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By SDT/VSW Date 7/21/88

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TELEGRAM



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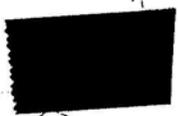
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WHITE HOUSE-HOUSE -MRS. DAVIS

TREASURY-DIXON

STATE -A/OPR, S/S, NEA

BELGRADE FOR SECRETARY'S PARTY

SECRETARY CONNALLY TRAVEL

SUBJECT SECRETARY CONNALLY'S MEETING WITH INDIAN  
FINANCE MINISTER, JULY 4, 1972

SUMMARY SECRETARY CONNALLY HAD FRANK EXCHANGE OF  
VIEWS WITH INDIAN FINANCE MINISTER ON INTERNATIONAL  
MONETARY AFFAIRS. SIMILARITIES AS WELL AS DIFFERENCES  
IN POSITIONS OF USG AND GOI WERE RECOGNIZED, AS WAS  
NEED FOR PARTICIPATION BY BOTH DEVELOPED AND  
DEVELOPING COUNTRIES IN WORKING OUT NEW INTERNATIONAL  
TRADE AND MONETARY STRUCTURE. END SUMMARY.

DECLASSIFIED  
PA/HO, Department of State  
E.O. 12958, as amended  
June 9, 2005

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1. SECRETARY CONNALLY, ACCOMPANIED BY HENNESSEY, VAN HOLLEN, HOSKINSON, AMBASSADOR AND ECONOMIC COUNSELOR HELD ONE HOUR MEETING WITH FINANCE MINISTER Y.B. CHAVAN JULY 4. IN ADDITION TO FINANCE MINISTER, INDIAN AMBASSADOR TO U.S. L.K. JHA, FINANCE SECRETARY I.G. PATEL, FINANCE ADDITIONAL SECRETARY M.G. KAUL, FINANCE JOINT SECRETARY S. KRISHNASWANI, EXTERNAL AFFAIRS (AMERICAS DIVISION) JOINT SECRETARY MRS. RUKMINI MENON, AND P.N. DHAR PRIVATE SECRETARY TO PRIME MINISTER, WERE PRESENT.

2. AFTER FINANCE MINISTER'S WELCOME SECRETARY CONNALLY INDICATED THAT, AS IN OTHER COUNTRIES HE HAD VISITED, HE WOULD SEEK ADVICE OF THE FINANCE MINISTER, CONCERNING THE REBUILDING OF THE INTERNATIONAL MONETARY SYSTEM AND THE SOLUTION OF PRESENT WORLD TRADE PROBLEMS. WHILE NOT HERE TO CONVEY SPECIFIC U.S. CONCLUSIONS HE WOULD PASS ON CERTAIN ELEMENTS OF OUR PRESENT THINKING. SPECIFICALLY THE IMF SHOULD BE STRUCTURED ON A DIFFERENT BASIS AND PROVIDE FOR MORE FLEXIBILITY IN THE MONETARY SYSTEM, BY PROVISION FOR WIDER BANDS AND PARITY CHANGES. THE U.S. HAS AGREED TO PHASE OUT THE DOLLAR AS THE WORLD'S RESERVE CURRENCY BUT THE ONLY SUGGESTION MADE SO FAR IS THAT IT BE REPLACED BY SDR'S. CONFIDENCE WILL BE NEEDED IN SDR'S, OR WHATEVER ELSE IS USED. THE U.S. IS NOT OPPOSED TO SDR'S, BUT IT WILL PROBABLY TAKE A DECADE TO PHASE OUT THE POUND AND THE DOLLAR. IN ADDITION TO MORE FLEXIBILITY IN THE NEW SYSTEM WILL NEED TO HAVE AUTOMATIC SANCTIONS THAT WILL APPLY SOME RESTRAINTS TO SURPLUS COUNTRIES.

3. REFERRING TO THE SMITHSONIAN AGREEMENT, SECRETARY CONNALLY NOTED THAT AGREEMENT CAME WITH DIFFICULTY BECAUSE THE REPRESENTATIVES THERE WERE DEALING WITH THE ECONOMIC LIVES OF THEIR COUNTRIES. FROM THE OUTSET THE U.S. TOOK THE INITIATIVE IN PUSHING FOR A BIGGER GROUP, THE G-20, WITH A WIDE MANDATE TO COVER NOT ONLY MONETARY BUT TRADE POLICY, CAPITAL, AND DEVELOPMENT MATTERS. THE U.S. IS CONVINCED THAT WE CANNOT DEAL WITH MONETARY PROBLEMS APART FROM TRADE PROBLEMS.

4. SECRETARY CONNALLY NOTED THAT A DISTURBING FACTOR TODAY WAS THE STRONG PROTECTIONIST SENTIMENT RUNNING THROUGH MANY

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NATIONS, BOTH DEVELOPED AND DEVELOPING, AND INCLUDING THE U.S. THIS SENTIMENT WILL POSE REAL PROBLEMS IN THE FORTHCOMING MONETARY AND TRADE DISCUSSIONS. THE U.S. WANTS TO DO ALL IT CAN TO PREVENT THE WORLD BREAKING INTO TRADING BLOCS, BUT IT WILL NEED HELP IF IT IS TO BE SUCCESSFUL. HE SAW FIVE BLOCS APPEARING. THE FIRST TWO WERE THE RUSSIANS AND THE MAINLAND CHINESE-BOTH WOULD BE ENTERING THE FAMILY OF TRADING NATIONS WITHOUT ACCEPTING THE DISCIPLINE OF INTERNATIONAL RULES. THE THIRD WAS JAPAN WHICH STILL CLUNG TO PROTECTIVE TRADE DEVICES. THE FOURTH, THE EUROPEAN ECONOMIC COMMUNITY, WAS EXPANDING AND COALESCING, AND WAS OFFERING PREFERENTIAL TRADING ARRANGEMENTS TO FIFTY OTHER COUNTRIES OF THE WORLD AND BECOMING INCREASINGLY INWARD LOOKING. THE FIFTH GROUP OF THE U.S., CANADA, AND THE DEVELOPING NATIONS. THE U.S. SAW ITS INTERESTS ASSOCIATED WITH THE DEVELOPING NATIONS AND THEREFORE INSISTED THAT THE G-20 INCLUDE DEVELOPING COUNTRY PARTICIPATION.

5. THE SECRETARY THEN ASKED THE FINANCE MINISTER HOW HE SAW THE WORLD AND ITS TRADING ARRANGEMENTS, AND PARTICULARLY HIS VIEW OF THE SIGNIFICANCE OF THE POUND FLOAT.

6. THE FINANCE MINISTER INDICATED THAT, AFTER THE SMITHSONIAN AGREEMENT, IT WAS THOUGHT A SOLUTION TO THE MONETARY CRISIS HAD BEEN OBTAINED BUT WITH THE POUND FLOATING, OBVIOUSLY IT HAD NOT. HE NOTED HE HAD ATTENDED IMF MEETINGS TWICE THAT DEVELOPING COUNTRIES WERE LEFT OUT OF THE REAL DECISION-MAKING, IN THE CONTEXT OF THE G-10 AND OTHERWISE. IT WAS, THEREFORE, HARD FOR HIM TO GIVE ANY ADVICE. HE DID, HOWEVER, CERTAINLY WELCOME THE G-20. CONTINUING, HE NOTED THAT ICWIA SUFFERED WHEN THERE WAS EXCHANGE RATE INSTABILITY, THAT ITS IMPORTS AND EXPORTS WERE ADVERSELY AFFECTED BY SHIFTING RATES. HIS ONLY SUGGESTION WAS THAT WE WORK IN THE DIRECTION IN WHICH WE ARE GOING IN THESE MATTERS. INDIA'S HOPE WAS THAT HER INTEREST WOULD BE TAKEN INTO ACCOUNT AND HER POSITION DISTURBED AS LITTLE AS POSSIBLE.

CONNALLY

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QTE GE<sup>T</sup> EXCITED BY THE DEVELOPED COUNTRIES' PROBLEMS BUT NOT RPT NOT THE DEVELOPING COUNTRIES' PROBLEMS UNQTE. HE NOTED THAT QUESTIONS OF COMMODITY PRICES AND THE PERMANENT FUNDING OF DEVELOPMENT INSTITUTIONS ARE ONES INDIA WOULD LIKE THEM TO FOCUS ON - MUCH MORE IMPORTANT TO THE WORLD THAN REFORM OF MONETARY SYSTEM, WHICH WILL BE WORKED OUT EVENTUALLY. DR. PATEL THEN ALLUDED TO THE LINK BETWEEN MONETARY ARRANGEMENTS AND DEVELOPMENT. SECRETARY CONNALLY INDICATED HE DID NOT RPT NOT THINK THAT THE LINK BETWEEN SDR'S AND AID WOULD WORK. THE SDR'S MUST BE USED AS A RESERVE CURRENCY OR AS AN INSTRUMENT OF AID, NOT RPT NOT BOTH AT THE SAME TIME. DR. PATEL THOUGHT THAT THE WORLD HAD NOT WORKED SUFFICIENTLY HARD ON ELIMINATING UNCERTAINTY IN AID GIVING WHICH CAUSED EVEN MORE IMPORTANT CRISES WHICH WORLD WAS NOT YET FACING UP TO. MR. HENNESSY INDICATED IT WOULD BE MORE FEASIBLE FOR THE U.S. TO PROVIDE FUNDING REGULARLY THROUGH INTERNATIONAL AGENCIES, SUCH AS IDA, IF WE HAD A MORE ODERLY WORLD SYSTEM OF MONEY AND TRADE. IT WAS AGREED THAT TRADE, MONETARY AND DEVELOPMENT MATTERS WERE ALL INTERRELATED AND WOULD NEED TO BE CONSIDERED TOGETHER.

9. DR. PATEL SAID THAT THE QTE POWERFUL NATIONS UNQTE HAVE MADE COMPLETELY UNEQUAL RULES. FOR EXAMPLE, THE FACT THAT AID IS TIED AND MUST BE REPAID IN FREE FOREIGN EXCHANGE IS UNFAIR. HE ALSO NOTED THAT SPECIAL INTEREST RATES, TERMS, AND LARGE AMOUNTS OF FINANCING WERE GIVEN BY INDIA'S TRADE COMPETITORS TO THIRD COUNTRIES SO THEY WERE NOT ABLE TO COMPETE FOR EXPORT SALES WITH SOME COUNTRIES WHO WERE GIVING THEM AID - OFFSETTING THE REAL BENEFITS. HE SAW INDIA'S BALANCE OF PAYMENTS PROBLEM INTIMATELY CONNECTED WITH PRESENT TRADE AND DEVELOPMENT RULES. INDIA WAS ASKING FOR PARITY OF TREATMENT - NO SPECIAL FAVORS.

10. SECRETARY CONNALLY INDICATED THAT, IF THE RULES OF THE INTERNATIONAL LENDING AGENCIES WERE UNSATISFACTORY, PERHAPS BOTH IDA AND THE IBRD SHOULD BE REVIEWED TO SEE IF THEY WILL STILL BE NEEDED. DR. PATEL AGREED BUT INDICATED THAT AS LONG AS IDA WAS IN EXISTENCE QTE WE SHOULD ASSURE THAT IT OPERATES WITH FAIR RULES UNQTE.

11. SECRETARY CONNALLY SAID THE MAIN QUESTION WAS WHETHER

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THE WORLD BY NEGOTIATION COULD REACH AN AGREEMENT FOR AN IMPROVED TRADE AND FINANCIAL STRUCTURE. DR. PATEL INDICATED THAT THIS HAD TO BE ACHIEVED. IT WAS RECONFIRMED THAT, IN KEEPING WITH THE PRECEPTS OF THE G-20, ALL THREE ASPECTS (MONETARY, TRADE AND DEVELOPMENT) WOULD BE CONSIDERED.

12. SECRETARY CONNALLY, IN HIS CONCLUDING REMARKS NOTED THAT THE U.S. DID NOT KNOW THE SPECIFIC ANSWERS TO THESE PROBLEMS. HE WAS GRATEFUL FOR THIS OPPORTUNITY TO DISCUSS THEM WITH THE FINANCE MINISTER. THE U.S. WAS LESS COMMITTED TO ANY SPECIFIC IDEOLOGIES ON THESE QUESTIONS THAN ANY NATION IN THE WORLD. INDIA, HE CONTINUED, HAD MUCH TO CONTRIBUTE, AND THE U.S. WANTED TO KEEP IN TOUCH WITH IT ON THIS MATTER. THE VIEWPOINTS OF THE TWO GOVERNMENTS WERE DIFFERENT ON CERTAIN POINTS BUT, IF BOTH WERE REASONABLE, EACH WOULD HAVE A CONTRIBUTION TO MAKE. FOR ITS PART THE U.S. CANNOT BE COMPLETELY UNSELFISH, AS CAN NO NATION, BUT THE U.S. CAN PROBABLY BE MORE SO THAN MOST NATIONS AS IT IS LESS COMMITTED TO ANY PARTICULAR CONCEPT.

13. THE FINANCE MINISTER THANKED SECRETARY CONNALLY AND AMBASSADOR KEATING FOR THIS OPPORTUNITY TO EXCHANGE VIEWS ON THESE QUESTIONS.

14. COMMENT: THE DISCUSSIONS WERE CORDIAL, FRANK AND SUBSTANTIVE. THEY BROUGHT OUT CLEARLY THE DIFFERING POSITIONS OF THE TWO GOVERNMENTS BUT ALSO THE MUTUAL RECOGNITION THAT THERE WAS NEED FOR A COOPERATIVE APPROACH IN WORKING OUT A NEW INTERNATIONAL TRADE AND MONETARY STRUCTURE. STEPS SHOULD BE TAKEN TO ENSURE A CONTINUING DIALOGUE WITH THE GOI IN THESE MATTERS. END COMMENT. CONNALLY

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