MEMORANDUM

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THE WHITE HOUSE
WASHINGTON

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June 12, 1972

THE PRESIDENT HAS SEEN...

MEMORANDUM FOR: THE PRESIDENT

FROM: HENRY A. KISSINGER K

SUBJECT: India Consortium Meeting--US Position

The annual World Bank-sponsored Consortium meeting of economic assistance donors to India is scheduled for June 13 and 14. The normal routine at these affairs is for the donors (1) to make "pledges" of new bilateral assistance and (2) to agree on limited debt rescheduling. Since our position will be a major element in our evolving relationship with India and in the backdrop for Secretary Connally's talk with Mrs. Gandhi, this requires a brief review of the aid relationship with India.

Background

You will recall that the elements in the present situation are as follows:

-- While irrevocably committed aid remained in the pipeline, the $87.6 million in past aid cut off last December is still in suspense.

-- The US has provided no new development assistance in FY 1972 (about $190 million was initially programmed).

-- An originally planned $72 million PL 480 agreement for FY 1972 was never signed.

-- World Bank/IDA loan approvals, for which the US provides 40% of the funding, have increased, although disbursements mostly will not begin until FY 1973 and depend on the US appropriation for IDA replenishment.

-- While we have plugged a provisional planning figure for an FY 1973 development loan program into the tentative AID program presented to Congress for next year, India has been told that our aid relationship is still under review.

There is no need to change the status of any of these points now. They could be reviewed later in the summer in the context of Secretary Connally's talks and subsequent dialogue with the Indians. In any such

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review, the first issue to be considered would be removing the suspension of the $87 million because it was committed under past contracts. But that is not the subject of this memorandum. On the question of new aid, we will simply say at the consortium meeting that we are not prepared yet to pledge new assistance for FY 1973.

The Present Issue

The issue now is posed by the consortium's annual debt rescheduling exercise. In each of the past four years, the aid donors have provided India with $100 million in debt relief. We have pushed the main burden on to donors other than the US whose lending terms have been much harder than ours; our share last year was only $9 million of the $100 million. The purposes of the rescheduling have been to prevent repayments from eating too heavily into the total flow of aid and to increase the relative contribution of the hard lenders.

The Bank this year is proposing $200 million in debt relief instead of last year's $100 million along with a possible formula which would put a heavier burden on us. No one here favors supporting that approach because we want to keep the pressure on the hard lenders.

The issue is whether we should participate in debt relief at a level of $100 million on the basis of a formula designed to keep the pressure on the hard lenders. Our share would be about $12 million. The alternatives are not to participate at all or try to delay, which would in effect amount to non-participation.

The arguments for non-participation are:

-- This would be consistent with our general policy of not taking any positive aid steps for the time being. Debt relief makes additional foreign exchange available to India just as new aid would.

-- There has not been a sufficient political dialogue yet to provide the context for any such steps. It has not been long since India's sharp criticism of our recent Vietnam policy.

The arguments for participation are:

-- Non-participation would be a major negative political and economic signal. It would be read in India as the virtual end of an Indo-US relationship in development.

-- Non-participation would, for the time being, take us out of the further management of the Indian debt and leave it in the hands of those who have loaned on harder terms. We have an interest in repayment of the $3.6 billion owed us.

-- India could declare a unilateral moratorium on repayment as Pakistan did and recoup the same amount of money, so non-participation would not necessarily deprive India of comparable resources.

-- Non-participation would damage the consortium approach to aid which has served well in Pakistan, Turkey, Colombia and other countries.

While it is tempting not to participate until our political relationship is on a sounder basis, the strategy which would change our present political course least is to participate on last year's level of $100 million, of which our share would be about $12 million--not at the new $200 million proposed by the Bank. This would permit us to maintain a strong hand in the debt repayment business and avoid sending a major new negative political signal. At the same time, we would maintain our stance of not providing new aid. In essence, we would be doing the minimum to preserve control over repayment of debt owed us and to close no doors politically.

The attached memorandum from Secretary Rogers concurs in this approach.

RECOMMENDATION: That US participation in the consortium debt rescheduling exercise be authorized at a level and on terms at least as favorable to us as during the past four years (i.e. $100 million per year, US share about $12 million).

APPROVE P ______ OTHER ______

Attachment

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THE SECRETARY OF STATE
WASHINGTON

June 5, 1972

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MEMORANDUM FOR THE PRESIDENT

Subject: Aid to India; Debt Relief

We must make a decision on a World Bank proposal for debt relief for India so that our advice can be conveyed to the Bank's Aid to India Consortium meeting on June 13-14.

Background

You will recall that during the India-Pakistan war last December we suspended $87.6 million of general assistance under signed agreements with India which was not already committed to U.S. suppliers by American banks. We also decided to withhold an offer to India of about $72 million of PL-480 assistance in the form of cotton and vegetable oil. On the other hand, we decided that we would face major legal and administrative difficulties unless we continued the aid in the pipeline which had already been committed to American suppliers under irrevocable letters of credit. Also unaffected by the suspension was a $9 million U.S. annual share in a $100 million debt relief agreement with nine other creditor countries. This was a continuation of a debt relief program begun in FY 69.

Following the India-Pakistan war, other countries which participate in the Aid to India Consortium have continued their bilateral assistance at roughly the same or higher levels. As earlier planned, the World Bank (IDA), for which the U.S. provides about 40 percent of the funding, has stepped up its loan commitments for India this fiscal year. The Bank

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has already approved $337 million in loans for FY 72 and has scheduled an additional $75 million for consideration this fiscal year. Disbursements under most of their commitments will not begin before FY 73.

We have already informed the Indians that the U.S. will provide no development loans for FY 72. In regard to FY 73, we are keeping our aid policy under review and will not make a decision until we have a better idea of whether India is more willing than at present to conduct its relations with us on a realistic basis which takes account of American interests. However, in order to keep our options open but without any commitment whatsoever, in consultation with the NSC staff we have put into our Congressional request for FY 73 a provisional figure for India. We told the Indians that this provisional request had no significance one way or the other regarding our future aid policy which remains under review.

Debt Relief Issue

We must now decide what to do about further debt relief for India.

In each of the past four years, the Consortium members have provided India with $100 million a year of debt relief under a formula which has the hard lenders, such as the French and Japanese, carry 55 percent of the total relief and also share the 45 percent balance with the soft lenders, including the United States. The Bank has now proposed debt relief of $200 million per year for this year and next, and has reopened the technical question of sharing this relief between countries. For purposes of comparison, total Indian repayments in 1972 are estimated at $626 million, and gross aid flows at $1,123 million.

We believe the most we should consider would be to participate in a further Indian debt exercise at the same level and under the same formula as in the past four years. Total debt relief by all creditor countries would be about $100 million or half the level proposed by the Bank. Of this amount, the U.S. share would be about $12 million (about 10 percent of payments due to us annually from India) and would, of course, be much the same as additional economic assistance for India. We would also take the position, as we have previously, that the Indians should seek comparable relief from Soviet and Eastern European aid donors.

This issue is not a simple one, since the position we take in India will have an effect on debt rescheduling exercises with other countries. It is important to us to maintain the very advantageous debt relief formula that has been applied to India for its value as a precedent in other cases where we are seeking a similar shift in burden sharing from the soft to the hard lenders. Also, we have a substantial interest in the management of Indian debt, since $3.6 billion of it is owed to the U.S. on notably soft terms.

We have basically three options for dealing with the India debt issue:

Option 1. We could refuse to join in a debt relief exercise for India. This would be consistent with our position on additional aid for India. It is possible, however, that other Consortium members, most of whom have endorsed the idea of some continued debt relief, might go ahead without us. If they did, the hard lenders would be strengthened and would almost certainly be able to upset the current burden-sharing formula, which is favorable to the United States (we hold 40 percent of Indian debt, but provide 9-12 percent of India's debt relief). Also, our absence would undermine the principle of universal participation as well as the concept of multilateral coordination for aid and debt relief exercises for underdeveloped countries generally. Our role as India's largest creditor would be weakened.

Option 2. We could seek a postponement of further debt relief for India. This would have the advantage of being consistent with our aid policy generally. Since most donor countries and the Indians consider that our relations with India are likely to remain distant for some time, they are likely, however, to see our position as substantially the same as rejection. Therefore, the donors might proceed without us with the same effects as indicated under Option 1.

Option 3. We could indicate our willingness to participate in a rescheduling at a level and on terms at least as favorable to us as during the past four years (i.e., $100 million per year, U.S. share about $12 million). We would confine the agreement to a single year and review Indian performance before considering further debt relief. We would repeat that our own aid program for India remained under review and make clear that our participation in debt relief had no significance one way or the other regarding our future aid policy. This alternative would maintain a debt relief formula very favorable to the United States and support the principle of universality in such exercises. We would thereby preserve our interest as India's major creditor, and the Indian example would be helpful to us as we seek international agreement on debt relief for other countries.

Recommendation

On balance, I am inclined to recommend that we support the debt rescheduling proposal included in

Option 3 on the grounds of its importance to our position on debt rescheduling generally for the nations of the underdeveloped world. The Department of the Treasury concurs with this recommendation.

William P. Rogers