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December 24, 1970

MEMORANDUM FOR DR. KISSINGER

FROM: Harold H. Saunders
Samuel M. Hoskinson

SUBJECT: South Asian Arms Policy

This requires no action, but I want you to be aware of the present state of the U. S. - Pakistani discussions of the arms package. President Yahya is continuing to press for changes in our initial arms offer and it is possible that the Indians may also formally ask us for what would amount to an exception for them to our "restrictive" policy. The following is some background on both of these issues, including the bureaucratic state of play.

Pakistani and Indian Positions

Pakistan. As you know, President Yahya has gone out of his way to express his thanks for our decision to make a meaningful one-time exception to our restrictive South Asian arms policy. At the same time, he has made it increasingly clear that he would like very much to change the terms of the original package on two points to include:

1. a different mix of aircraft (we offered 6 replacement F-104s or the scrapping of his entire F-104 squadron in exchange for a new squadron of similar aircraft plus 7 replacement B-57s; and
2. credit for the entire package (we offered "usual cash basis.")

President Yahya recently defined his position to Ambassador Farland as being that he had decided against asking us for Phantoms, since they are too expensive, but that he is still very much interested in the Freedom Fighter (F-5) as a substitution for the F-104s and B-57s we had originally offered. (At a lower level, the Pakistanis have even talked about replacing the rest of their B-57s with fighters.) Yahya was more concerned, however, about obtaining credit for the entire package, saying that he simply does not have the financial means to pay cash. He specifically asked that this matter be brought to the attention of the President.

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The Indian problem is less complicated but could have even broader ramifications for our posture in South Asia. You may recall that the Indians have informally indicated that they might like to purchase Skyhawks (probably at least 24) to replace the aging aircraft they now have on their aircraft carrier. After all the fuss they have made over the one-time exception for Pakistan and given the fact that they have an assured source of copious military supply in the Soviets, this interest in Skyhawks seems a bit out of tune. The fact is, however, that the Indians are starting to build up their navy and the Soviets do not have a suitable aircraft for their carrier.

U. S. Positions

State and Defense are both working up positions on the above issues. Our interest is in assuring that the spirit and scope of the President's original decision are maintained.

State and Defense prefer not to extend credit to Pakistan for this package. State argues that this would unnecessarily call Ambassador Keating's word into question since he has said--according to the original terms of the arrangement--that this would simply be a commercial "cash sale." Defense agrees and points out that even if we wanted to the funds are simply not available. This, of course, has to be weighed against what I take to be the President's inclination in favor of extending some credit and indication to Yahya that, at a minimum, we would give the subject sympathetic consideration. The main point is that there are apparently ways of lowering prices or improving terms on the non-lethal equipment Pakistan is also buying to help them transfer some funds to this package.

State and Defense are divided on the Pakistani aircraft issue. Both State and Defense are in apparent agreement that the F-5 is a suitable aircraft to replace the squadron of F-104s and that it would still be within the scope and intent of the President's decision to also substitute F-5s for the originally offered seven replacement B-57s. The F-5 is essentially a defensive aircraft developed for export purposes and it is argued that selling it rather than the B-57s would reduce Pakistani strategic capability against India and should therefore be more acceptable to New Delhi. Defense, however, would carry this logic one step further and agree to replace all of Pakistan's B-57s with F-5s (a total of some 38 aircraft). State draws the line at 19 F-5s (12 replacing the F-104s plus 7 replacing B-57s) arguing that anything more goes beyond the original purchase both in terms of cost and in spirit and as such, risks inserting us further into

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the South Asian arms race and straining relations with India. State believes, and we agree, that the replacement of all of Pakistan's B-57s would require another Presidential decision, while the straight replacement of 19 would not since this was recommended to the President in the context of his October meeting with Yahya.

Both State and Defense have not yet really faced up to what our response would be if the Indians formally ask to purchase Skyhawks. The bureaucratic response so far has been largely limited to instructing Ambassador Keating to be careful not to stimulate or give any encouragement to such a request. The fact is, that an Indian request for Skyhawks would put us on a difficult spot. On one hand, we would be open to being accused of favoring Pakistan if we were not forthcoming. On the other hand, this would really thrust us back into the arms business in South Asia.

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