Jha admitted openly that much of the purpose of his call had been overtaken by the Prime Minister's meeting with Mr. Gandhi in Moscow.

Sri Lanka

Mr. Jha said that Mr. Gandhi wanted to convey to the Prime Minister that India was anxious to get back to good relations with Sri Lanka. There had been discussions with the Sri Lankan Government in which it had been agreed that Sri Lanka should take one step towards de-escalation, India would respond and they would rapidly be in a situation where there could be a joint effort to reduce tensions. The Prime Minister said she was watching the position of the Tamils with great concern. She had discussed it with Mrs Gandhi at CHOGM and several times with President Jayewardene. The latter had been optimistic that his plans for devolution would be accepted but this had not been the case. Mr. Gandhi had told her in Moscow that the problem was that President Jayewardene had presented his proposals on a take it or leave it basis. She wondered what steps India was seeking from Sri Lanka. Mr. Jha said that they had no precise ideas in mind but a "broad-based" statement of the Sri Lankan Government's desire for a settlement to which India could make a positive response would help. Mr. Gandhi hoped that the Prime Minister would support a scenario of this sort during her visit to Sri Lanka. The Prime Minister agreed to do so, adding that she would have to give careful consideration to her handling of the Tamil problem in her speech to the Sri Lankan Parliament.

Pakistan

Mr. Jha said that India also sought better relations with Pakistan though the Sikh problem added a difficult new dimension. The Prime Minister said that the trial in Pakistan of the hi-jackers of the Indian aircraft should

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help relieve tension. She knew that President Zia shared Mr. Gandhi's desire for better relations.

Mr. Jha continued that there was also the nuclear problem which was causing India very grave anxiety. If Pakistan were to obtain a qualitative advantage, India would have to match it. Indeed, Pakistan's acquisition of the latest high technology weapons was a more general cause for concern. There was some feeling in the Indian Government that it might be possible to reach an understanding with Pakistan about the level - both qualitative and quantitative - of weaponry which each side would rest upon. This could not be parity as India had far bigger responsibilities. But India recognised that Pakistan had to be properly armed. Pakistan's territorial integrity was a major Indian interest. The Prime Minister said that these ideas were interesting. She would reflect upon them and be prepared to discuss them with Mr. Gandhi in April.

Sikhs

Mr. Jha said that the Indian Government remained very concerned at the threat posed by Sikh extremism. They wondered whether laws in some countries were not rather archaic and ill-adapted to deal with new sorts of crime. He recognised that the Sikh extremists in Britain had been careful to keep just within the terms of United Kingdom law. But might it not be possible to give thought to fresh legislation which should be more effective in preventing the use of one's territory for the plotting of terrorism against another state? The Prime Minister said that we were indeed giving thought to these matters although they were extremely difficult. She would bear Mr. Jha's remarks in mind.

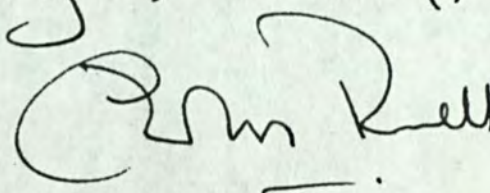
Economic Issues

Mr. Jha said that the Indian economy was in good shape. It had a high growth rate, surplus food, no debt problem and a major thrust for liberalisation had just been launched. But there was a risk of balance of payments problems. India's exports were not doing brilliantly and she would have to start repaying IMF loans and other World Bank borrowings next year. During his visit to the United States he had tried to convince the Americans that, while he understood that they could not give more to the IDA, it was wrong to reduce India's share in a smaller IDA. This was of particular concern in the context of China. China had large reserves and all it would do with and IDA funds it received would be to add them to the reserves. India needed the money now. The next five years were crucial. There was a similar problem with World Bank lending. It was being said that the 10% of World Bank loans currently allocated to India were a ceiling. But there was nothing in the World Bank's articles to justify this: it was simply a management decision of long ago. One had to take account of India's size. A more flexible approach was needed particularly in the light of the steps which India had taken towards liberalisation. The United Kingdom had always been a

supporter of India and he hoped that this would continue to be the case.

Mr. Jha continued that there was also a problem over the agenda for the forthcoming meeting of the Development and Interim Committees. The agendas were tame and focussed on the debt problem which meant in effect Latin America. There were many other problems which needed to be considered, for instance exchange rates. He recognised that the agenda could not now be changed but wondered whether provision might not be made for open-ended informal discussion in which participants could bring up points of particular concern to them. These might then be pursued further if appropriate. To sum up his remarks, the essential thing was to avoid setting India on a trajectory which would lead eventually to a crisis. The Prime Minister said that she would reflect on the points which Mr. Jha had made and discuss them with the Chancellor.

I am copying this letter to Rachel Lomax (HM Treasury), Richard Mottram (Ministry of Defence) and Michael McCulloch (Overseas Development Office).

yes surely,


C.D. POWELL

P.F. Ricketts, Esq.,
Foreign and Commonwealth Office.