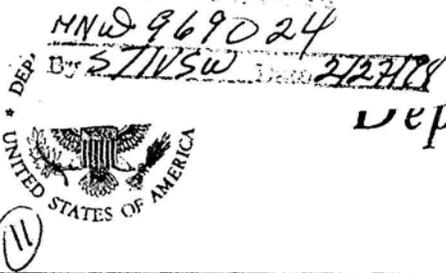


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SUBJ: ARMS SALES TO PAKISTAN: INITIAL STATUS REPORT

1. ONE WEEK HAS PASSED SINCE SURFACING OF OUR ONE-TIME EXCEPTION TO POLICY IN LIMITED SALES OFFER TO PAKISTAN. DISCUSSIONS HAVE BEGUN HERE BETWEEN US AND PAK MIL REPS ON SPECIFICS OF OUR OFFER. FOLLOWING IS ASSESSMENT OF WHERE WE STAND AT THIS MOMENT. B/G COLLINS (DRP) CONCURS.

PRES.

2. HHS, YAHYA, FONSEC, DEFSEC AND ALL MILITARY SERVICE CHIEFS ARE PLEASED THAT WE ARE NOW GOING AHEAD ON OFFER TO MEET SOME OF PAKISTAN'S LONG-STANDING ARMS REQUESTS. THEY HAVE MADE THEIR PLEASURE CLEAR IN CONTACTS WITH US. THEY SEEM TO HAVE ADEQUATE APPRECIATION OF POLITICAL IMPORTANCE OF DECISION AS INDICATING OUR SYMPATHY FOR PAKISTAN'S SITUATION AND DESIRE IMPROVE OUR RELATIONS EVEN AT COST OF TAKING INEVITABLE FLAK FROM INDIA. THE SENIOR LEADERS UNDERSTAND VERY WELL LIMITS OF OUR OFFER AS NOW REITERATED IN PRES. NIXON'S LETTER TO YAHYA (STATE 170588). PRES. YAHYA MAY NEVERTHELESS WITH TAKE OCCASION OF MEETING WITH PRES. NIXON ON OCTOBER 25 TO SOUND OUT POSSIBILITIES OF PROCURING ADDITIONAL ITEMS. WE HAVE DISCOURAGED SUCH APPROACH BUT CANNOT PREVENT IT.

3. PAKISTANI PRESS HAS GIVEN PROMINENT BUT ONLY LIMITED COVERAGE OF SUBJECT. DEPARTMENT SPOKESMAN'S STATEMENT OF OCT. 8 CARRIED FAIRLY STRAIGHT AND, IN ACCORDANCE OUR PREVIOUS UNDERSTANDING, GOP HAS REFRAINED FROM ELABORATING ON THAT STATEMENT AND HAS DISCOURAGED

*Rawalpindi 8141
10-16-70*

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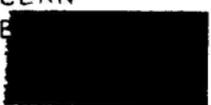
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SPECULATION. PAK PRESS HAS REPORTED INDIAN DISPLEASURE, CRITICAL EDITORIALS IN US PRESS, CRITICISM BY US SENATORS, AND EXCHANGE IN UN BETWEEN INDIAN AND PAK REPS THIS SUBJECT. WHILE VARIOUS ELEMENTS OF PAK PRESS HAVE EVINCED SOME PLEASURE FROM RECENT DEVELOPMENT, THERE HAS BEEN NOTICEABLE ABSENCE OF CROWING. THIS IS ATTRIBUTABLE IN PART TO LIMITED KNOWLEDGE OF SPECIFICS OF OUR OFFER BUT ALSO REFLECTS PERSISTENT SUSPICION OF US INTENTIONS VIS-A-VIS PAKISTAN DATING BACK AT LEAST TO 1965.

4. HOW ISSUE WILL UNFOLD WILL BE DETERMINED IN COURSE OF FURTHER DISCUSSIONS ON OUR OFFER. PAKS WILL BE DISAPPOINTED IF THEY PERSIST IN THINKING WE MIGHT BE PERSUADED PROVIDE LETHAL END-ITEMS BEYOND LIMITS OF OUR CURRENT OFFER. BUT WE HAVE BEEN LEVELING WITH THEM AND SHOULD BE ABLE RETAIN CONTROL ON THIS POINT.

5. THE MAJOR PROBLEMS NOT REPEAT NOT ONE OF EXPANDED PROCUREMENT BUT RATHER WHETHER AND TO WHAT EXTENT SALES CAN ACTUALLY TAKE PLACE UNDER OUR EXISTING OFFER. ALL SENIOR PAK LEADERS WITH WHOM WE HAVE BEEN IN DISCUSSION, NOTABLY INCLUDING PRES. YAHYA HIMSELF, HAVE STRESSED PAKISTAN'S VERY DIFFICULT FINANCIAL SITUATION AND ITS NEED FOR SOME KIND OF ACCOMMODATION ON PAYMENTS. THEY ARE PERFECTLY AWARE THAT OUR OFFER IS FOR "CASH" BUT THEY REVERT TO PROBLEM ON EACH OCCASION AND POINT OUT THAT PAKISTAN MUST HAVE SOME ACCOMMODATION. IT IS FACT THAT PAK TREASURY IS STRAPPED TO MEET COUNTRY'S EXISTING NEEDS FOR IMPORTS AND EXTERNAL PAYMENT OBLIGATIONS. GOP IS BEING HARD-PRESSED BY IBRD AND OTHER CONSORTIUM MEMBERS TO CARRY OUT EARLY EXCHANGE RATE REFORM AND IMPORT LIBERALIZATION WHICH WILL REQUIRE SUBSTANTIAL ADDITIONAL FOREIGN EXCHANGE RESOURCES AS BACKUP. PAKISTAN IS NOW GETTING CREDIT FOR ITS PURCHASES OF MILITARY END-ITEMS FROM NON-US SOURCES. DIMENSIONS OF FINANCIAL PROBLEM UNDER OUR SALES OFFER WILL BECOME CLEARER AS OUR DISCUSSIONS PROGRESS. WOULD APPEAR, MEANWHILE, THAT REALIZATION OF OFFER IS IN JEOPARDY WITHOUT SOME CATALYTIC ELEMENT, SUCH AS SUBSTANTIAL CONCESSIONS IN PRICING. IF OUR OFFER SHOULD FALL THROUGH FOR FINANCIAL REASONS, THERE WOULD BE SERIOUS SETBACK FOR US HERE EVEN THOUGH WE COULD DEFEND OURSELVES BY SAYING WE REMAINED READY CARRY OUT OUR SIDE OF OFFER AS COMMUNICATED TO GOP. PRES. YAHYA HAS ALREADY EXPRESSED HIS CONCERN THAT GOP WOULD HAVE VERY HARD TIME IN EXPLAINING INABILITY TAKE

ADVANTAGE OF US ARMS OFFER AFTER PUBLIC EXPECTATIONS GENERATED



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BY ANNOUNCEMENT OF OUR OFFER.

6. WE HAVE CONSTANTLY WARNED PAKS THAT OUR OFFER CANNOT BE EXPANDED OR ALTERED, AND HAVE SOUGHT AVOID ANY FIRM DECISIONS BY GOP ON COMPONENTS OF OUR OFFER PENDING FULLER INFORMATION ON AVAILABILITY, PRICE, ETC. CASE IN POINT IS B-57'S WHERE FIRST PAK REACTION HAS BEEN THAT THEY DO NOT WANT THE SEVEN AIRCRAFT WE HAVE OFFERED TO SELL. THEY HAVE INDICATED, ON OTHER HAND, INTEREST IN BUYING ONE FULL "SQUADRON" OF F-5'S, INVOLVING MORE THAN THE 12 FIGHTER AIRCRAFT WE HAVE SAID WE MIGHT SELL IF PAK AIR FORCE WILLING GIVE UP ITS REMAINING SIX F-104'S. WHEN I ALLUDED TO THIS IN RECENT DISCUSSION WITH DEFSEC, HE CONFIRMED THAT PAK AIR FORCE WOULD LIKE F-5'S INSTEAD OF F-104'S AND REMARKED INTERESTINGLY THAT PAKS WOULD ALSO BE WILLING RENOUNCE THEIR B-57'S IN RETURN FOR ADEQUATE NUMBER OF F-5'S. WE DO NOT KNOW FULL IMPLICATIONS OF THAT REMARK BUT IT COULD MEAN THAT PAKS WOULD BE WILLING FOREGO CAPABILITY TO BOMB WELL INTO INDIAN TERRITORY, FOR EXAMPLE, IN EXCHANGE FOR ENHANCED SHORT-RANGE CAPABILITY WHICH THEY WOULD GET FROM INTRODUCING RELATIVELY UNSOPHISTICATED F-5'S. THERE REMAINS ALSO OPEN QUESTION REGARDING FOUR MARITIME PATROL AIRCRAFT WE HAVE OFFERED TO SELL, INASMUCH AS GOP STILL HAS TO FACE SHOCK OF LEARNING COST OF P-3C'S WHICH THEY WOULD LIKE TO HAVE.

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