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INTRODUCTION

This is the Institute's third annual review and it is offered to our members with an apology for the delay. It was not brought out last May since the various Annual Reports of the Ministries of Government of India were not issued till the budget was presented to the newly elected Lok Sabha in June and July 1971. By that time the crisis in the subcontinent preoccupied the staff of the Institute.

The third annual review is more elaborate and detailed than the second one and it has become necessary to issue it in two volumes. The first volume deals with East, South east and South Asia, excepting for India. The second volume will deal with West Asia, Indian Ocean, developments in the international communist movement, technological development, arms transfer and super power relationship, European security, disarmament and India.

While our intention was to treat in this volume the developments of 1970-71 only, we have briefly touched upon the subsequent developments at various places. But it is our hope to have a full annual review on 1971-72 which will cover the ground comprehensively for that period.

In preparing this review care has been exercised to put together an account

of events and statements which will illuminate the security posture of the country concerned and to keep comments to a minimum. This compilation is admittedly an Indocentric one and the criterion governing the selection of facts and statements for inclusion in this review is their relevance to India's security and its international interests. The review has been deliberately titled to highlight this aspect. This will also explain the relative weightages given to various developments and in some cases even the manner of presentation.

All information included in this review is from published sources. While deciding about the information for inclusion in the review we have deliberately leaned on the cautious side and have included all information which have some plausibility about them. This, no doubt, shifts a portion of the burden of assessment on to the reader; but at the same time we have attempted to provide sufficient background information for the purpose.

It is hoped to issue the second volume in the next two months.

K. SUBRAHMANYAM
EDITOR

February 1972

I EAST ASIA

1. CHINA

ECONOMY

The 1971 New Year Day joint editorial in the *People's Daily*, *Liberation Army Daily* and *Red Flag* sums up the economic achievements of China during 1970 in the following words :—

“The Third Five-Year Plan for developing the national economy has been successfully fulfilled. Rich harvests have been gathered for nine years running. A new upsurge is emerging

in industrial production. Prices are stable and the market is thriving. Preparedness against war has been further enhanced. The dictatorship of the proletariat in our country is more consolidated than ever. The revolutionary spirit of our people is soaring. Our great socialist motherland is flourishing.”

This may be too rosy a picture. Nevertheless, there are indications to believe that China's economy has

China—Statistics	
Area	... 9.6 mn sq Km
Population	... 760 mn (UN estimate)
GNP	... \$75 bn (1970, Japanese estimate)
Defence Budget	... \$7,250 mn (1970, Japanese estimate) \$7,800 mn (1969, SIPRI Stockholm estimate)
Armed Forces :	
Total Strength	2.78 mn (ISS, London estimate)
Army	... 2.45 mn
Navy	... 150,000
Air Force	... 180,000
Currency	... Renminbi (yuan) (yuan 2.46 = \$1.00)

turned the corner, that it has recovered from the adverse effects of the Cultural Revolution, and that in certain sectors it has regained and progressed beyond the level of 1966.

Economic Growth

Since no meaningful official statistics on the progress of the Chinese economy have been published since 1960, it is extremely difficult to measure the actual growth or retardation of the Chinese economy. However, various Western experts have, from time to time, tried to assess the growth rate on the basis of the "crude" figures available on China's production. One of the latest assessments has been given by Werner Klatt, Fellow of St. Anthony's College, Oxford. In his "Review of China's Economy in 1970" (*China Quarterly*, July-September 1970), China's gross domestic product during the period 1952-1970 has been estimated as follows :

Another estimate published by the Japanese Foreign Ministry in June 1970 puts the gross national product of China in 1969 at between \$70 bn and \$80 bn and the per capita income at between \$90 and \$100. An exchange rate of one dollar to 2.46 yuan is reported to have been used in the estimate. The Japanese estimate was presumably on the basis of current prices while that of Klatt was computed at 1952 prices. According to a third estimate, by the *Far Eastern Economic Review*, (19 Sep. 1970), China's economy may be growing today at the rate of between 8 and 10 per cent. Klatt's estimates would give an average growth rate of little over 4.5% between 1965 and 1970. A Japanese estimate in 1968 had put that year's growth at 4 per cent. However, since 1969 and 1970 recorded better performances, the growth rate apparently had increased during these years, probably to 5 or 6 per cent. (The latest Japanese Foreign Ministry estimate of China's GNP in 1970 is \$75 bn).

(Billion Yuan of 1952)

Sectors	1952	1957	1965	1970
Agriculture	33.5	40.0	40.0	46.0
Industry, mining, construction	19.0	30.0	45.0	59.0
Trade, public utilities	22.5	30.0	45.0	55.0
Total	75.0	100.0	130.0	160.0

A NCNA report broadcast over Radio Peking on 22 September 1970 gave a rosy picture of China's financial situation. The report reads in part :

"The Great Proletarian Cultural Revolution...has given great impetus to China's industrial and agricultural production and brought about an even more stable and consolidated financial

situation. State revenue between January and August of this year was much greater than for the corresponding period of last year and came in much faster than this year's plan, and the situation is unusually good. State expenditure ensured that the needs of production, construction and national defence were duly covered. Revenue exceeded expenditure, striking a very favourable balance. The plan for bank credit receipts and payments were fulfilled satisfactorily. Capital turnover was considerably accelerated. Savings deposits in both urban and rural areas rose steadily. China's Renminbi (RMB) is one of the few stable currencies in the world and enjoys an ever higher prestige internationally."

In the absence of any concrete budget or other figures it is not possible to verify the Chinese claim, but there is no evidence available to contest the claim either. The 'Tanjug' correspondent in Peking also reported (October 1970) the healthy state of China's economy.

Economic Planning

The Chinese ceased to divulge information on the progress of their economic plan since the failure of the Second Five-year Plan (1958-1962) in the wake of the "Great Leap Forward." According to the 1971 New Year Day editorial "the Third Five-year Plan (1966-70) for developing the national economy has been successfully fulfilled". About the Fourth Five-Year Plan (1971-1975), first mentioned by Inner Mongolian radio in October 1969 and officially announced by Premier Chou En-lai in October 1970, the editorial had the following to say :

"This year (1971) is the first year for China to carry out her Fourth Five-Year Plan for developing the national economy. Chairman Mao teaches: 'The Chinese people should have a great and far reaching plan and strive to change China's economic, scientific and cultural backwardness within a short period and enable it rapidly to reach advanced world levels.' The Fourth Five-Year Plan period is important for realising this great strategic aim. We should take the struggle between the two classes, the two roads and the two lines as the key and go all-out, aim high and achieve greater, faster, better and more economical results in building socialism. We should give full play to the revolutionary spirit of maintaining independence and keeping the initiative in our own hands and relying on our own efforts, working hard and building up our own country through diligence and frugality, give prominence to proletarian politics and carry forward the mass movement in agriculture and industry ...The whole nation should learn from the People's Liberation Army and strive to fulfil or overfulfil the national economic plan for 1971 in an all-round way."

An AFP report from Peking says : "China now appears to have a sufficiently solid economic base to permit it to announce during 1971 the goals of a new 'leap forward' in its fourth five-year plan". Unless the details of the plan are available (the final details of the fourth plan, according to the report, are not expected to be worked out until the end of 1971), it is not possible to comment on this aspect. However, the apparently satisfactory results obtained by broad sectors of the economy in

1970 entitle the country to look forward to 1971 with relative optimism and set some relatively higher goals in its plan. A MTI (Hungarian news agency) report from Peking said that the year 1970 was "economically most successful for China", and that the Third Five-Year Plan ended "with excellent results, overcoming grave losses caused by the Cultural Revolution in 1967-68."

Agriculture

China claimed an "all-time record" in grain and cotton harvests, with grain output in 1970 surpassing that of 1969 by 16 per cent. It was said to be "the ninth successive year of excellent crops". No figures were, however, supplied in support of this claim, but the impression gained from partial data and percentages is that, apart from 1966 and 1968, when there was a small decline, there has been a steady growth in Chinese agricultural production since 1962. According to FAO estimates, food-grain production "including potatoes and sweet potatoes converted into food-grain equivalent amounted to 222 mn tons in 1969 compared to about 214 mn tons in 1967 and 212 mn tons in 1968. The production of paddy was estimated at 95 mn tons in 1969, four mn tons more than in 1968. There were also increases in sugarcane, soya beans, tea and vegetables and in livestock products. Increased agricultural production, according to FAO survey of the world's food and agriculture in 1970, has allowed China to ease its food rationing since 1969.

Other Western experts, quoted by the *Economist Intelligence Unit's* (EIU)

Quarterly Economic Review, China (Annual Supplement 1970), however, give a lower estimate of Chinese food-grain production. According to them, cereal output fell from 190 mn tons in 1967 to 180 mn tons in 1968 and rose to 195 mn tons in 1969 and probably to 200 mn tons in 1970. Premier Chou said (February 1971) in an interview with Edgar Snow that China's total grain output in 1970 was 240 mn tons and that China had state grain reserves of 40 mn tons.

Cotton production, which remains inadequate to cover domestic requirements, has been estimated at 2 mn tons in 1970 by Werner Klatt as against 1.6 mn tons in 1965 and sugar at 1.7 mn tons against 1.3 mn tons in 1965.

In 1970, Chinese agriculture saw an intensification of the drive to maximise the area of high and stable yields, to free the country from the threat of recurring natural disasters and to improve the methods of cultivation which have been the keynote of China's agricultural policy since the agricultural disasters of the "Great Leap Forward" period (1959-61). Throughout the year (1970) there were frequent reports in the Chinese press and radio indicating progress in the implementation of massive soil conservation programmes covering irrigation and drainage, river control and afforestation; and the adoption of improved farming techniques including greater use of chemical fertilizers, pesticides, insecticides and other agricultural chemicals, improved strains of seeds as well as rapid agricultural mechanisation. About the progress in mechanisation Radio Peking claimed on 21 September 1970 that

China's agriculture had become increasingly mechanised this year (1970), with greater use of rice transplanters, tractors and other labour-saving machinery. It said that more rice transplanters were in operation than ever before, and added that in some areas 70 per cent transplanting was accomplished by machines.

Some foreign experts, quoted by *The Times* (London) of 22 December 1970, believe that due to the extension of irrigation and development of the fertiliser industry agricultural production in China "may be increasing at a faster rate than even the population growth" (According to a recent demographic study by the UN Population Bureau, it is estimated that between 1963 and 1968, China's population probably grew at the rate of only 1.4 per cent per year).

Industry

China claimed that in 1966 the gross value of industrial output was 20 per cent higher than in 1965. Industrial production, however, was adversely affected in 1967 and early 1968 due to the excesses of the Cultural Revolution. With the return to normalcy in late 1968, industrial activity began to gather momentum, and by 1970 a majority of the industrial sectors were reported to be back to their pre-Cultural Revolutionary levels. Some Western analysts in Hong Kong believe that the total value of China's industrial production even in 1969 equalled the level of 1966 though "performance was uneven". One Western source (Werner Klatt) has estimated the industrial growth rate during 1966-70 (1965=100) at: 1966=110; 1967=95; 1968=105; 1969=115, and 1970=130.

Among various sectors of industry,

the most impressive progress has apparently been made in the exploitation of the mineral wealth, particularly oil. According to Chinese official claims, the oil industry achieved self-sufficiency in the output of petroleum products in the sixties, and the tasks set for Third Five-Year Plan (1966-70) were fulfilled two years ahead of schedule. Prospecting is now said to be in progress on a large scale throughout the country resulting in the discovery of new oilfields in areas "once dismissed by the bourgeois technical authorities as hopeless". The production of crude oil was claimed by NCNA in August 1970 to have increased by 34 per cent in the first eight months of 1970, while the state plans for the production of major products like petrol, kerosene, diesel oil, lubricants, fuel oil, paraffin and asphalt had all been "overfulfilled and reached all-time high." Twenty major technical innovations matching "advanced world standards" were claimed to have been introduced in the field of oil industry. The Tach'ing oilfield, China's premier and much advertised oil producing area, claimed that production in the four years since the Cultural Revolution began in 1966 was double that of the previous four-year period.

According to an AFP report appearing in *The Times* (London) of 22 December 1970, annual oil output estimated at 12 mn tons before the Cultural Revolution is now around 20 mn tons. According to another estimate (Werner Klatt), the 1970 output was around 12.5 mn tons only, against 9 mn tons in 1965. Prime Minister Chou claimed (February 1971) that China's oil output in 1970 was more than 20 mn tons.

The coal industry appears to have

done fairly well although the production probably is yet to reach the 1966 peak level of 320 mn tons. *Peking Review* on 13 November 1970 claimed that many coal mines in various parts of the country "have steadily increased their production while new mines are rapidly developing, thereby enabling coal output to remain high and stable." From January to August, coal targets set by the state were "overfulfilled every month and output showed a 24 percent increase over that of the corresponding period last year." Coal production in 1970 has been variously estimated at between 255 and 300 mn tons (Werner Klatt's estimate is 255 mn tons while that of FIU is 300 mn tons) However, continued reports of fuel saving campaigns would indicate country-wide coal shortage. Thus recently (December 1970), the State Planning Commission and the Ministry of Commerce jointly organised a national conference on fuel saving in the Paoting area of Hopei province. It was urged in the conference that high-grade coal should not be used for domestic consumption even in coal-mining areas.

The iron and steel industry has recorded considerable progress and appears to have regained the level of 1966. All the premier steel centres in the mainland, including Anshan, Wuhan, Paotow and Shanghai, have reported the fulfilment of the 1970 plan ahead of schedule, as well as the production of various "new" types of steel products. Thus, according to NCNA, the Anshan Iron and Steel Company, China's oldest and biggest steel concern, produced during 1970 over 200 new kinds of steel, rolled steel and chemical by-products, including alloy steel plates

for shipbuilding, new types of steel pipes for petroleum industry, tough triangular steel cables for mining industry as well as other products and by-products for agriculture and petroleum, machinery, coal and chemical industries. Among the "several thousand" technical innovations, work processes, materials and equipment claimed to have been developed in Anshan during 1970, are complete sets of equipment for making oxygen generators, a cold-rolling sheet mill, a steel cable-drawing machine of a new type, equipment for recovering chemical by-products and big power-shovels. A new ore-dressing installation replaced the flotation ore-dressing machines and "has opened a new road for low-grade hematite ore-dressing in China." Mechanisation of production at the Anshan No. 1 steel sheet mill was claimed to have reached the 75% mark. Other steel centres have also reported similar 'impressive' achievements. The estimated output of crude steel in 1970 was 15 mn tons as against 12 mn tons in 1968 and 16 mn tons in 1966. Prime Minister Chou, in his interview with Edgar Snow (February 1971), said steel production averaged between 10 mn and 18 mn tons a year over the last 5 years.

The machine-building industry, which "has come a long way" in the past 20 years, has almost recovered from the losses of the Cultural Revolution period. According to an Australian assessment, the machine-building industry which accounted for only 2.7% of China's gross industrial output in late 1949, accounted for 12% by 1966. After 1966, there had been a period of stagnation due obviously to the Cultural Revolution; but in the past two years

(1969-70) output "has risen considerably". During the year, Peking announced a reorganisation plan for China's machine-building industries. Two machine building ministries were replaced by a single Ministry of Light Industry and the Eighth Ministry of Machine-Building which was responsible for agricultural machinery and equipment had merged with the Ministry responsible for civilian machinery development.

The Chinese press and radio also reported concentrated development efforts during the period under survey in the fields of shipbuilding and electronics industries. Developments in shipbuilding have been detailed in the section 'Armed Forces' and in electronics in the section 'Science & Technology'.

During 1970, China launched a new campaign for nation-wide construction of medium and small industries to boost its national economy and "war preparedness". A Radio Peking broadcast on 24 August 1970 emphasised the usefulness of medium and small industries urging the country to follow Chairman Mao's "general line on socialist construction" to bring about rapid industrialisation and a "leap in our national economy". Despite an apparent come-back of the principle which guided the unsuccessful "back-yard furnaces" experiment in 1958-60, China's new drive for small indigenous factories utilising local resources and labour appeared to have borne good results. By the end of August 1970, over 20 Chinese provinces, cities and regions, by following the same principle, had reportedly gone into mass production of cars, while small chemical fertiliser and cement plants all over

China were stated to have produced a third of the country's total output in these products. The radio claimed that small factories throughout China had been producing steel, machines, chemical fertilisers, coal, electricity, cement and agricultural implements. It further claimed that medium and small factories throughout the country had turned out to be the "shock force" of China's technical innovations.

During the year, the Chinese authorities also appeared to have drawn a contingency plan for the dispersal and redistribution of industries "in the event of a war". A *People's Daily* article by the Honan Revolutionary Committee broadcast over Radio Peking on 3 June 1970, read in part: "If US imperialism and social-imperialism should dare to impose a war on us, local industries scattered all over the country can be rapidly switched over to war production to meet the needs of the revolutionary war... At present, US imperialism and social-imperialism are frenziedly carrying out arms expansion and war preparations. We must be on guard against the enemy's activities and be prepared against war while developing local industry."

One Western source (Werner Klatt) has estimated the output of selected industrial products in 1970 as follows:

- Coal—255 mn tons
- Electricity—60 bn kwh
- Crude oil—12.5 mn tons
- Iron ore—45 mn tons
- Pig iron—20 mn tons
- Crude steel—15 mn tons
- Cement—13.5 mn tons
- Fertiliser—6.5 mn tons
- Cotton cloth—6.6 bn metres.

Foreign Trade

According to a survey made by the Japan External Trade Organisation (JETRO), China's total foreign trade in 1969 reached \$ 3873 mn, an increase of seven per cent over the previous year. Exports totalled \$ 1980 mn and imports, \$ 1893 mn. Japan was the largest trade partner with a total turnover of \$ 625.3 mn, followed by Hong Kong with \$ 451.6 mn.

The JETRO survey said that China had a favourable trade balance in 1969 because increases in exports to South-East Asia more than offset increases in imports from Japan, Western Europe and the wheat exporting countries. China's exports to South-East Asia, comprising Hong Kong, Singapore, Malaysia, Ceylon and Pakistan, increased by 3.5 per cent to \$ 706.2 mn. Imports from the area totalled \$ 184.1 mn.

According to another Japanese estimate, China's exports to the West in 1969 increased by 12.3 per cent over 1968. The non-Communist world's share of China's foreign trade rose to 78 per cent in 1969 with Japan alone accounting for 16 per cent.

Trade between Britain and China reached an all time high of \$ 214.8 mn in 1969, only surpassed once under the Nationalist Chinese regime in 1920 when it had reached \$ 280 mn. Most of the increase in British exports came from big Chinese purchase of non-ferrous metals—platinum, copper and lead. In 1969 West German exports to China declined by 11.3 per cent from \$ 190 mn in 1968 to \$ 169 mn, while imports increased slightly from \$ 93 mn in 1968 to \$ 94 mn. West Germany's main items of sales to China during the year were iron

and steel, copper, chemicals and machinery.

Sino-Soviet trade hit a record low in 1969 totalling 51.1 mn roubles against 86.04 mn roubles in 1968, according to statistics released in Moscow in June 1970 (Rouble 0.90 = \$ 1.00). Soviet exports to China totalled 25 mn roubles and imports from China \$ 26.1 mn roubles. The Soviet official "Survey of Foreign Trade in 1969" remarked: "A further decrease in trade with the Chinese People's Republic occurred through no fault of the Soviet Union". However, with the signing of a new "agreement on the exchange of goods and payment" between the two countries in Peking on 22 November 1970, and with a slow improvement in Sino-Soviet relations, the Sino-Soviet trade may increase slightly in future. (Premier Kosygin disclosed in a statement on 2 January 1971 that "both sides agreed to expand trade".) There was also a report from Washington in October 1970 about Russia negotiating the sale of an unspecified number of long-range Ilyushin subsonic jet transport planes (IL-62s) to China. Sino-Soviet trade further dropped to 41.9 mn roubles in 1970.

Complete trade figures for 1970 were not available at the time of the Review going to the press. According to a report compiled by JETRO in November 1970, China's trade with 24 major non-Communist countries in the first six months of 1970 increased by 18 per cent, to \$ 1502.4 mn, compared to the corresponding period of 1969. Imports (\$ 804.4 mn) rose by 42 per cent while exports (\$ 698 mn) fell by about 2 per cent, resulting in a trade deficit of

more than \$ 100 mn for the period. The rise in imports was mainly due to a 77 per cent increase in purchases from Japan, which included steel products and lorries. The 24 countries covered in the report were China's major business partners including Britain, France, West Germany, Australia, Canada, Hong Kong and Japan.

According to the estimates made by Japanese trade circles, China's total foreign trade may reach an all time high of \$ 4.5 bn in 1970. The previous high was \$ 4.4 bn registered in 1966. The value fell to \$ 3.7 bn in 1968 in the wake of the Cultural Revolution. Other Western reports from Peking and Hong Kong also indicate that China's total trade in 1970 would surpass \$ 4 bn. An AFP report from Peking in December 1970 said that the import of vehicles and locomotives (during the year China placed orders for 2,500 Berliet lorries from Morocco, with delivery of 500 vehicles a year, and for more than 70 locomotives of between 4,000 and 5,000 hp, worth about £40,000 each, from West German and French companies) was expected to weigh heavily on China's trade balance in 1970. Nonetheless, the report added, China was expected to have a relative surplus "thanks to the funds sent by Chinese living abroad." (According to latest Japanese Foreign Office estimate, trade in 1970 totalled \$ 4.3 bn.)

Sino-Japanese trade faced an unexpected hurdle in April 1970 when Premier Chou En-fai set his "four conditions" for trading with China. According to these China would not trade with those Japanese firms which do business with South Korea

and Taiwan with the aim of supporting them; have investments in South Korea and Taiwan; cooperate with "US aggression" in Vietnam; or engage in joint ventures in Japan with US firms. The conditions put Japanese enterprises in an awkward position since Japan exports more to both Taiwan and South Korea, (whose governments Japan recognises) than to China. However, despite Premier Chou's restrictive terms, trade between China and Japan reached a level of \$ 825 mn in 1970, an increase of 32% over 1969

A significant development in the field of China's foreign trade in 1970 was the country's search for aircraft. Apart from negotiating with Russia for the purchase of IL-62s, Peking bought 4 second hand British-made Trident transport planes from Pakistan and sent civil aviation delegations to various West European countries including Britain and France in search of airliners. The high-power delegation which participated in the British Farnborough airshow, Britain's shop window for its aviation products, also visited two of Britain's biggest aircraft factories, and showed interest in the BAC-111. Britain was reported to be ready to sell China any civil aircraft currently in production, excluding the Anglo-French Concorde and the VC-10 airliner. China is also reported to be seeking to purchase airliners which have no US components, from France. A Hawker Siddeley mission from Britain visited China in March-April to discuss aircraft (presumably Tridents) deals.

A new purchase contract of 98 mn bushels of wheat, worth about \$ 160 mn, was signed with Canada in October

1970. The new sale has raised the Canadian wheat shipments to China to 600 mn bushels. No fresh contract for Australian wheat during the wheat year, December 1970-November 1971, had been announced till the end of 1970. However, during the year ending 30 November 1970, China was the largest customer of Australian wheat, taking 31 per cent of the total wheat exports.

Transport and Communications

During the period under review a number of new railway lines and other projects were completed and opened to traffic. They are:

- (i) The Anlu-Weichiatién line in Hupeh province, linking the Peking-Canton and Han-Tan lines, opened to traffic in April 1970.
- (ii) The 140 km Suilsi-Fuyang railway in Anhwei province. This railway, completed and opened to traffic in December 1970, links Hsifei, the provincial capital, with Fuyang.
- (iii) Double-tracking of the 145-km Sian-Paochi line, completed and opened to traffic in June 1970.
- (iv) A number of short narrow-gauge lines, aggregating more than 650 km in length, built and opened to traffic in Hunan province.
- (v) The "first large" railway overpass in Tsingtao, called the Yehching Bridge.
- (vi) A 385-metre railway bridge over Chienyang river.

Despite these new constructions, much of China's estimated 25,000-mile railway network is said to be old, and the railway workers reportedly must often "make do" with old, much-used equipment.

There were some reports of road-building and bridge-building. According to Radio Peking, the total mileage of roads in Kwangtung province is now 14 times greater than before "Liberation" (1949), and in just over two years during the Cultural Revolution 5,000 km of new roads were constructed in the hilly areas of the province. In Hunan province more than 2,000 km of roads were reported to have been built during 1969-70. According to NCNA, since the start of the Cultural Revolution, four times as much road mileage has been added in the province as was built in 30 years before "Liberation". Two concrete road bridges over the turbulent Yellow River—one in Chinghai province and the other in Ninghsia-Hui Autonomous Region, the latter said to be the first ever Yellow River bridge in Ninghsia, were constructed and opened to traffic.

According to a Japanese estimate made in July 1970, China has about 550,000 km of roads of all types. This estimate is lower than the one furnished by the Yugoslav news agency 'Tanjug', which stated in November 1969 that China had some 300,000 km of "predominantly all-weather" roads and nearly 500,000 km of secondary roads without hard surfaces (refer to page 7 of IDSA Annual Review 1969-70).

It was reported in July 1970 that China was stepping up the work to

expand the international port of Chankiang (Changchiang) on the South China sea in Kwangtung province, to coordinate with its campaign to promote foreign trade. Work was said to be under way to expand the wharf and to build a large shipyard, a building for port affairs and a number of ware-houses.

The first regular once-a-month shipping service between Yugoslavia & China opened in May 1970 with the Yugoslav ship "Trepca" leaving the port of Rijeka on 21 May. Initially four or five Yugoslav ships were to be employed on the China route. The opening of the shipping line came as a result of the December 1969 agreement between a visiting Yugoslav shipping delegation and the China National Chartering Corporation. The Chinese reportedly guaranteed a minimum of 50 per cent load both ways and payments to be made in convertible currency.

A Sino-Tanzanian joint shipping line also began operating in 1970.

POLITICAL DEVELOPMENTS

Politically 1970 was comparatively an uneventful year with the process of party-rebuilding still proceeding at a relatively slow pace. It was only at the end of the year that the establishment of the first party committee at the provincial level was announced. Radio Peking reported on 15 December 1970 that Hunan, Chairman Mao's birth place, had become the first of China's 29 provinces and regions to form a Communist Party Committee since Mao called for unity and rebuilding of the party at the Ninth Party Congress in April 1969. Subsequently during January 1971 Radio Peking announced the formation of four more provincial party committees in Kiangsi, Kwangtung, Kiangsu and Anhwei and one municipal party committee in Shanghai.

Of the six First Secretaries of the provincial and municipal committees whose elections were announced in December 1970 and January 1971, four—Cheng Shih-ching in Kiangsi, Liu Hsing-yan in Kwangtung, Hsu Shih-yu in Kiangsu and Li Teh-sheng in Anhwei—are military men who headed the respective provincial revolutionary committees. Only Hu Kuo-feng and Chang Ch'un-ch'iao, who were named First Secretaries in Hunan and Shanghai respectively are civilian party men. The election of four military men to head provincial party committees obviously showed that the dominant role played by the PLA in China during and after the Cultural Revolution was not a temporary one but was "a feature which was being incorporated into the permanent administration of the country", according to *Times* (London) of 2 January 1971. The provincial party committee of Chekiang was formed on 28 January with Nan Ping, Political Commissar of Chekiang military district and Chairman of the Chekiang Revolutionary Committee, as its First Secretary. In February China announced the formation of two more provincial party committees in Kwangsi and Kansu. Following the trend in most other new committees the Kwangsi and Kansu committees are led by military leaders. (Till the end of April, nineteen party committees had been set up. Of these sixteen are headed by military leaders).

It is not yet clear whether the provincial party committees will supersede the revolutionary committees. If we are to believe the new draft state constitution, purportedly approved by the second plenum of the ninth party Central Committee (to be discussed later), both the organs are to stay.

While the revolutionary committees will replace the people's councils in the provincial administrative apparatus, the party committees will be in charge of overall supervision of all provincial affairs.

China on 9 September 1970 announced plans to convene the long-delayed Fourth National People's Congress (NPC). The decision to hold the Congress was taken by the Second Plenary Session of the Ninth Party Central Committee held in Peking from 23 August to 6 September. An official communique said that the congress would be convened "at an appropriate time". Although elections of delegates for the NPC reportedly started in August 1970, there was no sign by the end of the year of the Congress being held in the immediate future. The New Year Day joint editorial indicated that the congress would be convened in 1971. However, it failed to give any specific date. The editorial said: "1971 will be an important year for the Chinese people to continue the revolution under the dictatorship of the proletariat. We are going to greet the 50th anniversary of the founding of the great, glorious and correct Communist Party of China and the convening of the Fourth National People's congress..." The NPC, which endorses the appointment of high state officials including the Head of State, last met in full session (the third since the establishment of the People's Republic) in December 1964, attended by 3,000 delegates. Its Standing Committee has not met since April 1966 shortly before the start of the Cultural Revolution. One of the tasks of the forthcoming congress will be the appointment of a successor to Liu Shao-ch'i who was

deposed as China's Head of State during the Cultural Revolution.

A "preliminary" draft of a new State Constitution is also believed to have been approved at the second plenum of the CCP Central Committee. The authenticity of the draft which was reportedly smuggled out of the mainland by Taiwanese agents could not, however, be vouched for. Nevertheless, if it turns out to be authentic, it is a novel document in many respects and deserves scrutiny. The proposed new Constitution is much shorter — it contains only 30 articles in place of 106 — and is simpler than the existing constitution of 1954. China is described as a "socialist" and not a "democratic" state. Great emphasis is given to the supremacy of the CCP over everything including the NPC, the State Council, the provincial administration and the PLA. Furthermore, for the first time, Mao Tse-tung, his successor and his 'thought' are written into the constitution, a unique feature for a state constitution. Mao is "the great leader of the people of all nationalities in the country, the head of state of the dictatorship of the proletariat, and the supreme commander of the armed forces of the whole country" (a position formerly held by the Chairman of the People's Republic). Lin Piao is designated as Mao's deputy and successor and Mao's thought is "the guiding principle for all work of the people of the whole country". Since there is no mention of the posts of Chairman and Vice-Chairman of the Chinese People's Republic anywhere in the constitution, these posts are assumed to have been abolished; some of their duties are reallocated and others omitted.

What would take their place or how they would be redesignated is not clear. The National Defence Council is abolished. The duties and functions of the NPC (National People's Congress) and the State Council are considerably pruned. Their diminished role is illustrated by the abolition of the post of Secretary-General of both bodies. While the NPC, once the "highest organ of state authority" loses most of its powers and emerges as a rubber-stamp for the CCP's wishes, the State Council is no longer described as the "highest organ of state power and the highest administrative organ of state".

In provincial administration, the revolutionary committees have been incorporated in the constitution in place of people's councils. The people's congresses are, however, retained. The government of the autonomous areas is brought into line with that of the provinces. The nationalities are allowed to retain their spoken and written languages.

The militia is included as a part of the armed forces. The PLA is to maintain its economic role by being a "work force and a production force" as well as a "fighting force".

Article 29 of the draft promises the right of political asylum to any foreign national "persecuted for supporting a just cause, for taking part in the revolutionary movement or for engaging in scientific activity". The draft also reportedly stresses that China is responsible for all the Chinese world over—no matter in what country they live or what nationality they hold.

The draft with possible amendments is said to be scheduled for adoption by the forthcoming session of the NPC.

However, the draft marks so many discontinuities with known Chinese policies that its authenticity is very much in doubt.

Although 1970, by and large, turned out to be a 'peaceful' year so far as the internal situation is concerned, there were still reports, though infrequent, of anarchism, factionalism and general reluctance to fall in with Peking's wishes, coming in from the various outlying provinces and regions of the country, especially during the earlier months of the year. The 1971 New Year Day joint editorial also hinted at continued difficulties. It said: "The struggle-criticism-transformation movement...will continue to deepen this year. We should firmly grasp revolutionary mass criticism on the political and ideological fronts, the cultural and educational fronts and the economic front and in all spheres of the superstructure, and continue to criticise the ideological trend of modern revisionism with Soviet revisionism as its centre, and eliminate the remaining influence of the counter-revolutionary revisionist line of the renegade, hidden traitor and scab Liu Shao-ch'i". It further said: "It is necessary to take a firm hold of the movement...and continue to hit hard at the handful of counter-revolutionaries who sabotage the socialist revolution and construction and attempt to restore capitalism."

Tibet, in particular, continued to remain a source of recurring troubles for the Maoist leadership. According to *The Times* (London) report of 23 December 1970, bands of armed guerillas were still operating throughout Tibet constantly harassing the Chinese Army. The guerillas were stated to be mainly young

Tibetans armed with rifles, machine guns and mortars "stolen or seized from the Chinese". *The Times* correspondent in India gave details of the Tibetan resistance movement following an interview with Paljor Kusang, a Tibetan defector who worked ostensibly as a reporter on the Chinese-run *Tibetan Daily News*, but actually as an intelligence agent for the Chinese, before escaping to India in late 1970. According to Paljor one of the biggest offensives against the Chinese in Tibet took place in May 1969 when 800 guerillas surrounded and assaulted an important garrison at Nemo (also spelt as Nyemo), 32 miles west of Lhasa, killing about 250 Chinese soldiers "during the hit-and-run attack". Paljor said "the garrison sent out an urgent call for help but before reinforcements arrived, the guerillas had retreated into their mountain hide-outs". Admitting that there was "little or no hope of driving the Chinese out of Tibet", he said small groups of guerillas were "operating all over the country" and the Chinese were "constantly harassed" by their surprise attacks. In many regions Chinese vehicles were ambushed if they moved about without an escort, Paljor claimed.

Paljor's account may suffer from some exaggeration but there is no denying that all is not well in Tibet for the Chinese. Radio Lhasa admitted on 27 July 1970 that Chinese troops crushed an armed revolt by Tibetans in Nyemo county, Central Tibet. The radio said that a "handful of class enemies" were trying to sow dissension between the PLA and the masses by appealing to religious sentiments and superstition. But the "revolutionary masses" had gained a quick victory and dealt with the trouble, it added. Radio Iran

also quoted (10 August 1970) Radio Lhasa as reporting that opponents of Mao Tse-tung had recently indulged in subversive activities in Eastern Tibet, destroying several bridges and roads. However, the radio added, the Chinese authorities had crushed them.

INTERNATIONAL RELATIONS

After about four years of diplomatic inactivity caused by the self-imposed international isolation adopted during the Cultural Revolution, China in 1970 reentered the international scene with a pragmatic and forceful foreign policy, which had already begun showing promises of results by the end of the year. The foremost test came in the UN General Assembly in November 1970 when China, for the first time in twenty years, won majority support for admission to the United Nations although it failed to win the required two-thirds (the vote was 51 in favour, 49 against and 25 abstentions on the "important question" resolution). Among other results were the recognition of the Peking Government by six countries — Canada, Italy, Ethiopia, Equatorial Guinea, Nigeria and Chile — representing three continents during the last few months. As a result Peking will now have in Chile its first diplomatic link in continental South America (and second in Latin America, the other being Cuba), and in Canada its first in North America. Diplomatic ties with Italy have strengthened its position in Western Europe, which may get a further boost with the recognition by Belgium, negotiations for which are reported to be in an advanced stage. The already stabilised position in non-Arab Africa has been further strengthened by the newly established ties with Ethiopia,

Equatorial Guinea and Nigeria. The position in the Middle East will also improve with representation in Iran and Lebanon, which may materialise soon. (The Shah of Iran was reported in December 1970 to be considering seriously the recognition of Peking, while Dy Prime Minister Hassan Tuani of Lebanon said in Beirut on 3 November 1970 that the Lebanese Government was studying the question of recognising China). According to latest reports, Kuwait, Cameroon and San Marino have also established diplomatic ties with China.

China has sent about 40 envoys back to their foreign posts since the middle of 1969 (During the Cultural Revolution all envoys except the one in Cairo were recalled to China to take part in the Cultural Revolution). More than 90 foreign delegations, including three led by Heads of State of Pakistan, Sudan and Southern Yemen (now called the People's Democratic Republic of Yemen), visited China in 1970, while as many as 50 Chinese missions were sent out. Sino-Soviet relations have improved and border tension eased, while the prospects of the resumption and effectiveness of the Sino-American talks at Warsaw have brightened with the posting of a full-fledged Chinese Ambassador to Warsaw (for the last few years the talk had been conducted on the Chinese side by a Charge d'Affaires) and Premier Chou expressing his willingness to resume such talks. The visit of a US table tennis team to China in April 1971, which, according to Premier Chou, "opened a new page in the relations between the Chinese and American people", and President Nixon's announcement (14 April) relaxing bans on direct trade and travel between the two countries are

signs of further thaw in Sino-US relations. China's "militant" friendship with North Korea has been restored, and even Mongolia, which is heavily committed to its alliance with Russia, is said to be "anxious to restore friendly relations with China as soon as possible".

Peking thus has reason to be satisfied with the success so far achieved by the re-oriented foreign policy. The *People's Daily*, in an editorial comment on 3 December 1970, on the establishment of diplomatic relations with Ethiopia, claimed that more countries stood for friendship with China, and said: "We have friends all over the world". Earlier, welcoming the establishment of Sino-Italian ties, the party organ declared on 8 November that China was willing to discuss with "any foreign government" the setting up of bilateral relations on the basis of "the five principles of peaceful co-existence". Peking, it would appear, is even ready to take a flexible stand on the Taiwan issue, while seeking recognition by "any foreign government", as in the cases of Ethiopia and Nigeria. In the joint communiques issued by China and Ethiopia and Nigeria not a word was mentioned about Taiwan (the communique merely said that the respective Government "affirm that the Government of the People's Republic of China is the sole legal government representing the entire Chinese people"). Previously China used to insist on other recognising countries committing themselves to Peking's position that Taiwan was an inalienable part of China. The communiques with Ethiopia and Nigeria were a further departure from the formula adopted when Canada and Italy recognised Peking. In those instances the two merely took note of China's

claim to Taiwan. The fact that Peking had not insisted on even this condition in the cases of Ethiopia and Nigeria is indicative of the growing flexibility of Peking's stand.

In two areas, however, there has apparently been no sign of any change in Peking's hard line. One is China's relations with Japan, where Chinese denunciations of the "revival of Japanese militarism", first voiced after the issue of the US-Japan joint communique on Okinawa in November 1969, have become stronger and more vocal. The other area is, of course, Vietnam, where China cannot brook any compromise. "In those countries where there is direct conflict with US imperialism and its running dogs, such as South Vietnam and South Korea, we cannot abandon revolutionary armed struggle", a Peking foreign policy briefing is reported to have said.

The 1971 New Year Day editorial claims the following as China's foreign policy achievements and objectives: "China's foreign relations are daily developing. We are advancing shoulder-to-shoulder with the Albanian Party of Labour in the struggle against imperialism and revisionism. We are closely united with the Vietnam Workers Party and the Korean Workers Party, in the fight against US imperialism and Japanese militarism.....Our militant unity with all genuine Marxist-Leninist parties and organisations and with the revolutionary people of the world has been constantly consolidated and strengthened...The Chinese people firmly stand on the side of the proletariat and the oppressed peoples and nations of the world over. At no time will China act as a super power, neither today nor in the future. A super

power invariably wants to be superior to others and proceeding from the position of strength to lord over others. The Chinese people stand for equality among all nations, big or small. We will persistently fulfil our proletarian internationalist obligations, firmly support the revolutionary struggles of people of all countries and learn from them and together with them we will fight to the finish to defeat the US aggressors and all their running dogs, and oppose modern revisionism with Soviet revisionism at its centre and the reactionaries of all countries".

China's statement that it will "never act like a super power" and that "the Chinese people stand for equality among all nations, big or small", is a significant assertion. The 1970 joint editorial placed China on an equal footing with USA and the Soviet Union, indicating Peking's aspirations to claim for itself the third super power position. Evidently this change of posture stems from China's anxiety to assure the nations of the third world, which have viewed its "Great Power posture" with suspicion, that it would not forsake their company to join the "Super-Power club". This does not, however, mean that China will give up its efforts to increase its national strength. What the statement appears to suggest is that although China will become a great power, it will never behave like the two existing Super Powers—USA and USSR—and will not "lord over others", but will "firmly stand on the side of the proletariat and oppressed peoples and the nations" of the world.

USSR

The year 1970 saw perceptible

improvement in the Sino-Soviet relations as will be seen from the following :

1. In April 1970 China and Russia reportedly agreed to a limited pull-back of their opposing forces from the disputed border. The agreement, intended to scale down border tension, was presumably reached at the Peking talks. (Subsequently there were reports that USSR had unilaterally pulled back its forces 31 miles from the border with China "in a compromise move")
2. In July a report came in from Moscow indicating that USSR might be willing to surrender claims to certain disputed islands in Ussuri and Amur rivers (there are about 600 islands under dispute in the area) to the Chinese under certain conditions.
3. In the same month (July 1970) the Moscow-Peking "hot-line" was restored. This was said to be one of the five proposals made by Premier Kosygin to Chou En-lai in their Peking airport meeting in September 1969, which date may be considered as a watershed in Sino-Soviet relations.
4. On 18 September, a protocol on Sino-Soviet border trade was signed at Khabarovsk.
5. In October-November Peking and Moscow exchanged Ambassadors after more than three years marked by bitter polemics and armed clashes along the common border. The Soviet Ambassador Vasily

Tolstikov arrived in Peking in October, while his Chinese counterpart, Liu Hsin-chuan, reached Moscow the following month. Western diplomats in Moscow believed that the acceptance of a new Soviet Ambassador by China and its reciprocation by Russia (Moscow was thought to be willing to receive a Chinese Ambassador even earlier) was a significant improvement in the Sino-Soviet relations. It indicated that the two sides had agreed, implicitly at least, to "stabilise" their relationship at state level.

6. On 7 November, a goodwill message from the Standing Committee of the National People's Congress and the State Council to Moscow on the 53rd anniversary of the October Revolution, while extending "warm congratulations to the fraternal Soviet people on behalf of the Chinese people", called, for the first time in many years, for "friendly and good neighbourly relations" between Peking and Moscow. The message read in part : "China has all along held that the difference of principle between China and the Soviet Union should not hinder the two countries from maintaining and developing normal good relations on the basis of the Five Principles of Peaceful Co-existence...proceed from this principle and take effective measures to settle important outstanding questions in the

state relations between the two countries, so that the relations between our two countries will become friendly and good-neighbourly. This is in accordance with the aspirations of the Chinese and the Soviet peoples as well as fundamental interests of the people of the world".

The softening of tone and the willingness to co-operate at state level is a far cry from the hard line taken by the Peking leadership in 1968-69.

7. On 22 November a new Sino-Soviet "agreement on the exchange of goods and payments" between the two countries was signed in Peking. (No trade agreement was signed in 1969.) Earlier there was a report about Russia negotiating the sale of some IL-62 transport planes to China.
8. In November, for the first time in three years, travel restrictions on Soviet diplomats in China were relaxed and Soviet Embassy members were allowed to visit Canton and other places.
9. On 20 December Tass announced the successful completion of the six-month old Sino-Soviet talks on border rivers and the signing of a protocol at Heiho in Heilungkiang province (China, however, said that "no agreement was reached" at the meeting).
10. In an interview with the American writer, Edgar Snow, in December, Premier Chou En-lai was reported to have said that the negotiations on the Sino-Soviet border dispute must continue with maximum zeal to establish friendly relations of good neighbourliness between the two countries.

There is, however, another side to the picture, which indicates that despite all these developments there has been no significant warming up of Sino-Soviet relations. China's relations with Russia have no doubt become somewhat "formally correct" after armed clashes along the border in early 1969 came close to triggering wider fighting. But the Chinese still repeatedly make their anti-Soviet feelings clear and show no signs of wanting to relax their guard in dealing with the Soviet Union. The draft of the new State Constitution, purportedly approved by the second Central Committee plenum in September 1970, reportedly declares as state policy that the Chinese Army must "defend against the subversion and aggression of the imperialists, the social imperialists and their running dogs". The 1971 New Year Day article, which is thought to reflect Chinese policy line, also did not fail to attack "social-imperialism" and "modern revisionism with Soviet revisionism at its centre".

There was no perceptible relaxation in Sino-Soviet polemics throughout the year. In one of the strongest attacks on Peking early in the year, the Russians accused the Chinese leadership of being "motivated by great-power hegemonist ambitions" in its foreign policy aiming at realising the "great Han dreams of becoming the new emperors

of a 'Great China' to which, if not the whole world, then at least Asia, would be subjected". Another Soviet attack in July accused Mao of having committed the "biggest treachery in history" exceeding that of Hitler's attack on the USSR in 1941. A third attack, appearing in the Soviet weekly journal, *New Times*, on 5 June, accused Peking of pursuing a policy of setting Asians against Asians and of meddling in the affairs of Burma, India, Pakistan, Nepal, Bhutan, Sikkim, the Philippines and Laos. In December 1970 Moscow Radio also accused China of frustrating its plan for an "Asian collective security system", including India, Pakistan, China and USSR. In other speeches and broadcasts beamed towards China, particularly during the second half of the year, when direct attacks became less vocal, the Kremlin often accused Peking of "not allowing any appreciable progress in the normalisation of relations in general or in the current (border) talks in Peking" but said Moscow would continue to try to improve relations with China. Thus on 2 January 1971 Prime Minister Kosygin, in an interview to the Japanese newspaper, *Ashahi*, indicated that the response to his country's overtures for improvement of bilateral relations remained inadequate. He said: "Even in the most complicated period of greatest aggravation of Soviet-Chinese relations, the Soviet Union invariably adhered to the principles for restoring good neighbourhood with the People's Republic of China and displayed readiness for talks. Some steps in the direction of normalisation of Soviet-Chinese relations were undertaken in the past year. Both sides exchanged Ambassadors, agreed to expand trade and are conducting talks in Peking on the level of government

delegations. From the Soviet side there is no lack of goodwill to solve all the questions existing between the USSR and the People's Republic of China on the basis of equality, mutual respect and consideration for each other's lawful interests. But normalisation of relations ...can only be the result of efforts directed at this by both countries". Earlier the party leader Brezhnev and Politburo member and party theoretician Suslov also spoke in the same vein.

The Chinese as a rule remained silent on specific Soviet accusations of hindering the process of normalisation of relations. They, however, continued to charge the Kremlin with anti-Chinese aggressive postures and warlike preparations. A joint editorial in the *People's Daily*, *Red Flag* and the *Liberation Army Daily*, published on the 43rd PLA Anniversary Day on 1 August 1970, called for the heightening of vigilance in order "to defend the motherland" against "aggression of imperialism and social-imperialism and cope with their surprise attack". It said: "Social-imperialism greedily eyes Chinese territory...It has not for a single day relaxed its preparations to attack China. Why then does it mass its troops in areas close to the borders"? The editorial also asked why the Soviet Union had despatched large numbers of troops into another country which neighboured on China (presumably Mongolia) and why it "frenziedly undertook military deployment to direct its spearhead against the Chinese."

The Soviet Union, however, denied the above charges. In a broadcast beamed to China on 4 August 1970, Radio Moscow said that allegations such as the Soviet Union was "threatening China"

could sabotage the Sino-Soviet border talks and split the socialist world. It added that USSR had never *threatened* China; on the contrary, it had helped China with weapons, machinery, technical knowhow and food. On 12 November 1970, 'Radio Peace and Progress' (Tashkent), in a counter-charge, accused China of "strengthening the campaign for war preparations in China, and particularly in the border regions directly adjacent to the Soviet Union". On 22 December 1970, China accused Russia of preparing to send troops into Poland to help crush the workers' riots and warned the Kremlin that intervention could stir up turmoil in the rest of Eastern Europe. Russia denied the charge with equal vehemence.

Despite the improvement in state relations and easing of tensions, there has been no apparent relaxation of the border build-up on either side. On the other hand, various Western reports indicate that during the year (1970) both the Soviet Union and China took a number of defensive steps to prepare against a possible war between them. Thus a *New York Times* report from Hong Kong on 22 July 1970 said that the Russian "accretion of military strength has apparently now passed the point of being merely defensive in character". Among the steps reported to have been taken by the Soviets were :

1. Emplacement of "many hundred" tactical nuclear missiles and rockets along the 4,500-mile contested border.
2. Deployment of new solid fuel mobile missiles, called the *Scaleboard*, with estimated ranges of 500 miles and warheads of over one megaton.

3. Addition of a fourth company in each of the *Frog* nuclear rocket battalions along the Far Eastern border. (The *Frog* is a tactical nuclear rocket with a range of about 30 miles).
4. A conventional force build-up of at least 35 combat-ready divisions with a rapid re-inforcement capability of 25 additional divisions (In early 1968 USSR had only 14 understrength divisions thinly spread along the border).
5. Expansion of existing border air bases and construction of "several dozen" new landing strips.

On the Chinese side the following steps were reportedly taken :

1. Recent construction of a new missile-testing complex, "in the general vicinity of Peking" from where two-stage liquid-fuelled IRBMs (range 1,500-2,000 miles) could be test-fired. According to some analysts, in an emergency China could fire a handful of IRBMs from this location as well as from older launch pads in west-central China at Soviet cities in East and Central Asia.
2. A five-fold increase in arms production and military construction over the last year including the stepping up of the manufacture of MiG-19s to an estimated 300-400 machines a year as also of tanks and artillery pieces.

3. Increase of military units along the border to a strength of nearly 2 mn men (presumably including militia and other paramilitary troops).
4. Upgrading of arms and training of border militia units.
5. Establishment of a new military headquarters in the Wuhan Military Region in Central China to coordinate country-wide defence moves in the event of an invasion.
6. Breaking up of Inner Mongolia in terms of both military control and civil administration to give depth in defence deployment (details given in 'Armed Forces' section).

All these details may not be accurate and some may suffer from exaggeration; nevertheless, they are useful in illustrating the nature and magnitude of the Sino-Soviet border confrontation.

Japan

Sino-Japanese relations continued to remain strained, at least on the political plane, during the period under review. On 19 April 1970, China won a "major victory" in its propaganda warfare to prove that Japan was becoming a "military menace" to Asia again. On that date Yoshimi Furui, a LDP Diet member and a former Welfare Minister, and the leader of the Japanese delegation negotiating the renewal of the "memorandum trade" pact, joined Liu Hsi-wen, the Chinese negotiator, in signing, at "private level", a communique which attacked the foreign policies of the Sato Government and "sternly" condemned the Japan-US

joint statement of November 1969 (on the return of Okinawa). China alleged that there had been a definite "revival of Japanese militarism" and that the US-Japan Security Treaty was a bilateral military alliance.

Although Furui later said in Tokyo that the strong criticism voiced in the communique by the Japanese delegation was "unavoidable for the maintenance of trade relations between Japan and China" and was presumably thought to be a one-time concession, the development set the pattern for future Sino-Japanese relations. (The criticism was repeated in this year's communique issued on 1 March). The "humiliating" communique was followed by the enunciation of Premier Chou's "four principles" regulating trade with Japan (discussed earlier); and in August 1970, when the Premier laid down his conditions for improving Sino-Japanese relations to a visiting Japan Socialist Party delegation, they almost amounted to interference in Japan's internal affairs. The Premier was reported to have stated at a meeting with Kozo Sasaki, former Chairman of the Japan Socialist Party and head of the delegation, that China would support the Japan Socialist Party's plan to launch a national movement in Japan to restore relations with his country provided the Japanese people step up their opposition to "US imperialism and Japanese militarism".

The dispute over the Senkaku island, which erupted in November-December 1970, added further strain to the already strained Sino-Japanese relations. On 4 December 1970 China formally laid its claim to this island, lying between Okinawa and Taiwan, and issued a warning to Japan that it should not go ahead with plans to

prospect for undersea petroleum in the waters around the island, independently or in co-operation with Taiwan and South Korea.

According to an American assessment (*U.S. News and World Report*, 20 April 1970) Japan and not USA, is "second on the list of nations that China most fears" (the first obviously is USSR). The assessment said that China suspected that Japan with its ability to produce and trade would soon dominate the resources of the rest of Asia. Moreover, Japan, an ally of USA, was steadily building up its military strength. "As Peking watches the US cutting back its forces in Vietnam, loosening its ties with the rest of Asia, the Chinese worry—but not at the thought of the US leaving Asia. They would welcome that. What bothers Peking is the idea that Japan will take over the job of being Asia's policeman", the assessment added. The New Year Day editorial also mentioned "struggle" against the "revival of Japanese militarism."

North Korea

Sino-North Korean relations which after recovering from the shock of the Cultural Revolution (relations were extremely strained due to Red Guard criticism of Kim Il Sung and some border incidents during the revolution) began to improve in 1969, developed into a close "militant friendship" between the two countries in 1970, reminiscent of the days of the Korean War. The groundwork for the closer relations was laid by Premier Chou En-lai in early April 1970 when he paid a brief (5-7 April) visit to Pyongyang, the first trip abroad for the Chinese Premier since September 1969 when he had been

to Hanoi to condole the demise of Ho Chi Minh. Chou was reportedly accorded one of the warmest receptions, usually reserved only for heads of state, "something Soviet President Podgorny failed to get when he visited North Korea last year (1969)". A joint communique issued after the visit attacked the "revival of Japanese militarism", and said that Japanese militarists, backed by USA, were trying to revive the idea of "greater East Asia Co-prosperity Sphere". Chou's visit was followed by visits to Pyongyang by PLA Chief of Staff Huang Yung-sheng, on the occasion of the 20th anniversary of the Korean War (June 1970), and later by other high-ranking officials, who were all received by Premier Kim. Several North Korean military and civilian delegations, led by high-ranking officials, including Cabinet Ministers and the Army Chief, made similar trips to Peking.

While the "revival of Japanese militarism" is an important factor in contributing to the new Chinese-North Korean *rapprochement*, one reason for the "militant friendship" between China and North Korea appears to be their common dislike for closer Japan-USSR relations. Both China and North Korea appear convinced of a US-Japanese "conspiracy" to control Asia, and further, North Korea, like China, according to *Far Eastern Economic Review* of 3 October 1970, appears to "strongly suspect that the Soviet Union is a partner in this conspiracy, directed primarily against China, and that Moscow might be willing to sell out the interests of North Korea for an understanding with Japan".

However, despite all the increasing signs of Peking and Pyongyang drawing closer together, North Korea, it would

appear, likes to remain neutral in the Sino-Soviet rift. An editorial in the North Korean official daily, *Nodong Sinmun*, published to mark the opening of the Fifth Congress of the ruling Workers Party on 2 November 1970, re-affirmed Korea's independent line on the issue. It said: "Our party has resolutely defended the purity of Marxism-Leninism against opportunism of all hues, always adhering to its independent stand and presented the most correct revolutionary principles and ways for surmounting the difficulties facing the socialist countries and the international communist movement and achieving their unity and solidarity".

Indo-China

In Indo-China, the Chinese, in a series of tactful moves since the Cambodian crisis of March 1970, have apparently outmanoeuvred the Russians and now appear to have secured dominant influence there. By hosting the "Cambodian Government of National Union" of Prince Sihanouk, providing it with political, military and economic support as well as free military aid and economic assistance, and by helping to organise the first Indo-Chinese People's Conference on the Chinese soil and later a joint military command in Indo-China, and by providing the Indo-Chinese people with a reliable rear area on the Chinese mainland, while, at the same time, without committing itself to any direct intervention with troops, Peking has been able to create an image of itself as the most reliable supporter of the "Indo-Chinese people's struggle against US imperialism and its lackeys".

Premier Chou En-lai played a major role as host to the Indo-Chinese summit conference held somewhere in south-west China (identified by some as K'unming).

Although China was not a direct participant—Prince Sihanouk, Premier Pham Van Dong of North Vietnam, Prince Souphanouvong of Laos and Nguyen Huu Tho, President of the South Vietnamese National Liberation Front, attended the conference—the organisation and policy statements of the conference, according to *Far Eastern Economic Review* (3 October 1970), unmistakably showed "Peking's overriding influence to the total exclusion of Moscow". Earlier China rejected the initiative of the 11-nation Djakarta Conference on Cambodia, accusing that its sole purpose was to serve US aggressive aims in Asia. It also assailed Moscow for receiving the three-man task force of the conference.

Peking's strategy in Indo-China also reportedly includes the execution of a co-ordinated plan with Hanoi to step up insurgent activity in all the three Indo-Chinese states and to expand the area of hostilities to Thailand. US intelligence sources have disclosed the existence of a regular guerilla base supported and equipped by China at Dong Luang in Eastern Thailand (adjoining Laos). The 5,000 odd guerillas operating from this base are reported to be periodically reinforced by new elements trained in China and supplied with Chinese rifles.

The North Vietnamese leader Le Duan paid a four-day visit to Peking from 10 to 13 May 1970. Earlier he had visited Moscow. During his visit to Peking he met Chou En-lai and other Chinese leaders. He also met Prince Sihanouk. His visit was followed by the signing of a new Sino-Vietnam military and economic agreement in Peking on 25 May. Under the agreement covering 1970 China was to give Hanoi non-refundable military and economic aid of an

unspecified amount. A "supplementary" agreement on military and economic aid to Hanoi was signed on 15 Feb, 1971 in the wake of Laotian "invasion" by South Vietnam backed by US air power. Peking also warned on 13 Feb. that the US backed South Vietnamese push into Laos was a serious development, and "a grave menace to China itself". The Chinese people "will not remain indifferent to the US aggression". The warning was followed by a "surprise" visit to Hanoi by Prime Minister Chou En-lai during 5-8 March. A joint communique issued after the visit said: "Should the US imperialism go down the road of expanding its war of aggression in Indo-China, the Chinese people are determined to take all necessary measures, not flinching from the greatest national sacrifices, to give all-out support and assistance" to the Indo-Chinese people.

According to US intelligence estimates, in 1969 China provided Hanoi with about \$ 200 mn in aid, roughly 50% of the aid from USSR. About one half of this aid was military, mainly infantry weapons and ammunition. During the first half of 1970 China's aid to Hanoi amounted to \$ 100 mn as against Russia's \$ 225 mn.

Meanwhile, China's road-building activity in Pathet Lao-occupied Laos continued unabated. William L. Dickinson, a member of the US House of Representatives Armed Services Committee, said in Washington on 22 May 1970 that China was building all-weather roads throughout north-west Laos which posed a military threat to Thailand. He said that for the past several months some 10,000 Chinese military and skilled construction workers had been building the roads. He added

the only purpose of these roads, which "are protected by Chinese anti-aircraft guns and Chinese troops", was military. "The roads are within ten miles of the Thai border".

Thailand

Thailand also continued to show its concern for Chinese presence in Laos. One major worry for the Thai leaders was a road the Chinese were building across northern Laos connecting Yunnan province of China with Dien Bien Phu in North Vietnam and the Mekong River in Laos, at a point less than 20 miles from the Thai border. The road would make it easy for China "to pour infiltrators by truckloads" into Thailand, they apprehended.

Malaysia

Thailand as well as Malaysia was also disturbed over the growing Chinese-aided and abetted insurgency along the border between the two countries where *caches* of modern Chinese-made arms were captured. Former Prime Minister Tunku Abdul Rahman and the present Prime Minister Tun Abdul Razak more than once expressed their concern over Chinese complicity in the insurgent movement, led by Chin Peng, in the Thai-Malaysian border region. Thus, just before relinquishing his premiership, the Tunku told a press conference in Kuala Lumpur (15 September 1970) that China was assisting the insurgents operating along the Malaysian-Thai border and that the Malayan Communist Party leader, Chin Peng, was making frequent visits to China. Prime Minister Tun Razak said on 9 October 1970 that although he sought peace with China, it was still supporting subversive activities in Malaysia and broadcasting anti-government propaganda. Despite these critical sta. q-

ments, Malaysia was reported to be keen to improve relations with China. There were reports in August and September that Malaysia had been discreetly sounding China for an improvement in relations between the two countries and that Tun Abdul Razak was seeking the good offices of Rumania for establishing contact with Peking. Malaysia which supported China's entry into UN in November, also canvassed the idea of a neutral South-East Asia guaranteed by the two super powers and China. This, along with China's entry into UN, it thought, would be the best insurance against Chinese interference in the internal affairs of Malaysia as also other countries in the area. However, on 19 December 1970 Premier Tun Razak told a press conference in Kuala Lumpur that Malaysia was "not out to establish diplomatic relations with China", as that country was still supporting the insurgents along the Thai-Malaysian border and directing propaganda against Malaysia.

Indonesia

Though the Indonesian authorities have complained about Chinese complicity in the insurgent movements in West Kalimantan, they too appeared to be keen to improve relations with China. Foreign Minister Adam Malik said in Sydney on 25 September 1970, on his way to the United Nations, that Indonesia wanted to resume diplomatic relations with China (broken off in 1966). He also supported the Malaysian proposal for a neutral zone in South-East Asia guaranteed by all big powers including China. However, in a recent statement in Djakarta on 4 January 1971, the Foreign Minister took a somewhat rigid stand and said Indonesia would not normalise relations with

Peking unless China recognised President Suharto's Government and stopped subversive activities in Indonesia. The rigid stand may be a sequel to the recent seizure of documents from a *Paraku* insurgent gang, which reportedly disclosed that insurgents in the West Kalimantan-Sarawak border had planned a "Vietcong-style" guerilla warfare against the Djakarta regime with Chinese assistance. The captured documents were reportedly all written in Chinese and illustrated with pictures of Chairman Mao.

According to a *Manila Times* report (18 December 1970), the Philippines also was ready to initiate "exploratory talks" with China in order to neutralise a "power game" likely to be played by US, USSR and Japan in the region.

Burma

Sino-Burmese relations, although still not very cordial because of China's continued involvement in insurgent activities in the minority areas of Burma, improved considerably during the period under review. A new Burmese Ambassador, Thein Maung, the first since the Rangoon riots of 1967, arrived in Peking in November 1970. Even before the arrival of the Ambassador, there were signs of Chinese intentions of improving relations with Burma. Since the middle of 1970, Peking has reduced its comments on the insurgent activities in Burma and made only the barest references to Ne Win himself. It is significant that Peking now refers only to "Burmese reactionaries" and not to the "Ne Win fascist clique". China has not extended support for U Nu's "United National Liberation Front" (UNLF). According to five former followers of U Nu who surrendered to the Burmese authorities in April 1970, early in 1970 U Nu sent an

emissary to Peking for political and military aid, but his request was turned down.

However, all was not quiet on the insurgency front, particularly in the north-east frontier region where Chinese involvement was alleged in May-June 1970. According to *Far Eastern Economic Review*, 18 June 1970, about 10,000 Chinese troops infiltrated the Shan State in Burma, bordering on Yunnan province, and fierce fighting took place on three occasions between the intruders aided by KIA and BCP insurgents on the one hand, and Burmese troops on the other, near Lashio, in which both sides suffered heavy casualties. While the Burmese Government admitted clashes with the insurgents at Lashio, it denied Chinese intrusion. According to a Reuters' report, the Burmese Government was very anxious not to provoke China and, as such, Burmese troops had been instructed to avoid at all costs firing stray shots across the Chinese border while carrying out counter-insurgency operations at Kyukok, just 100 yards from the Chinese border.

India

China is reported to have also given indications of a desire to normalise relations with India. According to a Hong Kong report. (*Far Eastern Economic Review*, 28 November 1970), Peking has decided "to freeze for the time being these long continuing border disputes (with India and USSR) in order to seek a solution through protracted talks." However, no formal move has yet been made either by Peking or by New Delhi in this direction. On the contrary, the Chinese press came out with a strong anti-Indian tirade in November 1970, and in early February 1971 unduly played up the

stalemate of Indo-Nepalese trade talks with a view to arousing anti-Indian emotion in Nepal. On 5 November NCNA charged that despite the Indian Government's repeated declarations of wanting to live in peace and friendship with China, New Delhi was continuing to "connive at anti-China activities". The agency accused New Delhi of repeatedly supporting and conniving at Tibetan exiles' "acts of high treason", of supporting anti-China demonstrations by Indians hostile to China and of giving "tacit approval to their intensified collusion with the Chiang Kai-shek bandit gang". It described the holding of the KMT Chinese-Indian "friendship week" in New Delhi in October 1970 as "a new and serious provocation against the Chinese people". It also objected to a statement by 150 MPs calling for the recognition of Taiwan by New Delhi. Of late, China has also made good use of the deadlocked trade talks between India and Nepal in its propaganda. During the first two weeks of this year, Peking had been almost daily high-lighting the deadlocked trade negotiations in NCNA and Radio Peking broadcasts. The main theme of these reports was that India, a big country, was bringing all sorts of pressure on Nepal, a small country, to force that country to accept unreasonable demands, but that "brave little Nepal" had been admirably standing up to these pressures. Peking reportedly also tried to give the impression to the outside world that India was not only trying to strangle Nepal economically but was even exerting military pressure on that country by increasing its troops along the Nepal border and by making daily reconnaissance flights by military aircraft over Nepal's border areas.

However, during 1970 the Chinese appeared to have tapered off their supply of arms and training to the Indian insurgent groups, including Nagas. According to *Hongkong Standard* of 10 November 1970, at a meeting between the hostile Naga leader, A.Z. Phizo, and some Chinese leaders, held in a country "unfriendly" and neighbouring to India, in September 1970, the Chinese were reported to have expressed their disappointment at the poor performance of the rebel Nagas and refused to give any firm commitment for further supply of arms and training. Phizo was reportedly told that if the Nagas felt it essential in future, arrangement for training and arms supply to the hostiles could be arranged in a neighbouring country, presumably Pakistan.

Nepal

Apart from exploiting the situation arising out of the deadlocked trade talks between Nepal and India China's attempts at influencing Nepal has had no significant success. In July 1970 the Nepalese Government took over the maintenance work of the Chinese-built Kathmandu-Kodari road. Up to that time repairs and maintenance of the road was the responsibility of China. The new arrangement was presumably followed the withdrawal or transfer to other project sites of the contingents of Chinese road engineers and technicians who used to camp on both sides of the road, ostensibly for maintenance purposes but sometimes to control and check the traffic beyond certain limit in the north. In December 1968 the Indian journalist, Frank Moraes, was ill-treated by the Chinese while travelling on this road. Mao's posters and pictures were then prominently displayed on the roadsides. In August the 87-metre Bagmati bridge

on the Kathmandu-Bhaktapur road, being built with Chinese aid, was completed.

Ceylon

Relations with Ceylon have showed a marked improvement with the change of government in Colombo. In an interview with Ambassador Robert Gunawardene, on the eve of his return to Colombo in August, Premier Chou En-lai was reported to have said that China "is all admiration" for the new Government of Ceylon and "will do everything possible" to help the ruling front in the island. In July 1970, Peking appointed a new Ambassador in Colombo after a lapse of five years. Soon afterwards Peking agreed to resume the construction of the Bandaranaike Memorial International Conference Hall in Colombo, abandoned earlier due to differences with the Senanaike Government, and also agreed to the revised estimate of Rs. 3.5 crores — the earlier estimate was Rs. 1.7 crores — for financing the project. The construction work on the hall has since started and several groups of Chinese technicians have arrived in Colombo to assist in the work. Under a new agreement signed in Peking on 12 September 1970, China agreed to provide Ceylon with an interest-free loan of Yuan 22 mn (\$1 = Y2.46) repayable over 10 years for the purchase of 100,000 tons of rice during 1970. After signing the annual rubber-rice barter pact in Colombo in January 1971, which will provide for the exchange of 200,000 tonnes of Chinese rice for 41,000 tonnes of Ceylonese sheet rubber in 1971, the Chinese Foreign Trade Minister, Pai Hsing-kuo, announced a reduction of 5 shillings per tonne in the rice price, in order to help Ceylon in its foreign exchange difficulties. The

Minister also said that the Chinese Government was ready to "speed up the socialist march" of Ceylon by aiding Ceylon economically and in every other way possible, "as we love Ceylon".

Pakistan

China's relations with Pakistan apparently remained warm despite the temporary furore caused by anti-Chinese propaganda and criticism by "influential" sections of the Pakistani Press and politicians in the pre-election days, which forced the Chinese Embassy in Islamabad, for the first time, to come out with a public protest. Denying charges of Chinese interference in Pakistan's internal affairs, the Embassy statement said that "elements who do not want Sino-Pakistan friendship to grow are keen to wreck it under different pretexts and excuses". Subsequently Peking also denied charges of criticising the Pakistan general elections.

The period under review was marked by visits to China by a number of high-level Pakistan delegations. Air Marshal Rahim Khan, C-in-C of the Pakistan Air Force, paid a week's visit to China from 31 May to 7 June 1970 at the invitation of the Commander of PLA Air Force, Wu Fa-hsien. While the nature and scope of Rahim Khan's visit remained secret there were indications that the mission had gone to China with a shopping list. The main items on Rahim Khan's list, according to one source, seemed to be military electronics equipment, possibly sensitive radar network for the Pakistan Air Force, and spares for MiGs and IL-28s, earlier supplied by China. The Pakistan Air Chief was also reported to have probed the possibilities of establishing in Pakistan repair facilities for Chinese aircraft. The Pakistan Air Chief's visit

was followed by the visit of Vice-Admiral Muzaffar Hasan, C-in-C of the Pakistan Navy, who arrived in Peking on 18 September at the invitation of the Commander of the PLA Navy, Hsiao Ching-kuang. Commenting on the visit a press report from Tokyo said that there was little doubt that the Pakistan team, led by their Naval Chief, "is in Peking on an important shopping mission whatever be the military equipment in the list". According to an Indian press report, China is believed to have sought naval facilities from Pakistan in the eastern wing—either at Chittagong or Chalna—and the visit of the Pak Naval Chief was believed to be linked with the Chinese probe. It was likely, the report said, that in return for port facilities, China might supply some naval craft to Pakistan. ISS(London), in its annual report, *Military Balance 1970-71*, reported that China had already signed sometime in 1970 an agreement to supply 2 to 3 'W' class submarines to Pakistan.

A Pakistan Government friendship delegation, led by the Governor of Punjab, Lt. General Atiqur Rahman, visited China in September-October 1970 to take part in the 21st National Day celebrations in Peking on 1 October. Later in the same month Lt. General Mohammad Ayub Khan, Director of Medical Services of the Pakistan Armed Forces, led a medical delegation to China.

Finally President Yahya Khan paid a five-day state visit from 10 to 14 November, his first visit to China as his country's President. President Yahya Khan's 30-man entourage included the Communications Minister, G. W. Choudhury, his Economic Adviser, M. M. Ahmed, and three Army Generals and

a Navy Commodore, including Maj-General M. Khurshid Haider, Director-General of Procurement. The inclusion of top military officials, especially the Army procurement chief, would suggest that the Pakistan President's mission in Peking presumably concerned, among other things, the procurement of some more Chinese arms especially tanks, which both USA and USSR reportedly refused to supply. The *Dacca Weekly Holiday*, also suggested (8 November 1970) that arms procurement was one of the topics discussed in Peking. Another purpose of the mission was thought to be the prevention of any thaw in Sino-Indian relations which was considered possible during the latter part of 1970.

In a joint communique issued on the conclusion of the Pak President's visit on 14 November, Pakistan supported China's call for a total ban on nuclear weapons. The Chinese leaders stressed their support for the "right of self-determination for the people of Kashmir" and "appreciated" Pakistan's stand on the distribution of Ganga waters. They also expressed the hope that Indo-Pakistan problems would be solved in a peaceful way. The Chinese leaders also pledged their support for the safeguarding of Pakistan's "territorial integrity and national sovereignty".

On the two Chinas issue, the Pakistan side reiterated that the Government of the People's Republic of China was the sole legal government of the Chinese people and that Taiwan was an inalienable part of the People's Republic. The Pakistan side expressed the firm conviction that without the participation of China the important problems that confronted the world today could not be resolved

and re-affirmed that "the legitimate rights of the People's Republic of China in the UN should be restored forthwith".

A concrete result of the visit was the signing of a credit agreement in Peking on 14 November, under which China is to give Pakistan a loan of 500 mn yuan (Rs(P) 100 crores) to finance its Fourth Five-Year Plan. The interest-free credit is repayable in kind in 20 years with a ten year grace period. This is indeed a very generous offer and surpasses earlier Chinese aid commitments to Pakistan. China had earlier extended \$107 mn (about Rs. (P) 53 crores) in two commitments since 1964, when the first credit agreement for \$60 mn was signed.

These apart, China had earlier in the year extended Pakistan a long-term interest-free loan of \$2.8 mn to buy rice and medicines and subsequently a grant of 3 mn yuan (about \$1.3 mn) for cyclone relief in East Pakistan.

The only notable Chinese dignitary visiting Pakistan during 1970 was Fang Yi, Minister in charge of the Commission for Economic Relations with Foreign Countries, who led a Chinese Government economic and friendship delegation in April. The delegation attended the inauguration of the Chinese-aided ordnance factory at Joydevpur near Dacca. The inclusion of two of China's armament experts—Yuan Hua-ping, Deputy Director of Equipment Department of PLA, and Chang Shih-yi, Deputy Director in the Chinese Ministry of National Defence—in the delegation led to speculation that its objectives included a first hand assessment of Islamabad's requirements of military hardware. In January 1971, a Chinese military medical team, led by Wang Chung, visited Pakistan, presumably to

reciprocate the visit to China by the Pakistan military medical team in October 1970.

Among other important developments in Sino-Pak relations during the period under review are the reported delivery to Pakistan of a fresh consignment of 100 T-59 tanks in April 1970 (these were in addition to the 250 tanks already supplied, according to a statement by the Indian Defence Minister in Parliament on 22 April 1970); Chinese help for setting up of a guerilla academy in Chittagong hill tracts in East Pakistan patterned after the Chinese guerilla school near K'unming, to provide training in guerilla technique "in a big way" to hostile Nagas and Mizos (this report has not been confirmed), and the official opening on 16 February 1971 of the Chinese-built Karakoram Road, linking Gilgit, Hunza and Khunjerab Pass (the road, it is claimed, is "all-weather" and can take 5-ton vehicles).

On the recent Bangla Desh independence movement, Peking, after remaining non-committal for two weeks, came out with a statement on 11 April 1971 which apparently put China on the side of the Islamabad Government. An article in the official *People's Daily* said that the "relevant measures" taken by President Yahya Khan in connection with the present situation were the "internal affairs of Pakistan". It denounced India, USSR and USA for allegedly interfering in the internal affairs of Pakistan and pledged support for the Pakistan Government "against foreign aggression and interference". Premier Chou also sent (12 April) a personal letter of support to Yahya Khan.

West Asia

During the period under survey China's links with West Asia, particularly

the Arab world, were strengthened further. Afghanistan was offered a new loan of £1 mn for the purchase of consumer goods from China in November 1970, while one important project undertaken with Chinese aid, the Bagrami textile mill near Kabul, went into operation during 1970. Two other Chinese-aided projects—the Parwan irrigation project and an experimental tea farm in Kunar province—were nearing completion. In the Arab world China's influence in the Peoples Democratic Republic of Yemen (Southern Yemen) continued to grow. The Republic received a new interest-free loan of £18 mn, repayable in 20 years, during President Robaya Ali's visit to Peking in August 1970. Earlier in 1968 Southern Yemen had received a loan of £5 mn. Both loans are reportedly being used mainly to finance a 380-mile road linking Aden with the port of Mukalla, a project, which is considered vital for the development of the country's eastern region. The loans also covered several minor projects like a textile factory, artesian well drilling and the setting up of a dry dock for building and repairing fishing boats. Two teams of Chinese technicians, each numbering 14, were already in Aden in 1970, and eight more teams were expected to arrive during the first few months of 1971. According to *The Times* (London) report of 2 January 1971, the Chinese may soon out-number the Russians, who up till now form the largest and most influential foreign contingent.

The People's Democratic Republic of Yemen also received some small arms from China. Chinese weapons have also found their way into the hands of the Dhofar guerillas' People's Front for

the Liberation of Occupied Arabian Gulf (PFLOAG), whose cause is being championed by China. There were also reports in August 1970 to indicate that Chinese instructors were training the Dhofar guerillas both in Peking and Aden, and that there were now at least ten Chinese military advisers with PFLOAG.

Chinese propaganda support for the Palestinian guerillas continued throughout the year. An *Al Fatah* delegation, led by its chief, Yasser Arafat, which visited China during March-April 1970, seemed to have received some offer of material aid also. In a letter to Arafat on 25 May 1970, Premier Chou En-lai paid tribute to the Palestinian guerillas who had successfully repelled the Israeli invaders' "frenzied attacks" on Southern Lebanon and elsewhere. The letter said: "Your struggle is just and has the support of the revolutionary people throughout the world, The Chinese Government and people consistently and unswervingly support your struggle. We will always stand together with you".

According to a report, quoting Asian diplomatic sources in Beirut, in September 1970, Chinese military advisers in Jordan were training Palestinian commandos to fight Israel. The report said that these advisers, who posed as newsmen, had their headquarters at the Chinese Embassy in Damascus, which had an "unusually" large staff of 100 people. *Al Fatah* sources also claimed in August 1970 that they had received three radio transmitters from China "to circumvent Egypt's decision to halt the PLO's broadcasts." The PLO leader Yasser Arafat, in a personal letter to Chou En-lai in October 1970, thanked China for the "great assistance" rendered to

his movement, "which has the biggest influence in supporting our revolution and strengthening its perseverance".

China expressed its "profound condolences" on the passing away of President Nasser and extended "warmest congratulations" and support to the new President, Anwar Sadat. National People's Congress Vice-Chairman Kuo Mo-jo was sent as "special envoy" to attend the late President's funeral.

According to an American source (*Current History*, Sept. 1970), since 1965 the Chinese have committed more than \$ 850 mn in aid to the Middle Eastern countries (as against \$ 5 bn offered by Moscow and East European countries). The amount of actual assistance has, however, totalled only about \$ 300 mn. The above figure probably includes aid to Pakistan.

Africa

Africa plays an important role in China's world diplomacy. During 1970 China not only regained most of its influence in Africa which it had lost in the mid-sixties in a series of setbacks, but also forged some new links.

With the signing of the tripartite credit agreement between China, Tanzania and Zambia in Peking on 12 July 1970, China has finally committed itself to the most ambitious and largest single foreign aid project ever undertaken — the 1,100-mile, £ 169-mn Tanzam Railway, which will link the Zambian copper belt with the Tanzanian capital of Dar-es-Salaam, a project, which most Western nations had earlier refused to undertake ostensibly on feasibility grounds. Under the agreement, China has offered to provide about 286.6 mn Kwacha or Zambian pounds (about £ 169 mn) as an interest-free loan repayable over a period of 30

years from 1973 with a five-year grace period. Under a barter arrangement among the three parties each year during the period of construction (the construction is likely to take 5 years) both Tanzania and Zambia will purchase the estimated equivalent of local railway construction costs in Chinese consumer goods which will be sold to the public by the government of each country. The sale amount will be debited to the railway loan account and used to finance the local costs.

Construction work on the railway was officially inaugurated by President Kenneth Kaunda of Zambia on 26 October 1970. The ceremony was attended by President Nyerere of Tanzania and a delegation from China, led by Fang Yi, Minister in charge of the Commission for Economic Relations with Foreign Countries. President Kaunda, in his speech, spoke of the "generosity" of China in stepping in like true friends when Western nations had refused to build the railway. He dismissed as propaganda Western attempts to play up the "Chinese threat". He said: "The co-operation of the Chinese Government and people with the Tanzanian and Zambian Governments is based, *inter alia*, strictly on mutual respect and non-interference in the internal affairs of independent nations.....There is no reason for apprehension on our part; we reject this as arrogance... Geography may not allow us to choose neighbours, but we can at least choose our friends and our enemies".

About 4700 Chinese engineers and workers are reported to be engaged on the railway project.

Apart from the railway project, the Chinese were reported in May 1970 to be assisting Tanzania in building a naval

base at Kigamboni in Dar-Es-Salaam and to have supplied six gunboats to the Tanzanian People's Defence Forces. About 80 Tanzanian personnel were reportedly trained in China to operate the gunboats. It was believed that the naval base was linked to the Tanzam Railway project. Some African press reports suggested that Peking intended to have a "package deal" incorporating the naval base with the ten new berths to be built at Dar-Es-Salaam harbour and reserving certain rights for its own purposes. There were also reports of China offering to build an air base for Tanzania. A *Daily Telegraph* (London) report said on 22 October 1970 that China would shortly deliver two squadrons of MiG-17 fighters to Tanzania. Candian-trained Tanzanian pilots, who are to fly these planes, would soon go to China for training.

In Zambia, China is helping to build a 380 km road linking Lusaka to Kaoma in the Western province. Survey work on the road had reportedly been completed and construction commenced in July 1970. Several groups of Chinese engineers and technical personnel arrived in Zambia for the construction of the highway which began in October 1969. On 23 March 1970, the Zambian Minister of Information, Broadcasting and Tourism, Sikota Wina, signed an agreement covering three radio transmitters being supplied and installed by China.

Chinese military and economic aid to Congo (Brazzaville) continued to flow during 1970 after a temporary slowdown caused by the overthrow of the regime of President Messamba Debat in September 1968. A Congolese Government delegation, led by Vice-President Alfred Raoul, visited

Peking in July 1970. It was followed by the visit of a Congolese military delegation to China in October 1970. The delegation presumably obtained assurance of continued military aid. Earlier a Chinese military delegation, led by Vice-Minister of Defence Su Yu, visited Congo (B) in June. China has reportedly been sending artillery and small arms to Brazzaville. Chinese instructors are also reported to be engaged in military, and ideological training. In 1970 China assisted in building a boat-building shipyard in Brazzaville. The yard is one of the five major projects undertaken in Congo (B) with Chinese help, the other four being a hydel complex, a state farm, a textile mill (already in operation) and a plant to process fresh-water fish.

During the year, China also appeared to have regained its influence in Mali lost in November 1968 when a military coup ousted President Modibo Keita. A new Sino-Mali economic and technical co-operation agreement was signed in Peking in December 1970. Earlier in August and September two projects, built with Chinese aid—a transmission station in Bamako and a tannery—were handed over to the Mali Government.

China's relations with Guinea remained cordial. On 23 November 1970 the *People's Daily* most strongly condemned the "Portuguese colonialists and foreign mercenary troops for their invasion of Guinea". A protocol on agreement on economic and technical co-operation between China and Guinea was signed in Peking on 2 November. (China's total credit to Guinea since 1959 amounted to about \$70 mn). Earlier in May, the Chinese-aided

Dabola oil-processing works was opened in Guinea.

A Somali Government delegation, led by Vice-President Muhammad Ainarshe, visited China in June 1970. An experimental rice and tobacco farm, set up by China in Somalia was officially handed over to the Somalian Ministry of Agriculture in May 1970. China was also reported to have agreed to build roads aggregating 2000 km in Somalia.

China operates a technical aid programme in Mauritania. A Chinese technical team is currently assisting Mauritania in building the State experimental rice farm at Rosso in southern Mauritania. The team has also trained Mauritanian technical personnel.

Relations with Ghana and Kenya severed in January 1966 and June 1967 respectively were being improved. According to a statement made by the Ghanaian External Affairs Minister, Victor Owusu, on 19 July, Ghana was taking steps to re-establish diplomatic relations with China.

On 11 December Prime Minister Chou En-lai sent a congratulatory message to President Jomo Kenyatta on the occasion of seventh anniversary of Kenya's independence. In his message the Chinese Premier hoped to see friendly relations to "continuously grow and to develop" between China and Kenya "in the common struggle against imperialism and colonialism". Observers in Peking saw in the message further proof of Peking's renewed interest in Africa.

A Sudanese friendship delegation, led by President Maj-General Numeiry,

visited China in August 1970. On 13 August President Numeiry and Premier Chou En-lai signed two agreements—one on economic and technical co-operation and the other on cultural, scientific and technological co-operation—between the two countries. Earlier in July 1970 China agreed to provide Sudan with a long-term interest-free loan of 14.5 mn Sudanese pounds (approx. Rs. 22.5 crores). The loan will be repaid over 16 years by exports of Sudanese crops to China.

Prime Minister Chou En-lai sent congratulatory messages to the summit conference of African States held in Addis Ababa in July 1970 and to the third summit conference of non aligned nations held in Lusaka in September 1970. A *People's Daily* editorial on 14 September hailed the conference on its success, and said that the Lusaka conference had helped the anti-US and anti-Soviet movement in the world.

Peking appeared to have scored some success in spreading its influence in the Indian Ocean island of Mauritius through the 20,000-strong 'Movement Mauricien Militant', which "seeks its inspiration from Chairman Mao". The Chinese are reported to have smuggled some rifles and other arms to this organisation in the island.

West Europe

There has been a marked improvement in China's relations with countries of Western Europe. Apart from Italy which gave recognition to China in November 1970, relations with Britain improved considerably with the release

from detention in China of a number of British citizens. According to a Hong Kong report appearing in *Mainichi Daily News* (Tokyo) on 28 December 1970, Chairman Mao desires an improvement of relations with Britain so that it "can be intermediary in disputes between China and the United States, on the one side, and China and the Soviet Union, on other". Since the visit of the French Planning Minister Andre Bettencourt to Peking in July 1970 the Chinese leaders have been expressing their appreciation of French foreign policy, initiated by President De Gaulle, in Indo-China and elsewhere. Premier Chou En-lai described Bettencourt's visit to China as "a new development of the good relations between China and France". As an unprecedented honour for a Western statesman the Chinese Government on 12 November 1970 ordered the national flag to be flown at half-mast for two days at the Tiananmen Square in Peking and over the Chinese Foreign Ministry building, to pay homage to the late President De Gaulle. Earlier on 11 November Chairman Mao paid tribute to the General describing him as a "dauntless fighter against fascist aggression and in defence of the national independence of France".

Eastern Europe

In Eastern Europe Albania continued to remain China's best friend and ally. Under a new long-term interest-free loan signed in Peking in October 1970, China was reported to have agreed to assist Albania with the construction of an iron and steel combine with a

smelting capacity of 800,000 tons and a 400,000-KW hydel power station. In October, a Chinese-donated nuclear radiation laboratory at the Tirana State University was officially opened. The laboratory, presented by the Chinese Academy of Sciences, includes departments for meteorology and radiochemistry. The Soviet Weekly, *New Times*, reported in April 1970 that China was building a missile base at Shkoder in northern Albania, as part of a system of six similar bases, with plans to install medium-range missiles. It also said that under a secret arrangement 5000 Chinese "technical specialists" were operating in industry, agriculture, security Services and armed forces of Albania. Several Western reports also mentioned the conclusion of a Sino-Albanian defence agreement in December 1968, under which China was to establish naval and missile bases on the Adriatic coast and supply Albania short-range anti-aircraft and naval missiles (Refer to pages 8-9 of IDSA Annual Review for 1968-69).

Rumania continued to adopt a neutral and independent attitude towards Sino-Soviet rift, and maintained relatively closer relations with Peking. In June 1970 the Chinese Government provided Rumania with "material aid as an expression of the Chinese people's sympathy for the fraternal Rumanian people affected by serious floods". On 25 November, a Sino-Rumanian agreement on a long-term interest-free loan (amount not disclosed) by China to Rumania was signed. According to Radio Peking, the agreement was signed "in order to further strengthen friendship between the peoples of China and of Rumania and to develop relations of mutual economic help and

co-operation between the two countries". A Rumanian military delegation, led by Colonel-General Ion Ionita, Minister of Rumanian Armed Forces, visited China in late July 1970. Speaking at the Rumanian Embassy banquet for the visiting delegation on 30 July, PLA Chief of Staff Huang Yung-sheng urged Rumania to refuse to take orders from USSR.

China's relations with Yugoslavia improved further with the exchange of Ambassadors during the year. The new Chinese Ambassador, Tseng Tao, arrived in Belgrade on 17 August. Earlier in June, Gen. Bogdan Orescanin was appointed Yugoslav Ambassador to Peking. This ended about 12 years of strained relations between China and Yugoslavia.

The attitude of other East European nations towards China also appeared to have softened. A declaration on the situation in the Far East, issued on 4 December 1970 by the Warsaw Pact summit conference held in Berlin, made the first friendly reference to China in years, denouncing extended American aid to the "Chiang Kai-shek clique" and retention by USA of its military bases on Taiwan, which, it said, "belonged to the Chinese People's Republic". The declaration also attacked US for once again preventing "the restoration of the lawful rights" of China in the United Nations. Observers in Moscow viewed the Warsaw Pact document as the first attempt to evolve a unified approach to China.

ARMED FORCES

Strength

The strength of the regular armed forces of China has been estimated at

2.78 mn men by the Institute for Strategic Studies (ISS), London, in its annual publication, the *Military Balance*, 1970-71. This estimate differs from the one given by the same institute last year (1969-70), when a probable increase of about 600,000 men, due to a special recruitment drive during 1968-69, was thought to have raised the total strength to around 3.3 mn men. It now appears that the reported increase did not actually take place and the total strength of the Chinese PLA stands at the same figure (2.78 mn) as had been recorded in the last few years. A Japanese Defence Agency estimate also put the strength at the same figure.

Army

The bulk of the Chinese armed forces is in the army which has a total strength of about 2.45 mn men (other sources put it at 2.5 mn), including railway engineer troops, divided into 108 infantry, 5 armoured, 3 cavalry, two airborne and 20 artillery divisions. There are also supporting signals, engineer, railway engineer and motor transport units.

According to ISS, the 118 front-line divisions are believed to be deployed as follows :

1. Peking and Shenyang — 32 divisions
Military Regions (including 2
(covering Peking and Manchuria) or 3 armoured
divisions (and
4 or 6 divisi-
ons of border
guards).
2. Eastern coastal area
(Tsinan, Nanking
and Foochow — 28 divisions
Military Regions)

3. Along the axis of
Canton-Wuhan Rail-
way (Canton and
Wuhan Military — 25 divisions
Regions)
4. Hainan Island (under — 3 divisions
Canton Military
Region)
5. Szechwan and
Yunnan area
(Chengtu and Kunm-
ing Military Regions) — 12 divisions
6. Western China
(Lanchow Military — 11 divisions
Region)
7. Sinkiang Military — 4 divisions
Region (and 2 or 3
border guards
divisions)
8. Tibet Military Region — 3 divisions
(and 2 or 3
border guards
divisions).

The 20 artillery divisions are normally split into regiments and deployed with infantry divisions.

From the above geographical distribution, it appears that as many as 36 Army divisions (32 in the Peking-Shenyang area and 4 in Sinkiang) and between 6 to 9 border guards divisions are deployed along the 4500-mile Sino-Soviet border (from Sinkiang to Manchuria). Some of the 11 divisions deployed in the Lanchow Military Region may also cover the border area.

Army equipment

Heavy equipment of the Chinese PLA, according to ISS, consists of 152 mm and 203 mm guns and JS-2 heavy

tanks, originally supplied by the Russians. Medium armour includes T-34 and T-54 tanks. The latter is produced in China under the designation T-59 (presumably 59 refers to the year of first indigenous production). However, the Russian T-54 has since been superseded in the Russian Army by the more sophisticated T-55 and heavier T-62. The Chinese are also believed to be producing armour of their own design, including light tanks and APCs (Armoured Personnel Carrier). Self-propelled artillery in the PLA includes SU-76, SU-100, JSU-122 and JSU-152. The Chinese army suffers from shortages of heavy field engineering equipment and heavy self propelled artillery as well as motor transport (An order for 2500 trucks has reportedly been placed recently with the Moroccan firm Berliet-Maroc). The radar and electronic communications equipment with the PLA is also believed to be generally less sophisticated than modern Soviet or Western types. However, the ground forces are adequately equipped with a range of infantry weapons, light and medium mortars, rocket launchers, recoilless rifles and light and medium artillery, all produced in China.

Navy

The ISS (London) in its *Military Balance* 1970-71 puts the PLA Naval strength at 150,000 men (including 16,000 Naval Air Arm and 28,000 Marines) and 965 vessels. The ships include one G-class submarine fitted with ballistic missile tubes, 32 other conventional submarines and 4 destroyers.

The PLA Navy is divided into three fleets. The North Sea Fleet with 230 vessels is based at Lushun-Dairen (some reports indicate that the 'G' class missile submarine is based here)

and at Tsingtao; the East Sea Fleet with 435 vessels is based at Shanghai and Choushan; and the South Sea Fleet with 300 vessels is based at Whampoa and Tsamkong (there is also a naval base on the Hainan Island, which comes under the South Sea Fleet).

The Naval Air Arm consists of some 500 shore-based naval aircraft, including about 100 IL-28 torpedo-carrying light bombers and a substantial number of Mig-15 and Mig-17 fighters.

The latest edition of *Jane's Fighting Ships* (1970-71), gives a slightly different estimate of the PLA Navy. According to it, the PLA Navy consists of 1000 ships and 140,000 personnel (an increase of 14,000 men over last year). The breakdown of the fleet is shown as 33 diesel-powered submarines (including one G-class ballistic missile type), 4 destroyers, 8 destroyer escorts, 11 escorts, 25 submarine chasers, 394 fast torpedo and missile gun boats (an increase of 14 over the 1969-70 total), 22 coastal river defence vessels, 27 minesweepers, 70 amphibious-type and landing ships, 33 auxiliary and 375 miscellaneous service craft.

The *Jane's* noted that the PLA Navy is nearly five times as big as Japan's. China has also more than three-to-one advantage over Japan in submarines (33 against 10). According to latest US estimate, given by Defence Secretary Laird in his Fy 1972 Defence Report, China has more than 40 attack submarines.

Although the Chinese Navy is large in size, a vast majority of the ships are either antiquated or small ships mainly useful for coastal defence. In any case, the Navy is the weakest link in the PLA forces. Presumably realising the shortcomings of the

navy, the Chinese leadership has recently called for a naval build-up and modernisation programme. *A People's Daily* article, broadcast over Radio Peking on 3 June 1970, made a strong plea for building a strong modern navy to counter US and Soviet threat to China's long coast-line (4021 miles) and to liberate Taiwan. "With US imperialism and Soviet imperialism menacing China today, there is greater need to build more ships and to construct a modern navy in order to catch up with high world standards", the article said. It added that the long Chinese coastline had been invaded by imperialists in the past and the United States still "occupied" Taiwan. "Should we not liberate Taiwan?" it asked.

The *People's Daily* call followed reports in May 1970 that the PLA Navy was trying to penetrate the Indian Ocean to counter Soviet "gunboat diplomacy". This is significant. Obviously as a precursor to the naval build-up programme, the Chinese have, for the last two years, concentrated on the development of their shipbuilding industry. As many as eight ocean-going ships were launched during the period October 1969 to November 1970, five of them, including China's third 15,000 ton tanker, in 1970. Although most of them are freighters of moderate size (between 10,000 and 15,000 gross ton), it is an impressive beginning. It is not, however, known, how many naval ships, if any, have been built during this period, since the Chinese news media are silent on such information. Probably they have built a few—the Chinese are known to be building submarines in the Shanghai shipyard—as the *People's Daily's* call for the naval build-up

programme would suggest. Mao reportedly wanted China to "build a powerful navy" based on "self-reliance". According to an American report (*US News & World Report*, 15 February 1971), the Chinese shipyards are building new submarines and a few warships of "a class larger than destroyers but smaller than cruisers." US Defence Secretary Laird said in his Defence Report to Congress on 9 March 1971 that China was producing new guided missile destroyers.

Air Force

According to *Military Balance 1970-71*, the PLA Air Force consists of 180,000 personnel (including 85,000 in air defence ground units) and 2,800 combat aircraft. Most of the planes are outdated Soviet MiG-15 and MiG-17. There are a few hundred (according to one source 500) Soviet as well as Chinese made MiG-19s and a few MiG-21s. The bomber fleet consists of a few TU-4 and a larger number of TU-16 medium bombers and between 150 and 300 IL-28 light bombers. There is also an air transport fleet with IL-14, IL-18, Mi-4, An-2 (Chinese-made) as its main craft. The transport fleet could be supplemented by 300 odd aircraft of the civil aviation.

The serviceability of some of the Russian type aircraft may have been adversely affected by shortage of spare parts.

The PLA Air Force has also an air defence system based on radar and interceptor aircraft and some SA-2 "guideline" missiles.

China appears to have undertaken an Air Force modernisation programme which is marked by indigenous production of fighter-interceptor and bomber aircraft. The Shenyang State Aircraft Factory is known for some time to have been turning out the Chinese (improved)

version of the MiG-19, which is now said to be the mainstay of the Chinese fighter aircraft force, since 1959. The rate of production was estimated to be about 50 per year (A US source has put the rate at as high as 300-400 annually). The same factory is reportedly turning out the Chinese "copy" of supersonic MiG-21s. According to *International Herald Tribune*, 19 20 September 1970, China is also currently producing its own medium-range twin-engine jet bomber, "capable of carrying nuclear weapons to targets 1500 miles beyond the country's border." The aircraft is believed to be a copy of the Russian TU-16 (NATO code name Badger), which has a speed of 590 mph and a range of 3000 miles (with maximum-20,000lb-bomb load). According to US weapons experts, the Chinese may be able to produce about 4 to 5 TU-16s per month (presumably at the Shenyang factory). The report says that the development of the TU-16 seems to be "an insurance against possible trouble" in IRBM development, or it may be that the Chinese strategists have come to believe in mixed forces of bombers and missiles.

According to Asher Lee, a British defence expert and correspondent, Peking is building a prototype of a long-rang supersonic bomber which could become something like the US B58 Hustler bomber. A recent (3 March) Washington press report said that the Chinese had started "quantity production" of Mig-21 at a big aircraft plant at Chengtu.

Para-military force

The Chinese para-military forces include 300,000 security and border troops. There are 19 infantry-type divisions and 30 independent regiments of

the border troops which are permanently stationed in the frontier areas, in addition to regular divisions. In addition, there is a public security force and a People's Militia, claimed by the Chinese to be 200 mn strong. The effective element of the militia is believed to be around 7mn.

According to a *Mainichi Daily News* (Tokyo, 15 December 1970) report, militia forces in China are once again "moving into a position of importance within the framework of national defence". This follows a temporary lull in their activities during the Cultural Revolution. Provincial radio broadcasts during the last few months of 1970 showed that the drive to strengthen preparations for war against "US imperialism" and "social imperialism" had brought them to the forefront again with a nationwide campaign to rebuild the militia into a more efficiently organised, equipped and trained force. The 12th anniversary of Chairman Mao's directive on organising People's Militia, issued on 29 September 1958, was being frequently referred to in provincial radio broadcasts and in speeches at rallies held in various parts of the country. The eighth anniversary of Chairman's instructions of 9 June 1962, that militia work should be put "on a sound basis organizationally, politically and militarily", had also been widely exploited to emphasise the importance of militia work, particularly in the context of the people's war and class struggle. Militia problems were also discussed at several provincial conferences.

As another step to prepare against a possible war with the Soviet Union, the Chinese authorities had reportedly broken up the strategic Inner Mongolian

region both in terms of military control and civil administration into three parts and incorporated them into the adjacent military regions of Lanchow, Peking and Shenyang to give depth to defence deployment.

In sum, China's military potential lies basically in the large reserves of manpower—there are 150 mn males of draft age. US Defence sources rate China's forces as well-equipped for defence, but lacking the capability for a sustained offensive against a major power.

New political chief of PLA

In September 1970, Li Teh-sheng, Chairman of the Anhwei Provincial Revolutionary Committee and Commander of the Anhwei Military District, was appointed Director of the Armed Forces General Political Department, replacing Hsiao Hua, who was purged in January 1968 as a "counter-revolutionary and double-dealer". Li, an alternate member of the Politburo, has also been elected First Secretary of the newly formed Anhwei Provincial Party Committee.

Military spending

According to the Japanese White Paper on Defence, made public in October 1970, China has the biggest defence budget among Asian countries with an outlay of \$7250 mn. This means, China's military spending is nearly five times that of India, which according to the White Paper, ranks third in defence spending—after China and Japan—with an outlay of \$1467 mn. The document says that China's per capita expenditure on defence for 1968 amounted to \$9 only, although in relation to GNP it spent as much 9% as against 3.5% by

India and 0.8% by Japan. According to the latest (1970) *Year Book of World Armament and Disarmament* of the Stockholm International Peace Research Institute (SIPRI), China is estimated to have spent \$7800 mn on its armed forces (in 1969). In real terms, China's military expenditure in the sixties had increased by an estimated 161% the yearbook says.

Military activities in Tibet

For the first time since 1967 Chinese troops intruded into Bhutan thrice during May 1970. According to the King of Bhutan, on each occasion about a dozen Chinese troops intruded about three-fourths of a kilometre into Bhutanese territory across the Chumbi Valley, but withdrew when the Royal Bhutanese Guards told them they were in Bhutanese territory. At the request of the King of Bhutan, the Government of India lodged two consecutive protests with Peking over the intrusions.

The Chinese troops in Tibet had also committed a few intrusions into Indian territory during 1970. India's air space was also violated by the Chinese several times. According to a statement made in the Indian Parliament by Defence Minister Jagjivan Ram on 2 September 1970, China had violated Indian air space 13 times and land frontiers five times during the period 1 January 1969 to 31 August 1970. According to another statement made by the Defence Minister in the Rajya Sabha on 25 November 1970, from 1 January 1970 to 31 October 1970 China had committed four land and 8 air space violations. However, there was no exchange of fire nor were there any casualties as a result of these violations.

Among other developments of military significance in Tibet during the period under review were the completion of a new jet airfield near Shigatse (construction of the airfield was reported in the 1969-70 Annual Review, page 21), and the building of another airfield "facing the Indian border" in Eastern Tibet.

The Shigatse airfield, located about 100 air miles north of the Sikkim border, is stated to be capable of handling light military aircraft. Its construction was reportedly completed in July 1970.

According to a recent *Reuter* report from Delhi quoting "reliable Tibetan sources", the Chinese are building a third airfield facing the Indian border. The airfield, located at Pomda (exact location not specified) in Eastern Tibet, will reportedly be able to handle jet aircraft. The report also said that the second airfield at Hopping near Shigatse in Central Tibet (referred to earlier) had been completed and was soon to be commissioned, while the third jet airfield at Gongkar, south of Lhasa, was already in use.

According to *The Sunday Times* (London, 18 October 1970), the Chinese have built the world's highest radar station on the slopes of Mt. Everest. The paper said in a report from Hong Kong that apart from the standard function of detecting any intrusion of aircraft across the Tibetan frontier, the station's "main purpose is apparently to track the test-firing of ICBMs from a base on the Tibet-Sinkiang border across India into the Indian Ocean". The radar station, construction on which started some time in 1968, reportedly covers an area of ten square miles and is located near Thangri Dzong

on the northern approaches to Mt. Everest.

There were occasional reports, though not always confirmed, of campaigns for war preparedness in Tibet. According to a report (October 1970) in *Tibetan Review*, a fortnightly journal published from Darjeeling, more than 20,000 Tibetans had been conscripted into PLA between 1966 and 1969. Other reports indicated that the PLA in Tibet was still being harassed by the armed guerrillas of the Tibetan resistance movement (details given in Political Developments section).

SCIENCE AND TECHNOLOGY

Advanced Weapons Development Programme

The year 1970 is a landmark in China's advanced weapons development programme. On 24 April of that year China became the fifth nation—after USSR, USA, France and Japan—to put a satellite in earth's orbit. The successful launching of the 173-Kg satellite demonstrated that China has made continuous and steady progress in its missile and space development programme and that it has achieved considerable mastery over rocketry and general space technology. The achievement has proved that China has developed launch vehicles with adequate booster power and has mastered the technique of separating the different stages of a rocket. However, putting a 173-Kg satellite does not necessarily mean that Peking has succeeded in developing an ICBM. Similar payloads were boosted up on IRBM vehicles like Thor and Jupiter rockets. Moreover, it is not known whether China has as yet developed re-entry heat shields for nuclear warheads and a sophisticated guidance system for target accuracy.

Thus, US Defence Department experts said on 25 April 1970 that China's satellite launching did not mean it had the technical knowhow for launching intercontinental ballistic missiles. But, they added, the Chinese might now be on the way to developing reconnaissance satellites to warn them against surprise attacks from USSR. It was thought that the satellite was similar to the ones developed by US and USSR 12 or 13 years ago and sent up by a rocket capable of carrying a medium range missile. It is believed by some experts that the Chinese have succeeded in building a second-stage to the improved version of a Soviet-type T-1 vehicle to launch the satellite. At any rate, by being able to launch a satellite with its own rocket China has greatly enhanced its technological as well as political prestige, which might have been one of China's principal objectives in orbiting the satellite. Dr. John S. Foster, Jr., Pentagon's R & D chief, said that the launching of a 381-lb satellite by China on 24 April 1970 was perhaps the forerunner of "a large, intense space programme with important military values involving very large boosters". Many Western reports indicated during 1970 and even earlier that China had already developed medium-range (upto 1,500 miles) missiles and their deployment was imminent. However, there is still no report of the deployment having taken place. Explaining the delay in the deployment of MRBMs, US Defence Secretary Mervyn Laird said in his annual report on America's defence posture on 20 February 1970 : "By the summer of 1967, the rate of test firings of MRBMs reportedly increased and this apparently indicated that the R & D phase of the missile

programme was nearing end and that initial MRBM deployments would begin in 1967-68. Actually, however, while the MRBM testing is still continuing (in late 1969 and early 1970), the Chinese have not yet deployed an operational medium range missile". Laird suggested that the three-year delay could have been caused either by technical problems with the missile or by political interference during the Cultural Revolution. He said there was even a possibility that the Chinese were not planning to deploy the first generation MRBM, but were intent on developing a more advanced missile equipped with a thermonuclear warhead of 200 to 500 kt yield. Laird, however, added that US intelligence sources still believed that Peking would start the deployment of the current series of MRBMs of approximately 1,000-mile range, carrying 20 KT fission warheads, in 1970. They also estimated that a force of 80 to 100 operational missiles could be ready in fixed 'soft' sites by the middle of 1970.

In his latest statement before the House Armed Services Committee on 9 March 1971 (Fy 1972 Defence Report) Laird said that there might have been a limited deployment of the Chinese MRBM during 1970. However, "the emphasis in Chinese R & D", he added, "appears to have shifted in 1970 from the MRBM to the development of an (liquid-fuelled) intermediate range ballistic missile (IRBM). The Chinese MR/IRBM development efforts have also provided important experience for their ICBM programme". According to Laird, by mid 1971, the Chinese are expected to have a small number of MRBMs deployed. Their IRBM, he said, could attain initial operational

capability (IOC) within the next year or two, and by mid-1972, the Chinese were expected to have operational "a modest number of missiles with a mix of MRBMs and IRBMs".

The *Military Balance 1970-71* (ISS, London) says that although deployment of MRBMs has been forecast by US sources since 1967, "there is still no report of this actually taking place, although it is possible that some *Sandal-type* missiles are available. It may be the Chinese are giving priority to the deployment of an ICBM". Testifying before the US House Foreign Affairs Sub-Committee on Asia and the Pacific in September 1970, Professor Wayne Wilcox of Columbia University said that China was poised for testing an IRBM, possibly in the Bay of Bengal. Some "key" US Government analysts were also of the opinion that the Chinese were concentrating their efforts on an advanced IRBM with a range of 1,500 to 2,500 miles. They referred to the discovery of a new launch site in Manchuria from where tests of these improved IRBM might start soon. Test flights could be overland towards Sinkiang.

Laird's February 1970 Defence Posture Report mentioned the completion of a large ICBM launch facility, which had been under construction since 1965. The launching site is reportedly located at a place called Shuang Che'ng-tze in a remote desert area of western Inner Mongolia, 400 miles north-west of Lanchow. This locality (lat. 41 deg. N, Long. 100 deg. E.) is reached by a railroad spur from the Lanchow-Urumchi Railway. The completion of this facility, detected by US intelligence through satellites, led the Pentagon R&D chief, Dr. John Foster, and others in the Defence

Department to believe that the Chinese ICBM test was imminent (refer to page 23 of 1969-70 Annual Review of IDSA). The same facility apparently was used to launch the first satellite and may be used in future for ICBM test-firing. A second (221 kg) satellite was launched from the same space station on 3 March 1971. Peking made a belated announcement of the launching on 16 March describing it as a "mission of scientific experiment."

According to Laird's February 1970 statement, it is possible that China will achieve an initial ICBM capability by 1973 and that a force of 10 to 25 operational ICBMs of 6,000 mile range carrying a 3-megaton thermonuclear warhead could be deployed by 1975. According to the report, Chinese scientists are also working on a solid-fuel ICBM system for 'hard' site emplacement. The system may be ready sometime after 1975. Subsequently at a Congressional testimony in April 1970, Laird somewhat modified his earlier statement and said that China could develop the ICBM as early as 1973, but was not likely to be a serious nuclear threat until the 1980s.

However, despite various speculative reports on China's "imminent" ICBM test, nothing had actually occurred till the end of April 1971. Thus Western analysts in Hong Kong, quoted by the military correspondent of the *New York Times*, believed in July-August 1970 that China would soon test its first ICBM, with an estimated range of 6,000 miles, "probably by adding a third stage to its two-stage rocket". The American magazine *Aviation Week* reported on 24 August 1970 that the first test flight of China's ICBM was expected to be made across India, with a splashdown

near Zanzibar, "late this year or early 1971". It said Chinese technicians, who had been arriving in Zanzibar in increasing numbers in recent months, were believed to be installing telemetry equipment on the island to monitor the final flight phase. Recovery of the dummy warhead would probably be attempted by Zanzibar-based technicians, it added. A subsequent press report said that China had approached East African countries for permission to set up tracking stations, presumably as a prelude to the launching of its first ICBM in the western Indian Ocean. Some of these stations were reported to have already been completed. The *Military Balance 1970-71* also said that flight tests over the South-western Pacific or the Indian Ocean would herald the preliminary stages of a ICBM programme. According to the latest reports, US Defence Secretary Laird said in his annual Defence Report to Congress on 9 March 1971 the Chinese might have tested an ICBM over a reduced range late last year (1970). But, he said, the "initial flight testing of an ICBM has not yet been confirmed. An IOC could be attained within three years after flight testing of the ICBM is commenced". The earliest possible date for deployment has, as in 1970 report, been estimated to be 1973, but "more likely China's ICBM will not reach the status until a year or two later".

According to a *Daily Mail* (London) report of 25 June 1970, China was carrying out tests with a conventional submarine capable of launching nuclear missiles of the Polaris type. The testing was reportedly detected by a US spy plane which spotted the submarine near the Chinese submarine base at

Talien (Dairen) in Manchuria. The submarine was reported to have an operational range of 22,000 miles and might be capable of carrying missiles with a range of 1,000 miles.

The Chinese Navy is known to have one 'G' class diesel-powered submarine fitted with three vertical tubes for ballistic missiles (refer to the section on Armed Forces). But there has so far been no evidence that the Chinese have developed a missile for it. The *Daily Mail* report of testing of submarine missiles has not been corroborated by any other source.

An atmospheric nuclear explosion from the Lop Nor region of Sinkiang was recorded by the Bhaba Atomic Centre on 14 October 1970. Subsequently, US AEC also detected the test and estimated the yield of the thermonuclear explosion at 3-megaton. The test was believed to be a test of a warhead and was seen by experts as part of a series of experiments by China to reduce the size and weight of its nuclear warheads with a view to making them compact enough for missile delivery. China did not announce the test, and this silence appears to be significant. It may be recalled that in similar fashion China did not announce its seventh test held on 24 December 1967

Of the eleven tests carried out so far—all in the Lop Nor testing centre—six nuclear devices were air-dropped, two were detonated on a tower, one was delivered by a missile, and one was detonated under ground. The delivery system for the 11th test is not yet known. The principal fissile material in all the ten overground tests was uranium-235. Traces of plutonium were detected for the first time in the fallout from the eighth test. In their tests of thermonuclear devices

(four in all) the Chinese have shown the capability to use both lithium and hydrogen isotopes.

According to the *Military Balance 1970-71* (ISS, London), the Chinese may now have accumulated fissionable material for 120 atomic bombs of nominal yield, 20 KT or a smaller number of atomic and hydrogen weapons. Some of the thermonuclear devices could be several megatons in yield. The US official estimate of the size of the Chinese atomic arsenal is, however, very moderate. According to the Fy 1971 Defence Report submitted to the US Congress by Defence Secretary Laird on 20 February 1970, the amount of U-235 estimated to be available for stockpiling "is sufficient for only a few dozen weapons of any type". The report, however, said that continued production of U-235 would help increase China's stockpile. "Nevertheless", it added, "a further expansion of fissionable materials production facilities may be required if a large-scale nuclear weapons production capability is to be realised. If a second U-235 plant is built (a second plant—a gas centrifuge one—was reported to be under construction near Lanchow in mid 1970), at least three years would be required before production could begin".

According to Dr Ralph Lapp, the US nuclear physicist, who was a member of the team which developed America's atom bomb in the 1940s, "China probably has at this moment (September 1970) nearly 200 nuclear weapons and a choice of at least two short-range delivery systems". He apprehended that the growing atomic arsenal of China would upset the existing nuclear balance, menace India, frighten Japan, compromise the SALT

talks and revive Washington's cries for a greatly expanded version of the ABM system.

Reports started coming in since the middle of 1969 on the dispersal of Chinese nuclear installations. According to a report quoting diplomatic sources in Vienna (May 1970), China has dispersed its key nuclear installations over a wide area as a precaution against a possible attack by USSR. The sources said the dispersal had apparently been carried out on a wide scale, since Peking considered its high concentration in Sinkiang, bordering on the Soviet Union, very risky in view of the Sino-Soviet confrontation. The sources added that available reconnaissance reports had confirmed that large and important sections of the nuclear complex had been moved to remote areas including Tibet. The 1970 *Strategic Survey* of ISS (London) issued in April 1970 also said that China's main nuclear installations were now so scattered that "no attack by the Soviet Union could hope to eliminate them without the risk of a prolonged war". However, the atomic test site appeared to continue to operate at Lop Nor at least up to 14 October 1970, when the 11th nuclear device was detonated there. The Hungarian military magazine *People's Army* indicated (September 1970) that China was in the process of pushing its nuclear installations underground and "to build these underground facilities China has purchased specialised equipment from France, Britain and Sweden".

Soviet and Hungarian reports claimed that China had received West German aid to produce its rockets and atomic reactors. The Hungarian foreign affairs weekly *Magyarorszag*,

in an article dealing with China's earth satellite, said on 5 June 1970: "In 1968 China purchased goods valued at DM 826 mn from the German Federal Republic. Seventy per cent of this sum was spent for armament, military equipment and above all for installations needed for developing rockets which arrived in China from Bonn. It is also well known that West German rocket experts such as B. Zepiger and Wolfgang Pilz, together with others, aided in the construction of Chinese rocket bases, partially through plans and partially through direct co-operation. China received the heavy material needed for the atomic reactor from the German Federal Republic along with electronic installations and instruments as well as important rocket components, and the special quality steel indispensable for progress in the space field". The weekly further said that Chinese experts were allowed to see the new Hart-1 rockets allegedly being produced in a West German factory in South Africa and experimental rocket stations reportedly located in Angola.

The Hungarian report was followed by a Moscow Radio commentary on 6 June 1970 which, quoting the West German press, said, that 70 per cent of West Germany's exports to China in 1968 were weapons and manufactured goods directly related to arms industry. These, the radio added, "include heavy water for use in reactors, spare parts for rockets, electronic instruments, geiger counters and special high-quality steel". It also repeated the Hungarian weekly's story to say that Chinese experts were admitted to a West German factory near Port Elizabeth in South Africa to see the rockets produced

there, and "Mao Tse-tung's representatives have been invited to the testing range in Angola to observe the testing of West German rockets".

As if in anticipation of (or was it in reply to) these allegations, the Chinese Communist Party theoretical journal *Red Flag* on 6 June came out with an article on China's earth satellite which categorically denied any foreign collaboration in China's space programme. It said: "No foreigners participated in the design and manufacture of China's first man-made earth satellite, and no foreign samples or equipment were used ... Everything was done in our own country by depending on our own efforts".

Nuclear Policy

On 1 November 1970 China revived its call, first given 6 years earlier immediately after detonating its first atomic device, for a summit meeting of all the countries of the world "to sign an agreement on the complete prohibition and thorough destruction of nuclear weapons". The renewed call came in the course of a joint communique with a visiting Japanese Socialist delegation, led by the party Chairman, Tomomi Narita. The relevant portion of the communique reads: "Both sides unanimously express the determination to struggle against nuclear war and for complete prohibition and thorough destruction of nuclear weapons. The delegation of the Japanese Socialist Party supports the stand that at no time and in no circumstances shall China be the first to use nuclear weapons and China's proposals that a summit conference of all the countries of the world, big and small, be convened to sign an agreement on the complete prohibition and thorough destruction of

nuclear weapons and, as the first step, to reach an agreement on not using nuclear weapons." China's call for the nuclear summit was subsequently supported by President Yahya Khan during his visit to Peking in November 1970 and incorporated in the joint communique issued on the conclusion of his visit. This point was also made by Premier Chou En-lai in his interview with Edgar Snow in early December when he reportedly said that the aim of China's nuclear tests was to break nuclear monopoly and blackmail. For this reason, whenever China carried out a nuclear test, it always declared it would never be the first to use nuclear weapons. He also stressed that the Chinese nuclear tests were still in the experimental stage.

China-watchers in Hong Kong and elsewhere were inclined to believe that the revival of the call was primarily to improve China's image among non-aligned nations and in the United Nations now that it "is getting closer to UN membership". The timing of the declaration just before the commencement of the third round of the SALT talks in Helsinki on 2 November 1970 was also considered significant. This was as if to remind both US and USSR that no meaningful discussions on disarmament would be possible without the participation of the Peking regime which represented more than one-fifth of the world population.

In his inaugural address to the 24th Party Congress in Moscow on 30 March 1971, CPSU General Secretary Leonid Brezhnev made a proposal for a conference of the five nuclear powers to discuss "nuclear disarmament of all States in possession of nuclear weapons". UN Secretary-General U Thant also

pleaded, in speeches to the General Assembly of American States (at San Jose, Costa Rica on 14 April) and the Council on Foreign Relations (in Chicago on 5 May), for a five power summit including China to break the deadlock on nuclear disarmament and "turn a new page in human history".

Technological Innovations and Scientific Research

During the period under survey China claimed considerable progress in the field of technological innovations and scientific research. According to a Radio Peking broadcast of 26 August 1970 a number of groups representing various industries in Peking had been formed since the beginning of 1970 with the objective of catching up with and surpassing advanced technical levels both domestic and foreign. These groups, composed of revolutionary cadres, workers and revolutionary technicians, were carrying out intensive scientific research, experimenting with technical innovations and "making breakthroughs in science and technology". In coordination with the broad masses, they "carry out investigation and study, draw up plans and undertake scientific research and technical innovations for catching up with and surpassing advanced technical levels". During the first eight months of 1970 they claimed to have succeeded in trial-producing and turning out a number of new products of advanced levels and popularising many new techniques and technological processes. There are reports to indicate that other cities and industrial centres have emulated Peking and organised similar groups in order to make advancement in industrial research and developments. Thus, Shanghai claimed in August 1970 to have developed "thousands" of

advanced new products, techniques technological processes and materials. Among the very large number of these new industrial and technological developments claimed by China during the last one year the following deserve mention :

- (i) "China's first" laser interferometer for accurate calibration of length scales ;
- (ii) a 125,000-kw steam-turbo generator with an inner water-cooled stator and rotor ;
- (iii) nylon ignition coil, claimed to be "world's first" ;
- (iv) a 4000-metre deep-well drilling machine, said to be first of the type in China, and a new type of small and light oil-drilling rig "specially adapted to the conditions encountered in China" ;
- (v) a "huge" surface-grinding machine, and a double-column optical jig-boring machine ;
- (vi) a 1,000-kg high-molecular material testing machine, equipped with an automatic electronic recording system ;
- (vii) an advanced rail-laying and bridge-building machine, the first of its type in China ;
- (viii) a silicon-controlled gas-protecting welding machine ;
- (ix) a 4,000-ton horizontal compression casting machine ;
- (x) a 32-ton heavy duty tipping lorry for use in mines ;
- (xi) a "unique" Chinese tractor for use in both dry and paddy fields ;
- (xii) a urea synthesis tower ;
- (xiii) a "Chinese-type" machine for printing and dyeing cotton yarn by a "one-step process" ;
- (xiv) a magnetic method of ore-dressing ;
- (xv) the "first" Chinese water-cooled transformer ;
- (xvi) a new method for free live-wire operation, the introduction of a single-wire power transmission system and a new electronic regulator and control technique ;
- (xvii) an electronic balance with "alternate dial reading" ;
- (xviii) an electronic microscope capable of magnifying an object 400,000 times ;
- (xix) a computerised teleprinter, capable of translating Arabic into Chinese at a speed of 1,500 characters a minute ;
- (xx) a half-tone screen for 3-D colour print ;
- (xxi) new type alloy steels, high-grade alloys, special shaped steels and important rare metals.

The Chinese press and radio also reported concentrated development efforts in shipbuilding and electronics industry. (For details of shipbuilding see section on Armed Forces). China appears to have made considerable strides in the field of electronics as will

be revealed from very frequent press and radio reports. Shanghai leads in the field with more than 100 establishments in the city engaged in the manufacture of electronic components and products. The Shanghai Radio Research Institute has designed and produced advanced automation equipment. In Peking also there has been marked increase in the number of *electronic plants and their products*. Among the electronics products turned out (apart from the few enumerated above) are a "large-scale Chinese-type" crystal-growing machine producing large diameter silicon materials necessary for large-area silicon controlled rectifiers and new electronic furnaces to make monocrystal silicon. "With the rapid development of the electronics industry, modern electronic techniques have been generally applied, not only in the communications and instrument industries, but also in the metallurgical, machinery, transportation, electric power, chemical engineering, light and other industries, thus advancing industrial production", NCNA claimed. Construction of various types of electronic equipment has thus brought together several of China's different industries and has demonstrated a growing potential through industrial co-ordination for the production of computers and complex guidance systems for military use.

Although in the field of industrial and technological developments, the current stress is on "self-reliance", China does not appear to altogether abhor technical cooperation, even if it comes from the west. Thus, there were reports from Japan that China was willing to initiate exchanges of technical information, particularly on automobile casting and pressing, synthetic fibres

and petrochemical and electronic industrial developments.

Technical Education

One sign of return to normalcy and increasing stability in the field of science and technology in China was the reopening of the universities and various other technical institutions of higher learning in 1970. Thus, four years after it ceased normal academic functioning to make way for the Cultural Revolution, the Tsinghua University in Peking, China's foremost engineering institution, started admitting new students and holding regular classes from July 1970. The resumption of regular classes at Tsinghua heralded similar actions by other institutions of higher learning. However, Tsinghua and similar other institutions returned to regular operations on the basis of a new Maoist educational programme that combines manual labour with book learning and gives precedence to training in Mao's political thought. Explaining the new programme a *Red Flag* article on 22 July 1970 recommended the establishment of "a new three-in-one system combining teaching, scientific research and production by running the university in an open door way, linking it with factories, having it run its own factories and making factories guide its specialists". The desire to train people in science and technology in order to serve production was also emphasised by NCNA when it said: "Schools and colleges should run factories..... Besides meeting the needs of teaching and scientific research all laboratories and affiliated workshops of engineering colleges which can undertake production tasks should do so to the best of their capability".

Another sign of stability in the scientific community is the rehabilitation of prominent scientists some of whom were under a cloud during the Cultural Revolution. In ceremonies commemorating the tenth anniversary of the signing of the scientific and technical cooperation agreement between China and North Korea, five out of six Vice-Presidents of the Chinese Academy of Sciences were reportedly present, while Kuo Mo-jo, the President of the Academy, has not only been fully rehabilitated but also assigned additional important political jobs. The missile expert and the builder of China's first earth satellite Dr Tsien Hsueh-shen was awarded an alternate membership of the party Central Committee.

Before this section is closed it will be relevant to give some details of Soviet contribution to Chinese technical

education, as claimed by Radio Moscow. The radio said on 23 August 1970: "Between 1949 and 1960 Soviet technicians helped train 17,000 teachers (in China), mostly in the economic field; some 2,000 teachers were also trained in the Soviet Union. These 19,000 teachers constitute approximately one-fourth of the total number of teachers of institutions of higher education in China today. Between 1951 and 1962, 11,000 Chinese studied at Soviet institutions of higher education, half their expenses being defrayed by the Soviet Union". The radio further said that 42 atomic physicists had graduated in USSR (this figure apparently excludes the 950 atomic scientists trained at the Dubna institute).

There is no reason to discount this claim, and China has not denied the radio report.

2. JAPAN

1970 has been a year of change for Japan, in which it entered into an era of new options, permitting it to decide its own future with a greater degree of independence to adopt a more self-reliant posture, and to build up its national power in consonance with its economic potential as the world's third greatest economic power. It is now evident that Japan has become "less and less" dependent on the United States for its own conventional defence, and whilst continuing to shelter under the US nuclear umbrella it is undertaking an accelerated and large-scale nuclear power generation programme. Moreover Japan is also taking all the steps that are necessary to create, by about the mid 1970's, an effective capability to build up, fairly swiftly, a credible

nuclear force including a missile based delivery system.

Japan does not visualise any credible threat to its security during the next 5 to 10 years and consequently does not feel the need to expand its forces substantially for the present. It is therefore concentrating on modernising them with the increases necessary for the garrisoning of Okinawa after the islands are returned to Japan in 1972, and on research and development of modern weapons systems. However, with its vast and expanding industrial base as well as skilled manpower, Japan can easily switch over to massive defence production and quickly expand its forces. This would be especially so after another three to five years. Manpower

JAPAN-STATISTICS	
Area	... 337384 Sq. Kms.
Population	... 104.65 mn. (Jan. 1971)
GNP (1969-70)	... \$173,400 mn.
National Budget (1971-72 proposed)	... \$26,150 mn.
Defence Budget (1971-72 proposed)	... \$1,865 mn.
Total Self-Defence Forces	... 260,000
Ground Force	... 180,000
Air Force	... 42,000
Maritime Force	... 38,000

problems are presently being encountered. Consequently Japan has concentrated on developing highly professional defence forces. Any large-scale expansion would probably mean some form of compulsory service.

ECONOMY

Japan's economy underwent a big change during 1970, from rapid expansion to temporary stand-still. After 58 consecutive months of continuous growth the country's economic activity started to move downward from October 1970.

The Gross National Product (GNP) in fiscal year 1969 totalled 62,433,300 mn yen (\$173,400 mn) in nominal terms and 52,123,200 mn yen (\$144,800 mn) in real terms. The growth rate was 18.3 per cent in nominal terms and 12.6 per cent in real value. Per capita income was \$1336 per annum, the sixteenth highest in the world.

For the current fiscal year (April 1970 to March 1971) a growth rate of 10.8 per cent in real terms is estimated. During the first half of the year this rate was about 12 per cent and for the latter half it was estimated at around 10 per cent. It was expected that at the end of the fiscal year the rate would drop below 10 per cent. The rate of increase of consumer prices for 1970-71 is now estimated at 7.3 per cent, which is considerably more than the earlier prediction of 4.8 per cent, and is the highest since 1955. Bank of Japan officials said the prevailing sentiment of stagnation in industrial circles was due to the impact of transition from a high rate economic growth of about 13 per cent to a stable growth of 10 per cent. However, according to later estimates released on 1 April 1971 the 1970 GNP increased by 18.3 per cent to reach \$196,160 mn and the real GNP by 11.2

per cent totalling \$153,603 after adjustment for price increases.

The economic outlook for fiscal year 1971, assessed by the Japanese Cabinet on 22 December 1970, estimates that the 1971-72 GNP will reach 84,320,000 mn yen (\$234,000 mn) and that the growth rate will be 15.1 per cent and 10.1 per cent in nominal and real terms respectively. The Mitsubishi Bank's estimates were, however, more conservative. It said that the growth rate in fiscal 1971 would fall below the 10 per cent level for the first time in six years and it forecast only 8.2 per cent growth in real terms. Finance Minister Takeo Fukuda on 6 January 1971 predicted that there would be no business slump in Japan in 1971, and rejected any premise that Japan's economy was in a state of "stagflation", where prices rise despite a business slump. On the other hand Yoshizane Iwasa, President of the Bankers Association said there was a distinct possibility of a business slump in 1971, and the Government might have to revise its financial policies. He pointed out that even though the Bank of Japan had reduced the discount rate at the end of 1970 there was still a slump indicating that the economy was in trouble. Some economists consider that rising inflation may compel the Government to adopt some form of wage and price restraint policy and further that an upward revaluation of the yen may be forced upon the nation.

It is estimated that in 1971-72 wholesale prices will rise by 1 per cent and consumer prices by 5.5 per cent. The increase in the rate in private capital saving is expected to be held down to about 12.6 per cent due to reduced investment in the manufacturing sector. The major economic indicators are given in Table 1.

TABLE-1

Economic Prospects for Fiscal 1971 (as estimated in December 1970)

	Fiscal '70	Fiscal '71	'69/'70	'70/'71
(Unit : 1 million)	(estimate)		(%)	(%)
Population	103.7	104.9	101.2	101.1
Employees	33.1	33.95	102.6	102.6
(Unit : ¥1,000 mil.)				
GNP	73,240	84,320	117.3	115.1
Real Annual Increase Rate			110.8	110.1
Personal Consumption Expenditure	37,000	42,850	116.8	115.8
Private Capital Formation	23,500	26,800	120.1	114.0
Corporate Equipment	15,450	17,400	118.9	112.6
Inventory Increase	2,900	3,000	121.7	103.4
Private Housing	5,150	6,400	122.8	124.3
Government Expenditure on Goods & Services	11,950	13,790	115.3	115.4
Ordinary Expenditure	5,990	6,890	116.8	115.0
Capital Expenditure	5,960	6,900	113.8	115.8
Exports of Goods & Services, and Factor Income from the Rest of the World	8,570	9,930	119.4	115.9

(Subtraction) Imports of Goods & Services, and Factor Income to the Rest of the World	7,780	9,050	122.1	116.3
Mining & Mfg. Production Index ('65=100)	221.0	247.0	113.9	111.8
Agricultural, Forestry & Fishery Production Index ('55=100)	109.6	110.0	99.1	100.4
(1,000 mil. passenger-kilo)				
Domestic Cargo Transport	348.1	378.5	111.1	108.7
(1,000 mil. ton-kilo)				
Domestic Passenger Transport	599.6	680.7	113.4	113.5
Wholesalers' Price Index ('65=100)	111.4	112.5	102.6	101.0
Consumers' Price Index ('65=100)	132.5	139.8	107.3	105.5
Int'l Balance of Payments (Unit : \$1 million)				
Current Account	1,980	2,150	—	—
Trade Balance	4,050	4,650	—	—
Exports	19,650	22,800	119.1	116.0
Imports	15,600	18,150	122.2	116.3
Invisible Trade Balance	-1,850	-2,200	—	—
Transfer Account	-1,570	-1,700	—	—
Long-term Capital Balance	-220	-300	—	—
Basic Balance	410	450	—	—
Short-Term Capital Balance	500	—	—	—
Errors & Omissions	500	—	—	—
Overall Balance	910	—	—	—
Customs-Cleared Exports	19,950	23,150	118.7	116.0
Customs-Cleared Imports	19,550	22,750	122.1	116.4

The Bank of Japan announced that at the end of 1970 (calendar year) the nation's reserves of gold and foreign currency reached the record level of \$4,399 mn, which reflected a gain of 27 per cent over the \$3,496 mn at the end of 1969.

Most economists forecast a business slowdown continuing until April or May 1971 and thereafter a gradual pick up and sustained stable growth of around 10 per cent. Long term forecasts estimate that by the year 2,000 Japan's GNP may be eight times the total of the GNPs of all the Southeast Asian Nations combined.

A special session of the Cabinet approved on 30 December 1970, a record general account budget for the 1971 financial year totalling 9,414,315 mn yen (\$26,150 mn) which represented a 18.4 per cent increase over the 1970 budget. Also approved was a Government loan and investment programme amounting to 4,280,400 mn yen (\$11,690 mn) reflecting an increase of 19.6 per cent. Priority was given in the Budget for an expansion of basic social facilities, such as housing, sewage, harbours and ports with special allocations for pollution control. Four other areas receiving special attention were: removal of rice-sale controls, more funds for the deficit ridden railways, increases in salaries for teachers, and expenditure on the development of uranium enrichment techniques.

On 20 January 1970 the Bank of Japan reduced its official discount rate by 0.25 per cent to 5.75 per cent. It was the second cut in less than three months, the last being 28 October 1970. The new rate was the lowest since 1965

when it was reduced to 5.48 per cent to alleviate a business slump. Finance Ministry officials said that the current slump in the domestic economy was the major factor which compelled the cut. Tadashi Sasaki, Governor of the Bank of Japan said the reduction was necessary if the Japanese economy was to move to stable growth from high level growth. He noted that domestic business activities had been slackening faster than had been expected after the 0.25 per cent reduction last October. He also pointed out that monetary rates abroad, particularly those in the USA, had been coming down more quickly than anticipated, and that it was therefore necessary for Japan to reduce its bank rate in order to prevent a yen to dollar shift for trade financing.

Overseas Investment

Japanese private investment overseas is showing a big push. The 20 per cent increase in Japan's foreign aid to developing countries in 1970 was partly due to a 68 per cent jump in private investment, which exceeded \$150 mn in 1969. Total cumulative Japanese direct investment in all countries overseas was estimated by the Ministry of Finance to have been \$2680 mn on 31 March 1970.

North America, especially Canada had the biggest share, \$720 mn, followed by Asia with \$600 mn. A large portion of the latter however, was in West Asian oil industry; only half the investment went to East and Southeast Asia. Up to mid 1970 Japanese investment in Indonesia was \$125 mn, Taiwan \$63 mn, Thailand \$34 mn, Malaysia \$20 mn, South Korea \$14 mn, Philippines \$13 mn and Hong Kong \$12 mn.

In 1969 the total outflow was \$668 mn. Less than a quarter of the funds invested by private Japanese Corporations went to developing countries—\$152 mn out of \$668 mn. It is also estimated that about three quarters of the \$152 mn went last year to countries on Japan's doorstep in East and Southeast Asia.

INDUSTRY

Corporate capital investment in new plant and equipment during fiscal 1970 are estimated at 4,860,000 mn yen (\$13,500 mn). This works out to be 20·8 per cent higher than in fiscal 1969 and exceeds both the government's official forecast of 17·2 per cent and the Ministry of Trade and Industries' (MITI) forecast of 13·8 per cent but is smaller than the 30 per cent increase registered in 1969. The economic outlook estimated a growth rate of about 11·8 per cent in manufacturing and mining production during 1971-72. The growth rate in the current fiscal year is now estimated at 13·9 per cent instead of the 15 per cent predicted before the commencement of the year.

The nation's steel production increased by 13·6 per cent in 1970 and totalled 93,300,000 tons, to rank fourth in the world with 16·2 per cent of the world's production. The US retained the first position, followed by the Soviet Union with the European Economic Community ranking third. However, *Fortune* magazine reported in September 1970 that Japan was aiming to become the world's No 1 steel producer and for this purpose was searching the world for vast quantities of coal and ore. It has more than

quadrupled its output since 1960. To reach its target of 150 mn to 160 mn tons by 1975, Japan will have to import as much as 95 mn tons of coking coal as against 50 mn tons this year. Japanese steelmen are talking of investing \$500 mn over the next five years to finance new coal mining in Canada, Australia, South Africa, the US, India, Poland and Russia. One major reason for power shortages in the US is that coal hungry mills in Japan and Europe are paying premium prices for American coal. In the first seven months of 1970 Japan purchased 16·3 mn tons of US coal against 12 mn tons a year earlier.

Defence Industry

Japan's military-industrial complex which was almost completely wiped out at the end of World War II is showing signs of revival. The once separated groups such as Mitsui, Mitsubishi, Sumitomo, Furukawa and others have re-grouped into complexes that have helped to create Japan's "economic miracle". The Japanese Defence Agency's draft Fourth Defence Build-up plan (1972-1976) tentatively envisages an expenditure of \$15·8 bn (thus increasing the ratio of Japan's defence spending from 0·8 per cent of the GNP to 1·0 per cent. Most of the new equipment to be procured to strengthen and modernise Japan's forces would be made in Japan. Japanese industrialists have already been advised to prepare for orders for tanks, armoured cars, helicopters, anti-tank weapons, amphibious tanks, troop carriers, high speed hydrofoils, ground-to-air and sea-to-air missiles, all types of transport and training aircraft and F 4E J Phantom aircraft to be produced under licence. A new Japanese military-industrial complex has

been proposed by the the industrialists. The powerful *Keidanren* (Federation of Economic Organisations) called upon the Government to disburse more tax funds to improve Japan's Self-Defence Force. It has been reported that :

- (a) business leaders consider that Japan should be able to develop nuclear weapons by the mid 1970's ;
- (b) two industrialists after visiting US military production facilities proposed that Japan's "No War" article 9 of the Constitution be amended ;
- (c) former Defence Minister Funada advocated increasing defence expenditure from the present ratio of nearly 1 per cent of the GNP to 2 per cent ;
- (d) an increasing number of retired military officers have taken up appointments with companies undertaking defence work.

On 27 May 1970, a leading Tokyo heavy industries firm announced that it would export 60 tanks worth \$5.3 mn to Italy. The firm out-bid tank makes from Italy, France and Britain.

Fifteen of the leading Japanese concerns held more than 1000 defence contracts totalling \$1200 mn. While the total is small it is scheduled to increase in the next 5 year plan. The industrial-military complex does not run modern Japan, but it is part of the "establishment", and the industrial element is highly influential in both economics and politics.

In July the Defence Agency formulated a basic policy for the nation's defence and allied industries, featuring the introduction of the principle of competition and elimination of centralised production by specific enterprises. The new policy proposes to remove the existing trend of monopolistic practices in development and production ; this is expected to improve capabilities and technological improvements.

Electronics

Assessing the figures issued in the middle of 1970 by the Electronic Industries Association of Japan, US industry and government circles consider that Japan would probably surpass the US in the production of civilian electronic products in the next three to five years. And, if the present growth rates continue it could challenge the US as the world's largest civil and military electronic producer in ten years.

Japan's electronic production reached \$7,400 mn in 1969 ; this was 39 per cent more than in the previous year. It was estimated that in 1970 production would grow by another \$2,000 mn.

On 31 March 1970 Japan had more than 6,718 computers, the second highest in the world after the US. 53.3 per cent of the total were domestic brands. (Only the US, Britain and Japan have more than 50 per cent machines made within the country). In October it was estimated that the number of computers in use was about 8000.

Aircraft Industry

The first Japanese made medium sized jet transport plane, the XC-1 was

unveiled on 8 September, made its public debut at Gifu on 28 November and successfully completed a flight over western Japan. It has been developed by the Self Defence Forces in cooperation with six domestic airline companies to replace the C-46 type of transport currently in service. According to the officials it has excellent performance both at high and low altitudes and requires only a short distance for take off and landing. It is a twin-engined jet military transport plane capable of carrying 60 men upto 2000 miles. Two prototypes have been built. Japan hopes to build 50 of these aircraft in the financial year commencing on 1 April 1971. The plane has a wing span of 109 feet and a speed of about 500 miles per hour.

Early in the current fiscal year it was reported that talks had been held in Amsterdam between the Japanese Government and Fokker Aircraft Works on the possibility of joint construction of a medium-haul passenger jet. The new plane the YS-33 would succeed the YS-11 which is very similar to the Fokker Friendship. Mitsubishi Heavy Industries after World War II has built 300 F-86 jet fighters and 240 F-104J fighters and is set to produce several hundred F-4EJ Phantom jets. The firm has also secured a \$7 mn contract from McDonnell Douglas corporation of the US to produce equipment for its DC-10 tri-jet airliners. It was announced on 4 June 1970 that Ishikawajima-Harima Heavy Industries would manufacture the Rolls Royce Turbomeca Adour turbofan engine under licence, for the T-2 aircraft being developed for the Defence Agency. This firm also has contracted to overhaul 30 Malaysian airforce helicopters over the next 3 years. This is the first time a Japanese

firm has undertaken work on foreign military aircraft other than those of the US. The Ministry of International Trade and Industry announced on 25 December that Japan's first jet airliner project called the YX-plan, would be delayed by a year since the Ministry's demands for budgetary appropriations in fiscal 1971 had been rejected.

On 16 June representatives of Air Vietnam arrived in Tokyo for talks with Nihon Aeroplane and it was reported that the South Vietnamese airline planned to purchase 12 YS-11 planes worth \$22.2 mn. In December the Japanese company announced that it intends to export the YS-11 to China. The company has sold 150 of these planes including 70 planes exported to the US, Philippines and other countries outside the communist bloc. In February it was disclosed that Mitsubishi Heavy Industries would export MU-2G multi purpose turbofan light planes in July 71 to Australia, and that the firm had been conducting active sales campaign in Latin America and Australia after it encountered sales difficulties in the US because of the recession in that country. As of early February 1971 orders had been secured for 206 of these planes, 176 from abroad and 30 from domestic buyers. 30 had already been delivered in Japan, 166 to North and South America and 5 to Europe.

Air Transport

Japan Airlines (JAL) profits for 1969-70 increased by 72 per cent over the previous year. It carried 1.327 mn international passengers, an increase of 29 per cent and 316 mn ton/kilometres

of international cargo, an increase of 432 per cent. JAL's all jet air fleet consists of 55 aircraft with another 35 on order. The latter include 13 Boeing 747s, 5 Concorde and 5 American SST's. US Senator Warren Magnus said on 29 August that Japan was negotiating for the purchase of three Soviet supersonic TU-144 airliners, but Japanese authorities denied this.

The air cargo industry is growing at an exceedingly rapid rate. The volume of air freight passing through Japanese airports is expected to reach 118,000 tons in 1970 as against 8000 tons in 1960, and is expected to reach 266,000 tons in 1974.

Shipping

Japan maintained its outstanding lead among ship building nations of the world for the fourteenth consecutive year in 1969. During the last year it built about two-fifths of world's ships. Between 1960 and 1969 Japan completed 49,700,000 gross tons of shipping with Britain and West Germany second with 11,100,000 tons each. During 1969 a total of 9.1 mn gross tons was built by Japanese enterprises of which about 5.9 mn tons or 67 per cent was exported. Ships completed during that year included five tankers of over 300,000 dwt. tons. Globetick Tankers (Chairman, Ravi Tikoo) of Britain have placed an order in Japan for the construction the world's largest ship, a 500,000 ton super tanker (476,000 dwt. tons). After a meeting in July 1970 of Japan's Transport Technology Council, Transportation Minister Tomisaburo Hashimoto said that the Japanese shipping industry should immediately start studies to solve problems

pertaining to the construction of million ton tankers. The 138,000 ton Seiko Maru, Japan's first computerised ship has been completed. It is a super automated tanker fitted with a very efficient computer system, a harbinger of the era of unmanned vessels. On board is a TosBAC 300-S computer, which can centrally control navigation, cargo handling, engine operation and even medical diagnosis.

In November it was reported that Japanese shipyards were speeding up massive expansion plans to compete with a boom in home and overseas orders. The shipbuilders association expected the world's demand for ships to increase by about 50 per cent, half of which Japan expected to build. The construction of what is claimed to be the world's largest dockyard has been started in Koyagijima island off Nagasaki port in Kyushu. It will cover about 800,000 square metres and will be used for building tankers of the 120,000 gross ton class.

The task of supplying Japan's economy is so vast that Japanese owned ships are unable to carry more than 43 per cent of the country's ocean trade. Although Japan owns the world's largest fleet with over 24 mn gross tons, Japanese shippers during 1970 had on charter 29 mn tons in 337 ships.

Japan's first nuclear powered ship, the 8350 gross ton Mutsu, was delivered to the semi-Government Japan Nuclear Ship Development Agency on 13 July 1970. It had undergone a series of tests in Tokyo Bay from 26 June, but the vessel's engines were operated with oil since its nuclear reactor had not been fitted. On 5 February the ship was equipped with a reactor pressure vessel made of stainless steel, and steam generators ; cooling pumps and other

controlling features had already been installed. Pressure test operations are due to be conducted early in 1972 and uranium fuel, to heat water in the reactor pressure vessel, will be loaded in that summer. On 28 October 1970 it was disclosed that Japan planned to construct a second nuclear powered vessel jointly with West Germany. Observers took this to mean that Japan had forged ahead in this branch of technology and also believed that the breakthrough was due to the use of Lithium as a coolant in the ship's fast breeder reactor permitting the reactor to be compact in size and also to weigh less.

Foreign Projects

Mitsubishi Heavy Industries will be collaborating in the construction of India's second ship-building yard at Cochin and have entered into an agreement to supply India a self-propelled jack-up type platform for offshore oil drilling in the Gulf of Cambay. Representatives of Kawasaki Heavy Industries visited Bahrain in July-August 1970 to discuss the building of a ship-repair yard and a graving yard. Japanese ship owners have, for some time now, recognised the need for such facilities large enough for super-tankers, somewhere in the Gulf area, the choice lying between Bahrain and Kuwait. On 15 January the second phase of the Japanese Malaysian Steel Mill was opened at Prai, 180 miles north of Kuala Lumpur. Already more than \$ 25 mn have been spent on establishing the mill and the \$ 4 mn second phase expansion would include a continuous casting mill.

Japan is assisting the Soviet Union in the building of a new port on the

Soviet Far East coast at Wrangel Bay not far from Vladivostok. The collaboration envisages the Japanese undertaking design work and supplying \$ 80 mn worth of materials and equipment. In July 1970 it was announced that a Soviet Government order had been awarded to a Japanese firm for a large set of butadiene production facilities worth \$ 25.2 mn. A Soviet representative said on 11 August that the USSR wanted to secure Japanese bank loans, rather than credits from Japanese traders, to finance large-scale development projects in Siberia. He said that it had been agreed in 1968 that the USSR would import Japanese machinery worth \$ 133 mn for Siberian forestry development but only \$ 50 mn had been spent so far. Russia has also proposed a joint project with Japanese oil companies to jointly exploit oil resources on the continental shelf along the Soviet Maritime province, the Kamachatka Peninsula and the island of Sakhalin. Japan's industrial and financial leaders have decided to undertake joint Japan-USSR Siberian development ventures to begin the development of coking coal resources in the South Yakut coal fields. They attach priority to coking coal due to a shortage of the item in Japan. The Japanese blue print of the development programme will be presented to the fifth joint Japan-USSR economic committee meeting scheduled for the spring of 1971. A Soviet automobile industry mission also visited Japan in May 1970 to make enquiries about the possibility of Japanese firms manufacturing large passenger cars and trucks in Russia. The mission, however, failed to arrive at a suitable agreement with Toyota Motor Company. On 3 December the Toyo Engineering Company signed an agreement to deliver to the USSR

complete installations for three ammonia plants and one ethylene factory.

In May 1970 it was reported that the prospects of setting up a Toyota assembly plant in East Pakistan were encountering difficulty. It was said that while the Pakistan Industries Department favoured such a plant for the eastern wing, matters were complicated by a West Pakistan bid for the Japanese aided project. In 1964 the East Pakistan Automobile Company approached the government for an integrated project covering assembly with progressive manufacture of Toyota cars and other vehicles. Sanction for the entire project was withheld but the company was permitted in 1966 to set up a plant limited to assembling of Toyota vehicles. After the visit of a high powered Japanese economic mission early in 1970 the Pakistani authorities were reported to be ready to sanction the original project, when a West Pakistan group also put in a bid. This made East Pakistanis fear that two plants, one for each wing, may mean failure of the East Pakistan plan by depriving it of a potential market in West Pakistan.

According to the *Nihon Keizai*, Japan may build a truck plant in Cuba. Initially it would be an assembly plant. It would start functioning in 1972. Toyota, Nissan and Isuzu have all denied that they are involved in the project, but Western observers still consider that Japan may be interested in setting up such a plant.

It was reported in September 1970 that Toyo-Kogyo of Japan and Ford Motors of the USA had reached basic agreement to enter into a capital

“tie-up”, with the US company making an investment in the Japanese company to the extent of about 20 per cent of the latter’s capital. Toyo was said to need big support to prop up declining sales, whereas Ford seemed eager to obtain Toyo’s technology to manufacture the rotary engine which has become the centre of attention as emitting less nitrogen oxide and having a high power generation ratio. Representatives of Toyo-Kogyo and two West German firms Audi NSU Auto Union and Wankel GmbH conducted negotiations on renewal of the technological contract on rotary engines, but failed to reach agreement. It was, however, decided that negotiations would be renewed before July 1971 when the existing 10 year contract is scheduled to expire. Nissan Motors of Japan and Kinetics Corporation of USA announced on 18 August 1970 an agreement to jointly develop an auto-engine that does not pollute the air. The engine to be developed is a kind of vapour engine that uses Freon gas. Nissan Motors also announced on 15 October that it had succeeded in the production of an electric car, a gas turbine car and an “electronic control concept” car. It further stated that it had completed two kinds of cars equipped with lead batteries.

Africa is considered to be a priority area by Japan’s Ministry of International Trade and Industry. Japanese investment is already pouring into the capital starved continent. Japan’s steel, automobile, shipping, mining and trade interests, have already surveyed and decided to invest in Africa especially in transportation and raw material development projects.

Mineral Resources

In order to feed her mineral hungry industries, to find adequate investment opportunities and to free herself of excessive dependence on North American sources for the supply of Uranium and other primary materials, Japan has clearly embarked on a massive world wide hunt for minerals. Japan's Finance Ministry has come out in support of moves to increase Japanese ownership of overseas raw-material projects and there are signs that Japan may be moving to a much stricter policy of concentrating its long-term raw materials purchases from projects where it has a substantial stake.

The Japan Import Bank and sixteen other foreign exchange banks signed on 20 July a contract to extend credit up to \$7 mn to India for the development of an iron ore mine and the construction of ports. Japan intends to import iron ore from India on a long-term basis. Japan's Ambassador to Australia has forecast increased investment in Australia. In 1969 Japan purchased 84 per cent of Chile's iron ore (unrefined) exports for \$60 mn. ISCOR, the South African State run Iron and Steel Corporation

has reportedly offered iron ore at cut rates; it is believed to result in a reduction of about \$30 mn in iron ore cost to Japan. ISCOR undercut two other firms and wants to sell 10 mn tons of ore annually, while Japan wanted to buy that quantity from all South African suppliers. ISCOR has also offered to develop Saldhana Bay as an iron ore port which would by 1975 be able to handle ore carriers of 250,000 dwt tons. Details of Japan's mineral and metal imports are shown in Table II.

Japan is estimated to have Uranium deposits of about 12.6 mn tons, but only 2,500 tons are said to be suitable for mining on a commercial basis. When Japan's full nuclear programme gets underway it would require about 32,000 tons annually of uranium concentrates. Consequently the Japanese are making strenuous efforts to secure the vitally important uranium supplies. 30 major Japanese companies are to explore uranium resources in Africa with the cooperation of the French AEC. On 22 March 1970 the Japanese preparatory committee for establishing an overseas uranium resources development company accepted an offer by Ente Nazionali Idrocarburi (ENI) of

TABLE II
Value of Mineral and metal Imports 1968-69 in \$ million

Year	<i>Metallic Ferrous ores etc.</i>	<i>Mineral Fuels etc.</i>	<i>Iron-Steel</i>	<i>Non-ferrous Metals</i>
1968	1649.0	2674.7	245.8	647.4
1969	1971.5	3043.9	233.9	916.8

Italy to enter into a joint venture involving extraction of uranium in Somalia at a location where there has been some progress in finding uranium deposits. In June 1970 the US Export-Import Bank announced a \$2.88 mn loan to the Kansai Electric power company to finance nuclear fuel purchases in the USA. The loan covered 46 per cent of the cost of converting, enriching and fabricating a second nuclear core for the company's No. 3 power station. It was also stated that the Hanover Trust Company would lend an equal amount. In the same month the French Atomic Energy Commission and a consortium of Japanese mining and electronic firms reached an agreement to finance the development and exploitation of Niger's Akokan uranium deposits, believed to rank among the world's richest. A tripartite accord with Niger called for the creation by the French and Japanese partners of a \$4 mn operational budget, the goal of the venture being an annual production of 1500 tons of uranium ore by 1978. Japanese electric power companies and Denison Mines of Canada have agreed to prospect jointly for uranium resources in two areas of Canada and one in the USA. Investments by the Japanese companies in the project have already amounted to \$100 mn. On 5 January 1971 the South African Nuclear Fuel Corporation confirmed that negotiations were in progress with Kansai Electric Power Co of Japan over the sale of uranium. A previous report had claimed that the company had brought \$140 mn worth of South African uranium.

During July 1970 Japan and the USA conducted negotiations on the supply of nuclear fuel. Due to the recent rapid

development of nuclear power generation in Japan the quantity of enriched uranium which the USA had agreed to make available under the 1968 Japan-US Atomic Energy agreement, had been found inadequate. In the 1970 negotiations Japan asked for a new supply to meet the requirements of the 13 new power reactors which it would have begun to build by the end of 1973. It was announced on 21 July that the US had agreed to provide Japan with an additional amount of uranium, and although the quantity involved was not officially disclosed, it was reported as 154 tons, enough to feed 13 modern power generation reactors. Japan's concern about supplies of uranium was further highlighted by the suggestion, made by Yasuhiro Nakasone, Director General of the Defence Agency, during his visit to the USA in September 1970 that the US make available uranium enrichment technology to Japan. On his return he said that his personal proposal on the release of technology for the enrichment of uranium was fairly well received by the US Government and Congressional leaders, and although his proposal met with mixed reactions in the US, his impression was that if Japan adhered to its assurances not to arm itself with nuclear weapons, the USA would accept his proposal.

By 28 September the Japanese atomic industry had openly begun urging the government to speed up the programme of enrichment technology, in view of the limited US supply of nuclear fuel, its scheduled price increase and the growing demand. It may be pointed out that the US AEC reportedly can produce only 1700 tons annually and even if its production facilities are increased the US would not be able to

meet Japan's demands for 1980-81. Japan has already been engaged in developing the centrifugal separation and gaseous diffusion systems of uranium enrichment. The Japan Atomic Industrial Forum was reported in December to have proposed to the Government the launching of a national project for the development of enriched uranium, and for a domestic production by 1985 of 5000 tons, which would meet half the national demand. According to the Forum, experimental production should start in 1972, by speeding up the development of centrifugal and gas diffusion methods now being used by Japan's Atomic Energy Research Institute and the Power Reactor and Nuclear Fuel Development Corporation. By 1975 a decision should be made on which method was to be taken up, for construction of a pilot plant to follow soon thereafter. The Forum intends to obtain by about 1980 the technology to construct an enriched uranium plant for commercial use at a cost of about 30,000 mn yen (about \$83 mn). It opposed Nakasone's proposed construction of a joint US-Japan facility, though it felt that US cooperation might become necessary in the future when large scale production facilities were to be constructed. The forum insisted that immediate needs must be met domestically.

Japan also faces a serious shortage of nickel in the next few years and is looking to Australia as a major source of supply in the future. According to the Japanese Science and Technology Agency's Research Committee Japan's need for nickel will double in the next five years to 150,000 tons in 1975. At present Japan relies for 80 per cent of its nickel on New Caledonian Mines, which, it is said, are being

rapidly exhausted. Its other source of supply is Sulawesi Island in Indonesia where the Japanese are committed to establish a new refinery. The committee recommended as first priority for the future "active participation in the exploration and development of Australian nickel deposits". It also recommended research into the use of nickel laterites found in Southeast Asia, and in improving the technology for refining low grade ores.

On 3 August 1970 it was reported that Japan's Nitesu mining company would develop a copper mine in New Guinea near Port Moresby jointly with a local interest. This followed an announcement by Barclay's Bank on 22 July that the Japanese Government had made a grant of \$80 mn to help develop copper production in South Katanga (Congo).

Food and Agriculture

Since the "green revolution" reached Japan five or six years ago the nation's surplus rice stocks have increased by an average of about 1.5 mn tons each year. The farmer's resistance to change, large government subsidies and changing dietary tastes from rice to bread have all contributed to the present surplus. In July 1970 it was reported that the surplus would be about 7 mn tons after this year's harvest's and that the maximum Japan could dispose of was about 2 mn tons a year. It was stated that since 1969 Japan had exported some 850,000 tons mainly to Asian countries, some of it in the form of rice loans to be repaid in kind. Exports reportedly remained small because most Asians do not relish the taste or the sticky consistency of Japanese rice. The government hoped to reduce the 1970 output by

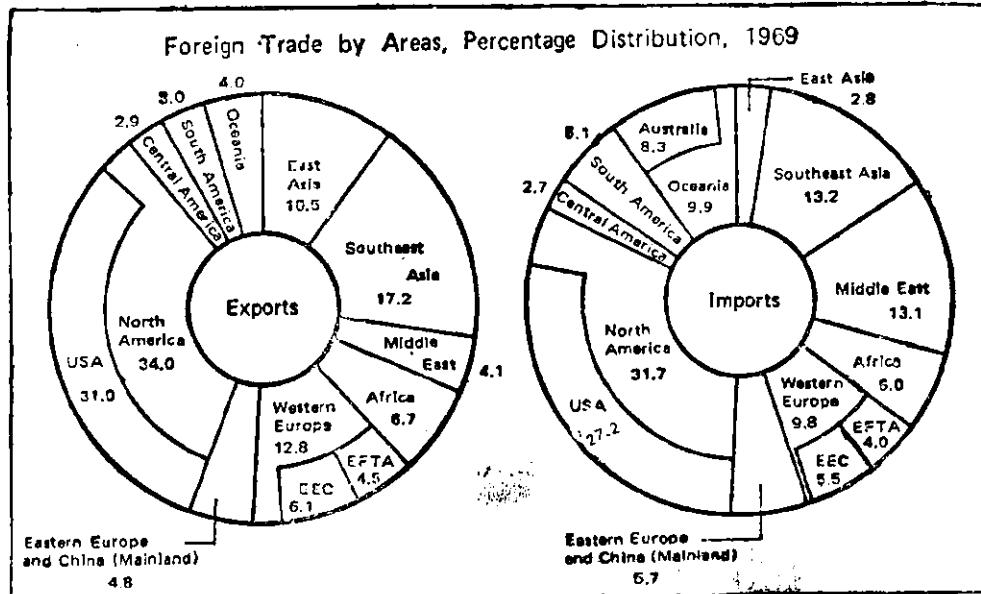
about a million tons and encourage farmers to let part of their land lie to fallow or to grow other crops. Farmers who made the switch would receive 35,000 yen (about \$97) compensation for each 0.1 hectare. Assuming that the annual rice crop is 14 mn tons, the reduced acreage should theoretically cut it to 12.5 mn tons. However experts said there was a possibility that the farmers might raise per acre productivity to partially offset the effect of reduced acreage and create a harvest of about 13 mn tons. The *Financial Times*, London reported on 31 December 1970 that with the Japanese Government in the past (and this year as well) subsidising rice farmers by purchasing their entire production at pegged prices, the surplus rice crowding Japan's warehouses amounted to an esti-

mated 8 mn tons on 31 October 1970.

In May 1970 it was reported that Japanese officials had decided to stop shipments to Pakistan of rice produced in 1967 because scientists had reported it might be contaminated with poisonous mould. With the prospects of surpluses for a number of years to come Japanese experts are exploring all profitable avenues to reduce their mounting rice stocks. The 1971-72 budget attempts to solve the problem of mounting stocks by the removal of rice sale controls.

Foreign Trade

The area-wise distribution of the Japan's 1969 trade is depicted by percentages in the diagrams below :



The Supreme Trade Council's revised estimates for fiscal 1970 reveal that exports are now estimated at \$19,950 mn reflecting an increase of 18.7 per cent over the previous year, as against the estimates in July 1970 of \$19,220 mn and a 14.3 per cent increase. The revised estimate of customs cleared imports is now \$19,568 mn, which is a 22.3 per cent increase over the 1969 figure. The earlier estimate had forecast \$18,500 mn and a 16.9 per cent increase.

The Ministry of International Trade and Industry has been urging on the Finance Ministry and Bank of Japan the need to make Japan's yen currency an international currency like the US dollar, sterling and the Deutsche Mark. It has recommended the use of yen in overseas transactions and the liberalising on a fixed schedule the existing severe foreign exchange restrictions.

The US continues to be the biggest partner in Japan's foreign trade. According to Foreign Ministry's estimates based on customs clearance, Japan's exports to the US totalled about \$5900 mn on a FOB basis, and imports about \$4500 mn. Thus two way trade topped the \$10,000 mn mark for the first time and left Japan with a credit balance of nearly \$1409 mn, the same as in 1969. However, serious strains surfaced during 1970 in the trade relations between the two countries due to pressure from the US industry which caused the Nixon administration to sponsor a bill authorising the imposition of quotas on imports of textiles and shoes, restricting them to their 1967-68 level. This would have involved a reduction of more than 30 per cent from the present

levels. The US-Japan Council of Commerce, a private organisation of businessmen from the two countries said, the legislation would lead to a wave of restrictions against American products throughout the world and would cause a sudden rise in the prices of textile products in the US. Japan's Trade Minister Kiichi Miyazawa warned on 11 June that Japan and the US were on the brink of a "catastrophe" in their trade relations, re-calling the economic strife of the pre-World War II period. High level intensive negotiations held from 22 to 25 June failed to narrow the gap on the controversial textile trade problem. Prime Minister Sato said he did not see any easy way to solve the "snarled" Japan-US trade dispute but emphasised his intention to do everything he could to prevent the disagreement from developing into a major economic war. Secretary of State Rogers said on 12 October that US Congress should do away with the un-needed and dangerous parts of the proposed trade legislation and enact administrative proposals for protective quotas on textiles only. On 25 October President Nixon and Premier Sato agreed to resume negotiations over the textile issue. Owing to pre-occupation with other important legislation the US Congress was unable to give consideration, during the December session, to the proposed quota bill, and a negotiated solution to the problem has still not so far been reached. On 21 January 1971 Representative Wilbur Mills, Chairman of the US House of Representatives re-introduced the Trade and Quota Bill, that had failed to win Senate acceptance last year. He also said that unless Japan and the US reached agreement by March 1971 on a voluntary plan to

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restrict Japanese textile exports to the US, he would again press for Congressional approval of the mandatory quotas. Unless a mutually acceptable solution is found, this dispute would have serious consequence not merely on the trade front but also on the political relations and strategic posture of the two allied nations.

Japan-Soviet trade exchanges, which were about \$621 mn in 1969, were expected to reach a record total of \$800 mn in 1970. This was disclosed by the *Tass* news agency, quoting a statement from the Japanese Embassy in Moscow. On 13 May 1970, Dimitry V. Petrov, a Soviet trade specialist said in Tokyo, that prospects of trade between Russia and Japan were bright and that trade relations would be further expanded if two obstacles were removed, namely the lack of concrete agreement concerning Japan's extension of long-term credits to Russia for the development of natural resources in Siberia and Far Eastern Russia, and insufficient market research by the two countries. He cited five major favourable factors:—

- (a) Complementary role, with Russia providing natural resources and Japan finished goods.
- (b) Geographical proximity.
- (c) Technological developments.
- (d) Russian reliance on foreign trade.
- (e) Common interest for an international detente.

On 24 December 1970 Caterpillar Mitsubishi said that it had received an

order from the Soviet Union for 265 bulldozers of the large type having a 127 horse-power capacity. They were expected to be used for the development of forestry resources in Siberia. It was also stated that timber products would be exported to Japan to repay the cost of the machines.

Since China and Japan are still technically at war and since the two Governments have no official contacts, Japan-China trade continued to be conducted, during 1970, between some private Japanese companies on the one hand and the Central Overseas Trade Organisation in China, on the basis of the "Memorandum Trade Talks" between the two parties. In the talks in 1970 China adopted an unexpectedly rigid attitude; the new trade memorandum signed on 20 April 1970 incorporated, at China's insistence, four new principles enunciated by Premier Chou En-lai, which included a refusal on China's part to trade with Japanese enterprises connected with Taiwan or South Korea. This caused some uneasiness among Japanese firms and some, including Nippon Steel and Toray and Asahi Chemicals were compelled to forego trade with China. The Japanese Government refrained from getting involved in the dispute. The Foreign Office estimated China's GNP for 1970 at \$75 bn and felt that whatever Premier Chou En-lai might say about Japan's "new militaristic designs" in East Asia Sino-Japanese trade was bound to grow. Its volume in 1970 was \$825 mn, representing 32 per cent increase over the previous year. In June, a Japanese trade mission signed an agreement in Peking to import 3000 tons of Chinese buckwheat during the year, and China placed an order for 2000

heavy duty trucks to be delivered within two years. In August it was announced that China had agreed to import 5.34 mn tons of fertilizer worth £60.1 mn. During and after the UN debate on China's admission to the world body, Japanese leaders began taking a new look at their country's relations with China. Kiichi Miyazawa, Minister of International Trade said on 17 November that the Japanese Government was prepared to give preferential tariff treatment to China with effect from 1 April 1971. The Cabinet Secretary said on 21 November that Japan should discontinue the so-called Memorandum Trade Channel with China and lay a "more politically thick pipe" for such trade. In his New Year press conference Prime Minister Sato declared that he would appeal to Peking for Government-to-Government contacts. He also hinted that his government would approve Export-Import Bank loans on a case by case basis to finance exports to China. It was reported on 3 December that the Toyota Motor Company had recently informed the Chinese Government of its intention to accept the four principles set by Chou En-lai. Following this the company is looking towards China as a big market for trucks. Local Japanese demand is expected to decline by 3.5 per cent, but in 1971 China will initiate its fourth five-year plan which would emphasise improvement of land transportation. The deficit ridden Nihon Aeroplane Manufacturing Company announced that it intends to export the YS-11, the first domestically manufactured passenger airliner, to China. According to informed sources, Peking plans to operate international air routes and may purchase 30 to 50 YS-11 planes. Japanese authorities starting trade

negotiations in Peking have decided to adopt a Yen-Yuan settlement system in trade between China and Japan. They expect the Chinese to propose this system, which West Germany and some other West European countries have already adopted for bilateral trade with China.

Japan's two way trade with Western Europe expanded from \$710 in 1959 to \$3520 mn in 1969, a five fold growth in 10 years, as compared to 4.2 times for Japan-US trade and 4.3 times for Japan-Southeast Asia trade. Exports to South and Southeast Asia in 1969-70 amounted to \$4448 mn showing a rise of 23.1 per cent over the previous year. Its imports from the region aggregated \$238 mn, a 20 per cent increase over the 1968-69 figure. Heading the list of importing countries were South Korea, Hongkong, Taiwan, the Philippines and Thailand. The Philippines, Malaysia, Indonesia and India accounted for about two thirds of Japan's imports from the region.

The prospect for Indo-Japanese trade have increased. Japan's Foreign Minister Kiichi Aichi indicated in New Delhi on 18 August 1970 that his country was prepared to give whatever economic assistance it could for India's development, and said there could be no prosperity in Asia without economic progress in India. The next day he announced a credit to India for the supply of Japanese ships and agricultural equipment and also, under the Kennedy Round Aid, fertilisers and experts for the Dandakaranya project. He indicated further softening of the terms of yen credit and said other projects for economic collaboration were under study. The proposed credit will be initiated with the supply of an iron ore carrier, which would transport ore

to Japan from Vishakapatnam's outer harbour, being constructed with Japanese assistance. Indian and Japanese businessmen agreed on 2 September to set up a top level standing committee to study measures for increasing India's exports of secondary industrial products to Japan. During August firm enquiries which could lead to orders to the extent of Rs. 48 crores had been made by Japanese industries for industrial spare parts and components to be supplied by India's small-scale industrial sector. The enquiries mainly pertained to labour intensive industries producing parts for engineering products such as bicycles, sewing machines and foundry castings.

On 19 December MITI issued a White Paper on economic co-operation in which it expressed the hope that Japan's economic aid to developing countries would exceed \$2000 mn in 1975. The annual report stated that Japan's aid in 1969 totalled \$1263 mn, an increase of 20.4 per cent over the previous year; it equalled 0.76 per cent of the country's GNP. It was also pointed out that Japan ranked fourth among the world's aid giving countries.

Expo'70 which ran for six months from 15 March 1970 highlighted to the world the phenomenal economic, industrial and technological progress made by Japan in the past decade. More than 64 million people visited the fair, shattering the previous world record held by Montreal's Expo '67 with slightly more than 50 million visitors.

POLITICAL DEVELOPMENTS

The ruling Liberal Democratic Party (LDP) under Prime Minister Eisaku Sato's leadership, fought the 1969

Diet Elections on two main issues, the return of Okinawa to Japan in 1972 and the maintenance of close relations with the US. Having increased its strength to a comfortable majority, the automatic extension of the Japan-US Security treaty was already assured, after its initial 10 year period expired at mid-night on 22-23 June 1970. However, the small magnitude of public opposition that was raised, surprised many. On 28 April the Japan Communist Party (JCP) had proposed to the Japan Socialist Party (JSP) that they join forces in carrying out a massive movement to oppose the Government's plan for automatic extension of the treaty. On 8 May the JSP called upon the Diet to adopt a resolution to abrogate the treaty. It also said that it was impermissible for the Government to automatically extend the treaty without the Diet debating the matter. However later in the month the JSP announced that it would not take joint action with the JCP against the treaty. The comparative calm on the occasion was partly due to advance precautions taken by the government and possibly more so because opposition to the treaty was far less vehement in 1970 than in 1960; certain aspects of the extended treaty made it more acceptable. Instead of being bound by the treaty for a comparatively long period, Japan entered an age of options in which it can decide its own future with a far greater degree of independence.

On 29 October Prime Minister Sato overwhelmingly defeated his only opponent Takeo Miki and was re-elected to an unprecedented fourth term as President of the ruling LDP, thereby paving the way for him to serve a

record eight-years as Japan's Premier.

The Tory faction within the LDP, lead by Yasuhiro Nakasone, Director General of the Defence Agency, revealed on 8 July its plan to study the feasibility of revising or abolishing the Japan-US Security Treaty "from a long-range view-point". Nakasone explained that by revision or abolition of the treaty, he meant its conversion from a predominantly military one, to one with more economic and cultural character. The faction's action and its view that the treaty would become an important problem during the second half of the 1970's amounted to an endorsement of the personal ideas of Nakasone, who has propagated the view that Japan must become more self-reliant for its defence and less and less dependent on the US.

During the year fears of revived militarism were expressed both within Japan and elsewhere in the world and despite assurances to the contrary such fears persist to some extent. The ritual *Harakiri* by the noted Japanese author Yukio Mishima, founder and commander of the rightist *Tate no Kai* (literally, Association of Shields) fanned such fears. He together with four followers stormed into the Eastern Army Head quarters, on 25 November gagged and bound the army Commander and after pleading with him to put "backbone" into the "spineless" self-defence forces proceeded to harangue from a balcony some 2000 troops below, urging them to rise up in force to overthrow the constitution which prohibited Japan's re-armament. Ending the speech with a "Banzai for the Emperor" Mishima committed *Harakiri* in the traditional manner. Lt. Gen. Kanetoshi Mashita, Eastern Army Commander, requested

and was granted retirement after the incident. A group of LDP Dietmen confirmed on 2 February at a meeting of the Constitutional Review Council and the LDP Dietman's League for an "Autonomous Constitution", their intention to announce within a year a plan to revise the Constitution. The League is headed by former Prime Minister Nobusuke Kishi and is made up of 264 out of 540 LDP Dietmen. It feels that the post-war Constitution was "authored" and forced upon the Japanese people by US occupational forces.

Kenji Miyamoto, Secretary General of the JCP declared on 6th July that the JCP would support the Chinese Communist Party's call for a united front of the world's Communist Parties, if the joint front was designed as anti-American and not anti-Soviet. He criticised Soviet interference in JCP's affairs and disclosed that the JCP would not officially publish the Soviet message sent to the JCP convention. He also criticised the theory of "revival of Japanese imperialism" in that it underestimated the aggressive character of US imperialism and overestimated Japanese monopoly capital.

At the JCP's 34th National Convention in November 1970 Chairman Tomomi Narita retained his post defeating rival Saburo Eda former Secretary-General. Ishibashi former Director of the Party's International Bureau emerged as the new Secretary-General. Narita and Ishibashi teamed up in their efforts to seek better relations with Communist countries including China and the USSR. The convention exposed the widening gap between the left wing and the moderate groups. The latter had advocated a moderate "structural reforms" policy. In December the Komeito

and Democratic Socialist Parties rejected an offer made by the JSP to jointly side with them and the JCP to carry out a joint struggle against the Liberal Democratic Party.

Problems connected with environmental pollution assumed major significance during 1970 and received considerable attention in the press and in political circles. A central anti-pollution headquarters was set up in the summer to coordinate administrative measures of various Ministries. It did not however control the actual operation of such measures. To achieve this objective the Government on 28 December set up an Environmental Protection Agency to integrate all existing organisations, personnel functions and budget under a single agency. A minister would head the agency which would also establish under its direct control a National Pollution Research Institute.

During the past year and particularly since a majority of nations voted in favour of China's admission pressure has been mounting in Japan for a change in the Government's China Policy. This has not been confined to opposition elements. On 9 December 379 out of 738 Dietmen joined the supra-partisan Dietmen's League for Accelerating Restoration of Japan-China Diplomatic Relations. It declared that the Government's stand, which regarded the Taipei Government as the sole legitimate government of China, was an anachronism and would endanger Japan's present and future interests. It also said that a state of war still existed and it was extremely harmful to Japan's peace and security. A National Council for the Normalisation of Relations between Japan and China was also inaugurated with politicians, university professors, in-

tellectuals, commentators and stage and movie celebrities attending. It declared that the most important task before Japan in the 1970's was to harmonise Sino-Japanese relations. Kaheita Okazuri, president of the Japan-China Memoranda Trade Office said on 23 December that it was high time for Japan to reconsider its traditional stand. On 14 December Premier Sato had said that Japan and China were legally in a state of war, but stressed that the war was actually over as personnel interchange and trade had been continuing between the two countries.

Considerable progress has been made in arrangements for the return to Japanese rule of the Ryukyu Islands which include Okinawa. Though some problems still remain, it now seems most probable that the islands' administration will be transferred on 1 July 1972. On 20 May 1970 Japanese and US authorities agreed to start consultations on the share of responsibility to be borne by Japan for the defence of Okinawa after the Islands returned to Japanese administration. It was also agreed to hold talks on the question of placing US bases under the control of Japanese Self-Defence Forces (SDF) for wider joint use under the Security Treaty and the Status of Forces agreement. Nakasone told the Diet on 1 June that US military deployment would be scaled down gradually after the islands return to Japanese rule. However, Chobyō Yara, chief executive of the Ryuku Government said on 8 June that he was opposed to the existence of military bases in Okinawa and to the Japan-US treaty. He also expressed dissatisfaction over fact that US chemical weapons and B-52 strategic

record eight-years as Japan's Premier.

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and Democratic Socialist Parties rejected an offer made by the JSP to jointly side with them and the JCP to carry out a joint struggle against the Liberal Democratic Party.

Problems connected with environmental pollution assumed major significance during 1970 and received considerable attention in the press and in political circles. A central anti-pollution headquarters was set up in the summer to coordinate administrative measures of various Ministries. It did not however control the actual operation of such measures. To achieve this objective the Government on 28 December set up an Environmental Protection Agency to integrate all existing organisations, personnel functions and budget under a single agency. A minister would head the agency which would also establish under its direct control a National Pollution Research Institute.

During the past year and particularly since a majority of nations voted in favour of China's admission pressure has been mounting in Japan for a change in the Government's China Policy. This has not been confined to opposition elements. On 9 December 379 out of 738 Dietmen joined the supra-partisan Dietmen's League for Accelerating Restoration of Japan-China Diplomatic Relations. It declared that the Government's stand, which regarded the Taipei Government as the sole legitimate government of China, was an anachronism and would endanger Japan's present and future interests. It also said that a state of war still existed and it was extremely harmful to Japan's peace and security. A National Council for the Normalisation of Relations between Japan and China was also inaugurated with politicians, university professors, in-

tellectuals, commentators and stage and movie celebrities attending. It declared that the most important task before Japan in the 1970's was to harmonise Sino-Japanese relations. Kaheita Okazuri, president of the Japan-China Memoranda Trade Office said on 23 December that it was high time for Japan to reconsider its traditional stand. On 14 December Premier Sato had said that Japan and China were legally in a state of war, but stressed that the war was actually over as personnel interchange and trade had been continuing between the two countries.

Considerable progress has been made in arrangements for the return to Japanese rule of the Ryukyu Islands which include Okinawa. Though some problems still remain, it now seems most probable that the islands' administration will be transferred on 1 July 1972. On 20 May 1970 Japanese and US authorities agreed to start consultations on the share of responsibility to be borne by Japan for the defence of Okinawa after the Islands returned to Japanese administration. It was also agreed to hold talks on the question of placing US bases under the control of Japanese Self-Defence Forces (SDF) for wider joint use under the Security Treaty and the Status of Forces agreement. Nakasone told the Diet on 1 June that US military deployment would be scaled down gradually after the islands return to Japanese rule. However, Chobyō Yara, chief executive of the Ryuku Government said on 8 June that he was opposed to the existence of military bases in Okinawa and to the Japan-US treaty. He also expressed dissatisfaction over fact that US chemical weapons and B-52 strategic

bombers had not been removed from Okinawa. The latter have since been withdrawn. On 5 August a three-stage plan was agreed to for the the transfer of various US rights to Japan. It was the first concrete proposal for the transfer of the civil administration. After his return from attending "technical level discussions" in the US in early August, Nakasone reportedly stated that within the next "several weeks", Japan would begin sharing control of many American-run bases under a "joint cost-sharing basis". He went on to add "now the two countries are moving to implement the changed status of the bases on a case by case basis. On 20 December a major anti-American riot erupted at Koza near the US Kadena Air Base on Okinawa; anti-American feeling had been building up on two issues, withdrawal of poison gas from the island and the acquittal by a US military court of an US Serviceman who allegedly killed an Okinawan woman whilst under the influence of alcohol. The House of Councillors Special Committee on Okinawa Affairs adopted on 23 December a resolution calling on the government to press for an early transfer of judicial jurisdiction over Okinawa from the US to the Okinawa Government. The next day Foreign Minister Kiichi Aichi said that the Government was studying the question of revising the existing agreement with the US regarding the Status of US military personnel in Japan. On 21 December US Forces Headquarters in Okinawa announced that about 3000 base workers would be discharged by the end of June 1971, and at a joint meeting held on 22 January 1971 between the leaders of the All-Japan Garrison Forces Labour Union and the All Okinawa Military Workers Union,

it was decided that more than 3,000 workers at US installations would launch three waves of joint strikes between February and April, protesting against the mass dismissals.

INTERNATIONAL RELATIONS

Japan's 14th Blue Book on Diplomacy issued by the Foreign Ministry on 7 July said that Japan should actively assume its international responsibility for the lessening of international tensions and the creation of a new order for world peace. "This task is no less important than the build-up of national defence capabilities, with which Japan wants to supplement the Japan-US Security Treaty", explained the report. Earlier in May 1970, Japan had informed the United Nations that it considered a revision of the UN Charter and the enlargement of the Security Council as essential steps in the strengthening of international security. It went on to state, "in view of the changes in the world situation which have taken place since the establishment of the UN, it is evident that in today's world not only military power but also economy, science and technology as well as culture have come to play important roles for the maintenance and strengthening of world peace. It would therefore be essential that those nations which possess powers in these fields should be given a status enabling them to make contributions to the maintenance of peace." On 31 August Japan's Ambassador to the UN, *Senjin Tsuruoka* said in Tokyo that he would continue to urge Japan's earnest desire to obtain a permanent seat in the UN Security Council. On 26 October the UN General Assembly elected Japan to one of the non-permanent Security Council Seats to serve its third two year term as a member of the

Council. In the first speech ever made by a Japanese Prime Minister at the United Nations, Eisaku Sato on 21 October explained to the General Assembly the attitude of the Japanese Government towards international society in the 1970's. Two points he made attracted special attention. One was the proposal to solve the question of divided countries, and the other was an "Oath of peace" to the whole world denying allegations that Japan with the world's third largest GNP, would turn into a military power in the future. In his policy speech to both houses of the Diet on 22 January Prime Minister Sato said "with the backing of growing national strength, the promotion of positive diplomacy for peace had brought Japan a greatly enhanced international status".

Although some potentially serious strains particularly over trade restrictions have surfaced in their relations and although the so-called Nixon Doctrine announced by the US President in Guam in July 1969 has resulted in Japan's assuming a greater military role in its own national defence, Japan's leaders, especially Prime Minister Sato, continue to set a high value on their country's special relationship with the US. Sato told the US Ambassador to Japan that he had no intention of having the Security Treaty revised unless there was a change in the international situation; he made this statement in connection with his previous remarks on 15 May when he had indicated that Japan would retain the treaty for at least two to three years. He reportedly expressed regret to Ambassador Meyer that his remarks had been taken by some to mean that he was considering getting the treaty revised in two or three years.

Edwin Reischauer, a Harvard professor and former US Ambassador to Japan however, has expressed the view that Japan had "deep doubts" about its relations with the US and found it difficult to share its defence commitment. It might actually seek nuclear weapons in a few years. He also said that within three years Japan would have veto powers on virtually all US activities in Asia. However, on 10 July Premier Sato stated that the Japanese people would never permit Japan to take over the military role of the US in Asia and the Pacific after US forces withdraw. On the other hand US Vice-President Agnew expressed regret on 25 August at Japan's reluctance to contribute due share of its growing national potential and resources to the common security of Asian nations. Henry Kissinger, President Nixon's aide on National Security Affairs, was reported in August to be of the view that a resurgence of militarism would be likely to occur in Japan if the US relinquished its role as a Pacific power, and that if Communist countries emerged as the dominant force in Asia, this military power, bolstered by the third largest industrial complex might be directed against the US. He also pointed out that Japan had a much larger industrial capacity than China, but if at some future date China becomes a major power and Japan is convinced that China would dominate Asia, then a dramatic shift in Japan's political orientation could be expected. On 16 September it was reported that US Defence Secretary Laird in his talks with Director General Nakasone at the Pentagon had confirmed the US determination to defend Japan with all levels of weapons including nuclear weapons. After saying that President Nixon understood Japan's

increasing insistence on providing its own self-defence with conventional weapons, Laird reportedly reconfirmed the US pledge made by former President Johnson to Premier Sato in 1966 to defend Japan from all kinds of aggression. On his return to Japan Nakasone said on 20 September that USA would overcome its fear of a revival of militarism in Japan, and claimed that his talks had opened the way for direct defence consultations between the government officials in the two countries. Herman Kahn, a specialist on US global strategy said on 31 January 1971, that Japan and not China or Russia would probably take over the non-Communist parts of Asia if the US withdraws from Asia, and "if it does the withdrawal slowly and responsibly."

Foreign Minister Aichi repeatedly denied on 27 August the existence of any secret arrangement over the reversion of Okinawa, saying that the only agreement on the subject was the joint communique issued after Sato-Nixon meeting in November 1969. Some members of the US House Foreign Affairs Committee had earlier emphasised that the testimony of US Under Secretary for Political Affairs in January 1970 had disclosed serious discrepancies between US views and the official explanation given by the Japanese Government. It was pointed out that the testimony suggested Japan's readiness to defend the Far East in exchange for the return of Okinawa. It was also reported that during the talks in November 1969, President Nixon had said that the US reserved the right to seek Japanese approval for nuclear weapons to be brought into Okinawa in any emergency following the island's return to Japan and the US expected to have the free use of its Okinawa and other Japanese bases,

to meet such emergencies. However Premier Sato and his Ministers have insisted that Japan's non-nuclear pledge rules out any nuclear plans that the US might have for Okinawa. On 20 January General Chapman, Commandant of the US Marine Corps said in Okinawa that he considered that US marines stationed in the island would be able to freely operate after Okinawa's return to Japanese rule, and stated that he had no plan to scale down the strength of the US marines force in Okinawa after the islands' reversion. This contradicted the Japanese Government explanation to the public which indicated that American troop movement in Okinawa are subject to the prior consultations stipulated by the Japan-US Security Treaty. Gen. Chapman maintained that an agreement reached between President Nixon and Prime Minister Sato in 1969, called for the continued stationing and free movement of American forces in Okinawa in case of an emergency after Okinawa's reversion to Japan. It appears that the US authorities are not unduly perturbed over such differences, as it was reported towards the end of January 1971 that President Nixon had ordered "full speed ahead" on an agreement with Japan over US bases in Japan. US Government sources also disclosed on 25 January that a formal agreement on the reversion would most likely be signed in April 1971 with the actual transfer taking place between 1 April and 1 July in 1972. On 22 January 1971 Premier Sato reiterated to both houses of the Diet, that in order to maintain its security and prosperity Japan's relations with the US were of utmost importance. He also expressed the firm belief that the Japan-US textile negotiations would eventually reach an appropriate settlement. On

17 March Japanese Foreign Ministry Sources disclosed that the USA had notified Japan that it would regard the reversion of Okinawa to Japan as treaty matter requiring two thirds majority approval of the US Senate.

Despite increased economic cooperation between Japan and the Soviet Union, the potentially serious problem of Japan's claim for the return of "the Northern Territories" remains in the background. Soviet Foreign Minister Gromyko told a visiting JSP mission in Moscow on 15 July that the Kuriles have been proved to be Soviet territory in the light of historical study and in international law. He reiterated the firm Soviet stand that the territorial issue between the Soviet Union and Japan had already been settled. Soviet Defence Minister Marshal Grechko writing in *Pravda* on the 25th anniversary of the defeat of Japan stated, "We cannot fail to take account of the danger to peace in Asia constituted by the revival of Japanese militarism in any form". In his speech at the UN on 21 October Prime Minister Sato stressed that peace could not be restored between Japan and the Soviet Union until the territorial problem was settled. Asked why he had mentioned the Northern Territories in his speech he replied that it was a problem of the whole Japanese nation. "Japan-Soviet relationship has been going very smoothly except for this issue", he added. On 11 November 1970, the Soviet Union described Sato's UN speech as unfriendly and the Russian Charge d'Affairs in Tokyo orally conveyed the Russian protest to Vice-Foreign Minister Haruki Mori. In an oral reply Haruki Mori told the Russian Charge d'Affairs that the Soviet protest interfered in the domestic affairs of Japan and

infringed on friendly relations between two the countries. *Pravda* charged that Japan was frustrating the conclusion of a peace treaty with the Soviet Union by demanding a revision of the results of World War II. In his policy speech to the Diet on 22 January 1971 Prime Minister Sato again referred to the issue and said he believed that Japan must settle the problem of the return of the Northern Territories through negotiations with the Soviet Union and must conclude a Japan-Soviet peace treaty in order to "further deepen" friendly relations between the two countries. A few days later a commentary in *Izvestia* said "The revision of World War II borders has become part and parcel and the most significant part of the LDP policy". It went on to add that LDP members continue to affirm their desire to strengthen good neighbourly relations with the Soviet Union, but were "in fact putting a mine under these relations by their disgraceful falsification of history and absurd claims for the Kurile Islands."

Japan-China relations started on an acrimonious note early in 1970. The joint communique issued on 20 April 1970 by the Chinese and Japanese (non-governmental) delegates after the conclusion of trade memorandum talks in Peking, contained a statement condemning the revival of militarism in Japan. The Japanese Government said that the Chinese accusation of revival of militarism in Japan was based on a mistaken perception of facts. It asked Peking to understand that "The Government and people of Japan have endeavoured to establish peace over the past 25 years, and its peace constitution has long been the guiding principle for Japan". The Japanese Government accordingly disagreed with the contro-

versial communique which questioned the reversion of Okinawa to Japanese rule. Prime Minister Sato himself went further and said on 23 April that China was a threat to Japan and that there was no change in his position on China, as clarified in a joint communique which he and President Nixon issued in November 1969, which stated that they agreed on the importance of creating conditions wherein Asian nations would not be susceptible to threats from China. Sato expressed the view that China could be considered a threat to Japan because that country, had nuclear armament, had shied away from the nuclear non-proliferation treaty, had stayed away from the international community and was on a semi-war footing. He also accused Chou En-lai of intervening in Japan's internal affairs in connection with his statement that militarism had been revived in Japan. He further said that Taiwan and South Korea were geographically close to Japan which therefore must be extremely careful about what was happening there. Sato also felt that the Sato-Nixon joint communique did not go beyond this and added, if something happened in the Straits of Taiwan it would seriously affect the security of Japan and that Japan was duty-bound to offer the US bases under the Security Treaty. On the other hand Yoshimi Furui, a Liberal-Democrat and Chief Japanese negotiator at the memorandum trade talks said "In Peking denunciations of Japan's militarism are launched every day. The Peking Government insists that conclusive evidence of such revival lies in Japan's stand on the Sato-Nixon joint communique—in effect on the stand that the security of Taiwan and Korea is essential to Japan's security." On 24 April Yasuhiro Nakasone said that

Japan's self-defence forces would not become involved in any dispute in the Taiwan Straits. He told a committee of the House of Representatives that China did not constitute a threat because it seemed to have neither the intention nor the ability to undertake direct or indirect aggression against Japan. He also said that relations between China and Taiwan were a matter to be settled by the Chinese themselves.

Although Premier Sato in his address to the UN General Assembly on 21 October refrained from a direct reference to China, his proposal to solve the problem of divided countries was interpreted as favouring the "one China and one Taiwan" theory. In San Francisco Sato said on 25 October that he agreed with President Nixon that this was not the time for their governments to change their stand on the Chinese representation issue in the UN. In a lengthy commentary the same day *NCNA* said "Japan is no longer satisfied with the pre-war status of Japanese imperialism, but is attempting to climb to the position of a super-power on equal footing with US imperialism and Soviet social imperialism." It went on to add "In the eyes of the Japanese ruling clique, Japan's military strength does not yet correspond with her economic strength, therefore, their aim is now to turn Japan from a so-called economic power into a so-called military power". On 17 November Japan told the UN General Assembly that its position on the China issue was unchanged and that it would vote against the Albanian resolution and vote for the two thirds majority requirement resolution which it was co-sponsoring. In the wake of the former resolution gaining a simple majority and Canada and China

resuming diplomatic relations, Premier Sato told the Diet on 25 November that his government would deal prudently with the Chinese problem, in the light of the latest world developments and at the same time from the standpoint of respecting international trust, protecting the national interest and contributing to easing tensions in the Far East. Foreign Minister Aichi told the Diet on 3 December 1970 that Japan was now inclined to think it improper to stick to the so-called "important question" formula in regard to the representation of China in the UN. This was the first time that a top Government leader had taken such an attitude. Later Japanese experts on China met in Hong Kong on 13 December to reconsider Japan's China policy "in the midst of the changing tide of international politics towards China".

In his New Year Press conference Premier Sato declared that he would appeal to Peking for Government-to-Government contacts regarding normalisation of diplomatic ties. He also hinted that his government would approve the use of Export-Import Bank loans on a "case-by-case" basis to finance exports to China. This amounts to a virtual scrapping of the Yoshida letter, sent by the former Prime Minister Shigeru Yoshida, to Taiwan pledging that such loans would not be allowed for facilitating Japanese exports to China. In his address to the Diet on 22 January 1971 Sato pointed out that relations with China concerned "long range peace of the Far East" and were deeply related to Japan's national interest. He expressed a wish to positively promote Japan's interchange with China and to improve mutual relations, and hoped that China would

make the effort to meet Japan halfway. On 26 January Sato stated that his Government was ready to examine the possibility of concluding postal, meteorological, telegraph, aviation and other agreements with China. While reiterating that his government hoped to improve relations with China he said the Peking Government distrusted Japan, and that to remove the distrust the Japanese Government wanted to maintain official contacts and have ambassadorial meetings with Peking. It seems likely that Japan will veer round to supporting China's admission to the United Nations but will also insist on the requirement of a two thirds majority for the expulsion of Taiwan.

The Senkaku Islands near Taiwan regarded as a rich potential source of oil, came into the limelight at the beginning of August 1970, when news spread that the Taiwan Government had granted a US firm a permit to prospect undersea oil near the uninhabited Senkaku group about 160 Km northeast of Taiwan. The Japanese Government formally protested against the move. It claimed that the Senkaku islands were Japanese territory and were due to be returned to Japan along with the Ryuku Islands. But Japan preferred to assert its rights over the islands at first through the Ryukyu Government because of the delicate issues surrounding the Ryukyus including Okinawa, due to be returned by USA to Japan in 1972. Taiwan on its part claimed that the area formed a part of its continental shelf and on 21 August the Taiwan Parliament hastily approved the International Convention on the Continental Shelf including a reservation clause which stated "Peaks of the Continental Shelf that emerge above sea level should be regarded as

part of the Continental Shelf". In other words islets rising over the Continental Shelf cannot be used by any other nation to claim rights over the continental shelf. On 22 August the Japanese Foreign Office declared that Japan was prepared for formal talks with the Taiwan Government over the disputed Senkaku Islands, which were presently under the jurisdiction of Inshikagi city of the US administered Ryukyu Islands. On 21 October Japan and Taiwan reached a compromise that would lead to joint prospecting for oil off the Senkaku islands. On 3 December China declared its territorial claim over the island group called Senkaku in Japanese and Tiaoyu in Chinese. *NCNA* reported that the Japanese Government was "seeking to include into Japanese territory the Tiaoyu, Huangwei, Chihwei, Nanhsiao, Peihshiao and other islands and sea areas which belong to China", and added "The Japanese reactionaries have been casting covetous eyes on China's undersea resources in particular". This is the first time since World War II that a direct territorial dispute between Japan and China has arisen. The same day Foreign Minister Aichi said that sovereignty over the Senkaku Islands undoubtedly belonged to Japan and that therefore, there was no reason why Japan should negotiate with any foreign country in the matter. And on 8 December he said that the Gulf Oil Company of USA, which had been granted permission by the Taiwan Government to prospect for oil on the continental shelf near the islands, had informed the Japanese Foreign Office that the company would not start exploring undersea oil resources near the Senkaku islands until Taiwan and Japan agreed on the issue. He also again stressed that the Island had always

belonged to Japan and that the Gulf Oil Company had also announced that it would fully abide by Japanese laws as far as territorial rights over the islands were concerned after Okinawa reverted to Japan.

ARMED FORCES

As was expected the Japan-US Security Treaty was automatically extended after its initial 10 year period expired on 22 June, but now it is possible for Japan and the US to terminate it at one year's notice. In the special statement issued by the Government on 22 June emphasis was placed on the build up of self-defence strength in consonance with national capabilities; this apparently reflected a new policy of making the extended treaty supplementary to Japan's own defence effort in securing its national security, whereas in 1960s the Government had insisted that the treaty would play the principal role. The 1970 statement significantly made no mention of the treaty being maintained "for a long period to come" and observers considered that this omission was due to the Japanese Government's consideration of possible changes in the international situation, including those flowing from President Nixon's Guam doctrine.

The Maritime and Air Wing of the Self-Defence Forces (SDF) sharply increased their procurement of arms during 1969-70. The former spent 76,406 mn yen (\$212.2 mn) for ships and other equipment, while the latter spent 103,177 mn yen (\$286.6mn) for weapon systems including guided missiles and aircraft. These outlays represent an increase of 23,366 mn yen and 36,247 mn yen respectively for the Maritime and Air Wings which are becoming the mainstay of Japan's national defence.

The expenditure on the Ground SDF which has the bulk of defence manpower, was only 40,585 mn yen (\$112.7 mn) amounting to half the previous year's allotment.

The Japanese Government issued its first ever White Paper on Defence on 19 October 1970. It stated that Japan would not arm itself with inter-continental missiles or other advanced weapons that might cause fear of aggression. It also declared that Japan would not obtain or develop nuclear arms, although "it could theoretically" (according to the Sato Government's interpretation of the war renouncing clause 9 of the Constitution) "possess small nuclear arms" strictly for defence purposes. The White Paper also denied any intention of reviving militarism in Japan. The paper was prepared under the direction of Yasuhiro Nakasone and was approved by the Cabinet. In the principles he laid down for the compilation of the paper, and also on the revamping of the National Defence Council, Nakasone, reportedly supported his predecessor Kiichi Arita, who had ordered the re-writing of the first draft which had described the Soviet Union, China and North Korea as threats to Japan. He laid down among other things that, in analysing the international situation the paper must show the non-existence of clear military threats for the next ten years, and that the future build-up would be designed to make the SDF strong enough to defend the country against conventional attacks and also that the security treaty would be assigned a supplementary role against nuclear attacks. Nakasone also preferred frequent meetings of the presently inactive National Defence Council rather

than a re-organisation of the Council.

Japan's leaders have in repeated statements tried to allay fears of the revival of militarism and of Japan deciding to embark upon a nuclear weapons programme. However, its advanced and expanding industrial base, its accelerated programme for the peaceful uses of nuclear energy and its development of rockets would give Japan a credible option to become a first class military power in five to ten years. The statements disclaiming intentions to manufacture or possess nuclear weapons are not as categorical as they used to be in the past. On 20 January Foreign Minister Aichi reiterated that Japan would firmly adhere to the three principles of banning the possession, manufacture and introduction of nuclear weapons. He however added the qualification "As long as the USA's determination to stand by its commitments abroad is clear, a situation such as a power vacuum would never occur in Asia, and, therefore, there should be no necessity for our country to acquire an excessive military capability". Furthermore Nakasone reiterated on 10 February that the Defence Agency would promote domestic production of electronic equipment, missiles and planes. And on 16 February 1970 Japan successfully placed in orbit its first full-fledged space satellite weighing 60 kg.

The day after the issue of the White Paper the Defence Agency's draft Fourth Defence Build-up Plan (1972-76) envisaging an expenditure of \$15,833 mn was submitted for study to the ruling Liberal Democratic party. The plan provides for the modernisation and expansion of the ground, air and maritime wings of the SDF; the army

will receive 1000 new tanks; the navy more than 100 additional ships amounting 100,000 dwt. tons raising the total tonnage to 245,000. These will include new helicopter carrying destroyers, high-speed missile equipped ships and anti-submarine helicopters; the airforce will get 76 new aircraft or two F4EJ Phantom Jet fighter units, 3 ground-to-air Nike missile units and other modern anti-aircraft equipment. The cost of the new five year plan is 2.2 times the total of the current third plan ending on 31 March 1970. The fourth plan makes provision for a total of 286,000 personnel; it gives the Navy cruisers for the first time since World War II, and brings the airforce's combat aircraft strength exclusive of helicopters up to 900. The cost of the plan will increase the ratio of Japan's defence expenditure from its present 0.8 per cent of the GNP to 1 per cent. Most of the equipment required will be manufactured in Japan.

In May 1970 a Socialist member of the Upper House raised serious suspicions about the existence of US nuclear weapons in Japan proper, (as opposed to Okinawa). He displayed a photograph which he claimed was proof of nuclear arms being stored at Mishawa Air Base and cited as further evidence the stationing there of four F4D planes capable of carrying such weapons and a "foreigner's" reported comment on the storing of more than 150 nuclear weapons in a secret under-ground bunker. He also recalled an *Associated Press* report from Canberra on 30 April 1962 according to which a US Commander had said that the US deployed nuclear armed planes in Pacific countries included Japan. Yasuhiro Nakasone, remained silent while the

member Yasaku Yayma spoke and said thereafter, "I will investigate the matter although I am firmly convinced that nuclear weapons do not exist". The results of any such investigation do not appear to have been made public. It has recently been decided to withdraw the F-4 Phantom aircraft from Mishawa and Yokata air bases. Some will be redeployed in Okinawa. As stated earlier US authorities maintain that the US reserves the right to seek Japanese approval for nuclear weapons to be brought into Okinawa in any emergency following the islands' return to Japan.

Towards the end of May the US agreed with Japan's proposed Okinawa defence policy to be implemented after the island's reversion in 1972. It envisaged that: the ground forces in Okinawa would be about a regiment centering on defence facilities and communication groups; the Maritime SDF would play the major role in guarding the Japanese coast and watching the sea around Kyushu, Amami and Okinawa; and the Air SDF would gradually take over defending the territorial air space by taking over the radar sites. The 36 Nike missiles which the US has in Okinawa would also be taken over *in situ*.

On 19 December formal agreement was announced on the details of the partial withdrawal of US forces in Japan, including the redeployment of all F-4 Phantom aircraft presently operating from Mishawa and Yokota air bases. 12,000 US Servicemen and 360 civilian technicians are to be withdrawn reducing the level of US forces in the country to about 27,000. About 10,000 Japanese workers will also be discharged. In addition 5,000 US servicemen are due to be withdrawn

from Okinawa. A Japanese Government official revealed on 17 December that the strength of the US fleet operating in waters around Japan is expected to be reduced to half during 1972. At a Cabinet meeting on 22 December Nakasone reportedly said, in connection with the planned US withdrawals, that it was necessary for Japan to further develop a self-reliant defence structure. He added that the fourth plan was a "giant step" in that direction, but an independent defence system should be further promoted. Herman Kahn, a specialist on US global strategy said on 31 January 1971 that Japan would probably take over the non-communist part of Asia if the US withdraws from the region. He maintained that it was most likely that the Japanese and not the Chinese or Russians would do so.

A group of Japanese civilian experts on national security problems, formed in February 1970 to study various problems arising from the scaling down of US forces in Japan, in its report on 29 December, considered that a transitional strategy was necessary to ensure US mobility and renewed use of Japanese bases in an emergency, and that to realise the necessary "Crisis Cooperation Mobile Strategy", a consultative system should be established between the two countries. It recommended that as a practical step a series of legal measures should be taken and the present Status of Forces Agreement must be re-examined to meet the new situation.

The proposed 1971-72 Budget of 670,800 mn yen (\$1865 mn) is the largest since World War II and is 18 per cent higher than in the current 1970-71 financial year. Latest estimates based largely on those of the ISS,

London of the strength of Japan's Self-Defence Forces are given below :

Army (SDF)

Total strength— Authorised 180,000, Posted 179000, Reserves 36000.

1 Mechanised (armoured) Division

12 Infantry Divisions

1 Airborne Division

800 to 900 tanks of which 400 to 500 are Type 61 and M-4 Medium tanks, the remainder being M-24 and M-41 light tanks.

4,500 artillery pieces including 105 mm-155 mm self-propelled guns.

203 mm and SS-4 twin 106 mm self-propelled antitank guns.

3 Hawk surface-to-air missile battalions.

140 aircraft and 210 helicopters.

Basic Organisation : Five district armies and 13 divisions.

Navy (Maritime SDF)

Total strength 38,323.

11 submarines

28 Destroyers (including 1 with Tartar surface-to-air missiles)

13 Frigates

20 Fast patrol vessels

2 Mine layers

2 Training ships

35 Coastal mine-sweepers

10 Motor torpedo boats

4 Landing ships

993 Support ships and service craft

Basic Organisation : One Submarine flotilla, four escort flotillas, four minesweeper flotillas, five air wings, and five regional district units.

Under the 1970 construction programme, two submarines, one destroyer, three escorts, four mine-sweepers and one torpedo boat are to be added.

Airforce (Air SDF)

Total strength 41,657.

500 combat aircraft excluding helicopters, and including 200 F-104J interceptors, the balance being F-86s. The latter will probably be phased out first and replaced by F 4EJ Phantoms to be manufactured within the country under licence from USA.

Basic organisation : 18 flight squadrons.

The GSDF now has about twice as much fire-power as the erstwhile Imperial Japanese Army, the ratio of fire-power between them being 1:0.48 respectively. The strength of a GSDF division is half that of a division of the old Imperial Army. Similar ratios for mobility and strength of the tank forces work out as 1:0.2, and 1:0.8. With the appointment on 23 June 1970 of General Toshi Kinugasa as Chief of Staff of the GSDF, all top leaders of the SDF are now former members of the erstwhile Imperial Japanese Armed Forces.

Japan's Defence Agency has developed prototypes of a new main battle tank to replace the type 61 tank

now in service. It will have a 105 mm high velocity gun and a modern fire control system including a laser range finder, ballistic computer and gun stabiliser as well as night vision devices.

The Defence Agency has decided to procure an early warning aircraft. Kawasaki Heavy Industry and Nippon Electric have reached agreement with Hughes Aircraft, USA, to offer a version of the XC-1 transport plane for the role, and Grumman, USA have proposed the E-2A Hawkeye for the purpose.

Japan's largest post-war submarine Uzushio, built by Kawasaki Heavy Industries has been delivered to the Defence Agency in Kobe. Having a standard displacement of 1850 tons it is the nation's first "tear drop" shaped submarine. Its shape gives it superior underwater movement and propulsion performances ; its hull is made of high-tension steel.

In a report entitled "Review and Prospects of Research and Development", the Defence Agency highlighted an urgent need for greater research and development. It envisages spending up to about 3.5 per cent of the total defence budget in the fourth defence build-up plan, for this purpose. It points out that even this percentage would be less than in other advanced countries. At present Japan's defence R & D expenditure accounts for a mere 1.9 per cent of defence expenditure as against 10 per cent in the USA, 10.4 per cent in the UK, 20 per cent in France and 5.7 per cent in West Germany.

The Agency also plans to increase the manufacturing budget by 5 to 10 per cent so that "the defence industry can absorb the increase in wages." The basic policy of the Agency's equipment

development is to encourage domestic production of weapons. Equipment procurement in the fourth plan is estimated at 2500 bn yen which works out to an average of 5000 yen per year for each Japanese person.

The prices of weapons expected to be purchased during the fourth build-up programme run as follows :

- Trial manufacturing cost of a new type tank ; 257 mn yen ;
- L-90 anti-aircraft gun system 370 mn yen ;
- F 4EJ Phantom Jet fighter ; 2086.8 mn yen ;
- PSI anti-submarine flying boat ; 1130 mn yen ;
- 8000-ton destroyer-helicopters carrier : 22,000 mn yen ;
- Early warning reconnaissance plane 5000 mn yen ;
- Medium-type transport plane 2760 mn yen

Equipment on which R & D has been completed

- (a) Anti-submarine flying boat equipped with new devices including boundary layer control and spray suppresser. It is good for short landing and take off and has superb wear resisting capability.
- (b) AAM-1 infra-red homing air-to-air missile.
- (c) 30 Surface-to-surface unguided rockets with a maximum range of 28 km.
- (d) Three dimensional radar. for aircraft control and warning

capable of measuring course, distance and height of the target plane.

Equipment Currently under R & D

- (a) Medium-sized transport plane
- (b) Supersonic training plane, its R & D is to be completed in 1973.
- (c) New type tank—with 105 mn gun and capable of changing its "posture" (presumably height) and of underwater navigation. Its R & D expenditure so far has been about 960 mn yen.
- (d) New Armoured Car, equipped with blind control device, smoke generator and sight-interlocking periscope. It has a 300 hp engine and is capable of a maximum speed of 60 km per hour.
- (e) High speed 60 ton hydrofoil missile boat.
- (f) AAM-II infra-red homing air-to-air guided missile. Capable of all round attack.
- (g) Short SSM, short distance surface-to-surface missile, wire guided and capable of destroying small landing ships and tanks.
- (h) Short SAM—short distance surface-to-air missile with infra-red guidance for use against low altitude air raids.

Equipment for which R & D is to be undertaken in the fourth plan

- (a) PL—next generation anti-submarine aircraft. It will be a

fixed wing plane to replace the current P2 J.

- (b) HX—next multi-purpose helicopter—for anti-submarine operations and for use by ground troops.
- (c) Anti-vessel missile.
- (d) DDH anti-submarine helicopter carrying destroyer.
- (e) Reconnaissance tank, small and light but capable of navigating rivers and engaging in battle.

The Joint Staff Council of the Japanese Self-Defence Forces is to set up its own intelligence division in the next fiscal year. Funds for the necessary additional staff were tentatively agreed upon by the Government on 28 December 1970. The Defence Agency is creating the new division as part of the fourth defence build-up plan. It has been insisting that strengthening of information-gathering activities is in line with the country's defence policy which emphasises the need to re-inforce self-defence operations.

Yasuhiro Nakasone, was reported on 31 December to have decided to set up a Strategic Research Institute in 1972 to augment the Agency's machinery for collecting and analysing information and data concerning defence. Informed sources said the plan was a part of Nakasone's policy to strengthen the Agency's subordinate organisations such as the Defence Academy, National Defence College and Technical Research and Development Institute. It was stated that full fledged preparations to establish the Institute, which may be called the "Peace Research Institute" would be started in 1971.

SCIENCE AND TECHNOLOGY

Atomic power generation in Japan has entered an era in which it is being utilised for practical purposes. This was stressed in the annual White Paper for fiscal 1969 issued by the Japanese Atomic Energy Commission (JAEC). It stated that two atomic power plants with a combined generating capacity of 497 MW were in operation, and seven more with a total generating capacity of 4,054 MW were under construction with two scheduled to start operating during fiscal 1970. It also highlighted the fact that JAEC in its long range outlook drafted in 1967 had predicted that power generation capacity would reach 6000 MW in 1975 and 40,000 MW in 1985. However the output capacity was now expected to far surpass that figure and to reach 60,000 MW in 1985 accounting for 40 per cent of the nation's power output. The total number of atomic reactors in operation in Japan was reported to be 22. This includes a number of experimental reactors.

Subsequent to the issue of the report the first reactor of the Mihama Power Plant of Kansai Electric Power Co., under construction on the Tsuruga Peninsula, became critical on 29 July 1970. It was a pressurised water reactor with an output capacity of 340 MW. The station successfully started trial delivery of nuclear power to the Expo '70 site on 8 August and was put into full fledged operation on 28 November. The second reactor was installed during January 1971. It was the first pressurised water reactor to be built in Japan. The first one had been made by Westinghouse of USA. The new reactor was 11.92 meters long 3.353 meters in diameter and weighed 280 tons. Fully loaded

with 48 tons of uranium fuel it can generate a momentary maximum of 500 MW. It will undergo a water pressure test in August 71, start hot functional tests in October, be fuelled in December, powered up in January 1972 and go into operation on 30 April 1972.

Three new nuclear power station projects with a combined generating capacity of 7090 MW were approved in November 1970. These together with the 3 in operation and 7 under construction will bring the total of Japan's commercial power stations to 13, all of which are expected to be in operation by 1975. Herman Kahn has written "just because of their nuclear electric power industry alone the Japanese will be able by 1975 or so to produce several thousand small nuclear weapons each year."

Japan's electrical power industry has shifted its main emphasis to the development of nuclear power plants. One of the reasons for this being the increasing air pollution by thermal power generation. This was particularly noticeable in the industry's long-term electric supply programme for the period 1970-80. It estimated that atomic power generation would increase by 4000 MW during fiscal 1971, and that a total of 50 atomic power plants would be constructed during the next ten years with a total output of 40,000 to 50,000 MW. This accelerated pace of development has necessitated Japan taking urgent measures to secure the necessary nuclear fuel supplies.

The Japanese have been in the business of developing atomic energy since 1954. They have spent over a billion dollars on development and can now make almost 90 per cent of all

components for an atomic power plant. They have conducted a fair amount of their own research, having spent more than \$13 mn on R & D in fiscal 1969. They can enrich their own uranium on a laboratory scale, make nuclear fuel rods and also 96.23 pure plutonium which is good enough for making nuclear bombs. The Japanese have developed their own technology for using Lithium-7 for cooling and purifying an atomic reactor, and with some outside help are developing a fast breeder reactor due for introduction in about 1976.

Industrial circles in Japan are also planning the construction of an atomic power complex for the effective utilisation of nuclear energy for industrial production in the 1970's. The US designed water-cooled reactors widely used for power generation are not suited for industrial production. They can only produce a temperature of about 300 deg.C, which is insufficient for the steel and cement industries which need temperatures as high as 1200 to 1500 deg.C. Now that the Gulf General Atomic Inc. of USA is constructing the prototype of a high-temperature gas-cooled reactor capable of generating 330 M.W, in Fort St. Vrain, the JAEC has also started designing such a reactor and is planning to begin construction in 1972 and to complete it in 1976. The Iron and Steel Industry has also set up a special organisation for the study of atomic power utilisation.

The question of the strictness of inspections of nuclear energy facilities conducted by the International Atomic Energy Agency (IAEA) had been exercising the minds of the Japanese authorities for some time. Although Japan signed the Nuclear Non-Proliferation

Treaty (NPT) in February 1970, it has been withholding ratification. Together with West Germany and some other countries it has been urging easier terms of inspection and equal treatment to that accorded under the NPT to nuclear weapons powers. In May 1970 the Japanese Government completed a written submission calling for equality and simplification of inspection procedures of nuclear energy facilities to be conducted by the IAEA. This was stated to be the first concrete step taken by Japan to have its views and requests incorporated into the IAEA's model convention. It was disclosed in Tokyo on 31 October that Japan considered that the IAEA's inspections being currently conducted were too strict and that Kazutaka Kikawada, President of the Tokyo Electric Power Company and Chairman of the Federation of Electric Power Companies, and Tomiichiro Shirasawa, President of the JAEC had filed an application through their Government against rigid inspections. It was stated that unreasonably rigid procedures in inspection would hamper the smooth development of Japan's nuclear power generation and also probably would adversely affect Japan's ratification of the NPT, because Japan had decided to ratify the treaty on the condition that inspections would be less rigid. On 13 January 1971 Sinichi Nishida, Director-General of the Science and Technology Agency, said that the IAEA had relaxed the proposed safeguards under the NPT and that most Japanese requests had been incorporated in to the new safeguards laid down by the IAEA's safeguards committee. He also said that under the new inspection procedure, places of inspection would be limited, and the IAEA would waive its right to inspect constantly. The annual maxi-

mum number of days of inspection would be reduced and Japan would not be treated differently from member nations of the European Atomic Energy Community. The compromise plan reportedly limits inspection visits at a nuclear reactor to a maximum of 50 working days. A spokesman of the Japan Atomic Power Company, estimated that the IAEA's checks at the Tsuruga reactor over a 45 days period by four inspectors totalled between 75 and 100 man-days. The way now seems clear for Japan to ratify of the NPT.

Japan's nuclear scientists having developed the technique for the production of enriched uranium, the Government has decided to speed up its uranium enrichment programme because "it can not afford to depend on the US too long for the supply of this vital material". Its plans envisage simultaneous development of the gas centrifuge and gaseous diffusion methods, involving an expenditure of \$16 mn in the three years which commenced in April 1970. Having also developed the technology for separating plutonium from spent nuclear fuel, the construction of a nuclear fuel reprocessing plant has been approved and is to start operating in 1973. Japan's first nuclear fuel manufacturing plant with the capacity to produce 40 tons of uranium is being set up in collaboration with General Electric of USA. Mitsubishi Atomic Power Industries were also reported to be planning to set up a facility for processing nuclear fuels as a joint venture with Westinghouse Electric.

A delegation of Japan's top men in nuclear science and industry visited India in the latter half of January 1971, to discuss with the Indian Government possibilities of mutual cooperation on the peaceful uses of nuclear energy. The

delegation led by Goro Inoue, President of the Power Reactor and Nuclear Development Corporation, included representatives of almost every institution and organisation in Japan connected with nuclear research and industry. Goro Inoue said that Japan would be interested in an agreement on cooperation with India on nuclear research like the ones it had with the US, Britain, France and Canada.

The development of rocketry is also well advanced in Japan, which entered the exclusive space club on 11 February 1970 by successfully placing in earth's orbit a satellite weighing 23 kilograms, launched by a Lamda 4S rocket. On 22 July it was announced that a series of rocket launching projects would commence from 12 August and would include an attempt to put Japan's full-fledged scientific observation satellite the MS-FL into orbit using a Mu-4 rocket. Owing to adverse weather conditions the launching of the 136.4 pound satellite, with a 4 stage rocket, (which could also deliver a warhead over a distance of 2500 miles) was postponed several times. When attempt was finally made on 25 September it ended in failure. The 4-stage MU-4s rocket carrying the scientific observation satellite apparently worked well as it lifted the satellite off but the fourth stage failed to ignite. On 21 October the Government's Space Development Committee decided to

abandon the plan to develop a rocket for launching scientific satellites with Japan's own technology and instead to develop a new rocket mostly with technical knowhow from the US. It was reported on 15 December that the Government and its semi-Government National Space Development Agency (NSDA) had finalised their joint plan for the production of a domestic version of the Thor space rocket for launching Japan's proposed application satellite. The Japanese version of the Thor was to be used as the first stage of Japan's proposed four stage 'N' rocket to orbit its first full-fledged application satellite. On 1 February 1971 the National Space Agency fired a new satellite-lifting rocket from the Tanegashima Island space centre of Kyushu. The two stage solid-fuel rocket measured 10.2 meters in length and 50.6 centimetres in width and weighed 2.2 tons. This launching was intended to test the rocket gas jet system to prevent rolling and to adjust the flying position. Results of the test will be applied to the launching of a larger rocket to orbit a scientific satellite. On 16 February Japan successfully orbited its second artificial satellite MR-T1 weighing 63 kg by a four stage rocket from the Uchinoura rocket testing ground in Kagoshima. This launch was designed to test rocket and satellite systems before launching the nation's first scientific payload satellite later in the year,

3. NORTH KOREA

ECONOMY

North Korea gives out even less information of value about its economic progress than China does. Apart from some reports outlining the achievements of some individual areas or plants, and those too in terms of vague percentages, no meaningful statistics are published. However, some information, mostly in general terms, is available from the Central Committee's report to the Fifth Congress of the Workers' Party of Korea, held in Pyongyang from 2 to 13 November 1970. The report, delivered by the party's General Secretary, Premier Kim Il Sung, announced the successful accomplishment of the country's main task of socialist industrialisation -- and the completion of the Seven Year Plan (1961-67) which had to be extended by three years in 1967 due to unsatisfactory progress.

The report claimed that the volume of industrial output since 1956 (the last year of the Three-Year Plan of post-war rehabilitation) had increased 11.6 times and the average annual increase in these years had been 19.1 per cent. The rate of development was claimed to have been specially fast in the heavy industry, the output of the means of production having risen 13.3 times. During the Seven Year Plan, the report said, "emphasis was laid primarily on the work of improving and reinforcing the key branches of heavy industry". As a result "our heavy industry developed into a fully equipped one with its own powerful machine-building industry as the core".

The machine-building industry, it is claimed, is now capable of manufacturing 6000-ton presses, heavy duty lorries, large-size tractors, excavators and

North Korea—Statistics

Area	...	122,370 sq. km.
Population	...	13.6 mn
G.N.P.	...	\$ 3 bn (ISS 1969 estimate)
Defence Budget	...	1.9 bn Won (1970)
Armed Forces :		
Total strength	...	413,000
Army	...	370,000
Navy	...	13,000
Air Force	...	30,000
Currency	...	Won (2.60 Won = \$1.00)

bulldozers, electric and diesel locomotives, vessels of 5,000-ton class and precision machines. It is able to produce not only separate units of machines and equipment but also complete sets of equipment for modern factories.

During 1971, the report said, heavy industry would turn out 16.5 bn Kwh of electricity, 27.5 mn tons of coal, 2.2 mn tons of steel, 1.5 mn tons of chemical fertilisers and 4 mn tons of cement.

Mechanisation was the most important task in the agricultural sector during the Seven Year Plan; the "technical re-organisation of the rural economy has been realised successfully with the powerful support of heavy industry". The number of tractors reportedly increased 3.3 times during the period from 1961 to 1969, and various kinds of new farm machines were devised and manufactured. The newly completed irrigation works would ensure "rich and stable harvests".

The report recorded satisfactory progress in the training of specialists. More than 497,000 engineers, technicians and other specialists are now working in the diverse sectors of the economy. This number is said to be 4.3 times that in 1960. The biggest achievement in the educational field was the introduction of compulsory nine-year polytechnical education for children.

The party congress also approved the new Six-Year Plan (1971-76), due to start this year, which speaks of the need to make the people "more affluent"—mainly through the introduction of more modern methods in agriculture and the production of more consumer goods.

During the plan period (1971-76), it is planned to increase the output of capital goods by 130 per cent and that of consumer goods by 100 per cent. The production of coal is to be raised to 50-53 mn tons a year, steel to 3.8-4 mn tons, electric power to 28-30 bn Kwh, tractors to 21,000 units, textiles to 500-600 mn metres and footwear to over 70 mn pairs. The average annual increase in industrial output is set at 14 per cent. Targets for agricultural production include between 7 and 7.5 mn tons of food-grains including 3.5 mn tons of rice, 400,000-500,000 tons of meat and 3,000 mn eggs.

Further progress is to be made in the training of specialists, with more than 600,000 graduates coming out of the country's higher educational establishments and technical institutions in the next six years.

The national income (estimated by ISS, London at \$ 3 bn in 1969) is to increase by 80 per cent over the six-years. It is also planned to improve living standards by raising wages and lowering the prices of consumer goods by 30-35 per cent.

Prime Minister Kim suggested in his report that the country would continue with its policy of national selfreliance or *Chuche* and stressed the need to achieve the greatest possible economic independence and to reduce imports, even from other Communist countries. He also indicated that the defence expenditure would be reduced to divert funds to economic development and reportedly warned that, for the present, North Korea should not try to compete with the more developed countries in military

technology. He admitted that Pyongyang's huge expenditure on defence had been made at substantial cost to the rest of the economy; it adversely affected both heavy industry and light industry making consumer goods. Living standards had remained almost static and the peasants had remained worse off than the factory workers, he is reported to have said.

In his report Kim made a passing reference to the *Chollima* (Flying Horse) movement adopted in the sixties to boost production. The movement appears to be now in low key due presumably to the shortfalls in the original targets of the Seven Year Plan.

According to the 1970 budget estimates, total expenditure was to grow by 23 per cent to Won 6.2 bn compared with an increase of only 6 per cent in the previous year. Defence expenditure was to account for about 31 per cent of the total (in 1969 the defence expenditure at Won 1.8 bn was 30 per cent of the total) and the allocation earmarked for economic development was to register a 19 per cent increase. The accent was on capital construction, the amount allocated for this purpose was 30 per cent higher than in 1969. A large part of this amount would be absorbed by increased spending in the heavy industrial sector, which was planned to account for over 80 per cent of the total industrial construction allocation. As in 1969 the development of power and mining industries was given the first priority. In 1969 expenditure on construction in these fields increased by 56 per cent; plans for 1970 called for a 60 per cent increase. Other branches of heavy industry to receive priority for develop-

ment included the engineering industry, which was allocated 14 per cent of all industrial construction fund, and the iron and steel industry, where the main task was to speed up the completion of projects started earlier. Spending on capital construction in the transport and communications sector was planned to be raised by about 50 per cent over 1969. However, the planned increase in expenditure in agriculture in 1970 was relatively slow; agriculture construction outlay was to register an increase of only about 10 per cent. Much of this was to be utilised in expanding and improving facilities at the state farms and in increasing the mechanisation of agriculture.

The budget speech also referred to the government's intention to go ahead with the development of local industry more or less on the Chinese lines and to give local government agencies more power and independence in running it. The intention appears to be to build a self-sufficient provincial network of small consumer goods factories which are flexible enough to adapt themselves to changes in local demand. However, unlike the Chinese the Koreans appear to have no intention of extending the scope of such local industries beyond the field of consumer goods.

Finance Minister Choe Yun Su presented the 1971 budget to the Supreme People's Assembly on 13 April. Revenue and expenditure for the year were set at 7277.27 mn. won. Thirty per cent of the budget would be allotted for defence. The Finance Minister said the country had a budget surplus of 229.51 mn won in 1970 after "fully ensuring a colossal amount of funds needed for...the seven year plan."

No statistics on North Korea's foreign trade are published. Trade relations are maintained with many countries, but the principal trading partners are China and USSR. Trade with non-Communist countries amounted to between \$80 mn and \$100 mn in 1969, with Japan accounting for more than \$24 mn. Under a new four year (1971-75) trade pact signed in Pyongyang on 5 February 1971, North Korea will supply USSR machine tools, electric motors, ferrous and non-ferrous metals, building materials and fruits in exchange for Russian measuring instruments, bearings, oil and chemical products. No details about the quantities and value of transactions were disclosed. Trade with USSR in 1968 totalled \$120.9 mn. North Korea's total foreign trade was worth about \$450 mn in 1969.

POLITICAL DEVELOPMENTS

The major political event in North Korea during the period under review was the convening of the long over-due Fifth Congress of the Workers' Party of Korea; it was held in Pyongyang from 2 to 13 November 1970. The last congress was held in 1961. The most likely cause for the delay was believed to be inadequate economic progress in recent years; this had already caused the extension of the Seven-Year Plan by another three years, and gave rise to dissension in the party leadership. The differences were revealed at the congress by Kim IL Sung and his Political Committee colleague, Pak Sung Chul. It appears that a major purge had taken place in the Political Committee (Politburo) itself. The new

body, elected by the 177-member (and 55 alternate members) Party Central Committee on 13 November 1970, is smaller in size than its predecessor, with 11 full and four alternate members as compared to 15 full and six alternate members. Although no reasons were given for dropping six members, it appears that they were the targets of Kim's attacks on "revisionists" and "flunkeyists" within the party. Four of the six dropped from the Political Committee—Kim Kwang Hyop, Nam IL (both Deputy Premiers), Mme Pak Chong Ae, and Kim Ik Son (Minister of State Inspection)—are believed to lean towards Moscow. The most important leader dropped was Kim Kwang Hyop, who was a member of the inner party Presidium and Secretariat, apart from being a Deputy Premier. The remaining two dismissed members—Yi Chong Ok and Cho Yong Chin—were also Deputy Premiers. The fact that no new leaders have been brought in to replace those dropped (in earlier changes in the committee, replacements were invariably named) would suggest that Kim is determined to retain only tried supporters.

The line-up of the new Political Committee of the Fifth Central Committee is: Kim IL Sung (General Secretary), Choi Yong Kun, Kim IL, Pak Sung Chul, Choe Hyon, Kim Yong Ju, O Jin U, Kim Dong Gyo, So Chol, Kim Jung Rin and Han Ik Su (full members); and Hyon Mu Gwang, Chong Jun Taek, Yang Hyong Sop and Kim Man Gum (alternate members).

Although the Fifth Congress primarily emphasized the need to rescue

the economy from stagnation and put a slightly less emphasis on defence, it made the usual pledges to follow the "road to full communism" of which Kim IL Sung was proclaimed the supreme prophet, almost like Chairman Mao. In fact, Kim was described at the Congress not only as a national hero but also as an inspiration to the world's revolutionary peoples. However, with domestic issues in the forefront, comparatively less attention was given to supporting the revolutionary struggle of South Korea, despite the presence of a delegation from the South Korean Revolutionary Party for Re-unification. No other foreign delegations were invited to take part in the meeting, although all Communist Governments and parties on both sides of the Sino-Soviet fence sent messages of greetings. This fact underlines Pyongyang's success in pursuing an independent policy on the issues dividing the international Communist movement.

North Korea's determination to pursue an independent policy was made clear through various statements at the Congress. A passage in Kim's report reads: "Today the revolution in each country is carried out by the people of each country under the leadership of its party, not by any international centre — and the Communist and workers' parties of all countries are all equal members of the international Communist movement... and the fraternal parties have established relations between them on the principles of complete equality, independence and mutual respect and non-interference in each other's internal affairs". Again, in denouncing "funkyism and dogmatism", Kim apparently criticised both USSR and China. These

deviationists "who did not study our reality...but sought to swallow the experiences of others wholly and copy them mechanically" are presumably those who look to either the Russian or the Chinese models in building a socialist society in Korea.

The Congress, in fact, paid little attention to North Korea's relations with China and USSR or to foreign affairs in general. All formulas for a peaceful settlement between North and South Korea were turned down by Kim, although, at the same time, he refused to commit his country to fight on behalf of the people of the South to reunify Korea through war. Although the southerners could rely on the North as a powerful revolutionary base, they must liberate themselves. "The South Korean revolution is a struggle of the South Korean people themselves for their liberation from the national and class oppression and exploitation by the US imperialist aggressors and their minions", Kim said. In his report, he also reiterated the proposal for an anti-imperialist Asian front, comprising China, Korea, Vietnam, Laos and Cambodia. He, however, did not elaborate on it. US imperialism and Japanese militarism were duly denounced in Kim's report.

There was a minor Cabinet reshuffle in Pyongyang on 22 January 1971; a new Minister of Metal Industry, Ho Yong Ik, was appointed. There is, however, no information to indicate whether the purged party leaders, holding ministerial positions, have been replaced in the Cabinet.

INTERNATIONAL RELATIONS

During early 1970 North Korea received more attention in the world press than at any time since the Pueblo incident. This was mainly on account of the visit in April of the Chinese Prime Minister Chou En-lai. This was indeed a very interesting and significant development in the Communist world. Sino-North Korean relations had been extremely strained during the Cultural Revolution, and Kim IL Sung was widely believed to be a firm member of the Soviet camp. Chou's visit and his very cordial reception at Pyongyang, however, indicated that both Pyongyang and Peking were anxious to improve relations. China's desire for better relations is part of its new forward foreign policy, one aim of which is to lessen Soviet influence in the third and Communist worlds. North Korea's motives are derived partly from its desire to contain Japan's growing military potential. This is seen from the stress on 'revival of Japanese militarism' in the joint communique. The disappointment at the Soviet Union's somewhat half-hearted support to its insurgent campaigns against the south and the hope of stronger support from Peking in this respect may also explain why North Korea moved nearer to China. However, according to some analysts, Kim was reluctant to become too dependent on Peking and would probably not push rapprochement with the Chinese leaders far enough to damage the relations with the Soviet Union. As mentioned earlier, the report submitted at the Fifth Party Congress suggested a neutral stand on the Sino-Soviet issue (For details of Chou's visit see 'International

Relations section of the China chapter).

Prince Sihanouk and his Prime Minister Penn Nouth visited Pyongyang from 15 June to 1 July 1970. The prince and his entourage were accorded a warm welcome. The visit received wide publicity in the Korean and Chinese news media. On his return to Peking, the prince said that he had received a pledge from Premier Kim that North Korea was prepared to take part in the defence of Cambodia if South Korean troops entered that country. Sihanouk added that his Government-in-exile was receiving arms, equipment and medical supplies from North Korea. Earlier in May, North Korea recognised Sihanouk's Government-in-exile and severed relations with Lon Nol's regime in Phnom Penh.

In June 1970 Ceylon extended full diplomatic recognition to North Korea. On 15 April 1971, the North Korean Embassy in Colombo was ordered to be closed down and its entire staff, including the Ambassador, asked to leave Ceylon within 24 hours as their activities indirectly contributed to insurgency.

The Chilean Government announced in Santiago in the third week of November 1970 that Chile had finally withdrawn from a United Nations Commission on Korea. Earlier in the month President Allende's government signed an agreement with North Korea for establishing a North Korean commercial office in Santiago.

A North Korean delegation visited Somalia during December 1970. The mission studied the possibility of constructing a cement factory and irriga-

tion schemes in Somalia; the cost will be borne by North Korea in the form of aid.

A delegation of the Japan Socialist Party, led by the Chairman of the party, Tomomi Narita, visited North Korea in August 1970.

Confrontation between the North and the South on their common border and infiltrations across the demilitarised zone continued during 1970. Pyongyang claimed on 5 June 1970 that it had sunk a heavily armed US spy ship which allegedly intruded deep into the coastal waters west of North Korea under cover of fighter planes and warships. The South Korean version of the incident was that a 120-ton South Korean navy patrol boat with a 20-men crew was captured by two North Korean speed-boats after a gun battle in the Yellow Sea near the DMZ. The South Korean Information Minister, Shin Bum Syik, called the incident a "usual Communist act to provoke a war" in Korea. On 29 June a North Korean gunboat equipped with rocket launchers and believed to be trying to pick up Communist agents was captured by the South Korean Navy after a gun-battle on South Korea's west coast.

Propaganda against South Korea and USA continued unabated. In an article denouncing the US presence in South Korea, the official North Korean News Agency (KCNA) accused Washington (15 January 1971) of introducing lethal weapons into South Korea and openly bringing the aggressive Japanese self-defence forces to South Korea. Warning Washington

that it was seriously miscalculating North Korea's defence might, KCNA said all North Korea was placed under arms and had been converted to be an impregnable fortress. The article demanded that USA definitely quit South Korea.

ARMED FORCES

According to *The Military Balance 1970-71* (ISS, London), North Korean armed forces total 413,000 men, an increase of 28,500 men over the last year's (1969-70) figure. The country spent 1,918 mn won (\$ 740 mn approx) in 1970 to maintain the forces. The Army consists of 370,000 men, divided into 20 infantry and 2 armoured divisions and 5 infantry brigades. There are also 15,000 men in special commando teams. Army equipment, predominantly of Soviet origin, includes 750 T-34, T-54, T-55 and T-59 medium tanks (the T-59s are presumably supplied by China) and 150 PT-76 amphibious light tanks, 2,000 anti-aircraft guns, 6,000 other guns and mortars upto 152 mm caliber. There are also 60 SA-2 'Guideline' SAM sites with about 300 missiles. The Navy has a strength of 13,000 men and about 190 vessels including 4 Soviet W-class submarines, while the Air Force is composed of 30,000 men and 580 combat aircraft including 20 MIG-19 and 90 Mig-21 interceptors (an increase of 30 Mig-21's over 1969-70's estimate) and 70 IL-28 light bombers. Paramilitary forces consist of 25,000 security forces and border guards and a civilian militia, claimed by Pyongyang to be 1.5 mn strong.

According to another estimate from Taipei, the North Korean Army has a

strength of 418,000 men, 116,000 less than in the South Korean Army, but it has five times the fire power of South Korea, including 5,000 modern artillery pieces, 800 medium tanks, 450 armoured cars, SA-2 missiles and new radar equipment. The Navy of 10,000 men has, apart from four W-class submarines, four Komar type guided-missile ships, 68 motor torpedo boats and two coastal defence complexes with Soviet radar and shore-to-ship missiles. The Air Force has a strength of 30,000 men. Its current equipment includes 590 "late model" MiGs (MiG-21, 17 and 15), 80 IL-28 bombers, 27 transport planes and 20 helicopters. In addition, there is a special commando force of 40,000 men, ready reserves of 110,000 men and a vast militia.

Prime Minister Kim IL Sung said in November 1971 that all North Koreans had to be armed and trained to fight, and the armed forces had to be modernised. In his report to the Fifth Party Congress, Kim claimed "great success" in the development of the national defence industry. He said: "Formerly our country had but an insignificant munitions industry which was confined to the production of a limited number of rifles. But we are now in a position to manufacture on our own various types of up-to-date weapons and combat and technical equipment needed for the defence of the fatherland, as a result of the establishment of firm bases of an independent national defence industry".

US Defence Secretary Melvin Laird said in his annual defence statement to Congress on 9 March 1971 that while China was the principal military threat

in Asia, North Korea, with its modern forces in a high state of combat readiness, was another major threat in Asia.

SCIENCE & TECHNOLOGY

Kim IL Sung's report to the Fifth Congress of the Workers' Party of Korea has the following to say about the advancement of science in North Korea:

"Great successes have been won in the advancement of science too. Upholding the Party's policy of *Chuche* (self-reliance) in scientific research work, our scientists succeeded in solving various pressing scientific and technical problems by directing their efforts to research work to further increase the independence of the national economy, and made a great contribution to the socialist construction of the country".

According to KCNA (Korean Central News Agency), scientists from the Korean Academy of Sciences have recently rendered valuable aid to industry in boosting its production and improving production methods. Thus, three teams from the Academy of Sciences' Automation Research Institute were reportedly engaged in late 1970 and early 1971 in R and D work at three different industrial plants. One of the teams was working at the Kangson Steel Works on the automation of the relay roughing process. The second team was working on the automation of the pumping and air compressing systems at the Anju Coal mine, while the third team was working on the production and assembly of medium and

small meters and various kinds of electronic tubes for the automation industry. A team from the Hamhung branch of the Academy of Sciences visited various factories and helped introducing automation and remote control in the manufacture of agricultural chemicals.

A research group from the Organic

Chemistry Research Institute discovered a method of increasing the production of herbicide by 40 per cent, while using the same amount of raw materials. Another research group of the High-molecular Chemistry Research Institute developed new packing paper and cooling agents from raw materials found locally in great quantities.

4. SOUTH KOREA

ECONOMY

South Korea's economy continued to grow in 1970 despite a heavy defence burden. It was expected to reach most of the targets set for the year, including a 10 per cent increase in GNP, which was estimated at 1,306.2 bn Won for 1969 at constant (1965) prices. Between 1960 and 1969, real GNP grew at an average annual rate of 8.6 per cent and per capita income at 7.7 per cent.

One of the most important factors of economic growth in South Korea has been the rapid expansion of industry. In 1969, the index of industrial output reached 245 (1965=100). Output in the mining and manufacturing sector,

which constituted approximately 26 per cent of GNP, increased by 21.3 per cent as against 25.8 per cent in 1968. The fastest growth was recorded in electrical machinery (58%), transport equipment (40.6%), foodstuffs (39%) and textiles (35%). Mining output, however, declined by 3.8 per cent. As a result of good weather and adoption of better methods of cultivation, agricultural output recorded a 10.7 per cent increase, compared with an increase of only 1.2 per cent in 1968. Exports for the year totalled \$702.8 mn, which represented an increase of over 40 per cent over 1968. Imports grew by 12.7 per cent only to \$1,424.4 mn, thus reducing the trade deficit to \$721.6 mn in 1969 from \$763.9 mn in 1968.

South Korea—Statistics

Area	...	98,431 sq. km
Population	...	31.8 mn
GNP	...	\$4.3 bn (1969)
Defence Budget	...	\$409.7 mn (1971)
Armed Forces :		
Total strength	...	645,000
Army	...	570,000
Navy	...	19,000
Marine Corps	...	33,000
Air Force	...	23,000
Currency	...	Won (305 Won = \$1.00)

Exports in 1970 exceeded \$1,000 mn, reflecting more than 42 per cent increase over 1969.

As a result of satisfactory performances in 1969 and 1970 most of the targets set for the Second Five Year Plan (1967-71) were expected to be attained by the end of 1970. Some more details of the Third Five Year Plan, due to commence in 1972, are now available. The principal aim of the new plan is said to be greater stability, a more balanced development and less dependence on foreign loans and capital. The plan aims at a real GNP growth of 8.5 per cent per year. This is expected to bring GNP, in constant 1969 prices, to Won 3,693 bn in 1976—and because of an expected fall in the population growth from 2.2 per cent in 1969 to 1.5 per cent in 1976, per capita income is likely to increase by some 60 per cent to Won 104,680 (\$370). Excepting agriculture, all other major sectors of economy are expected to grow less rapidly than in the past. Thus, industry which registered an average annual growth of 18.1 per cent during 1962-69, is planned to grow by only 11.8 per cent annually. Some of the resources to be rendered surplus in industry and other sectors will be utilised to develop agriculture. In the past performances in the agricultural sector had been below expectations with the result that the country had to import large quantities of foodgrains (Poor rice crops in 1967-68 led to the import of \$190 mn worth of grains in 1969). The aim, therefore, is to reduce food imports to the minimum by increasing the growth rate in agriculture to 4.5 per cent annually during the 1962-76 period on the basis of 1969 price. It is hoped to attain

self-sufficiency in rice, with a production target of 4.79 mn tons in 1976 as against 4.09 mn tons in 1969, and to more than double the rural income—from 218,000 Won per household in 1969 to 482,000 Won in 1976. Other features of the plan are reduction in the country's dependence on foreign finance and a steady growth in exports (The 1976 exports and imports are planned to grow to \$3,510 mn and \$3,607 mn respectively, giving a trade deficit of only \$97 mn as against \$721.6 mn in 1969).

The budget for the fiscal year beginning on 1st January 1971 is estimated at \$1,700 mn. It represents an increase of 19 per cent over the 1970 figure of \$1,428 mn. The defence expenditure of \$409.7 mn accounts for 24.2 per cent of the total budget as against 23.4 per cent (\$334 mn) in 1970.

According to the Bank of Korea, South Korea has received the following economic aid during 1960-69.

Year	Amount (in \$mn)	Year	Amount (in \$mn)
1960	245	1965	131
1961	199	1966	103
1962	232	1967	97
1963	216	1968	106
1964	149	1969	107

(Source: *Quarterly Economic Review* Japan and South Korea, Annual supplement 1970. Economic Intelligence unit, London)

During 1970 South Korea received the following economic aid commitments :

1. In March the United States agreed to provide South Korea with \$94.3 mn worth of farm products in 1970. The US Embassy in Seoul announced that US economic assistance to South Korea was expected to total over \$124 mn in 1970. This consisted of \$20 mn in development loans, \$10 mn grants, apart from the \$94.3 mn worth of farm products.

2. In March the South Korean Government approved a loan of about \$20 mn from a group of British banks as well as \$7.4 mn from the Dow Chemical Corporation for the construction of a petro-chemical complex at Ulsan.

3. The International Bank of Reconstruction and Development (IBRD) and the International Development Association agreed in early 1970 to provide a long-term loan of \$55 mn to be used in improving the country's railway facilities.

4. Japan promised to provide public loans of \$160 mn to be utilised in the construction of heavy industrial plants, the development of the export industry and in providing assistance to small and medium-sized industries and to agriculture (the offer was tentative and subject to further investigation).

5. The Nippon Steel Corporation of Japan signed an agreement in July 1970 to help the construction of a \$ 200 mn steel mill in South Korea. The mill, with an annual output capacity of 1.03 mn tons, is scheduled to be completed by July 1973.

6. On 19 December the Asian Development Bank (ADB) approved a \$25 mn loan for the development of petro-chemical industry in South Korea.

On the industrial front, a major development was the start of the construction of eight petro-chemical projects at Ulsan in Kyongsangnamdo, an industrial site some 450 Km south-east of Seoul. When they go into operation late this year (1971), the projects will reportedly save South Korea \$100 mn annually by substituting imports of plastic and other petro-chemical products.

South Korea has also made considerable progress in the field of electronics industry. In a drive to develop the industry further, the Government decided early this year (1971) to give priority treatment to domestic electronic enterprises which had links with foreign investors. Lee Nak Sun, Minister of Commerce and Industry, said (2 February 1971) the decision was part of a two-year government plan initiated in 1971 to boost South Korea's electronic exports to \$70 mn in a year by 1972. South Korea exported \$46 mn worth of electronic products in 1970.

As mentioned earlier, exports reached \$1,000 mn in 1970. In December 1970, the South Korean Foreign Ministry released an export plan for 1971, with an export target of \$1,350 mn in 1971. USA tops the list of export quotas with \$670 mn, or 51 per cent of the export target. Japan comes second with a target of \$312 mn or 24 per cent, followed by European countries which together are expected to buy \$135 mn worth of South Korean goods, or 10 per cent of the target. In

1969 South Korea exported \$291.05 mn worth of goods to USA and imported goods worth \$697.05 mn. South Korea's exports to Japan during January—May 1970 totalled \$29.75 mn (as against \$13.4 mn for the corresponding period in 1969) and imports totalled \$106.13 mn (as against \$113.5 mn for the same period in 1969).

South Korea signed an agreement with Hindustan Steel Ltd., of India to import 41,000 tonnes of rails from India at an approximate cost of \$7.5 mn. The delivery was expected to begin in April 1971 and to be completed by September 1971.

POLITICAL DEVELOPMENTS

On 19 December 1970, President Park Chung Hee made a major reshuffle of his 20-man Cabinet and also made changes in the top leadership of the ruling Democratic Republican Party (DRP). The President's long-time associate Chung IL Kwon, who served a record term of 6 years and seven months as Premier, was replaced by Paik Too Chin, a former Prime Minister and Finance Minister under ex-President Syngman Rhee. Chung was withdrawn from the administration to become one of the three advisers to Park in his capacity as the DRP Chief. Other changes included the appointment of Pac Yong Ho, Secretary-General of the National Assembly, to the post of Minister of Justice; of Shing Sang Chol, Ambassador to Saigon, as Communications Minister; and of Communications Minister Kim Po Hyon as Minister for Agriculture and Forestry. The outgoing Minister of Justice, Lee Ho, was posted to Tokyo to replace Ambassador Lee Hu

Rak, who was brought home to be the new Director of the South Korean Central Intelligence Agency (CIA), whose previous incumbent, Kim Kye Won, was sent to Saigon as Ambassador. Lee was one of the most powerful politicians in South Korea and a longtime Chief Secretary to the President. Almost all important party and assembly posts are said to have been filled by his faction. His promotion as CIA Chief is, therefore, significant. From this political influentially post, he was expected to act as Park's brain-trust in mapping out the election strategy.

In the DRP hierarchy, the most important change was the political rehabilitation of Kim Jong Pil, who was the brain behind the May 1962 military revolution that brought Park to power. Kim became one of Park's three advisers on party matters—the other two being Yun Chi Yong and Chung IL Kwon. Kim, it may be recalled, resigned from all public posts in 1968 following mounting criticism against him "engineered by his rivals". His comeback at this time was thought to make him available for running Park's campaign for a third term as President, and grooming himself as Park's heir to the Presidency in 1975. (In the Presidential election Park was opposed by Kim Dae Jung of the New Democratic Party).

In essence the Cabinet and the party leadership reshuffles were believed to be part of President Park's preparations for the Presidential election in April and general elections in May 1971. Earlier on 9 December President Park also reshuffled his Presidential staff. Kim Yong Shik,

previously South Korea's Ambassador to the UN, was appointed to a newly created post of Special Presidential Assistant on Foreign Affairs. Yoon Ju Yong, former Ambassador to Chile, replaced Major Kong Sang Wook as Press Secretary, and a retired Army Officer, Lt. Gen. Yoo Jai Heung, was appointed as Assistant for Defence Affairs.

Preparations for the May 1971 general elections to fill the 204 seats of the National Assembly (29 more seats than in the previous assembly) were going on in right earnest during January-February of this year. The ruling party of President Park (DRP) held 126 seats in the previous 175-member assembly, the opposition New Democratic Party (NDP) 39 seats and independents three. Nearly 40 sitting members of DRP, including Kim Tack Su, former Assembly leader and one of those who helped carry through the amendment bill of 1970 to permit Park Chung Hee a third term as President, and Choi Chi Hwan, Chairman of the National Assembly, did not get party nominations to contest the elections. Park's explanation for this purge was that he wanted to re-energise the party, and as such, he preferred persons who were younger and "more dedicated to the far-reaching vision of unification and modernisation". Another party aim was to "broaden the base of representation". Some experts, however, believed that Park's intention was to go into his third four-year term with a solid DRP majority to back him in the drive to implement his "modernisation" and "self-reliance" programmes.

According to latest reports, President Park was re-elected (27 April, 1971) to a

third four-year term by a big majority. His party also won the election to the eighth National Assembly held on 25 May, although with a reduced majority. The DRP won 113 seats against 89 by the opposition New Democratic Party and two by others.

INTERNATIONAL RELATIONS

South Korea's foreign relations in 1970 were marked by a bitter controversy with Washington over the withdrawal of 20,000 US troops from the country. Prime Minister Chung IL Kwon warned on 13 July 1970 that he and all other 19 members of the Cabinet would resign if US carried out the planned reduction of 20,000 troops in South Korea. He said the next two or three years would be a critical period with North Korea probing for ways to attack the south. He added: "All 30 million South Koreans are against this reduction. How is the Korean Government going to explain it to the people? First, there should be a programme to modernise the armed forces and later reduce US troops, instead of reducing first and modernising later. North Korea has continually reinforced its armed forces". The South Korean Government's stand on the high-level Korea-US military talks held in Seoul and Honolulu during July 1970 was that it would not agree to enter into any talks over the proposed reduction in US military presence in Korea, until it was given a firm prior guarantee for stepped up American aid for modernisation of the Korean Armed Forces, to boost their defence capabilities. According to Defence Minister Jung Nae Hyuk, South Korea had also demanded that USA, prior to any troop cutback in Korea, give written

assurances for immediate US military intervention in case of aggression from the north. "We emphasised that US must reconfirm that its ground, navy and air forces will be immediately thrown in, in the event of an emergency on the Korean peninsula and that the UN command must continue to be based in South Korea", he told the National Assembly's Foreign Affairs and Defence Committees in July 1970. The National Assembly on 16 July unanimously adopted a resolution expressing firm opposition to the proposed cut-back of US troops in Korea.

US-South Korean relations touched such a low ebb in mid-1970 that it was felt necessary by Washington to send Vice-President Spiro T. Agnew to Seoul in August 1970 on a mission to strengthen the confidence of the Koreans in the United States. The Vice-President, who received a somewhat cool reception on his arrival in Seoul on 24 August, told a press conference on 26 August that he and President Park had reached a "basic accord" on the troop cutback issue (Information Minister Bum Shik Shin denied on 27 August the report about basic accord) and that he had reassured that USA would honour its defence treaty commitments. He said that he had informed President Park that President Nixon made it clear that they had "no intention of jeopardising the security of the Republic of Korea (ROK) by reducing the level of American troops to the point that the Republic would be vulnerable to assault from the North".

Apart from security danger there was apprehension in certain Korean circles that the withdrawal would compel South Korea to "assume a much greater burden of national defence at the

expense of economic development". So the US Commerce Department assured on 18 November 1970 that South Korea's economic development would not be hampered by the withdrawal of US troops by 1971. A department report maintained that South Korea could add considerably to defence expenditure without upsetting the present relationship to total government spending. It pointed out that South Korea's increase in GNP would make available for defence spending an additional \$ 59 mn by 1972 and \$ 177 mn by 1976.

The UN General Assembly's main political committee on 24 November rejected a resolution calling for withdrawal US forces from South Korea. The voting was 32 in favour, 60 against with 30 abstentions.

Finally in January 1971 a compromise was struck on the issue and South Korea reconciled itself to the 20,000-troop cutback on getting assurances for increased US military aid and other assistance for the modernisation of the ROK Armed Forces (for detail see Armed Forces section). The final agreement on the US troop pullback and modernisation of ROK Armed Forces was reached on 6 February 1971. A joint statement simultaneously released in Seoul and Washington said the two governments had completed "satisfactory talks on the programme for the modernisation of the Korean Armed Forces and arrangements for the reduction of US forces in Korea". It added that United States had agreed to assist South Korea in modernising its armed forces through a long-range military assistance programme on the basis of joint South Korean-US military recommendations.

The fourth annual Jap-South Korea Ministerial Conference ended on 23 July 1970 after adopting a joint communique stating that US presence in the Far East was "the mainstay" of the region's security. The communique also reaffirmed that the security and prosperity of the two nations (Japan and South Korea) were closely inter-linked. The statement, however, made no direct reference to implications of the planned US troop reduction in South Korea. Foreign Minister Kiichi Aichi, speaking to newsmen on 23 July, ruled out a military alliance with South Korea at present, and said the two countries would instead stress economic cooperation. Earlier another joint communique issued on 22 April 1970 at the conclusion of a Japan-Korea cooperation meeting declared that Japan and South Korea must devote their efforts jointly in frustrating an attempt by China and North Korea to wreck peace. The communique noted with concern Peking's latest move in approaching Pyongyang, thereby indicating China's support for North Korea's declared policy of Korean unification through force (the reference is obviously to Chou's visit to Pyongyang and his pledge for support to the North Koreans).

In October 1970, South Korea accepted a Japanese proposal for negotiation on a disputed continental shelf covering 70,000 sq Km off Japan's Kyushu island. South Korea had previously claimed jurisdiction over the area.

On 18 May 1970, South Korea and Cambodia agreed to restore diplomatic relations which were broken off in 1966. South Korea also agreed to

give "non-military" aid to the Lon Nol regime in Phnom Penh. Premier Thien Khiem of South Vietnam paid a four-day official visit to Seoul in August 1970.

Two naval clashes between the two Koreas took place in June 1970—one on 5 June and the other on 29 June (for details see chapter on North Korea). The South Korean Navy and Air Force were reported to have sunk a six ton North Korean speed boat on 28 July after an extended gun battle off the eastern coast near the border with North Korea. On 26 December, South Korean naval ships, helped by shore batteries, reportedly repelled a North Korean attempt to abduct a fishing boat in the Sea of Japan.

On 14 April 1971, South Korea rejected a North Korean proposal for "heart to heart consultations" at Panmunjom or in a third country to discuss Korean reunification. In a statement, Foreign Minister Choi Kyu Khah said North Korea's terms for reunification were "utterly impractical and unreasonable" and the latest proposal contained "timeworn propaganda full of fraudulence and deceit". He reiterated President Park's insistence that talks could begin only after North Korea denounced its plan to communise the entire Korean peninsula.

The eight point North Korean proposal was made by the North Korean Foreign Minister, Ho Dam, in a foreign policy report to the fifth session of the Fourth Supreme People's Assembly in Pyongyang on 12 April. The eight points were: (i) US troop withdrawal from South Korea; (ii)

reduction of North and South Korean armed forces to 100,000 men each; (iii) abolition of South Korean treaties with the United States and Japan; (iv) free North-South elections to elect a unified central government; (v) freedom of political activity in North and South Korea preceding the elections and release of South Korean political prisoners; (vi) a North-South confederation as a transitional step; (vii) increased North-South inter-change; and (viii) a North-South meeting to negotiate the previous items.

ARMED FORCES

According to the **Military Balance 1970-71** (ISS, London), South Korea has an armed force of 645,000 men (an increase of 25,000 over last year). The Army of 570,000 men (including 50,000 in South Vietnam) has been divided into 19 frontline infantry divisions, 10 reserve infantry divisions (cadres only), 2 armoured brigades with M-48 Patton tanks and 80 artillery battalions with guns up to 155 mm calibre. There is also a battalion each with Honest John surface-to-surface missile and Nike Hercules surface-to-air missile as well as two squadrons with Hawk surface-to-air missile. Two infantry divisions and some irregular units are in South Vietnam. The Navy has a strength of 19,000 men and 63 vessels including 3 destroyers, 3 destroyer escorts and 4 frigates. There is also a Marine corps of 33,000 men split into 5 brigades, one of which is serving in South Vietnam. The Air Force consists of 23,000 men and 200 combat aircraft including 15 F-4 Phantom fighter-bombers, 100 F-86 fighter-bombers and 55 F-5 tactical

fighters. In addition, there are some 30 transport aircraft.

A 2.5 mn-strong militia was being raised during 1969-70.,

According to another estimate from Taiwan, South Korea has about 600,000 military men, 48,000 of which are in Vietnam. There is a Homeland Reserve Force of 2.5 mn men (including 82,000 volunteers) split into 3,393 battalions and 676 workshop companies. The South Korean Navy has 17,000 men and 72 vessels. There are also 30,000 marines. The Air Force has 23,000 men and 195 combat planes, including a squadron of Phantom jets.

The South Korean Armed Forces are supplemented by a 64,000-strong US force—54,000 in Army and 10,000 in Air Force with 100 combat planes—stationed in South Korea under terms of the US-South Korea Mutual Defence Treaty signed in October 1953.

However, the Nixon Administration has recently decided on a gradual reduction of its troops in South Korea, despite strong opposition from the South Korean leadership. Defence Minister Jung Nai Hyuk said in Seoul on 26 January 1971 that a full accord had been reached with USA on the 20,000 man reduction of the American forces in South Korea and a Korean Armed Forces modernisation programme. The Defence Minister added that there had been no discussion on any further withdrawals beyond the current cutback, which would reduce the authorised US force level in South Korea to 44,000 men by the end of June 1971. He said about \$ 100 mn worth of US surplus

military equipment—primarily tanks—to be left behind by the withdrawing US troops would be turned over to the South Korean Armed Forces this year. In addition, a special modernisation aid fund of \$ 150 mn would be provided during 1971. These sums were in addition to the regular military aid, amounting to \$ 140 mn during 1971. (South Korea has received from USA a total of about \$3.6 bn in military aid since 1953). The special aid would continue under a five-year modernisation programme for the South Korean Armed Forces. Earlier in August 1970 USA also agreed to stabilise its air defences of South Korea by moving combat planes (three squadrons of Phantom F-4 fighter-bombers from Japan) to South Korea to make up for the withdrawal of US troops. According to latest reports, the United States transferred on 16 March 1971 an Air Force wing of 54 Phantom fighter-bombers from Japan to a permanent base at Kunsan in South Korea.

One consequence of the withdrawal of one US division (20,000 men) from South Korea will be that the frontier positions presently held by US forces along the border with North Korea will be taken over by South Korean troops as from July 1971. According to latest reports, South Korean troops have already begun replacing US Army units along the DMZ.

A joint South Korean-US military exercise, involving an airlift of US troops direct from the United States (Fort Bragg, N.C.) was held during 4-6 March 1971 well below the demilitarised zone. The exercise, named "Freedom Vault", was reportedly designed to demonstrate the US capability to deploy

strike command units based in the United States to an overseas area rapidly and ready for immediate tactical operations. The demonstration was apparently necessary to reassure the South Koreans.

Thailand also maintains a small contingent of troops in South Korea, which will be withdrawn by July 1973, according to a statement by Prime Minister Kittikachorn on 3 February 1971,

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SCIENCE & TECHNOLOGY

A contract for South Korea's first nuclear plant—a 595-megawatt pressurised water reactor—was signed in New York on 24 June 1970 by Korea Electric and Westinghouse International. Westinghouse will supply the bulk reactor plant. It will also provide the first core nuclear fuel as well as services under a separate contract.

Under subcontract arrangements, English Electric will supply part of the reactor plant and most of the conventional plant. It will also be in charge of plant erection.

The ground breaking ceremony for the atomic plant was held at Ko-Ri, 200 miles south of Seoul, on 19 March

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The ground breaking ceremony for the atomic plant was held at Ko-Ri, 200 miles south of Seoul, on 19 March

1971. The plant, is scheduled to go into operation in 1976.

South Korea on 3 June 1970 became the 31st nation to communicate through the communications satellite

INTELSAT III (F4), with the opening of its earth station at Kunsan, near Taejon, 110 miles south of Seoul. The state-owned station was built at a cost of 1,800 mn Won.

5. TAIWAN

ECONOMY

Taiwan continued to maintain an impressive economic growth. According to a preliminary estimate, GNP in 1970 registered an increase of over 10 per cent to a total of US \$ 5.4 bn, despite the comparatively poor performance in the agricultural sector. Agricultural production, adversely affected by the typhoons of late 1969, was estimated to have increased only by 3 per cent. Manufacturing industry, however, registered an estimated growth rate of 17 per cent. A rapidly growing foreign trade also contributed considerably to the economic growth. Total trade for the year (1970) was estimated at US \$ 3,070 mn, an increase of US \$ 656 mn over 1969. There was an increase

of 40 per cent in exports giving, for the first time since 1964, a net surplus of \$ 30 mn.

The KMT Government is planning to raise its GNP to US \$ 9,560 mn (NT \$ 363.4 bn approx.) by 1980, according to Walter Fei, Vice Chairman and Secretary General of the Council for International Economic Cooperation Development. It may register a growth of 12 per cent in 1971, he said in Taipei in May 1970.

The Fifth Four Year Economic Development Plan (1969-72) aims at a minimum growth rate of 7 per cent annually and calls for an estimated capital investment of NT \$ 195 bn (as against NT \$ 80.95 bn in the Fourth

Taiwan—Statistics

Area	...	35,961 sq. km.
Population	...	14.4 mn (1970)
G.N.P.	...	\$ 5.4 bn (1970)
Defence Budget	...	\$ 482.5 mn (1970)
Armed Forces :		
Total strength	...	522,500
Army	...	387,500
Navy	...	70,000
		(including 36,000 Marine Corps)
Air Force	...	65,000
Currency	...	New Taiwanese dollar
		(NT \$ 40.10 = \$ 1.00)

Plan), of which NT \$ 30 bn are to come from foreign sources. The stress will be on the development of infrastructure and capital intensive heavy industry.

The comparatively poor performance of the farm sector during 1970 has led to the adoption by the government of a rural economic construction programme which aims at a 4 per cent growth rate in the next ten years.

Industrial output has increased sharply during recent years as will be seen from the following index:

1966	—	100
1967	—	116.8
1968	—	141.8
1969	—	166.3

(Source : EIU *Quarterly Economic Review*, Philippines, Taiwan, Annual Supplement 1970)

In May 1970, the government decided to go ahead with the setting up of a two million ton annual capacity integrated steel mill. A sum of NT \$ 200 mn has been earmarked from the 1970-71 budget for the purchase of a site for the mill at Taichung. Japan has agreed to provide a loan of US \$ 250 mn for the project which calls for a total investment of over US \$ 325 mn and will take a decade to complete in three stages.

The shipbuilding industry made rapid progress in 1970. According to S.T.Wang, President of the state operated Taiwan Shipbuilding Corporation (TSBC), the annual production of the corporation would reach 300,000 dead weight tons in 1973, about double the output of 170,000 tons in

1970. But after 1973, Wang said (December 1970), further increases would be difficult because of the size limitations of the shipyard. "That is the reason why the government has decided to build a larger shipyard in Kaohsiung", he explained. This year (1971) Taiwan is also planning to build a huge car assembly plant in Southern Taiwan in a bid to supply one fifth of South East Asia's car requirements. The US \$ 50 mn project will take three years to materialise and will assemble 100,000 cars annually.

Construction of the first phase of Taiwan's fourth international sea port at Taichung, midway between Keelung and Kaohsiung, commenced with the inauguration of a harbour construction bureau at Taichung on 1 February 1971. The port will be partly operational by mid 1974. When finally completed in December 1980, it will be able to handle 100,000 ton tankers and will have an annual cargo handling capacity of 8 mn tons. The port will cost US \$ 300 mn to build and part of the funds will come from Japan as long term loans.

Other infrastructure developments during the period include the commencement of the design work for a \$ 37.5 mn airport at Taoyuan (construction is scheduled to begin in 1972), the preparation of a \$ 75.7 mn plan for a round the island rail system by 1975, and the commencement of construction work on the \$ 563.3 mn Tsengwen reservoir, which will be the largest in the Far East.

In the years 1965 to 1968, Taiwan received a total of \$ 2,160 mn in US aid. More than 70 per cent of

this amount was military aid; 23 per cent of the aid was in the form of surplus agricultural commodities, and 5 per cent under the Development Fund. The USA terminated direct economic assistance in June 1965, but military aid has continued.

During the period under survey Taiwan received the following aid commitments from various countries and organisations :

1. In April 1965 Taiwan received a Five year yen credit of 54,000 mn yen (\$ 150 mn) from Japan. The period of this credit agreement, which was to expire in April 1970, was extended as Taiwan had not used up the whole sum due to delays in the completion of key projects. In the meantime, the Taiwan Government made a request for a second credit of 108,000 mn yen (\$ 300 mn) and also asked for continued Japanese cooperation in Taiwan's economic development programme. In July 1970, the visiting Vice-President Yen Chia-kan (C.K. Yen) agreed with Premier Sato in Tokyo on the amount of loans to Taiwan being determined on a case by case basis in the second round of Japan's financial assistance (yen credit) to Taiwan. In the first yen credit, the total amount of loans was initially decided. The change of procedure, it was apparently felt, was necessary to appease Peking, which viewed Japan-Taiwan cooperation with extreme bitterness.
2. The Japanese Government agreed to provide a loan of US \$ 250 mn for a composite steel mill to be built at the port of Taichung. According to the latest (February 1971) reports, the New Japan Steel Company, Japan's premier steel maker, was hesitant, for fear of worsening its relations with China, to help Taiwan build the project.
3. In May 1970, the World Bank announced nine infrastructure loans, totalling US \$ 200 mn to Taiwan, for the 1971-72 financial year, compared with \$ 81 mn in 1969-70. Projects to be financed by the loans include power expansion, the North-South Highway and railway improvements. Agreements were subsequently reached on two individual loans—a \$ 44.5 mn credit towards the expansion programme of the Taiwan Power Company which plans to increase its generating capacity from 2.25 mn Kw to 7.5 mn Kw in 1980; and a \$ 18 mn credit to China Development Corporation for its industrial lending programme.
4. Earlier the Asian Development Bank granted a long term loan of US \$ 18 mn for the 374-Km North-South Highway (linking Keelung to Fengshan).

5. In June 1970, the International Finance Corporation of the World Bank announced investments totalling \$ 7.22 mn in Taiwan to expand cement production and to help finance a new synthetic fibre enterprise.

During 1970, 68 foreign firms started new projects in Taiwan, involving a total investment of \$ 101 mn, \$ 60 mn of which was in the electronics field alone.

POLITICAL DEVELOPMENTS

It has been rumoured that the 83-year old KMT leader Chiang Kai-shek may step down from the Presidency even before his six year term ends in 1972. According to a press report quoting "reliable sources" in Taipei, the Generalissimo may step down this year (1971) to enable Taiwan to retain its position in the United Nations if China is admitted at the next UN General Assembly meeting. President Chiang has hitherto declared that he will withdraw from the Assembly and the Security Council if Peking is elected, and presumably the Government cannot change its stand as long as he heads it. Other sources have said that the President might retire earlier "while still in sufficient health to stagemanage the transition" from the father to the son.

No matter when Chiang Kai-shek retires—now or next year—as things are now there is little doubt that his son Chiang Ching-kuo will step into his shoes. Probably C.K. Yen, the Vice President and Premier, will take over as President, while Chiang Ching-kuo, Deputy Premier, will step into the Prime Ministership.

But since the junior Chiang has over the years carefully strengthened his hold everywhere—on the armed forces, the secret police, the China Youth Corps, the retired servicemen's associations and the important sections of bureaucracy—the balance of power is expected shift to the Premier's office.

While the general opinion is that the succession is going to be a smooth one, some suspect that Chiang Ching-kuo may encounter troubles from a section of the local Taiwanese; they constitute more than 80 per cent of Taiwan's 15 million people as also of its 500,000 armed forces, and are chafing under a government dominated by mainland Chinese. The KMT Government's justification has been that it continues to represent all of China, not just the small province of Taiwan, until it can return to the mainland. Its arguments have so far been strengthened by its holding the China seat in the UN, the diplomatic support it receives from the USA and Japan and its recognition as the Republic of China by more than 60 other foreign nations. But with Taipei's control of the China seat in the UN now in danger, and as a result of the US and Japan's apparent advocacy of a "two China" policy and a series of other setbacks in the foreign policy field, the mainlanders' rationale for the continued domination of Taiwan's internal politics has begun to erode. Nobody now believes the slogan that the mainland will be retaken, a slogan which, for so long, has sustained the KMT.

Of late, there have been indications to suggest that the KMT official circles have become somewhat nervous for fear of losing power to the Taiwanese

majority. They are also concerned about the increasingly disturbing spectre of the Taiwanese Independence Movement among students and exiles abroad, especially in the USA and Japan. The movement, which started a few years ago, was once weak and splintered. But it gathered momentum and showed signs of new determination and unity following the escape from Taiwan of its leader, Professor P'eng Ming-min, in January 1970. P'eng was given political asylum in the USA (over Taipei's strong objections). Subsequently Taiwan blamed the US for "spiriting" the dissident P'eng out of Taiwan and for supporting the Taiwan Independence Movement.

An assassination attempt on the visiting Deputy Premier, Chiang Ching-kuo, in New York, in May 1970, by a member of the dissident organisation, caused the authorities to view the movement more seriously and to adopt some counter measures, including the tightening of the security apparatus (secret police) headed by an elder politician, Kuo Yu-shin. Following P'eng Ming-min's escape, the authorities began keeping a close watch on non-KMT Taiwanese politicians and placed a number of suspected dissidents, especially those suspected of having sympathy or actual connections with the independence activists in the USA and Japan, under surveillance.

In November-December 1970, the Taiwanese authorities arrested several "trusted" and senior journalists of the KMT's propaganda organisations, including Li Ching-sun, Deputy Director of the TV and Radio Broadcasting Corporation of Taiwan, on charges of their being agents for Communist China.

INTERNATIONAL RELATIONS

During the period under review Taiwan suffered a series of diplomatic reverses. The Albanian resolution in November 1970 to seat Peking in the United Nations in place of Taipei carried a majority vote (51 against 49) for the first time in twenty years. This signalled the danger of Taipei losing its control of the China seat in UN and raised doubts as to whether the "important question" tactic (which requires two-thirds majority) would succeed again or whether its sponsor, the USA, would care to lend its support to it this year as well (1971). Canada, Italy, Chile, Ethiopia, Equatorial Guinea, Nigeria, Kuwait and Austria have recognised Peking during the last six months and several other countries have announced their intention to follow suit.

To add to this growing political isolation in the international field, there is the apprehension about the solidarity of Taiwan's alliance with the United States. Taipei cannot but be concerned about Washington's periodical pronouncements more and more in clearer terms of its interest in establishing normal relations with Communist China. President Nixon on 10 December 1970 declared; "The United States is attempting to open channels of communication with Communist China, having in mind the fact that looking toward the future, we must have some communication and, eventually, relations with Communist China". While Taipei was still working out the full implications of this statement, the President, in his State of the World address to Congress on 25 February 1971, reiterated his stand for a "two-China" policy and, for the first

time, referred to China as the "People's Republic of China". President Nixon's stand has been interpreted in Taipei as favouring a two-China policy, he was seen to be ignoring Taiwan's right to the claim that it was the one and only China. Taiwan is suspicious of any sign of softening of US policy towards China and Nixon's willingness for talks with China has irritated the leadership in Taipei. They disagree that China has achieved any stability or that it is a unified entity. What is presumably disturbing them is the thought that Nixon has reached the conclusion that Chairman Mao's China is there to stay.

Launching a major Government attack on America's China policy in an urgent session of the Legislative Yuan on 2 March, Premier C.K. Yen said his government would propose serious negotiations with the USA on the matter. Yen seriously criticised Nixon's use of China's formal title "the People's Republic of China," in referring to the Peking regime in his State of the World address to the Congress. He said, Nixon's phrasing suggested an advocacy of a "two-China policy" and added, "We absolutely oppose any advocacy or arrangement of two Chinas, in accordance with our national policy". He disclosed that the Taiwanese Ambassador in Washington had been instructed "to propose serious negotiations" on the inappropriate portion of Nixon's address.

Clarifying his stand to allay the apprehension of Taiwan, President Nixon said in Washington on 5 March that he would like to "normalise relations with China, but not at the cost of expelling Taiwan from the family of nations". He reminded that

in his world report on 25 February he had said that the USA would stand by its defence commitment to Taiwan. "As far as our attitude towards China is concerned, that is governed by China's attitude toward us", he said.

The clarification apparently has not satisfied the Taiwanese leadership. It is argued in Taiwan that if today Washington is prepared to accept a two-China policy, there is no guarantee that it will not switch to a one-China policy in the future.

Taiwan is also apprehensive of losing its diplomatic and other support from Japan which also desires to normalise relations with China. However, Japan has not agreed to the Chinese demand of abrogating the 1952 Peace Treaty. Prime Minister Sato said on 4 March that Japan's treaty with Taiwan could not be interpreted as interference in China's internal affairs. Japan fought against and was defeated by the Chiang Kai-shek regime in the last war, and Japan could not change its policy of honouring the treaty as long as that regime existed.

Taiwan's relations with Japan became strained in August-September 1970 over the Senkaku incident. The Senkaku chain, a tiny group of oil-rich islands situated roughly mid-way between the Ryukyus and Taiwan, came into international limelight in August 1970 with the news that the Taiwanese Government had granted an American firm a permit to prospect oil near the Senkakus. The Japanese Government made a formal protest against the move claiming that the Senkaku group was a part of the Ryukyus and hence it belonged to Japanese territory and had

to be returned to Japan. The US position was that as part of the Ryukyu chain, Senkaku would revert to Japan along with Okinawa in 1972. The Ryukyu Government also formally declared on 10 September that the Senkakus were a part of Japan's inherent territories. In a rejoinder on 25 September Prime Minister C.K. Yen said that his government would do all it can to safeguard its legitimate interests in the islands. Peking also joined the dispute, although belatedly, by formally laying its claim to the island group which, it said, was Taiwan province's "appendant islands".

However, a "temporary" compromise reached in October 1970 averted the showdown between the two governments. It was reported on 2 October 1970 that economic officials of Taiwan and Japan had reached a compromise that would lead to joint prospecting for oil off the Senkaku Islands. The agreement required the Chinese Petroleum Corporation of Taiwan and the Taikoku Oil Company of Japan to "continue probing the possibility of joint prospecting". The compromise was reported also to have paved the way for more formal negotiations between the two governments in the future. Notwithstanding the compromise on joint oil exploration the Japanese Government has stuck to its stand that the Senkakus belonged to Japan and that no negotiations would be undertaken with any other foreign government regarding their ownership.

In April 1970 Vice-Premier Chiang Ching-kuo, son and heir apparent of President Chiang Kai-shek, visited USA. On 24 April an abortive attempt on his life was made in New York by Peter Huang, a Cornell University

research student and a member of the World United Formosans for Independence, which seeks to overthrow the Nationalist regime in Taiwan. During the visit Chiang Ching-Kuo met President Nixon, Secretary of State Rogers and Defence Secretary Laird. He was reported to have advised them that US efforts to improve relations with Peking were not in the interests of Asian peace. In July, Vice-President and Premier C.K. Yen visited Japan. US Vice-President Spiro T. Agnew visited Taiwan in August 1970. In his talks with President Chiang in Taipei on 26 August Agnew was reported to have said that domestic political pressures dimmed the prospect of any additional aid from US to Taiwan.

ARMED FORCES

According to the **Military Balance 1970-71** Taiwan has an armed force of 522,500 men (32,500 less than last year's estimate). The estimated defence expenditure in 1970 was NT \$19,300 mn (\$ 482.5 mn).

The total strength of the Army is 387,500 (including 60,000 on Quemoy and 15,000 on Matsu), split up into 14 infantry and 2 armoured divisions, 2 armoured cavalry regiments, 6 light divisions, 4 Special Forces Groups and 1 parachute brigade. There are one battalion with Honest John surface-to-surface missiles, one battalion with Hawk surface-to-air missiles, and one battalion and one battery with Nike-Hercules surface-to-air missiles. The Navy comprises 34,000 men and about 200 vessels including 3 submarines and 8 destroyers. There is also a Marine Corps of 36,000. The Air Force has

a strength of 65,000 men and 413 combat aircraft, including 90 F-100A fighter-bombers, 45 F-104G interceptors, 18 F-104A interceptors, 150 F-86F interceptors and 70 F-5A tactical fighters. There are also 30 transport aircraft.

A militia of about 175,000 men constitutes the Taiwanese para-military forces.

General Kao Kuei-yuan, Chief of Army Staff, confirmed in May 1970, reports about the formulation of a plan to modernise the Taiwanese Army (refer to page 46 of the Annual Review of 1969-70). He disclosed that the government had planned to reduce the size of the standing army and to use the savings to buy modern arms and equipment. "The Ministry of National Defence is building an army that emphasises quality", he said. The General also confirmed that the USA had agreed to give loan for a helicopter (Bell "Huey" type) plant in Central Taiwan as also for buying more modernised infantry equipment. However, to repay the loan as well as to purchase surplus equipment from the USA, Taiwan was expected to put several Army divisions on reserve status. "We will have an elite standing army to reach the goal of counter-attacking the mainland", the General claimed.

Taiwan received an estimated \$ 200 mn in US military aid during 1970.

The Taiwan Government was reported in August 1970 to be extending one of its airfields to enable it to handle B-52 strategic bombers. It was presumed in Taipei official circles that with the enlarged base the USA would shift some B-52s from Okinawa to Taiwan and, thus, would indirectly increase the American military commitment to the defence of Taiwan against China.

SCIENCE AND TECHNOLOGY

Taiwan's nuclear power development programme made considerable advances in implementation with the announcement on 17 November 1970 of two loans to be received by the state-owned power company, Taipower. A \$ 110 mn loan from the US Export-Import Bank was to finance the purchase of Taiwan's second nuclear generator unit, while a \$ 60 mn credit from the World Bank was to be used to build a high voltage transmission system from the plant to the Taipei area. Earlier in 1969, the US Export-Import Bank provided another loan of \$ 80 mn to finance the purchase of a 550 mw light water reactor from USA.

II SOUTH-EAST ASIA

1. NORTH VIETNAM

ECONOMY

In the beginning of June 1970, North Vietnam's Prime Minister Pham Van Dong reported slow economic progress and increasing demands on the country from the war as it struggled to overcome the ravages of US bombing. He said that "the national economy had made initial, though still slow, progress, and in some fields had recorded some important achievements", and added, agriculture was hit by successive natural calamities in 1969 and millions of workers were laid low by influenza in 1969-70 winter-spring season.

Hanoi has generally claimed "splendid achievements" in industrial

and agricultural production in 1970. However, from the scanty information that is available it appears that although some progress has undoubtedly been achieved in repair of infrastructure, it is too early to expect that within a short period since the cessation, in October 1968, of US bombing any major economic reconstruction and breakthroughs could have taken place. Hanoi has continued to pursue a policy of industrial dispersion and this, according to certain Western observers, makes it difficult to co-ordinate production and results in serious bottlenecks. A Japanese visitor stated that "factories he visited in several cities were not in good order, machinery was not being maintained, many workers were idle and

North Vietnam—Statistics

Area	...	158,800 sq. km
Population	...	21.9 mn
GNP (1969)	...	\$ 2.35 bn
Defence Budget	...	\$ 500 mn
Total Armed Forces	...	432,750
Army	...	425,000
Air Force	...	4,500
Navy	...	3,250
Currency	...	Dong (Dong 3.70 = \$ 1.00)

piles of half-finished goods were scattered around”.

Time Magazine reported on 16 August that a recent confidential study by the British Government had said that North Vietnam was in the midst of “formidable economic difficulties—caused, only in part, by strains imposed by war. Much of the problem lies in poorly skilled and unmotivated workers”. However, even in the West reports of *Time Magazine* are always viewed with a lot of reservations. On 21 December 1970, the (North) Vietnam News Agency quoted a communique, on a recent Cabinet meeting held to review the 1970 state plan and budget, and to discuss the next year’s plan and budget, as having said, “The Council of Ministers pointed to the great significance of 1971, and the heavy tasks to be accomplished in agriculture, capital construction and production of vital consumer goods”. It also re-affirmed the “important changes in the service rendered to the front line.” The communique did not explain what the important changes were, but observers in Hongkong reportedly considered that the accent on production of consumer goods tended to confirm recent reports of flagging morale among North Vietnamese workers, which had affected production of food supplies, crucial to the country’s war effort. On 7 December Douglas Pike, an American expert on Vietnamese Communist affairs, told a conference of Asian specialists in Canberra that North Vietnam had been severely affected by political uncertainty, stringent economic problems and a steady decline in living standards during the preceding 18 months.

Consumer goods based on Haiphong’s substantial mechanical facilities, raw materials and discarded

material which could be used in small industrial and handicraft production, were perhaps the only type of industrial production in which North Vietnam could meet a good part of its own needs. Practically all heavy industrial and mechanical goods were supplied by the Soviet Union and China, especially the former. After the US-South Vietnamese incursion into Cambodia both China and the Soviet Union increased their aid to North Vietnam. On 25 May 1970 China and North Vietnam signed a protocol covering China’s supplementary non-refundable economic and military aid for 1970. An agreement was signed in Moscow on 11 June for additional Soviet economic and military aid, envisaging the delivery in 1970 of “complete sets of equipment for enterprises and other equipment as well as commodities and materials for the national economy of North Vietnam and further strengthening of its defence capacity”. Another agreement on “goods exchange and payments” for 1971 was signed in Moscow on 22 October 1970, whereby North Vietnam undertook to supply the Soviet Union with bananas, coffee, tea, clothing, knitwear and handicraft articles in exchange for fertilisers, fuels and lubricants, agricultural and industrial machinery, transport equipment etc. On 13 February 1971 North Vietnamese Deputy Prime Minister Le Than Nghi, heading a delegation to Peking, said that China had granted North Vietnam extra military and economic aid for 1971 and added that in the current (Laotian incursion) tense situation, this additional aid was of great significance.

According to US intelligence estimates, in 1969 China provided North

Vietnam with \$105 mn worth of economic aid and \$90 mn military aid. The Soviet Union on the other hand provided \$ 120 mn worth of economic assistance and \$250 mn worth of military aid. During the first half of 1970 China's aid to Hanoi amounted to about \$100 mn, most of it economic, while Moscow's total aid for the same period amounted to \$225 mn of which only \$50 mn was military aid. There are indications that consequent on the recent US backed South Vietnamese incursion into Southern Laos both the USSR and China have again stepped up their aid to help North Vietnam make good the equipment and supplies destroyed or used up during the campaign. After Chou En-lai's visit to Hanoi in March 1971, one source has estimated that China was committed to supply \$400 mn of military and economic assistance in the current year. No estimates of Soviet commitment are as yet available, but it is likely to be more than in the previous year and will most probably exceed, as in past years, the total amount of Chinese aid.

Some 80 per cent of the goods on sale in Hanoi in 1970 were reportedly Chinese. In 1969 North Vietnam's sales to Hong Kong increased from \$1.2 mn to \$1.9 mn. In the first six months of 1970 they increased to just under \$1 mn as against \$0.6 mn in the same period in 1969. North Vietnam's imports from Hong Kong are insignificant, which indicates that like Peking, Hanoi uses Hong Kong to earn foreign exchange, albeit on a very meagre scale.

The Soviet Union is said to provide some 50 per cent of the country's imports and China 30 per cent. According to a Soviet broadcast in August

1970, during seven months, about 300,000 tons of dry cargo had been shipped to Vietnam from ports of the Soviet Far East, and over 200,000 tons from Black Sea ports, and furthermore 38 Soviet tankers had so far arrived in North Vietnam in 1970. These supplies were no doubt part of the aid being provided free or under long-term interest-free credits. It was separately stated that Soviet exports to North Vietnam were due to increase by 50 per cent. In 1969 North Vietnam's exports to Japan remained at just over \$6 mn, and imports totalled \$7.2 mn. Trade with France fell to between \$0.4 mn and \$0.5 mn each way.

Agriculture

It seems that both the last two rice harvests in the autumn of 1969 and the first crop in 1970 were poor ones. In late 1969 Hanoi showed alarm about the prospects for the late rice harvest. Pham Van Dong drew attention to serious shortcomings on the farming front. Flooding, he said, had ruined the crops in several areas and many agricultural cooperatives had failed to treat the harvest as a matter of urgency. In late January 1971 abnormally dry weather had already lasted 3 months, and an official communique stated that water resources were below the average recorded for several years.

In numerous broadcasts in July 1970 Hanoi radio complained that sowing of the rice crop was far behind schedule. "A number of localities are still unaware of this year's second rice crop, peasants in these areas have a habit of taking rest after the fifth month rice harvest", the radio stated. On 26 July the Party newspaper *Nhan Dan* urged the

peasants to make an all out effort to meet the country's rice demands despite adverse weather and other delays. "With two weeks in which to plant eighth month rice, thousands of acres of rice fields have not yet been planted, and vast stretches are yet to be ploughed", the paper reported. The Government even propagated the slogan, "an inch of land is an inch of gold". Interpretation of these appeals in the US press were that North Vietnam once again was exhorting an apparently reluctant and numerically depleted peasantry to meet the state's rice quotas. While this interpretation appears to be biased there is no doubt that North Vietnam was making an all out effort to step up its rice production disrupted by the indiscriminate US bombing in the previous years. The planned area of the 1970 autumn rice planting was stated to be 4 per cent larger than in 1969. Nevertheless, due to the planting plan not being fulfilled the total area was reported to be smaller than in the years before 1965. In general the crop was said to be doing better than in the previous year, but in early October "many areas experienced heavy monsoon rains and some of the paddy was spoiled by flooding and waterlogging". However, in a despatch from its Hanoi correspondent the *Hsinhua* (New China) New Agency said bumper harvests of early and late rice were reported in 1970 with average per hectare output having increased by 10 per cent over 1969. It also stated that despite war provocation by the USA cultivated areas were expanded by 50,000 hectares and the total rice production increased substantially.

Communications

Roads and bridges were extensively

repaired during 1969-70 and Haiphong Port was re-built and enlarged. A Hanoi-Moscow air service, inaugurated in June 1969, began regular flights on 15 October 1970, the route being via Vientiane, Calcutta, Karachi and Tashkent.

POLITICAL DEVELOPMENTS

Throughout 1970 power continued to be exercised under a collective leadership whose two outstanding figures were Le Duan, First Secretary of the Central Committee of the ruling Lao Dong (Workers') Party, and Truong Chinh, Chairman of the Standing Committee of the National Assembly. After them came, in the order indicated by official statements, Pham Van Dong (Premier), Gen Vo Nguyen Giap (Minister of Defence), Le Duc Tho, Nguyen Duy Trinh (Minister of Foreign Affairs), Le Than Nghi and Hoang Van Hoan—all members of the Politburo of the party's Central Committee. Another Politburo member, Pham Hung (a Southerner), was known to be commanding the Communist forces in South Vietnam. Since no one had succeeded to the late President Ho Chi Minh's post of Chairman of the Lao Dong Party, it was conjectured in certain quarters that a power struggle was inevitable between Le Duan, the pragmatist, and Truong Chinh, the party theoretician. No signs of a rift have shown up and it seems that Le Duan has gained the leadership. His name alone was appended, in the name of the Politburo to the 25 April 1970 Lao Dong Party resolution, calling bluntly for the expulsion of a large number of workers found wanting and their replacement by a new "Ho Chi Minh class" of members. In February 1971, during the Laotian incursion there was

some speculation over differences having arisen between Prime Minister Pham Van Dong and Defence Minister General Giap, who reportedly had taken personal charge of conduct of operations. The Premier was said to favour the attainment of the objective of the late President Ho Chi Minh, namely the domination of Indochina by force, whereas General Giap was reportedly in favour of a negotiated settlement. These speculations emanate from interested quarters and cannot be confirmed.

On 11 April 1971, North Vietnam went to the polls for the first time in seven years to elect a new (420-member) National Assembly. The election reportedly ended 25 years of South Vietnamese representation in the North Vietnamese National Assembly. Hanoi said that the establishment of the Provisional Revolutionary Government of the Republic of South Vietnam (PRG) had made it no longer proper to continue to extend the term of the Southern deputies in the DRVN National Assembly.

INTERNATIONAL RELATIONS

The prospect of peace, or even of fruitful negotiations, between North Vietnam on the one hand and USA and South Vietnam on the other seems still to be somewhat remote. The North Vietnamese continue to demand that the US agree to withdraw all its troops in Vietnam unconditionally and not insist on having a say on the future of the Saigon Government. The Nixon Administration, although it has been compelled by public pressure at home to drastically reduce its forces and is committed to end its ground combat role by 1972, has re-affirmed its objective

of ensuring that the present South Vietnamese Government, after the US withdrawal is completed, should still have a reasonable chance of defending itself against the Communists.

North Vietnam's relations with the two Communist giants have remained cordial and it has on the whole continued to maintain a neutral attitude in Sino-Soviet disputes. Le Duan visited the Soviet Union in January 1970 and again in April that year for the Lenin Centenary celebrations. He again visited that country in March-April 1971 to attend the 24th Congress of the Communist Party of the Soviet Union, despite the fact that China had refused to send a delegation. Whilst Moscow seems to have tried to avoid becoming directly involved in the Indo-China war, Peking has evidenced apparent determination to exploit the conflict to increase its own influence. Both Peking and Hanoi supported the conference of leaders of the Communist side in the three Indochinese states, held somewhere in South China at the end of April 1970, after the overthrow of Sihanouk in Cambodia and the overt US support to Lon Nol Government. During the Laotian operation in February and March 1971, China strongly supported North Vietnam and threatened to intervene, particularly if South Vietnamese or US troops entered North Vietnam. Premier Chou En-lai visited Hanoi from 4 to 8 March apparently to demonstrate China's all out support. There are some recent unconfirmed reports that consistent with its new diplomacy and efforts to normalise relations with the USA, Peking has been exerting pressure on Hanoi to reach a negotiated settlement with the USA at Paris on the basis of an independent South Vietnam continuing.

ARMED FORCES

According to estimates published in *The Australian* on 26 September 1970, the strength of North Vietnam's regular armed forces was 432,750 based on compulsory military service for at least three years. The army accounted for 425,000 (including at least 85,000 in South Vietnam, 67,000 in Laos and 40,000 in Cambodia). It had about 40 infantry regiments organised into 13 divisional sized formations, and was equipped with Soviet or Chinese weapons. The armoured element consisted of about 400 armoured vehicles, including T-34 and T-54 medium tanks and PT-76 light amphibious tanks as well as M-2 and K-61 armoured personnel carriers. Artillery included SU-76 and JU-122 self-propelled guns, 75 mm recoilless guns and 81 mm mortars, and about 6,000 anti-aircraft guns which included 100 mm, 85 mm, 57 mm and 37 mm artillery pieces, about half of them being radar controlled. In addition, there were some thousands of air defence machine guns and some fifty SA-2 guideline surface-to-air missile sites with 4 to 6

launchers to each. Very recently after the Laotian campaign there have been reports of the Soviet Union having supplied the North Vietnamese some advanced SA-3 missiles.

The total strength of the Navy was about 3,250 personnel with : 3 coastal escorts (ex-Soviet); 4 inshore mine sweepers ; 4 fast patrol boats (ex-Chinese); 12 motor gunboats (ex-Soviet); 3 motor torpedo boats (ex-Chinese); 24 motor gunboats.

The Air Force had a total strength of 4,500 men and 140 combat aircraft including : 10 IL-28 light bombers ; 30 MiG-21 interceptors, with Atol air-to-air missiles ; 60 MiG-17 interceptors. There were also 8 AN-2; 3 AN-24; 40 IL-14 ; 3 Li-2 and 6 IL-12 transport aircraft ; and 12 Mi-6 Hook and 30 Mi-1 Hare and Mi-4 helicopters.

Para-military forces consisting of Frontier and Coast Security troops and the People's Armed Security force totalled about 20,000. There was also a regionally organised armed militia of about 425,000.

2. SOUTH VIETNAM

ECONOMY

With the accelerated pace of US troop withdrawals and of Vietnamisation, an atmosphere of uncertainty, created by the prospect of a possible political settlement and the ultimate withdrawal of practically all US troops, adversely affected economic activity in South Vietnam during 1970. The key problem for the country's economy, however, concerned finance, more than insecurity.

The financial situation already poor in 1969 worsened during the following year. According to statistics published

by the International Monetary Fund, South Vietnam had during that period suffered the highest rate of inflation in the world. Bankruptcy was in sight for early 1971, when drastic reforms were announced on 3 October 1970. These included a devaluation of the Vietnamese piastre (VNP) to 275 to the dollar from the previous rate of 118 VNP to a dollar, and other measures designed to curb wartime inflation and stabilise the economy. Shortly before these measures were introduced the Economic Ministry, in an attempt to halt inflation, had announced that the USA had agreed to provide South Vietnam with \$ 750 mn in economic

South Vietnam—Statistics	
Area	... 171,665 sq. km
Population (July 1969)	... 17.88 mn
GNP. (1969)	... \$ 3.3 bn
Defence Budget (1970)	... \$ 1,123 mn
Armed Forces :	
Total strength	... 481, 000
Army	... 420,000
Air Force	... 23,000
Navy	... 38,000
Currency	... Piastre (VNP 275 = \$1.00)

aid for next 12 months, also that import licences would be liberally granted as before.

The economic effects of the Vietnamisation programme have begun to bear heavily on the country's meagre resources. Up to 1969, to finance the war costs each year, the USA had bought from the Saigon Government an amount of VNP equivalent to \$ 350 mn. This was South Vietnam's main source of foreign exchange. The reduction of US military commitments entailed a proportionate decrease in the spending by the US military complex, consequently South Vietnam's foreign exchange reserves fell to a critical level - barely \$ 200 mn in 1970 compared with an average of more than \$ 300 mn in previous years.

A record budget of VNP 182,800 mn (1969 VNP 158,710 mn) was prepared initially for 1970, but the figure was subsequently reduced to 177,000 mn of which VNP 133,000 mn was for defence, VNP 6,600 mn for reconstruction development (pacification programme) and VNP 37,400 mn or 22 per cent was allocated to civilian expenditure including economic development. In actual practice due to abnormal increase in military expenses, total spending for 1970, as on 26 October 1970, was estimated at VNP 190,563 mn, of which about VNP 141,000 mn was for defence, VNP 6,600 mn for pacification and about VNP 43,000 mn for civilian expenditure. Revenue was put at VNP 151,193 mn leaving a deficit of VNP 39,370 mn of which VNP 27,000 mn was to be covered by US aid. The bulk of the remaining deficit apparently was to be covered by advances from the National Bank of Vietnam.

The reform measures announced in early October 1970 were expected to confer relative stability to the VNP, but results remained uncertain, though all the decisions were considered excellent by experts.

On 7 March 1971 South Vietnam added sweeping increases to the prices of 4 key imports, flour, rice, sugar and cement. In an effort to close the mounting budget deficit the government increased the controlled price of rice by 31 per cent, of brown sugar by 66 per cent, white sugar by 100 per cent, wheat flour by 21 per cent and imported cement also by 21 per cent. These measures were accompanied by the announcement of an increased cost of living allowance for soldiers and civil servants of 100 VNP (about 31 US cents) per month for each family member. Those on Government payroll were also exempted from income tax for the duration of the war.

US military aid to South Vietnam remained high and the price of the war for 1970 was estimated at \$ 22,000 mn, a 12 per cent decrease from 1969. US economic aid for fiscal 1970 ending on 30 June 1970 totalled about \$ 600 mn, of which \$ 360 mn was in commercial aid programmes and agricultural surplus. This aid financed 53 per cent of the South Vietnamese budget. Economic assistance from many other countries totalled \$ 124.4 mn from July 1964 to December 1969. A Japanese Government mission visited Saigon in October 1970. Shortly before its arrival South Vietnam's Minister for Economy, Pham Kim Nagoé said on 3 October that Japanese aid was very important for his country's future and that it was time to reconsider trade

relations between the two countries. The same view was expressed by the Minister for Development and Reconstruction Vu Quoc Thuc who said, "Japan has profited from this war. The Japanese have the capital to invest but their terms are too stiff". Thuc said Saigon wanted soft long-term loans. Although nothing firm was decided, it was expected that Japan would participate in the development of South Vietnam to the extent of about \$ 50 mn to \$ 100 mn during the following three years. A note exchanged between South Vietnam's Foreign Minister Tran Van Lam and Japan's Ambassador Fukihiko Togo on 16 December provided for a yen loan equivalent to \$ 4.5 mn to build a diesel electric power plant in Saigon. Interest was 6 per cent and the loan redeemable in 10 years.

South Vietnam's industry relying almost wholly on imported raw material experienced major difficulties in 1970 because of the shortage of foreign exchange to finance imports. Exceptions, however, were textiles, cigarettes, sweetened condensed milk and animal feed, raw material for which were financed by the US food for peace programme under which payments for the raw materials were made by the US Government in dollars, and local buyers paid the South Vietnam Government in VNP, which were used mainly to finance the war.

Trade in 1970 continued to be affected by the war: the ratio between imports and exports remained at about 40 to 1. National production continued to drop drastically; in 1970 about 75 per cent of the GNP came from service industries. Imported goods were

urgently needed so that the government could absorb the massive money supply and meet ever-increasing public expenditure requirement.

Agriculture

The generally low level of fighting throughout the year helped rice production. Total production for 1970 was estimated 5.1 mn tons, registering an increase of about 20 per cent on 1969 production. Total rice consumption was estimated at about 5.2 mn tons, and about 500,000 tons of US rice had to be imported during the year. In 1969 it was officially stated that self-sufficiency in rice would be achieved in 1970 but the date was later extended to the end of 1972.

Communications

As the ground fighting subsided, travel by road throughout South Vietnam became more secure in 1970. Until recently traffic on country roads would stop at sun-set and the road network would become a no-man's land. But in August 1970 an order from Saigon went out to most provinces to authorise free movement upto midnight.

POLITICAL DEVELOPMENTS

The Thieu, Ky and Khiem team continued to seem to be firmly in power during 1970 but early in 1971 an open rift became evident between President Nguyen Van Thieu and Vice-President Nguyen Cao Ky. Though differences between the two were known to exist they have come into the open with the approach of the September 1971 Presidential elections.

Elections were held on 30 August 1970 to replace 30 of the 60 Senators; there were 18 lists each of 10 candidates. After a dull campaign the 3 lists elected were those headed by Professor *Vie Van Mau*, *Huynh Van Cao*, a retired General, and *Nguyen Van Huyen*, the outgoing President of the Senate. *Cao* and to a lesser extent *Huyen* were said to be pro-government. *Mau*, who was Foreign Minister under *Diem* for 8 years until he resigned in August 1963 in protest against the attacks on the pagodas in Saigon by the army, headed the Buddhist list and was supported by the An Quang Pagoda.

Nguyen Van Huyen was re-elected Senate President, but Senator *Vie Van Mau* and his supporters, annoyed because they did not obtain committee chairmanships, asserted that *Huyen's* re-election had been carried out illegally and this resulted in a bitter and seemingly endless controversy.

It appeared in early November that General *Duong Van Minh* (Big Minh) had entered the race as a candidate for the forthcoming presidential elections. In a political statement to comrades-in-arms who helped him to dislodge the *Diem* regime in 1963, he expressed his sadness at having "not yet accomplished my mission", and made a pessimistic analysis of the economic, social and political situation, and though admitting that the military situation had improved, he insisted peace should be restored through reconciliation of all South Vietnamese, Communists or otherwise, thus indirectly advocating a political agreement with the National Liberation Front (NLF). General *Minh* is considered to have a good chance of winning, particularly if President *Thieu* and Vice-President *Ky*

continue with their antagonism. And if he inherits power it is expected he may also succeed in restoring peace and stability to his country and its war weary people.

Fighting was less intense in South Vietnam and after the Cambodian campaign in April to June 1970, the Vietcong and North Vietnamese have not been in a position to undertake large-scale operations in the Military Regions III and IV which include the more densely populated South and include the 11 provinces around Saigon and also the fertile Delta region. The Communist forces however continued periodically to mount guerrilla attacks on military and civilian targets in various parts of the country.

INTERNATIONAL RELATIONS

The Vietnam peace talks in Paris have made no progress during the period under review and no dramatic development seems in sight even though the war is perceptibly de-escalating despite the Cambodian campaign in 1970 and the Laotian campaign in 1971. (For details of Paris Peace Talks see separate section).

South Vietnam's relations with the US Government remained generally good. Contrary to speculation there were no signs that the USA would withdraw full support from *Thieu*. South Vietnam also maintained good relations with its other military allies and has rendered substantial support to the Lon Nol-Sirik Matak Government, which would have found it very difficult to stand up against Vietcong and North Vietnamese attacks in the absence of South Vietnam's military support. However, there were some strains in the otherwise friendly relations between

Cambodia and South Vietnam due to apparently harsh treatment of Vietnamese residents in Cambodia, and by some excesses on the part of South Vietnamese troops operating in Cambodia.

ARMED FORCES

According to *The Australian* dated 25 September 1970 the total strength of South Vietnamese regular armed forces was 481,000 and was based on a minimum of 3 year compulsory military service.

The army has 420,000 personnel with: 10 infantry divisions, 1 air borne, 3 Independent Infantry Regiments, 20 Ranger battalions, 1 Special Forces group. (There are normally 3 regiments in a division and four battalions in a regiment.) There are thus 160 battalions in the regular army but some are understrength. The actual strength of the average battalion is 450 against an authorised strength of 640, and the average strength of a regiment is 2,000 as against 3,000 authorised. There are: 11 tank squadrons with M-24, M-41 and AMX-13 light tanks; 24 squadrons

of M-113 and M-159 armoured personnel carriers; 26 artillery battalions with 105 mm and 155 mm guns. Most arms and equipment are American.

The Air force has a total strength of 23,000 and 200 combat aircraft with: 3 squadrons of A-1E Sky raiders; 3 squadrons of A-37 fighter-bombers; 1 squadron of F-5 tactical fighters; 80 light aircraft armed with guns; some RC-47 reconnaissance aircraft; and about 120 transport aircraft.

The total strength of the Navy is 38,000 and includes marines and Junk Force personnel. It has: 2 destroyer escorts; 1 submarine chaser; 3 coastal minesweepers; 20 motor gunboats; 21 landing ships; about 200 landing craft and about 250 patrol craft. It was subsequently reported that on 30 December the USA had turned over to South Vietnam the last 125 of 650 inland and coastal waterways combat craft.

South Vietnam's para-military force consist of 275,000 regional forces organised into rite companies, and 230,000 popular forces organised into platoons.

3. LAOS

ECONOMY

Heightened military activity in Laos during 1970, and even more so in the spring of 1971, have had an adverse impact on the country's economy.

Mass movements of refugees from productive land to refugee camps further aggravated the food problem. In the face of an imminent dry season offensive in the Plain of Jars, the US Agency for International Development (US AID) undertook a massive civilian

evacuation programme. Between 5 and 10 February 1970 some 15,000 Laotian peasants were taken by Air America planes to the Vientiane plain, leaving the Plain of Jars a free strike zone. About 100,000 new refugees poured out of Pathet Lao territory in 1970, bringing the refugee total to more than 700,000, about 25 per cent of the total population. The Laotian Government with its heavy defence commitments was not in a position to provide any significant aid to the 275,000 refugees on relief rolls. By the end of 1970

Laos — Statistics	
Area	... 235,700 sq. km
Population (July 1969)	... 2.89 mn
GNP (1969)	... \$ 0.2 bn
Currency	... Kip (500 kips = \$1.00)
Royal Government	
Defence Budget (1969-70)	... \$ 21.6 mn
Total Armed Forces	... 67,250
Army	... 65,000
Air Force	... 1,850
Navy	... 400
Pathlet Lao	
Defence Budget	... N.A.
Total Armed Forces	... 25,000

more than half the country's total population was under government control. Construction of the Nam Ngum Dam ahead of schedule was expected to make a significant contribution to the economy in 1971.

The Laotian Government continues to be heavily dependent on American aid. The 1971 budget, covering the period 1 July 1970 to 30 June 1971, envisaged an expenditure of 18,247.9 mn kips of which about 65 per cent was allotted for defence. Revenue was estimated at 9,447.9 mn kips. The deficit was to be covered by the Foreign Exchange Operations Fund (FEOF) which to stabilise the country's economy contributed \$22.4 mn in 1969. The US provided \$ 16.6 mn, France, Japan and UK \$1.7 mn each and Australia \$ 700,000. Apart from contributions to the FEOF, direct US economic aid was more than \$ 50 mn in 1970. Kip exchange rates remained the same, 500 to \$1 on the free market, and 240 for government transfers.

Laos' chronic trade imbalance worsened. Imports for the first 9 months of 1969 reached 13.3 mn kips compared with 12.9 mn for the whole of 1968. Exports apart from gold and opium dropped from 1.45 mn kips in 1968 to 1.03 mn in 1969.

Agriculture

The Government's revised estimate of the 1969-70 rice crop was 537,000 tons and an estimated 70,000 to 100,000 tons had to be imported from Thailand. It was noted that the various strains of "miracle" rice developed in the Philippines preformed poorly in Laos.

Communications

A 3,000-metre runway for jet airliners at Vientiane's Wattay airport was completed in July 1970 with Japanese aid. Worsened security conditions in 1970 limited land travel. National Highway 13, the main north-south route, though threatened at times, remained open, but travel was risky.

POLITICAL DEVELOPMENTS

1970 was a year of intensified war and of hesitant, and in the event infructuous, steps towards peace. While the US Air Force carried out heavy bombing of two-thirds of Laotian territory particularly over the Ho Chi Minh Trail in the country's Southern Panhandle, the North Vietnamese-backed Pathet Lao gained the strongest position they had achieved to date. The 1971 February-March incursions by South Vietnamese troops, backed by massive US air power, disrupted to some extent the flow of Communist supplies to South Vietnam and Cambodia but it did not however significantly change the situation in Laos, where after the hard pressed South Vietnamese forces withdrew, the position was less favourable than previously for the Laotian Government forces.

On 30 April 1970, in the wake of the US-South Vietnamese intrusion into Cambodia, Communist forces for the first time advanced beyond the informal 1962 ceasefire line, capturing the southern provincial capital of Attapeu and then continuing their southern offensive by taking Saravane on 9 June. From 12 June to 11 September some preliminary talks were initiated to get peace negotiations started between the

warring factions. However, in September when Gen Van Pao's US financed Meo troops advanced towards Mong Soui, the Pathet Lao broke off talks accusing the USA of escalating the war and sabotaging talks. One result of the peace moves was the giving up in effect the pretence of the rightist-neutralist-leftist coalition on which the 1962 Geneva Agreement was based, which never came into being, and instead recognising the de-facto Vientiane-Pathet Lao power centres which had prevailed since 1963.

INTERNATIONAL RELATIONS

Relations between the Laotian and US Governments remained firm in 1970, propped up by an estimated \$ 50 mn in overt and covert aid. There were some indications that the USA might have tried but failed to obtain open endorsement from the Laotian Government for the South Vietnamese incursion into Southern Laos in early 1971. Thailand continued to play an important though semi-secret role in Laotian affairs.

The Pathet Lao joined the April 1970 conference of Indochinese revolutionaries, held in southern China and pledged closer cooperation with North Vietnamese, Vietcong and Sihanouk forces in their common struggles. On 19 January 1971 on the occasion of the 22nd anniversary of the Laotian People's Liberation Army, China's Vice-Chairman and Defence Minister Lin Piao pledged it China's full support for its war against "US aggression".

ARMED FORCES

According to the **Military Balance 1970-71** the total strength of Royal

Laotian forces based on conscription is 67,250. The strength of the Army is 65,000 with 24 mobile and about 40 static infantry battalions, as also 6 paratroop battalions. There are 12 artillery batteries (gun or heavy mortar) and some M-24 and PT-76 light tanks.

The strength of the air force is 1850 personnel and 65 combat planes, 10 T-28D and 5 T-6 light strike aircraft. There are also some 20 transport planes and 15 helicopters. The 400 man navy is organised into 4 river squadrons consisting of 25 gunboats and 6 landing craft. All are under 100 tons and some are not operational. There are also some 40,000 para-military forces.

The 25,000 Pathet Lao troops included some neutralist dissidents and had some PT-76 light tanks and some BTR-40 armoured cars and were believed to be integrated with 67,000 North Vietnamese troops operating in the north provinces and eastern area of the southern provinces. The North Vietnamese and Pathet Lao control all the eastern half of Laos including the Plain of Jars and the frontier with South Vietnam.

The Far Eastern Economic Review 1971 Year Book estimates that pro-government forces number 70,000 to 80,000 after intensive conscription efforts, of which 55,000 were in the Royal Lao Armed forces, about 7,000 in the neutralist forces and 5,000 to 15,000 in Gen Vang Pao's "Special Forces". Another 3,000 strong CIA led mercenary force known as "Jungle Tigers" was operating from Southern Laos to harass the Ho Chi Minh Trail and to make commando raids into northern Cambodia. It was also estimated that some 50,000 North

Vietnamese troops were operating in Laos, but this figure was considered high by many observers. There were reported to be also about 50,000

Pathet Lao troops operating, mostly with North Vietnamese advisers. This figure also seems to be high.

4 CAMBODIA

ECONOMY

Before fighting started in March 1970, Cambodia's economic prospects were far better than they had been in 1969, but within a few weeks the nation's economy suffered very heavily. From early July to late October there was a slight improvement but in November many sectors of the economy were partly or entirely paralysed. War damage, except on rubber estates, was not regarded as serious but three quarters of the country was considered insecure.

Rubber production was almost completely disrupted. Rice was also seriously affected, and after an excellent

1969-70 crop which left a wide export margin, it was feared that in 1971 Cambodia would be able to cover its domestic needs only. Industrial production fell sharply in 1970 and further loss of foreign exchange resulted from the collapse of the tourist industry which had been growing rapidly up to March 1970.

Foreign exchange reserves declined from \$ 80 mn early in 1970 to \$ 60 mn by November. \$ 7.9 mn worth of light arms were transferred by the USA to Cambodia by 30 June 1970 and on 2 June the Japanese Government announced its decision to extend \$ 2 mn worth of emergency aid to Cambodia. The Australian Government also made a

Cambodia—Statistics

Area	...	181,000 sq. km
Population (July 1969)	...	6.7 mn
GNP (1969)	...	\$ 0.98 bn
Defence Budget (1969)	...	\$ 58.3 mn
Total armed forces	...	123,800
Army	...	120,000
Air Force	...	2,300
Navy	...	1,500
Currency	...	Riel (55.40 riels = \$1.00)

special immediate grant of \$ (A) 500,000. In August it was announced that Cambodia's economy was under great strain and that US experts had indicated that it was likely to breakdown by early 1971, unless massive support was provided. A factor which also contributed to this state was the flight of capital owned by local Chinese residents. A right wing Chinese daily published in Hong Kong reported that \$ 1.6 mn had been transferred out of Cambodia after fighting broke out. On 27 September Cambodia's Foreign Minister Koun Wick said that his country urgently needed \$ 200 mn economic and military aid. Earlier Japan's Prime Minister Sato had told visiting Cambodian Parliamentarians that Japan would offer as much economic aid as possible through co-ordination with other aid giving countries. Mau Sayon, Cambodia's Vice-Minister of Finance, informed newsmen in Tokyo on 1 November that the Soviet Union was continuing to supply the Lon Nol Government with aid equipment consisting mainly of military trucks, and said this flow had not been affected by the ouster of Prince Sihanouk, but added that shipment of aid pledged by the Soviets was expected to be completed in the near future. On 18 November the Nixon Administration submitted a supplementary foreign aid request to Congress which included \$ 255 mn in military and economic aid for Cambodia. The amount was subsequently approved on 30 December and on 20 November Japan decided to start shipping a further \$ 1.7 mn worth of relief goods to Cambodia. For the first time Britain was reported on 5 December to have offered aid to the Lon Nol Government making available

£100,000 worth of Bailey bridging which was badly needed by the Cambodians in their struggle to keep supply lines open. On 15 December another credit of \$ 0.277 mn was provided by Japan.

The revised 1969 budget was increased from 7565 mn to 8391 mn riels. Expenditure for 1970 was initially estimated at 9820 mn riels, and envisaged a deficit of 1 mn riels, however the heavy military expenditure which subsequently became necessary was expected to considerably increase the deficit. (\$ 1=55.40 riels)

In 1969 there was a small surplus in the country's trade account. Export prospects for 1970 were good, due to the excellent rice crop, but due to the war out of the 450,000 tons available for export only 143,600 tons left the country due mainly to transport problems. There were very little exports after April. In view of this and the fact that rubber production was at a virtual standstill Cambodia faced a heavy trade deficit in 1971.

No industrial progress was achieved in 1970, but industries in or near Phnom Penh, such as small textile mills, a glass plant and chemical factories, continued as normal. The Kompong Som brewery did well, and the oil refinery completed in 1968, produced 400,000 tons in 1969 meeting all Cambodia's needs. It also continued to function throughout 1970 but on 2 March 1971 was severely damaged by hostile bombardment. Cement and paper production stopped in 1970 and output of sugar and textiles declined seriously.

Agriculture

Although the area under rice cultivation in 1970 decreased, the prospects for the 1970-71 rice harvest were on the whole good, but transport was expected to be a major problem, especially from Battambang to Phnom Penh and to Kompong Som. From April to October rubber production totalled only 300 tons per month as against an annual production of 46,000 tons in 1969. Tobacco production was reportedly normal but the maize crop was said to be poor.

Communications

In April 1970 fighting virtually paralysed road and rail communications, but there was a noticeable improvement in road transport later in the year. By November daylight traffic was relatively secure on National Highway (NH) 1 from Phnom Penh to Saigon, on NH 4 from Phnom Penh to Kompong Som, on NH 5 from Phnom Penh to Battambang and on NH 7 from Phnom Penh to Kompong Cham.

Rail traffic from Phnom Penh to Battambang was discontinued in June 1970. By November a 20-mile section from the capital to Bat Dang was reopened. From Battambang to the Thai border traffic was normal, but there was no traffic on the 262 Kilometer line between Phnom Penh and Kompong Som.

POLITICAL DEVELOPMENTS

The dramatic overthrow on 18 March during his absence from the country of Prince Norodom Sihanouk and the installation of the Lon Nol-

Sirik Matak Government was a development of major significance, not only for Cambodia but for the region as a whole. It resulted in Cambodia becoming embroiled in the Indochina war and led to the Vietcong and North Vietnamese being denied their sanctuary bases in Eastern Cambodia and, what was more important, also denied the use of Cambodia's only deep sea port, Kompong Som, (Sihanoukville as it was formerly called), through which the vast majority of war materials and supplies had been brought to sustain the North Vietnamese and Vietcong troops operating against the vital Military Regions III and IV in the southern part of South Vietnam. Observers on the whole rated the chances of the Lon Nol Government surviving for any length of time as being very slim. However, despite the fact that General Lon Nol was severely incapacitated as a result of a stroke he suffered on 10 February 1971, resulting in his being partly paralysed and unfit to function effectively as Prime Minister, and despite a governmental crisis over the selection of a *de facto* successor, the Government now under the virtual control of Premier Delegate Lt. Gen Sisowath Sirik Matak still appears to be in effective control of the country and the chances of Sihanouk being restored to power in the near future seem remote.

The formula eventually evolved to solve the governmental crisis provided for Lon Nol to be Chief of Government thus lending moral credit, while effective conduct of the affairs of state would devolve upon Premier delegate Sirik Matak who would have overall responsibility for the ministries of defence, foreign affairs, and information and would be assisted by three Vice-

Premiers to oversee operations of ten other ministries.

On 6 October Cambodia's National Assembly and Senate voted unanimously to end the country's ancient monarchy and to replace it with a western type republic. And on 9 October the New Khmer Republic came into being with the President Cheng Heng as the first head of state.

INTERNATIONAL RELATIONS

With Sihanouk's overthrow Cambodia's foreign relations underwent a major change. After two decades of successful, though erratic, non-alignment the country was suddenly pitchforked into the Indochina war and embroiled in America's Asian Strategy and indirectly even in the Sino-Soviet feud. This flowed from the Lon Nol Government's dependence on the USA and South Vietnam and Sihanouk's decision to set up a government-in-exile in Peking. The new Cambodian Government sought support from neighbouring South Vietnam and Thailand, and soon re-established diplomatic relations with both countries. North Vietnam and NLF as well as China and North Korea severed diplomatic ties with the new government but the Soviet Union did not do so.

After some initial hesitation China decided to take Sihanouk under its wing and to give his exiled government full support. In contrast, the Russians evinced little enthusiasm for him. In an interview given by Sihanouk to a Swiss journalist on 1 February 1971 in Peking he reportedly openly condemned the Soviet Union saying if he had taken Russian advice he would have been dead long ago.

China played a key role in organising the Indochinese Summit Conference on 24-25 April 1970 in South China, believed to be in Kunming. It was attended by Sihanouk, the North Vietnamese Prime Minister Pham Van Dong, Pathet Lao leader Prince Souphanouvong and South Vietnam Provisional Revolutionary Government President Nguyen Huu Tho.

The Lon Nol Government officially informed the United Nations Security Council in April 1970 that part of its territory was occupied by North Vietnamese and Vietcong forces and asked the Secretary General to use his influence to have them withdraw. In October President Cheng Heng attended the UN General Assembly meeting and met President Nixon.

ARMED FORCES

In April 1970 the armed forces of Cambodia consisted of some 35,000 illequipped and ill-trained troops. Immediately on taking over power Gen. Lon Nol's Government embarked on an ambitious expansion programme with massive military aid from the USA. According to the **Military Balance 1970-71** the total strength of the armed forces was about 123,000. The strength of the Army was 120,000 with: 55 infantry and commando battalions; one tank regiment with M-24 Chaffee and AMX-13 light tanks; one armoured car battalion with M-8 Greyhounds; 3 parachute battalions; and artillery including ex-French 105 mm howitzers and Soviet 122 mm field guns, as well as 37 mm (Chinese), 40 mm (French) and 57 mm, 85 mm and 100 mm (Soviet) anti-aircraft guns.

The air force had 2,300 personnel and 64 combat aircraft with 2 squadrons of (24 aircraft) MiG-15 and MiG-17 fighters ; 20 A-1 Skyraider ground attack aircraft ; 20 T-28 Trojan ground-attack aircraft ; about 25 transport aircraft and 14 helicopters. It was however reported that on 22 January 1971 the Vietcong successfully launched a bold cammando attack, some hours before dawn, on Phnom Penh's Pochen-

tong airport destroying or damaging on the ground almost every plane in Cambodia's air force. On 26 February diplomatic sources were quoted as saying that the USA would soon start replacing the planes that had been destroyed.

The Navy has 1,500 personnel with 2 patrol vessels, 1 gunboat, motor torpedo boats, 6 patrol boats and 3 landing craft.

5. INDOCHINA WAR

CAMBODIA

1970 dry weather campaign

Even before the overthrow the Prince Sihanouk on 18 March 1970, the Cambodian authorities in the beginning of that month had started a campaign against the Vietcong (VC) and North Vietnamese (NVN) forces in Cambodia. By 17 March Cambodian (Khmer) troops were withdrawn from the Thai border and redeployed, and clashes between NVN and Khmer troops took place. Towards the end of the month VC forces began launching direct assaults against Khmer troops and the Government started calling up reserves, and took steps to expand its small army, making a world wide appeal for arms aid. Initially the Viet Cong and pro-Sihanouk elements attacked posts in the north of the country but soon shifted their attention to communication centres particularly the two Key ferry crossings across the Mekong River at Neak Long in the South and Kompong Cham in the north. In April attacks were launched on major towns in the provinces of Prey Veng, Kampot, Kampong Cham and Kratie, and the capital Phnom Penh appeared to be threatened. During the month South Vietnamese (SVN) ground and air forces repeatedly penetrated into Cambodian territory and attacked VC sanctuaries. By mid April VC and pro-Sihanouk forces more or less controlled one-third of Cambodia including virtually the

whole of the salient commonly referred to as the "Parrot's Beak".

On 19 April 1970 President Nixon in announcing his decision to withdraw a further 150,000 US troops from Vietnam, cited recent events in Cambodia as evidence of the risk involved in undertaking the new round of troop withdrawals. On 22 April Gen Svey Saman, Cambodia's Chief of Staff declared in Paris that the situation in his country was serious, and on 23 April four planes carrying the first consignment of US arms arrived in Cambodia. The next day President Nixon declared that Cambodia was the victim of a foreign invasion and that the fighting there could not be considered a civil war. The same day *Tass* warned that the Cambodian events might lead to serious consequences for peace in South-East Asia and denounced the US policy of making Asians fight Asians.

On 29 April 1970 about 6,500 SVN troops launched a major operation, spearheaded by tanks and armoured personnel carriers (APC's), into the Parrot's Beak area of Cambodia, with the declared objective of smashing NVN-Vietcong bases. The assaulting troops received US artillery support and also combat and logistic support from US helicopters and other aircraft. The following day President Nixon announced that he was sending US combat troops into Cambodia in an attack

against "the headquarters for the entire Communist military operation in South Vietnam". He also said that once the "enemy forces" were driven out of their Cambodian sanctuaries and their military supplies destroyed, American troops would return to their bases. Preceded by strikes by US B-52 bombers a large force of US and SVN troops swept into the "Fish Hook" region of Cambodia on 1 May. American forces were reported to consist of one full brigade of 6000 men of the First Air Cavalry Division and about 1,500 men of the 11 Armoured Cavalry Regiment.

In the first three weeks of May, US and SVN forces undertook 12 sallies into Cambodia, but no major engagement took place. The Communist forces had clearly anticipated the offensive and taken precautionary measures. It was reported that subsequent interrogation of prisoners and scrutiny of captured documents had revealed that they started leaving their sanctuaries several days before the offensive. Even as US and SVN troops launched their combined operations the Communist forces began, with the capture on 1 May of the important town of Attopeu, to consolidate their position in Southern Laos, turning the strategic Bolovens Plateau into a major base. They then launched a swift offensive which lasted seventeen days, down the upper Mekong and captured Chhlong on 3 May, Kratie on 6, and Strung Treng on 15 May. They also again attacked Kompong Cham as well as Tongle Bet, located opposite Kompong Cham on the east end of the Mekong ferry. Although they succeeded in effecting penetrations into Kompong Cham and even in temporarily occupying Tongle Bet, they were unable to or did

not intend to establish control over these two important centres. In early June the Communist forces strengthened their hold on northeast Cambodia by capturing Lomphat, capital of Ratnakiri province. Further west, they launched a heavy assault on Kompong Thom, another important town astride Route V, the tourist road from Phnom Penh to Siem Reap and Angkor Wat. In the latter part of June about one division of Communist troops moved still further west towards Battambang, Cambodia's second largest city located in the centre of a large rice growing area and near the Thai border.

On 30 June President Nixon announced that the US military thrust into Cambodia had ended with a major success and all US troops had been withdrawn back to South Vietnam. He called for negotiations and said the USA had not raised its terms for a Vietnam settlement as a result of its "military success" in Cambodia and it would not lower its minimum terms in response to communist pressure. He also outlined seven point guidelines for future US policy in Cambodia. These included prohibition of employment US of ground troops, but permitted air interdiction to continue.

A few days earlier South Vietnam's President Thieu said that the total Communist losses over the preceding three months were : 14,650 dead without taking into account the number wounded ; 26,399 weapons ; 776 tons of rice ; 11,876 tons of ammunition including 82,370 rocket and mortar rounds. He pointed out that whereas the Communists could recruit young men aged 15 to 17 years they would be in difficulties owing to lack of rice

and ammunition and the destruction of their bases which took them 10 years to build. He stressed that they no longer enjoyed sympathy and assistance from the administration and that foreign ships were no longer free to land thousands of tons of weapons, ammunition and military equipment at Kompong Som (formerly Sihanoukville), Cambodia's only deep sea port.

Peking Radio reported on 1 July that the Cambodian National Liberation Army with the support of the broad-masses had won successive victories in its recent attacks on the enemy, landing "the Lon Nol-Sirik Matak clique fostered by US imperialism", in a desperate predicament.

Viewed in the limited context of the US objectives to reduce their forces in Vietnam, there can now be little doubt that from the point of view of USA and SVN, their joint intervention into Cambodia was a marked success. And this despite the fact that they had failed to either capture or destroy the Communist headquarters commonly referred to as COSVN. The combined operation and the elimination of the sanctuary bases in eastern Cambodia, for all practical purposes, completely eliminated the chances of the Vietnamese Communists successfully launching in the near future a major offensive into the richest and densely populated parts of lower South Vietnam, which fall into the III and IV Military Regions and include the Mekong delta as well as the vital Saigon region. The Vietcong military cum political structure in these regions might also have suffered severe damage. It had apparently previously already been weakened and needed "big unit" support, but as a result of the US

and SVN operations in Cambodia had been deprived of practically all the "big unit" support that was previously available. According to a US press commentator :—

- (a) two North Vietnamese regular regiments (brigades) that were threatening both III and IV tactical zones in South Vietnam, from the Parrot's Beak sanctuary, were caught at the very outset by the SVN attack and were largely destroyed ;
- (b) two NVR regiments that were operating deep inside South Vietnam in III tactical zone, were forced to withdraw ;
- (c) two other regiments which had been operating somewhat unsuccessfully in the western delta were also forced to withdraw to Cambodia, thereby leaving only one regimental size unit, the 18 Regiment in either the III or IV regions.

After a visit in July 1970, Gen Westmoreland, US Chief of Army Staff, stated he considered that Communist forces in Vietnam could launch a major attack in the hilly and jungle terrain in I and II zones in the north of the country but no longer in the Saigon region or in the Delta.

In the larger context of the situation in Cambodia itself and in Laos, a different picture emerges. The denial of access to the port of Kompong Som was more serious for the Communist side than the overrunning of their sanctuary bases. They had to move a

large part of their troops to the rice bowl located in North Cambodia and the adjacent Bolovens Plateau in the southeastern part of the "Laotian Panhandle", and also had to try and establish an alternative route to bring down supplies into Cambodia and South Vietnam. Having established control over northeast Cambodia they extended the Ho Chi Minh Trails southwards making use of the Sekong and Mekong rivers down to the vicinity of Kompong Cham, and in order to lessen the effect of US bombing widened the network of tracks making up the Ho Chi Minh Trails by extending them to run down more westerly parts of the Laotian Panhandle. Although the VietCong and NVN forces avoided becoming involved in major engagements with US and SVN troops they maintained pressure on the Cambodian army through attacks on all the major towns and established their control over more than half of Cambodia. Prior to the combined intrusion into Cambodia US intelligence had estimated the strength of Vietnamese Communists in Cambodia to be in the region of 40,000 but information gained during the operations led them to revise the figure upwards to about 70,000. Not only South Vietnam, Cambodia also became a battle ground and a United Front of Indochinese people came into being consequent on the developments in Cambodia.

Ever since the 1968 Vietcong and NVN Tet offensive, it was evident that there was no likelihood of the USA and SVN gaining a military victory. It was also apparent that in the face of public opinion in America the US Government had no option but to withdraw its forces especially ground troops from the area substantially before the 1972 elections.

In these circumstances it would appear to be a rational strategy for the Communist side to wait out US withdrawal. Many considered that it was merely a question of time as to when the South Vietnamese Government, confronted with inevitable US withdrawal, would be compelled to accept a settlement with its adversaries. The Cambodian campaign was presumably intended to change this position. Although the Cambodian Government lost control over large tracts of its territory, the American justification is that the security of South Vietnam has been considerably reinforced by the preservation of an anti-communist government in power in Phnom Penh controlling the capital and at least the Southern portion of the country and the battle lines had been pushed farther away from South Vietnam. And thus, South Vietnam and its allies have acquired a vested interest in the survival of the Lon Nol-Sirik Matak Government. Consequently although the Nixon administration has stated that it is not committed to the preservation of that Government, it has given it large-scale military and economic aid and the continued support rendered by US aircraft to South Vietnamese and Cambodian troops, after the withdrawal of US ground forces from Cambodia, has been a decisive factor in the survival of the Lon Nol Government.

Post 30 June 1970 operations

It was obvious from the outset that it would be very difficult for the Lon Nol Government to survive, in the face of pressure from Viet Cong, NVN and pro-Sihanouk forces. With its 35,000 raw, illequipped and untrained army, the Cambodian Government had no option

but to adopt a defensive strategy aimed at holding onto the capital and a few important towns and communication centres around it, while undertaking a crash programme to build up its armed forces.

If the Communists had launched an all out offensive they most probably could have captured Phnom Penh and over-thrown the Lon Nol Government. But such an attempt would have involved considerable risk to themselves. After US troops had withdrawn, 39,000 SVN troops initially remained behind in Cambodia, including about 10,000 operating within 10 Kms of Phnom Penh, and although US authorities had announced that American air power would only be employed on interdiction missions, in practice US and SVN aircraft operated in direct support of Khmer troops. Furthermore, there seemed a distinct possibility that the Thai armed forces might intervene if, it seemed that Phnom Penh was really in imminent danger of being overrun. Such intervention might well have been directed against the rear of the main Communist forces operating in Cambodia. In the event, the Communist side prudently refrained from launching an all out offensive and instead concentrated on bottling up the Khmer forces in Phnom Penh and other major towns and cutting communication links to isolate them, whilst simultaneously consolidating communist control over the rural areas.

Strong attacks were launched on the outer defences of Phnom Penh and on Kompong Cham, Tongle Bet, Saang, Kompong Speu, Kirrirom, Skoun, Kompong Thom, Siem Riap and Prek

Tameak. These battles generally adhered to a common pattern. The Viet Cong and NVN troops, under cover of rocket and mortar fire, generally succeeded in temporarily penetrating the defences and establishing a lodgement in part, and occasionally in the whole of the town. Next, Government forces having broken contact and withdrawn, the lodgement area was subjected to heavy air attacks by US and SVN aircraft and also by Cambodia's tiny air force. Thereafter the Communist having suffered casualties normally withdrew and the Khmer forces and sometimes SVN also reoccupied the town which in the process normally suffered severe damage. It must however be conceded that the Communist assaults were more in the nature of probing and harassing attacks rather than set-piece operations designed to capture and permanently hold on to the towns. The Khmer forces have been very considerably expanded from 35,000 to somewhere in the region of 124,000, and most of them have been equipped with comparatively modern US supplied infantry weapons, including a considerable amount of captured stocks. They are now very much better trained and have gained some battle experience.

Particularly heavy fighting took place in July and August around Kompong Speu and Kirrirom, both of which dominate the vital Route IV connecting Phnom Penh with the port of Kompong Som. SVN forces periodically took a hand in helping to keep Route IV open and also Route I which connected Phnom Penh with Saigon. SVN troops also conducted operation in other parts of Cambodia including the region adjacent to South Vietnam Central Highlands.

It appeared that barring a suitable political settlement, which did not seem to be in sight, the US Government was working towards a situation in which the South Vietnam would be able to ensure, for a time at least, their own security, while American forces withdraw. On 23 August US Vice-President Agnew said that the USA would send American forces back into Cambodia, if necessary to protect US troops in South Vietnam. He also stated that it would be "impossible for US combat troops to pull out of South Vietnam if Cambodia fell to the Communists" and added "we are going to do everything we can do to help the Lon Nol Government".

On 3 September Reuters reported 57,000 Communist troops massed in Southern Laos, across the border from Thailand's Udon Province, and the next day an Associated Press despatch from Saigon reported that up to 10 Communist divisions were in Cambodia or were moving down the Ho Chi Minh Trail with orders from Hanoi to launch a major offensive in Vietnam. The report also stated that Cambodian intelligence had confirmed this build-up. Senior military attaches in Phnom Penh reportedly considered it was far larger than anything needed to completely crush Cambodia's army. Whilst there could be doubts over the estimated size of the build-up and its objectives, it seemed clear that the Communists were making preparations for an offensive which could well have been launched at the end of the rainy season in late October or early November.

The Khmer army undertook its first major offensive operation on 7 September, when an eight battalion

task force set out north from Skoun (44 miles north of Phnom Penh) up Route VI with the object of opening the road and relieving the beleaguered garrison in Kompong Thom (80 miles north of the capital). Whilst this force failed to make much headway, another multi-battalion river-borne force striking unexpectedly from the southwest across Togle Sap lake and along the flood swollen river, reached Kompong Thom to break the 60 day old siege of the provincial capital. The force advancing up Route VI met stiff resistance, and was at times cut off by the communists attacking the road behind it and blowing up bridges. After being reinforced the task force managed to capture a strong communist position astride the road at Taing Kauk on 26 September but it did not continue the advance any further. On the night of 8 October the Viet Cong and NVN launched between 7,000 and 10,000 troops in their biggest attack of the Cambodian War. It outflanked Taing Kauk where the 6000-man Cambodian task force was entrenched and struck the road 8 miles behind it. A new communist offensive was also launched in the Kirrirom area and practically all the roads and the limited rail communication were again cut. By mid October two North Vietnamese regiments were reported to be preparing for a major offensive on Phnom Penh. Though no major attack was delivered a number of harassing attacks developed on the capital's defence perimeter. An official spokesman said on 10 November that the seven-month-old Cambodian war had swung back into top gear with the end of the rainy season. The Communists launched heavy attacks in mid-november against, and broke through, Cambodia's northern front

which was based on the 32 mile Route VII running west from Kompong Cham to Skoun. On 25 November Prime Minister Gen Lon Nol warned his people to brace themselves against a Communist dry season offensive. Two days later the communists renewed their thrust southwards of the governments shattered northern front, wiping out government control over a wide area.

On 21 and 22 November waves of US bombers attacked North Vietnam in what US Defence Secretary Laird called "limited duration protective strikes conducted against missile and anti-aircraft gun sites and related facilities in North Vietnam, south of the 19th parallel". On 23 November US officials in Washington said that North Vietnam had undertaken what appeared to be a major effort to reinforce and supply its troops in Cambodia. It was concluded by them that the effort was designed to build up Hanoi's troops strength for operations early in 1971, when planned withdrawals would have reduced the number of US troops to about half the peak figure of 535,000. The officials acknowledged that the recent attacks on North Vietnam were prompted by a desire to inflict enough damage to make it clear to Hanoi that USA would not tolerate any considerable NVN build-up in the Laos-South Vietnam battle area. It was also disclosed that US Intelligence estimated that Hanoi had about 100,000 troops in South Vietnam, 70,000 in Laos and about 80,000 in northeast Cambodia. The greatest sustained bombing assault of the Indo-China war, over the Ho Chi Minh Trail, started on 6 October and continued throughout the next two months.

In the first half of December heavy fighting took place on the northern front in the vicinity of Peam Chikang, where Khmer forces suffered heavy casualties, and also around Prey Totung. On 17 December it was disclosed that South Vietnamese troops which had been lifted by helicopters to the vicinity of Kompong Cham were advancing west along Route VII and that simultaneously a Cambodian force was advancing east along the same route from Skoun. By 18 December Government's northern front was more or less restored. On 2 January Khmer troops undertook a two pronged operation with columns advancing from both the north and south to open up Highway IV, Phnom Penh's vital link with the port of Kompong Som. The Communists reacted strongly and on the 3rd night bombarded the southern prong and wiped out another government battalion bringing to a total of six the number of battalions overrun in the area in under a month.

US military sources disclosed in Saigon on 6 January that the US command was so concerned about the situation in Cambodia that the Commander of the US Pacific Command had been summoned to a meeting in Saigon with visiting Defence Secretary Melvin Laird who was accompanied by Admiral Moorer, Chairman of the Joint Chiefs of Staff Committee. It was also stated that the US Command considered that continued military stability was essential for the safe withdrawal of US troops and the successful Vietnamisation of the war. With the benefit of hindsight it now seems evident that the outline plan for the allied dry season offensive, including the intrusion in Laos, was perhaps

finalised at the meetings held on 9 January between Defence Secretary Laird and South Vietnam's leaders and top military officials of both countries. On their return to Washington both Secretary Laird and Admiral Moorer indirectly indicated tacit approval of a widening of the use of US air power, to include close air support and air lift to allied ground troops in Cambodia and Laos. It was also revealed in Saigon on 17 January that the US Command had halted redeployment of all air force squadrons in South-East Asia.

Massive air support, including the fly-in by US helicopters of South Vietnamese Marines from aboard ships in the Gulf of Thailand, was rendered to a major combined South Vietnamese and Cambodian operation to clear Highway IV linking Phnom Penh with the port of Kampong Som. The aircraft operated from US carriers in the Gulf and from bases in South Vietnam and Thailand. Highway IV was cleared on 21 January. The next day the Vietcong unleashed a commando type raid on Phnom Penh's airport and destroyed almost every plane in Cambodia's tiny air force. Small-scale but effective pressure was maintained against the capital and communist forces were reported to be massing for an attack which did not materialise. By 27 January Cambodian troops fanned out to break up enemy concentrations which might threaten the capital.

Though it was believed that an attack on Phnom Penh would take place during the Tet festival, it failed to materialise. The US Air Force lifted emergency fuel supplies to Phnom Penh to prevent a power black-out in the

Cambodian capital, on 28th and 29th of January. A tanker convoy could get through the Highway-IV in the first week of February. However, battle flared up near Chup on Highway-VII. After ten days of fighting the North Vietnamese 9th Division retreated from Chup.

Once again during March, traffic on Highway-IV was interrupted and on 2nd March the refinery at Kampong Som was subjected to heavy mortar attack and a substantial portion of it was destroyed.

Though battles continued to take place on Highway-IV and in other places in Cambodia with the US-South Vietnamese major intrusion into Laos in February, there appears to have been some de-escalation in the war in Cambodia.

WAR IN LAOS

In the early part of 1970 in the dry season once again there was pressure from the Pathet Lao/North Vietnamese forces. On 19 May 1970 Tang Vay was seized and Nong Boua Lao was encircled by the communist forces. The North Vietnamese forces and the Pathet Lao forces appeared to be trying to establish broader communication links to supply their forces in Cambodia and South Vietnam. On 18 May 1970 the U.S. Secretary of Defence testifying before the Senate Foreign Relations Committee admitted that US ground forces had entered Laos occasionally on "protective reaction missions". He also said that South Vietnamese forces had also entered Laotian territory in the same way.

These border crossings were stated to be rare and were only for a few hours.

Towards the end of May, the Laotian military sources claimed victories in the recapture of the town of Pak Tha and uncovering large Pathet Lao and North Vietnamese supply dumps. They also claimed recapture of two outposts in the northern sector of the Plain of Jars.

The Pathet Lao news Agency claimed early in June that 13 Thai battalions launched a nibbling attack in the Pak Tha area supported by US aircraft and Thailand based artillery. On 10 June the former US base at Sam Thong in north Laos was overrun by North Vietnamese troops. On 18 June a North Vietnamese spokesman said in Paris that more than 12,000 Thai and 10,000 US troops and an undisclosed number of C.I.A.-operated commandos were active in Laos. On the other hand, a US spokesman claimed that only 616 US personnel were directly employed in Laos and 424 on contract. There were no ground US combat troops. The mountain position of Phou Krate, 10 km. from Saravane, changed hands twice in June and July and was occupied by government forces on 3 July.

On 14-15 July, the town of Moula Tamok was overrun by communist forces. In the last week of July, heavy fighting was reported in south-central Laos. The Royal Laotian Government proclaimed a state of emergency in southern Laos on 23 July. On 3 August the government forces launched a major sweep to clear the communist troops from northern Laos. The US

financed and trained Meo tribesmen also advanced in the sector north-east of Vientiane.

On 18 August in a broadcast the Pathet Lao leader Prince Souphanouvong accused the United States and South Vietnam of dropping South Vietnamese commandos in the liberated areas held by Pathet Lao. The offensive of the government forces in September was halted by the North Vietnamese and Pathet Lao forces and the intensive US bombing failed to break the North Vietnamese counter-attack. In September, 11 battalions of the Royal Laotian Government launched an attack on the north and south of Attopeu. According to Pathet Lao radio broadcasts, these government forces were accompanied by American advisers and supported by South Vietnamese special forces. After a week-long fighting the government forces captured a hill feature overlooking Attopeu.

In October, fighting flared up into several other areas. After occupying the town of Mounng Soui for 15 months, the communist forces started pulling out in July. General Vang Pao's guerrilla units moved into the town and came under heavy attack by communist forces. In the Plain of Jars, in October, the government troops moved into Ban Na and three other hill positions consequent on the withdrawal of the six North Vietnamese battalions from the area. However, towards the end of October the communist forces launched four successive counter attacks.

By the end of November, the US officials reported that North Vietnamese

had intensified their supplies through the Ho Chi Minh trail and between 6 October and 26 November B-52 bombers dropped 40,000 tons of bombs on the Ho Chi Minh trail in Laos. In the last week of November, the North Vietnamese troops launched a major offensive and overran seven government outposts. In the first week of December, the communist forces launched an attack near the vicinity of Luang Prabang. The communist offensive in December swept over another five government positions and a major attack by the communists was expected by the US Laotian governments in January 1971.

THE CAMPAIGN IN LAOS

Preparatory Moves

Between 25 January and 4 February 1971 about 9,000 US and 20,000 SVN troops were concentrated in the North-West of South Vietnam in and around the former US Marine Base at Khe Sanh which was reactivated, and its once devastated airfield partially restored for air transport, particularly as an operational base for a large fleet of helicopters. The move forward of such a big force could not be kept secret and a six days news black-out imposed by the US and Saigon authorities only tended to heighten speculation, so that by the beginning of February it became common knowledge that a major intrusion into Southern Laos was in the offing. In retrospect it would seem that, since the attack did not materialise for over a week, there were either some second thoughts over launching the intrusion into Laos, or

the commencement was delayed due to weather conditions or political reasons. Perhaps the US had waited in the hope of some open support from Prime Minister, Prince Souvanna Phuma's Laotian Government. Some small parties of not more than a company strength were flown into Laos by helicopter on reconnaissance missions in the first week of February, and on 5 February newly installed US heavy artillery in the north-western corner of South Vietnam began to bombard areas in Laos. This ground firing followed a major step-up of air bombing of the Ho Chi Minh trail and of NVN positions between the Khe Sanh base and the de-militarised zone (DMZ) separating North and South Vietnam.

The North Vietnamese thus had ample warning to prepare for the impending attack.

The Assault-Phase I

On 8 February, SVN troops with massive US air support crossed the border into Laos in what South Vietnam's President Nguyen Van Thieu called "an operation limited in time as well as space, with the clear and unique objective of disrupting the supply and infiltration net-work of the NVN troops lying in Laotian territory". The operation began at 0700 hrs. with ground troops in scores of armoured personnel carriers (APCs) crossing the frontier at the Xe Don River on route IX. A squadron of dozers followed on the road behind the APCs and several hours later US troop-carrying helicopters began ferrying SVN troops across the border. Col Dui Le Doung, commander

of the leading armoured unit, said that the major objectives of the push would be the town of Tchepone, 27 miles from the border, and a major junction point and staging area on the Ho Chi Minh Trail complex.

The next day bad weather grounded all aircraft including helicopters and slowed down the offensive. Troops lifted by helicopters the previous day to landing zones (LZs) up to 20 miles inside Laos remained at their positions. On 10 February it was announced that SVN troops had already reached the Ho Trail, where they started unearthing caches of munitions and supplies. By 13 February SVN troops leapfrogged across branches of the trail turning up more caches without making any significant contact. And it became evident that the NVN troops had dispersed from the area generally taking military supplies with them.

Whilst the axis of the main ground thrust was along Route IX towards Tchepone, sizeable forces also operated to the North and South of Route IX. Some advanced along various branches of the trail which ran in a generally north-south direction while others were lifted by helicopter to flanking outpost positions generally located on hill tops. Helicopter borne troops also operated ahead of the ground columns particularly near Tchepone, and reconnaissance forays were made to the Moung Phin Sector, some 20 miles west of Tchepone.

On 16 February US authorities announced that the SVN drive which had cut all movement on the Ho Trail was proceeding at an intentionally slow

pace, to allow artillery bases to be prepared to cover further advances. Lieut General Lam, commander of the 16,000 SVN troops engaged in the operation, said he expected heavy fighting to develop shortly and that 2 NVN Divisions with about 20,000 troops already faced his force and were being reinforced by another division.

He also said that his troops were consolidating their position and searching for enemy caches and added, "our main job is to occupy the main position of the Ho Trail; from the Rangers in the north to the 1st Division in the South we occupy 30 miles of the main part of the trail."

It is quite evident that the SVN had intended the main ground column advancing along Route IX to effect an early link up with the airborne elements which had been lifted ahead by helicopters in the vicinity of Tchepone. This they failed to achieve. Route IX was heavily mined and 4 Communist Regiments (brigades), each about 2,000 strong had consolidated their defences in the rugged mountain region to blunt the SVN advance which came to a halt some 18 to 20 miles west of the border and 7 to 9 miles short of the objective Tchepone. The Communists also managed to cut Route IX, the only ground supply line, behind the advanced elements, and by massing intensive anti-aircraft fire, including the use of radar controlled guns, took a heavy toll of US helicopters flying missions in support of SVN ground troops.

Counter-Attack

On 19 February a small outpost held by a 120 strong ranger company

and located 11 miles northwest of the crossing point on the border, was overrun. On 18 and 19 February the first major battle took place when a NVN Regiment attacked an artillery base north of Route IX, held by a 400 to 450 strong ranger battalion. A heavy volume of rocket, artillery and small arms fire was directed against the base and even US medical evacuation helicopters were unable to fly to evacuate 80 SVN wounded on 18 February. A second North Vietnamese regiment which had earlier been held up further north by heavy air strikes by fighter-bombers and gunships also joined in the attack and an armada of 20 helicopters was unable to relieve the beleaguered post. On 21 February part of the 39th Ranger Battalion, which had been under heavy fire for three days and suffered about 200 killed, together with about 150 re-inforcements which had got through on 20 February evacuated the outpost and reached a hill top base held by another ranger battalion about 5 miles inside Laotian territory. Subsequently the SVN commander, Gen.Lam, said that the enemy had attacked LZ Ranger because it was a main junction on the Ho Trail, and said that the two regiments which had launched the six day siege and forced the 39th Battalion to withdraw had been brought down from North Vietnam for the attack. "I think those two regiments are now badly hurt, they lost two battalions and we lost one company", he claimed. The NVN claimed to have wiped out the entire ranger battalion.

Heavy fighting again erupted on 25 February, this time at hill 31, held by elements of South Vietnam's 3rd

Airborne Division and an artillery battalion. This was another outpost, north of Route IX about six miles west of the border and a few miles from LZ Ranger. The base was subjected to intense bombardment including direct fire by PT-76 tanks, which surrounded the base. A US F-4 Phantom bomber was shot down whilst attacking the NVN troops deployed for the assault. After about 3 hours of heavy fighting tank-led communist ground troops over-ran the hill top position capturing almost an entire SVN brigade headquarters staff including its commander. A survivor subsequently claimed that the attack would have been successfully defeated had not the entire US air effort been switched to rescuing the crew of the downed Phantom aircraft leaving the defenders on Hill 31 without any air support. The following day SVN command said a NVN regiment and 18 PT 76 tanks had seized portions of the outpost and that SVN armoured units and paratroopers were counterattacking the Communist troops and tanks lodged on the hill. "We have killed hundreds of the enemy on the north-west part of the hill and knocked out eight tanks", a spokesman said. On 27 February it was announced that the SVN had "gained complete control as NVN forces withdrew leaving behind 1000 dead". And on 28 February South Vietnamese forces evacuated the position without opposition. The same day the SVN were forced to vacate a fourth base called Hotel two. This time it was about six miles south of Route IX and nine miles inside Laos. It was held by an infantry battalion and an artillery battery. The unit destroyed its valuable equipment and fought its way back into South Vietnam.

The Assault Phase II

On 2 March the SVN launched a new air-mobile push with US helicopters lifting about 2,000 fresh troops of the 1st South Vietnamese Division to landing zones 23 to 25 miles west of the border. Advanced units prepared a ring of troop landing zones around key junction points near Tchepone. These included two fire bases called Victory and Hope, $2\frac{1}{2}$ miles and $\frac{1}{4}$ mile respectively east of Tchepone. These two hill top bases were prepared by C-130 aircraft dropping 15,000 pound parachute bombs to flatten the jungle and carve out landing areas the size of a football field, for helicopters. By mid day on 6 March the force which now exceeded 2,000 men fought its way into the key Ho Chi Minh Trail junction of Tchepone and unearthed on the edge of the shattered and charred town, large communist supply stockpiles which, it was claimed, contained 1000 tons of rice and canned foods and 300 tons of ammunition and arms.

Some SVN commanders reportedly considered that since all main branches of the Ho Trail had been blocked, with the capture of Tchepone, the NVN would mount the most powerful counter attacks they could manage. Signs of an impending attack included a report that on the 6th night a large number of tanks had been sighted north of Route IX. On 7 March, the US sent 1000 aircraft into action across Laos and Cambodia in a massive air offensive to support ground troops. On 8 March two regiments of the elite 2nd NVN Division were reported moving towards Tchepone. On the other hand South

Vietnamese para-troops and marines were pushing towards the town from the east and in the air, waves of US planes striking once every five minutes or so, kept up heavy attacks on the trail. After having held Tchepone for six days the SVN decided to pull out, before the seemingly imminent attack was launched.

The Withdrawal

On 12 March two battalions of SVN troops were airlifted out of the key artillery base, Sophia, on a high ridge 3 miles east of Tchepone. With the abandonment of this most forward position secured in the thrust against the Ho Chi Minh Trail, the SVN no longer retained any ground base dominating Tchepone, which it would have been necessary to control until the rainy season began in May, in order to really effectively block the NVN supply route. The same day troops of South Vietnam's 1st Division, abandoned the remainder of the Tchepone area and embarked upon a withdrawal-cum-offensive sweep down Route 914, an important branch of the Ho Trail running southeast from Tchepone towards the Laos-Vietnam border. It was also announced that SVN troops would, by the end of March, pull back to outposts on both side of the border.

On 15 March NVN troops launched a heavy artillery and tank assault against a SVN base about nine miles southeast of Tchepone on route 914 and $3\frac{1}{2}$ miles southwest of fire support base Lolo, the the headquarters of South Vietnam's elite 1st Infantry Regiment. Day long ground fighting ensued, in which 7 NVN

T-34 tanks were reported to have been knocked out by US Airforce AC-130 cannon firing gunships. A "wall" of anti-aircraft fire was put up by the NVN. That night about 15,000 troops of the 1st Infantry Division abandoned Lolo base and withdrew on foot towards another SVN base, Landing Zone Brown, 5 miles to the East. It was stated that Lolo had to be abandoned because US helicopters could not get through the curtain of anti-aircraft fire to bring in artillery ammunition which had run out. The guns which had to be left behind were "spiked" and shortly after the base was vacated, B-52 bombers attacked it and the surrounding areas. Although the Pentagon described the operation as "mobile manoeuvring" it was evident that SVN had in fact suffered a serious reverse, and that they had not been able to effect a clean break in their withdrawal.

The South Vietnam National Liberation Front Radio announced on 16 March that the Pathet Laos high command had ordered a general counter offensive telling its troops to completely annihilate and prevent the withdrawal of of SVN troops which it said were "fleeing in disorder". On 17 March American helicopter pilots reported that repeated NVN onslaughts were driving the South Vietnamese out of their fire-bases in Laos. After heavy fighting 2½ miles west of Delta One about 400 "panic-stricken" SVN were lifted out of the area and the withdrawal of the 1st Regiment which had suffered about 500 casualties was completed on 18 March. Fire-base Brown was abandoned on 19 March troops being ferried by helicopter to Delta I, nine miles from the border. The evacuation of Brown base and the

surrounding area completed the withdrawal of the 2,000 additional troops employed in an air-mobile role, in what amounted in retrospect only to a large scale air-mobile raid on Tchepone and to a limited extent down route 914.

The withdrawal of the 18,000 SVN troops remaining in Laos was mainly over land and commenced on 20 March with the evacuation of a major armour base at A Luoi, 11 miles west of the border. On 21 March the Pathet Lao command announced that communist troops were advancing along Route IX only a few miles from the border and said that some hundreds of tanks and 13 armoured vehicles (presumably APCs) had been captured, also that several battalions of SVN para troops had been wiped out. The same day the South Vietnamese abandoned two more bases, Delta one and Alpha, under heavy communist assault and US troops and armour were moved up to the border to act as a blocking force. On 22 March 50 out of the 76 tanks and 70 or 80 of the 120 APC's that had entered Laos, had to fight every step of the way whilst withdrawing. Two battalions of air borne troops down to half their original strength rode with the armoured column which was constantly being ambushed. Ten NVN tanks towing artillery pieces behind them were spotted in broad day light moving on Route IX in hot pursuit of the SVN armour which was running out of petrol. On 23 March helicopter pilots described as desperate the plight of other SVN troops who had been ordered to fight their way out on foot because NVN anti-aircraft fire had made it too dangerous for helicopters to lift them out. On the morning of 25 March all of the SVN force which had entered Laos on

8 February had withdrawn across the border.

Conflicting Claims

A special communique by the Supreme Command of the Lao People's Liberation Army on 25 March declared that the South Vietnamese drive against the Ho Chi Minh Trail in Southern Laos had ended with complete defeat and that 15,400 US and South Vietnamese troops had been put out of action. "Our armed forces have won total victory in this historic campaign", the communique claimed.

US Defence Secretary Laird said on 24 March the South Vietnamese mission in Laos had essentially been accomplished and that its troops were withdrawing because of "tremendous and violent" attack. He also went on to claim that the SVN had "achieved their primary objective of interrupting enemy supply lines into their country".

Military sources in Saigon were reported to have disclosed on 25 March that the drive into Laos had cost the SVN nearly 10,000 casualties—3600 killed, 775 missing and 5,200 wounded. However, official South Vietnamese figures only listed 1,146 killed, 245 missing and 4235 wounded. At the same time the SVN said about 14,000 North Vietnamese troops had been killed in the operation, many by US bombers and gunship aircraft. The US command on its part stated "cumulative results of US air operations in support of the South Vietnamese.....indicate 3600 enemy troops reported killed by air-strikes".

However unbiased the evaluation of a military campaign of this kind, it is inevitably influenced by the perspective against which it is viewed and especially on assumptions made with regard to the objectives the campaign was intended to achieve. There can now be little doubt that US and SVN authorities originally intended to capture Tchepone and in addition to destroying stockpiles of war materials to deny the NVN the use of the Ho Chi Minh Trail complex till the beginning of the rainy season. There was reportedly also an option to even extend the operation driving along routes southeast from Tchepone, through a major communist supply base area and back into South Vietnam via the A Shau Valley. It is quite evident that unexpectedly strong North Vietnamese reaction forced curtailment both in the scale and also the duration of the operation. Reliable reports indicate that US officials were deeply disappointed over the curtailment, and had wanted South Vietnam to reinforce its troops in Laos with another division or so and to block the Ho Trail at least till mid-April. However, in the face of mounting casualties and also political pressure, and on the advice of some of his military commanders, President Thieu decided in favour of curtailment and a precipitate withdrawal. Despite this, the operation was regarded by US officials as a definite plus because Hanoi lost more than six weeks of the waning dry season in which to resupply its forces in South Vietnam and Cambodia.

After last year's Cambodian campaign, the North Vietnamese retained the capability of undertaking with reasonable chances of success a major offensive in

the hilly and jungle terrain in South Vietnam's northern provinces. In fact President Thieu has maintained that the incursion into Laos successfully foiled a North Vietnamese plan to take over the 5 northern provinces. Whether or not they intended to do so must for the present remain obscure. However the fact that the communist side has not so far been able to launch any major offensive either in South Vietnam or in Cambodia during the current dry campaigning season, can certainly be chalked up as at least a partial success scored by the pre-emptive US supported SVN incursion into Laos. The operation provided SVN commanders and troops with further valuable experience in the conduct of major operations, and though the SVN suffered heavy casualties, NVN losses were probably higher.

The 1971 spring-summer campaign is not yet over, more fighting lies ahead. It is therefore premature to attempt a firm evaluation. It might however transpire that although the US-South Vietnamese operation was an evident failure in the tactical sphere, it resulted in providing time and justification to withdraw further number of US troops from South Vietnam without its being followed immediately by adverse military consequences.

Air Mobility

The Laotian campaign witnessed the undertaking on an unprecedentedly large scale of air-mobile operations, involving the fly in by helicopters of troops and heavy equipment including artillery to bases that were inaccessible to ground forces, support to troops in the bases with supplies and ammunition, the

evacuation of casualties, and during withdrawal flying out both equipment and troops.

Even though the USA had complete air superiority heavy anti-aircraft fire very seriously disrupted the helicopter operations and at times inflicted a prohibitively high degree of casualties on helicopters, supporting ground troops. 608 were damaged, including 104 shot down ; of the latter half were recovered. It seems that the US side was surprised by the intensity and accuracy of anti-aircraft fire. There were indications that the NVN were using radar controlled machine guns and a new type of mobile surface-to-air missile.

The fact that the NVN were able to over-run strongly defended battalion positions located on hill tops, clearly demonstrates the difficulty of maintaining a large force any length of time purely by air supply, and high-lights the continued necessity, as during world war II, for an early link up of the land tail, if the position has to be held for any length of time. Such link-ups may not, however, be necessary for short duration assaults. Air-mobile operation are ideally suited for establishing a temporary base in enemy territory from which to conduct rapid surprise raids on enemy lines of communications and rear areas including supply and munition dumps. In undertaking such operations care must be taken to ensure that own troops and equipment are evacuated before the enemy can concentrate large numbers of anti-aircraft weapons around the base or on the flying in routes.

The use of C-130 transport to drop 15,000 pound parachute bombs to create football field sized landing zone on hills

and ridge merits careful study as also does the use of laser guidances for bombing of enemy tanks and positions in tunnels on hillside.

Entrenching Techniques

The North Vietnamese digging in of troops, and war materials both into hill-sides and on more level ground, has been remarkably effective in operations in which a great weight of bombs has been dropped upon them. Digging in on rocky hill top positions is difficult. Some pictures published of the Laotian operations indicate that the SVN were, like the old Indian army on the North West Frontier, forced to build up rather than to dig down. The SVN appear to have done this by using sandbags filled with stony rubble. Whilst such "Sangars" provide protection against small arms fire and low velocity fragments they can prove a death trap, when hit by bombs and high explosive rounds and particularly by high velocity tank guns. This was very likely an important factor contributing to the SVN being unable to hold onto their hill top positions whenever they came under heavy and sustained attack.

Motivation and Tactics

The combination of motivation and tactics that have enabled the North Vietnamese to so valiantly and remarkably successfully stand up against apparently insuperable odds merits not only unstinted admiration but also careful study by the all students of the art of War.

WAR IN SOUTH VIETNAM

During the year 1970 the war in South Vietnam was less intense than in

the previous years. On 2 May it was reported that fierce fighting had raged for three days in the northern most I Corps Tactical Zone of South Vietnam. The U.S. officials said that this was a regional offensive by the Communist command.

In the middle of May, the North Vietnamese and Vietcong stepped up their attacks throughout South Vietnam and in the course of 12 days they shelled about 61 US and allied positions. On 1 June the cities of Hue and Dalat were subjected to mortar and rocket attacks. On 19 July a South Vietnamese force of 8,000 supported by 1,000 U.S. marines and B-52 bombers launched a massive drive to destroy a North Vietnamese base camp in the northern part of South Vietnam's border with Laos. The North Vietnamese, however, slipped out.

On 20 July, the Vietcong fired two long range rockets into Saigon. On 24 July the US 101 Airborne Division was pulled out from its fire base, Rip-Cord, on the South Vietnam-Laotian border, after a Company was ambushed on 21 July.

Fighting flared up in South Vietnam's Central Highlands, and in the first week of August the fire support base at Hon Soc, near the Gulf of Siam coast, was hit by 100 rounds of 75 mm recoilless rifle fire. During the same month several thousand troops of the 1st and 2nd Infantry Divisions and a marine brigade of South Vietnam conducted several operations along the Laotian border from the demilitarised zone to points south-west of Da Nang.

Again in August thousands of South Vietnamese militia men raided more than 80 Vietcong bases in areas south of Da Nang. They were said to have been led to the jungle camps and staging areas by Vietcong defectors. On 30 August, presumably in a bid to impress the South Vietnamese population on the eve of the elections to the Senate, the Vietcong shelled 14 district towns, one provincial capital and a string of military bases.

In December, South Vietnam's 21st Division was deployed in a cautious push through the mangrove swamps and jungles in the delta region, 150 miles south-west of Saigon. They met with only light resistance, the Vietcong presumably having vacated the area prior to the South Vietnamese assault. On 21 December again Vietcong shelled Da Nang air base.

On 25 February 1971, a large scale engagement in the northern sector of South Vietnam was reported, when the South Vietnamese regional forces clashed with 21st North Vietnamese regiment. On 28 March the Communist commandos overran the US artillery base in Quang Tin province and killed 33 Americans and wounded 76, thereby causing the largest casualty in a single operation in the last two years. On 31 March Vietcong fired 140 mortar rounds into the town of Duc Duc, 20 miles west of Da Nang. Hundred civilians were reported to have been killed.

AIR WAR IN INDOCHINA

North Vietnam

During the year the air war over Vietnam got extended to Cambodia.

The bombing of Laos and South Vietnam continued and there were frequent "protective reaction missions" by US Air Force against North Vietnam.

On 2 May 1970 it was reported that American planes carried out bombing missions in North Vietnam against missile and anti-aircraft sites in order to protect reconnaissance flights carried out by the United States over North Vietnam. Later in the month on 26 May again two US Phantom jets carried out similar attacks on anti-aircraft positions in North Vietnam. The North Vietnamese Foreign Ministry announced that there were 46 sorties on 24 and 25 of May in North Vietnam, in addition to many B-52 sorties on the northern part of the Demilitarised Zone (DMZ). The North Vietnamese also claimed that by the end of May 1970, they had brought down 3,352 American planes over North Vietnam.

It was admitted in Washington that over 6,500 aircraft, valued at more than \$ 5,000 millions, had been lost by the United States in the six years of operation in Vietnam.

On 23 July, the United States fighter-bombers carried out attacks on anti-aircraft gun positions, 105 KM inside North Vietnam, after the North Vietnamese fired at a US reconnaissance jet.

On 13 November, the US Defence Secretary warned North Vietnam that the United States stood ready to retaliate against any continued firing at American reconnaissance aircraft over North Vietnam. This warning

was issued after a Phantom reconnaissance aircraft was shot down over North Vietnam. On 15 November the North Vietnamese replied that they had a legitimate right to shoot down any American plane which violated its air space.

In the Paris peace talks, the leader of the United States delegation maintained that the United States would continue its aerial reconnaissance flights over North Vietnam, and claimed that the United States had agreed on 1 November 1968 only to stop "bombing and all acts involving use of force" over North Vietnam and aerial reconnaissance was not an act involving use of force.

On 21 November waves of US fighter bombers carried out the deepest raid into North Vietnam since the US bombing was halted in November 1968. Hanoi claimed that six U.S. aircraft were shot down. Subsequently, it was revealed that this raid was carried out to enable an American commando force to free American prisoners from a prison camp. However, the raid proved abortive and no American prisoners were found in the camp site.

On 30 November one US F-105 aircraft carried out a strike against a North Vietnam radar-controlled anti-aircraft emplacement. Again on 9 Jan., 1971 a F-105 aircraft fired two Shrike missiles against a North Vietnam missile site. The Americans reported on 8 January that since the war began in South East Asia in 1961, they had lost 3,346 fixed-wing aircraft including 1,842 on the ground; and 4,178 helicopters, including 2,360 on the ground.

On 17 January, two more missile sites in North Vietnam were attacked by US aircraft. On 20 and 21 February, waves of US fighter-bombers attacked surface-to air missile sites with both bombs and air-to-ground missiles. On 1 March, 15 US fighter-bombers carried out similar raids, 17 miles north of the DMZ.

On 21 March again US aircraft carried out raids on missile and anti-aircraft sites in North Vietnam and the raid was described to be the heaviest since the November raids. On 30 March, 4 US aircraft bombed an artillery position in North Vietnam inside the DMZ.

Cambodia

A new dimension in the aerial war in Indochina was the use of the US air force in Cambodia, which began when the US intervention in Cambodia took place on 1 May 1970. As in the case of South Vietnam, B-52 aircraft were used for heavy bombing operations in Cambodia. Initially, when the US troops entered Cambodia in May, bombings were authorised only 35 KM inside the Cambodian territory. However, on 22 June it was disclosed that the United States had started bombing supply lines and Vietcong concentrations beyond this limit. On 24 June there were other reports that US jet fighter-bombers were bombing hundred miles within the Cambodian territory. In the White Paper issued on 30 June, President Nixon stated that the United States would continue its air interdiction measures against enemy efforts to move supplies and men through Cambodia into South Vietnam.

Since the beginning of August, the United States doubled its air sorties in Cambodia to 50 per day, compared to the daily average of 24 during July. It was revealed in August 1970 that in 1969 there used to be 1,800 B-52 sorties per month which had been reduced to 1,600 in the subsequent period and 1,200 in March 1970 and to 1,000 in August. Out of these 1,000 sorties 400 were targets in South Vietnam, 540 against Ho Chi Minh trail in Laos as well as Cambodia, 50 in support of General Vang Pao's forces in northern Laos and 10 in areas of Cambodia other than the Ho Chi Minh trail.

It became quite clear that the United States was not observing any restrictions in regard to bombing in Cambodia and direct air support was being provided for Cambodian ground forces throughout that country, although the US command described the raids as "interdiction missions". With the reduction in the number of B-52 sorties to 1,000, the United States discontinued the use of its Okinawa base for this purpose.

After a bombing pause of three weeks, the B-52 bombers based in Thailand at Utapao resumed raids in Cambodia on 16 November. On 14 January 1971 it was reported that the B-52 were committed to support a major South Vietnamese drive into Cambodia to regain control of Route IV. On 15 January 1971 it was disclosed that in December last, the US bombers and gunships flew nearly 700 sorties against targets in Cambodia, compared to 500 in November that year. This sharp increase was aimed at disrupting supplies to North Vietnamese forces. Towards the end

of January, it was stated that on occasions 500 US aircraft sorties were made in a day in Laos and Cambodia and 75 per cent of these were against supply depots and routes along the Ho Chi Minh trail.

Laos

The United States has been carrying out systematic bombing of the Pathet Lao-held territory of Laos since 1964. When the bombing in North Vietnam ended on 1 November 1968, the bombing of Laos was intensified. The bombing effort in Laos was doubled in May 1969 and trebled in August that year. The air operations were carried out with the knowledge and approval of Prince Souvanna Phouma, the Prime Minister of Laos. With the incursion of American troops into Cambodia, the air raids over Laos were further intensified and the Ho Chi Minh trail was bombed heavily to prevent reinforcements for the North Vietnamese troops in Cambodia.

It was disclosed in September 1970 that the US air force was using laser beam devices to bomb positions of North Vietnamese troops in northern Laos. Each mission in such case is carried out by two aircraft; one directing the beam and the second bombing the targets. It was reported that following the dry season supply operation, the United States stepped up bombing of the Ho Chi Minh trail in September-October. Between 6 October and 26 November 40,000 tons of bombs were dropped on Ho Chi Minh trail in Laos. It was reported that on 12 December a US B-57 bomber carrying secret equipment was shot down over Laos. This secret

equipment was extra electronic sensors and radar systems designed for night bombing.

In January 1971 the US B-52 bombers flying over Laos were fired at by anti-aircraft surface-to-air missiles.

With the incursion of US and South Vietnamese troops into Laos and consequent increase in air operations, the North Vietnamese also increased the anti-aircraft defences in Laos. US planes also used small electronic sensors dropped on the Ho Chi Minh trail. These sensors picked up engine noise caused by heavy trucks driving along the jungle track and these data were transmitted and fed into a computer, which thereafter supplied information as to when and where to strike.

While the US command in Saigon claimed that its air strikes had wiped out 800 tons of ammunition and 340 vehicles and cut four fuel pipes, it was admitted that 29 helicopters were lost in the Laotian battle in February 1971. The Pathet Lao, however, claimed on 23 February that 153 US aircraft, including helicopters, were shot down between 5 and 23 February. It was disclosed by a Pentagon spokesman that on 3 and 4 March, communist forces used mobile surface-to-air missiles.

Throughout March, the Ho Chi Minh trail in southern Laos was subjected to heavy bombing by B-52 bombers. More than 75 per cent of the entire US effort in Indochina was being diverted to Laos. Apart from more than 100 B-52 strikes a month, the US fighter-bombers carried out 2,500 sorties a week in the southern Panhandle and another 400 sorties a week in northern Laos. Lt. Gen.

Hoang Xuan Lam told the South Vietnamese Senate Defence Committee that 608 US helicopters were damaged in the six weeks' Laos operation, of which 104 were shot down.

PARIS PEACE TALKS

The Paris Peace Talks on Vietnam, which had entered the fourth year of negotiations in May 1971, made very little headway by that time. The course of events during the period—the Cambodian crisis, followed by the US intervention there, and the subsequent (February 1971) US-backed South Vietnamese push into Laos—had made it even more difficult to make any progress. The result was that the prospect of peace in Vietnam, for which the four involved parties—USA, South Vietnam, North Vietnam and NLF—had been striving since May 1968, appeared by the end of May 1971 as far off as ever. While Hanoi and the NLF continued to demand the unconditional withdrawal of all US troops in Vietnam and the abandonment of the present Saigon Government by the USA, the American stand had been that the right of the South Vietnamese people to determine their own future could not be negotiated nor could there be a complete withdrawal of US forces from South Vietnam before the successful completion of the "Vietnamisation" programme. Hanoi condemned the US stand saying that the USA was "continuing to support a group of puppets" unacceptable to the "patriotic people" of South Vietnam. The "Vietnamisation" programme was assailed as a mere device to perpetuate US aggression in Vietnam under a new garb. North Vietnam also accused President Nixon of breaking

a promise by revealing the secret negotiations that had taken place between USA and North Vietnamese delegations in Paris.

On 20 April 1970, President Nixon announced that he would withdraw another 150,000 US troops from Vietnam by May 1971 on the fulfilment of three conditions: (i) sufficient progress in the training of South Vietnam Army by that date; (ii) reduction of enemy activity; and (iii) considerable progress at the Paris Peace Talks. This announcement was also duly denounced by Hanoi.

At a press conference in Los Angeles on 30 July, the US President claimed that the US-South Vietnamese bargaining position in Paris had increased as a result of the successful completion of the Cambodian operation. He said that he believed that the prospects for peace were better now than they were before the Cambodian action, because the Communist timetable had been upset and their position was not as advantageous as it was before. Almost simultaneously with President Nixon's Los Angeles press conference President Thieu announced in Saigon that South Vietnam planned no new peace moves at Paris, but he elaborated on earlier ceasefire proposals. Rejecting a standstill ceasefire, he said any ceasefire should be hinged on an overall settlement, negotiated beforehand, and accompanied by guarantees that it would not be exploited by the Vietcong to improve their military position. According to Thieu there were two possible courses:

(a) To continue fighting whilst talking at Paris to arrive at a

final military and political solution; and

(b) To discuss a ceasefire formula and its terms, such as troop concentrations and inspections as part of an overall solution.

He rejected a coalition with the Communists, which, he said, would be suicidal, and declared that he wanted reconciliation between the two Vietnams and was not asking for the surrender of North Vietnam.

In a formal statement, the North Vietnamese delegation to the Paris Peace Talks condemned President Nixon's Los Angeles statement as "an aggressive, bellicose and colonialist policy" that had pushed the two-year peace talks in a deadlock. It branded as lies Nixon's statement that prospects for peace were better and that Hanoi and the Vietcong were weaker. The North Vietnamese delegation also rejected Thieu's terms for peace. Earlier on 13 July Premier Pham Van Dong dismissed as insignificant the appointment of Ambassador David K.E. Bruce to talks in Paris and said that Hanoi would fight on to final victory. (The post of the chief US negotiator to the Paris Talks had been lying vacant since the resignation of Henry Cabot Lodge a year ago. Bruce was appointed after the end of the Cambodian operation). However, a month later, Hanoi responded to the appointment of a new US peace negotiator by sending its own chief delegate, Xuan Thuy (who had long been away from Paris) back to Paris.

On 7 October 1970, President Nixon announced a "major new initia-

tive" for peace. His five-point proposals were: (i) a complete ceasefire and standstill throughout Indo-China, (ii) an international conference on Indo-China, (iii) a negotiated time-table for complete withdrawal of US forces as part of an overall settlement; (iv) a political settlement which truly meets the aspirations of all South Vietnamese; and (v) immediate and unconditional release of all prisoners of war held by both sides.

Although the proposal was considered by Japan and some Western countries to be a "great advance" from the stand held by the USA in the past, it was dismissed (8 October) by Hanoi as an "electoral gift certificate", and the Vietcong attacked it for "legalising the American war of aggression in Indo-China". The Hanoi chief delegate, Xuan Thuy, and Madame Binh, the Foreign Minister of the South Vietnamese "Provisional Revolutionary Government", made the above comments at the 87th session of the Paris Peace Talks. They rejected "all of Mr Nixon's deceitful propaganda tricks" contained in the five-point plan.

In late October Hanoi and the NLF put forward a counter-proposal repeating their two basic demands—(i) the unconditional withdrawal of all US troops from Vietnam by 30 June 1971; and (ii) the ousting of the present leaders of the South Vietnamese Government. Giving "serious responses" to the proposal, US chief negotiator Bruce said on 28 October: "Our answer (to the withdrawal question) is that we are ready to negotiate a time-table for complete withdrawals as part of an overall settlement ... but a time-table for US troop withdrawals cannot be

established in isolation". In regard to the second demand, Bruce said that "there should be no mistake about our answer to your demand" that changes be made in the South Vietnamese Government. "As President Nixon said on 7 October, this is a patently unreasonable demand and is totally unacceptable".

Thus by the end of 1970, the Paris Peace Talks had completed 97 sessions without making any progress whatsoever. At the 97th session held on 30 December, the USA and Hanoi and Vietcong negotiators wound up the year in "dismal agreement" that the talks had made no progress towards a negotiated settlement. Each side complained that the other had shown no progress towards a settlement.

Addressing the nation on 7 April 1971, President Nixon declared: "... Our goal is total American withdrawal from Vietnam. We can and will reach that goal through our programme of Vietnamisation ... Tonight I call on Hanoi to agree to engage in serious negotiations to speed the end of the war. I especially call on Hanoi to agree to the immediate and unconditional release of all prisoners of war throughout Indo-China. If the United States should announce that we will quit regardless of what the enemy does, we would have thrown away our principal bargaining counter to win the release of American prisoners of war; we would remove the enemy's incentive to end the war sooner by negotiations... The issue very simply is this: shall we leave Vietnam in a way that by our own actions, consciously turns the country over to the Communists? Or shall we leave in a way that gives the South

Vietnamese a reasonable chance to survive as a free people?"

Reacting sharply to the above statement, North Vietnamese spokesman at the Paris Talks said on 8 April: "President Nixon still has not abandoned his black designs to occupy South Vietnam for an indefinite period. He still believes that he could maintain the puppet regime in Saigon, and this shows he is still refusing to end the war."

Thus by the end of the period under review, there was still no sign of an agreement visible. On the other hand, the area of disagreement had been widened with the complication of the prisoners issue.

LAOTIAN PEACE TALKS

The proposed meeting between the two half-brothers Prince Souvanna Phouma, the Laotian Premier, and Prince Souphanouvong, the Pathet Lao leader, for a peaceful solution of the Laotian problem for which negotiations had been going on since March 1970 (refer to page 62 of Annual Review 1969-70), did not take place till the end of May 1971. Prince Souphanouvong, in a letter to his half-brother

in December 1970, was reported to have urged for the meeting to take place at Khang Khay. He reportedly told Premier Souvanna Phouma that he should "take urgent measures to compel war-mongers to discontinue at once their illegal operations" in the Central Laos region. A Pathet Lao emissary, Prince Tiao Souk Vongsak, had four meetings with Premier Phouma to discuss plans for the meeting. The latter, while agreeing to making a new attempt to bring the Pathet Lao to the negotiating table, stressed that the Royal Government would not compromise on its conditions that all North Vietnamese forces leave the country to allow the Laotians to settle their own differences without outside interference. Prince Vongsak, however, denied that there were any North Vietnamese troops in Laos. On 21 December, the Pathet Lao adopted a tough new stance accusing the Royal Government of delaying the proposed peace talks with major military operations in the Plain of Jars, and hinted that the Royal Government troops would have to withdraw from the Pathet Lao territory before the talks could begin. Finally, the prospects for peace talks further dimmed in February 1971 with the new situation created by the entry of South Vietnamese troops into Laos.

6. THAILAND

ECONOMY

The growth of Thai economy in 1970, the fourth year of the current Five-year Economic and Social Development Plan, was estimated to be around 7.5 per cent, nearly 2 per cent less than in the previous year.

Despite substantial growth in both the agricultural and industrial sectors, Thailand's economy was not as buoyant as might normally have been expected. This was mainly due to two factors, firstly the fall in world prices of rice, rubber and kenaf and secondly the economic effects of the reduction of US forces in Thailand and Indochina.

Although the volume of rice exports during the first six months of 1970 increased by nearly 30 per cent the increase in value was only 9 per cent. Thai rice faced stiffer competition from other rice supplying countries, including the USA and Japan, and these difficulties have continued into 1971. On 24 February, Foreign Minister Thanat Khoman said that Thailand was "more concerned today over the rice and rubber problem caused by US intrusion into traditional Thai markets and by the release of strategic stocks, than over the question of the withdrawal of US troops from the country". The 1970 rice production was about 13.4 mn tons, roughly the same as in 1969. Rubber

Thailand—Statistics

Area	...	514,000 sq. km
Population (July 1969)	...	34,738,000
G.N.P. (1969)	...	\$ 6.1 bn
Defence Budget (1970)	...	\$ 235 mn
Total Armed Forces	...	154,500
Army	...	110,000
Air Force	...	23,000
Navy	...	21,500
Currency	...	20.8 Bahts=\$1.00

production increased to 300,000 tons, reflecting an increase of 6.4 per cent. kenaf (jute) production remained at 340,000 tons, about the same as in 1969, even though the area under kenaf cultivation had been increased by about 20 per cent.

Cut-back in direct US defence spending in Thailand and reduction in spending by the previously large numbers of US troops in the country as well as those who in the past used to come to Thailand from Indochina for rest and recreation portended substantial reduction in Thailand's foreign exchange earnings. In order to avert a threat to the stability of Thai currency large tax increases were suddenly put into effect on 30 June 1970. These encountered widespread criticism and the bill to implement them was passed by a narrow one vote margin and that too only after the government had scrapped the proposed tax increase on cement and petroleum.

The draft budget for 1971 as originally approved by the Cabinet amounted to 29,300.2 mn baht but was later reduced to 28,645.6 mn bhat. The biggest increase of 572 mn bhat over the earlier draft budget figure went to the Interior Ministry whose responsibilities included counter insurgency and suppression of communism operations. Defence allocations were also increased by 422 mn bhat whilst education and finance received an additional 194 mn bhat and 168 mn bhat respectively. The major cuts were borne by the Development Ministry, communications and State enterprises, where reduction in proposed expenditure

was 113 mn bhat, 28 mn bhat and 287 mn bhat respectively. The National Economic Development Board (NEDB) was reportedly concerned over these cuts which it considered would seriously affect the attainment of targets set for the Second Five-year Plan.

Defence industry in 1970 witnessed greater emphasis on indigenous production of armaments. On 4 April Air Chief Marshal Dawee stated that Thailand was building its own armoured cars and tanks. He said they were very powerful but did not disclose the types and quantities being built. It seems probable that he was in fact referring to assembly and not actual manufacture of these armoured fighting vehicle. On 7 July the Cabinet approved the Defence Ministry's proposal to promote arms and ammunition industry in the country, and agreed to permit foreign companies to participate in the industry, in partnership with Thai nationals. The Defence Board also approved the Army Ordnance Regiment's plan to manufacture mortar bombs. In September the National Defence Council gave the go ahead to the building of a factory to produce all the military weapons (presumably small arms only) that the country needed. The Deputy Chief of Staff of the Armed Forces, who was also Chairman of the project study committee, said the five years project was part of the Government's self-reliance policy. In December it was announced that the Cabinet had decided to allow Heckler and Koch of West Germany to build a plant to produce 1000 rifles per month with an initial investment of 300 mn bhat over the first four years. About 100 mn bhat was ear-marked for equipment and

installation costs and the rest devoted to routine operational costs. It was stated that the Thai Army would supervise operations of the firm which would produce automatic and semi-automatic rifles with production beginning in four years. In the interim period the firm would supply a number of rifles from its plant in Germany and part of the initial 300 mn bhat investment would be used for this purpose.

Foreign Trade

The better performance of the agricultural sector during the 1969-70 season contributed considerably to the recovery in Thailand's export sector. During the first half of 1970 exports totalled 7850 mn bhat in value, an increase of 8 per cent over the same period during the previous year. Imports however continued to be heavy and the mid-year trade deficit was estimated at 6000 mn bhat, about 300 mn bhat higher than at mid 1969.

In February 1970 Thailand and Bulgaria signed a trade agreement, Thailand's first such pact with an Eastern European country. This was followed in March by a trade agreement with Rumania. In May it was announced that several shipments of Thai fluorite had been recently delivered to Russia, and amounted to several thousand tons at a very satisfactory price. On 20 August India and Thailand signed a memorandum of understanding for medium-term economic co-operation covering a period of three years, during which India would buy 100,000 tons of rice annually from Thailand in return for Indian exports of industrial plant and machinery of equal value. On 27

November Economic Affairs Minister Bunchana recommended "a mutually beneficial trade exchange between India and Thailand as a means to provide diversified areas complementary to each other", and pointed out that trade between the two countries had increased more than four fold between 1960 and 1969. Thailand and the Soviet Union signed their first trade and economic co-operation agreement on 25 December 1970. On 19 January 1971 Russia was reported to be facing difficulty in buying flourite from Thailand because it was unable to compete with Japanese buyers who quoted higher prices, and on 25 January Economic Affairs Minister Bunchana called for Thailand to barter rubber for Soviet goods. He had a few days earlier called upon Japan to help boost Thai exports so as to cut down Thailand's huge trade deficit. Thai press reports pointed out that the USA was economically undermining Thailand while encouraging it to assume a greater role in Indochina. Thailand was heavily dependent on rice exports for its survival, and was concerned over American rice surpluses being sold in markets that once belonged to Thailand. It was also stated that Japan which had no significant role in the Indochina war was also unloading its rice surpluses in former Thai markets.

Kra Isthmus Pipeline

Mainichi Daily News of Tokyo reported on 2 February 1971 that the Thai Government recently had indicated that it would accept Japan's proposal to lay a pipe-line across the Kra Isthmus. The first Japan-Thai joint survey team was scheduled to make a two weeks inspection commencing on 14 February. The pipe line would be

about 200 kilometers long and 1.5 meters in diameter. And according to the joint plan 500,000 ton tankers would anchor at the western end of the pipe line, which would relay the oil to 200,000 ton tankers on the eastern end. At the outset a minimum of 100 mn tons of oil would be transported through the pipe line.

Communications

During 1970-71 Thailand's highway building programme steadily progressed. In April the State Highways of Thailand submitted a project to build a new railway line from Prae to Chieng Rai in north Thailand. The project would take six years to complete and cost over 1000 mn bhat. It was also announced that survey had started for a new railway line linking Chachoengsao with Sattahip on the eastern coast. This project would cost another 589 mn bhat. Rail services between Thailand and Eastern Cambodia were resumed in July 1970 after a break of nine years.

A Thai official disclosed on 27 February 1971 that the Thai and Russian delegations had reached an agreement on the air service contract between the two countries. He said that agreement was at governmental representatives level and had to await final approval from the two governments. In April 1970 it was reported that the agreement would pave the way for Thai International to make plans to open a new route between London and Sydney, via Copenhagen, Moscow, Tashkent and Bangkok.

POLITICAL DEVELOPMENTS

Despite a threatened split in the ruling United Thai People's Party (UTPP)

Prime Minister Thanom Kittikachorn's Government remained in effective control throughout the year. There, however, were indications of preparations for a power struggle for succession to Premier Thanom when he retires. He announced on 31 March 1971 that he would not extend his retirement age and would not run as a candidate in the 1973 elections. "I will definitely retire as Supreme Commander of the Royal Thai Army this October and I do not want to be Prime Minister even though I am appointed to the office. So why should I run as a candidate in the coming elections", he asked. Towards the end of December 1970 it was reported that Opposition pressure had mounted against Gen Prapass Charusathira who concurrently holds the appointments of Deputy Prime Minister, Interior Minister and Army C-in-C, as reports gained currency that he would soon succeed Premier Thanom. This came a day after the Democratic Front Party had called upon Gen Prapass to resign if he had the interests of the nation at heart. Stating that he had served as Minister of Interior for the past 12 years it charged that he had failed in his job. On 28 December it was reported that General Prapass had accepted the Opposition challenge to submit to a vote of confidence in the House of Representatives. And on 30 December he announced that he had never intended or desired to be Thailand's next Prime Minister, but added "no human being, however, knows what the future will hold for him".

Insurgent activity continues particularly in the North, Northwest and South of Thailand. On 21 March 1970 Gen Prapass told the press that Meo Communists had escalated their military

action from guerrilla to conventional warfare as a result of North Vietnamese successes in neighbouring Laos, and operating from bases 15 Kms from the Thai border, they had started raiding government positions in Chiang Rai in company-sized units, well armed with modern Chinese, Russian and Czech weapons and led by North Vietnamese officers. He went on to state that consequently the Thai Government had declared "off limits" to peaceful citizens, those parts of the hilly and jungle border with Laos used by the Meos as infiltration routes and hideouts, and that anyone in the prohibited areas would be deemed a terrorist. From time to time specific anti-insurgent operations were undertaken. In March 1970, what was claimed to be the biggest insurgent camp in the South, was captured by Thai border police units in Amphoe Sadao. A few days later, a new agreement between Thailand and Malaysia enabled Thai and Malaysian aircraft to make bombing strikes against guerrillas in each other's territory. This atmosphere of growing insecurity, however, was used by government to tide over a political crisis which developed over new tax proposal in June. Prime Minister Thanom announced the round up of eight Communist suspects in the Bangkok area including an alleged leader of the Central Committee of the Communist Party of Thailand. On 20 September insurgents ambushed and killed the Governor and Police Chief of Chaingrai Province. It was stated to be the first ambush of any high ranking provincial official, and to indicate that the communists had begun to step up their activities as the dry season approached. The Commander of Thailand's Third Army disclosed on 28 September that

it had been decided to execute everyone found to be a "Communist terrorist", instead of sending them to training camps. On 2 February 1971 Deputy Prime Minister Prapass said that disagreement had arisen between the Communist Party of Thailand (CPT) and Hanoi directed "terrorists" over how domination should be achieved over Thailand. He said the terrorists under North Vietnamese leadership wanted to implement the Maoist principle of violent revolution, but the CPT wanted to infiltrate the constitutional system to gain political power and control. He added that the CPT had not, however, actively opposed the current activities of the terrorists.

INTERNATIONAL RELATIONS

Close Thai-US relations remain the cornerstone of Thailand's foreign policy. US Secretary of State Rogers said on 27 March 1971 that close US-Thai relations were a key factor in the security and development of Southeast Asia, and added that Bangkok intended to fight communist insurgency without requesting US troops but wanted US economic and military aid. He also went on to reaffirm US determination to honour its SEATO commitments to meet the "common danger in accordance with its constitutional processes in the event of communist aggression. Earlier on 1 July 1970 US Vice-President Agnew visited Thailand to clarify the Nixon doctrine and had assured the Thai Government that the US would honour its commitments to protect Thailand from Communist aggression.

The extension of the Vietnam war into Cambodia in 1970 and into Southern

Laos in 1971 brought the fighting into Thailand's doorstep, and posed many problems. Diplomatic relations between Thailand and Cambodia were re-established on 13 May with the signing of a joint communique by Thai Foreign Minister Thanat Khoman and Cambodia's Foreign Minister Yem Sambaur. Later in the month Deputy Prime Minister and Army C-in-C General Prapass led a good will mission to Phnom Penh. Although Thai authorities stated that the survival of the Lon Nol regime in control of Phnom Penh was very important for Thailand's security and although Prime Minister Thanom had stated that Thailand would send military equipment and medical units to aid the Lon Nol Government, and had announced that Thailand would call for volunteers to undertake combat duty in Cambodia, Thai troops did not get involved in the conflict. The Thai decision to remain out of the conflict appeared to be connected with the question of payment of the cost for the troops involved and the USA's announcement that as many as 9800 troops would be withdrawn from Thailand by 1 July 1971 in the second phase of the withdrawal. The fact that the immediate threat to Phnom Penh had somewhat receded probably was another factor which influenced the decision.

The winding down of US involvement in Vietnam and the gathering momentum of the reduction in the numbers of US troops stationed in East and Southeast Asia and run down of US overseas bases, appears to have convinced the Thai leadership that whilst striving to retain close relations with the USA Thailand should start cultivating more friendly relations with other countries

including the USSR, Eastern Europe and even with China.

On 13 November 1970 Foreign Minister Khoman said that Thailand would not change its attitude towards China until Peking dropped its declared hostility to Thailand. However, in the wake of Canada and Italy recognising China, the Thai Government reportedly set up a "task force" to study all questions relating to China. On 28 February 1971 Deputy Foreign Minister Police Major General Sanga Kittikachorn went as far as to claim that Thailand's easier relations with the Soviet Union and East European countries and, its expressed willingness to open a dialogue with China had brought about a lessening of the intensity of the Communist insurgency in the country. He also supported a suggestion made by the Indonesian Foreign Minister, Adam Malik, that North Vietnam be invited to attend the 4th ASEAN Foreign Ministers' Conference in Manila.

ARMED FORCES

According to the **Military Balance 1970-71** the total strength of Thailand's armed forces was 154,500.

The Army total strength was 110,000, with 3 infantry divisions (including 3 tank battalions) and one regimental combat team. Major equipment consisted of: M-24 and M-41 light tanks; M-2 and M-16 armoured half-tracks; M-31 A and M-8 scout cars; M-113 APCs; 105 mm and 155 mm howitzers; 40 Hawk surface-to-air missile launchers. About 11,000 men were serving in Vietnam and 5000 in Laos.

The Navy's total strength was 21,500 (including 5000 marines) with: 1 destroyer escort; 2 Frigates; 7 submarine chasers; 1 escort minesweeper; 2 armoured gun boats, 2 mine layers; 4 coastal minesweepers; 11 patrol vessels; 2 gun boats (1 less than 100 tons); 2 patrol boats; 6 landing ships; 8 landing craft; and 1 squadron of HU-16 Albatross and S-2 Tracker maritime reconnaissance aircraft.

Air Force personnel totalled 23,000 with 101 combat aircraft consisting of: 17 F-5A and F-5B fighter-bombers; 14 F-86F fighter-bombers; 5 RT-33 reconnaissance aircraft; 45 T-28D and 20 T-6 counter-insurgency aircraft; 33 transports including 5 C-45, 20 C 47, 2 C-54 and 6 C-123B; 70 helicopters including 40 troop-carrying CA-34s, 20 H-19 Chickasaws and a few S-51 and S-55s. There were and 4 battalions of airfield defence troops.

Para-military forces consisted of a 10,000 strong Volunteer Defence Corps and 7000 Border Police.

On 19 October 1970 US the Ambassador, Leonard Unger, disclosed that all Thai army manoeuvre battalions were equipped with US supplied modern M-16 rifles. He also said the army now numbered almost 200,000 men with more than 6000 general purpose vehicles and over 180 M-113 troop carriers. In November it was reported that Thailand had decided to raise six anti-guerrilla ranger battalions in the six northern insurgent infested provinces. Recruiting for these units from personnel who had served in Korea and North Vietnam was stated to have commenced. In March 1971 it was announced that the Thai Black Leopard Division was scheduled

to be withdrawn from South Vietnam by July 1972 and that the Ministry of Defence planned to establish a new infantry division to recruit into its regular forces members of the Black Leopard Division. In June 1970 it was disclosed that the USA had spent about \$ 200 mn paying Thai troops to fight in Vietnam. Under the terms of an agreement signed in November 1967 the US agreed to equip fully and to provide logistic support for forces going to Vietnam, including pay and overseas allowance, to assume cost of preparing and training the troops—including logistics and transportation, and also to pay mustering out concessions. It was reported in May 1970 that Thailand expected to receive 1200 mn bhat military aid in 1970-71 which was 300 mn bhat less than in the previous year. Informed sources also indicated that US aid for the Police Department would increase by 60 per cent over the previous year to reach 240 mn bhat.

On 5 August a Royal Thai Naval source disclosed that the first southern naval base in Song Khla province, although only half completed, had been opened for use because of increasing demands for naval operations.

A press report in June 1970 indicated that the Thai Air Force had six combat wings, each consisting of one to three squadrons of 16 planes each. It placed the total strength at 25,000 men and 250 aircraft. Commenting in July 1970 on a report from Washington that the Senate had stopped delivery of F-5 fighter planes, US Ambassador Unger said in Bangkok: "There are two kinds of fighters (involved), the freedom fighter, and the International Fighter,

the newest type not yet in production. The Royal Thai Air Force has already received 9 Freedom Fighters and will receive another 5 next year". In October he stated that the USA had supplied Thailand one company of battle-proven Huey helicopters and another company including some gunships had begun to arrive. He went on to add that since 1950 the US Military Assistance Programme had provided the Thai Air Force with more than 600 aircraft and it now had six effective tactical

strike squadrons and would add another equipped with modern OV-10 counter insurgency aircraft.

After some delay due to the Ministry of Defence thrice refusing to accede to a demand from the Budget Scrutiny Committee, to explain in detail the budget item termed as secret funds, the Security Committee finally approved on 18 November the 5068 mn bhat 1971 Defence Budget, which was subsequently passed by the House of Representatives.

7. MALAYSIA

NATIONAL ECONOMY

Economic Growth

The Finance Minister Tun Tan Siew Sin presented his budget for 1971 on 23 December 1970. Revenue receipts at current rates were estimated at M\$ 2,415 mn compared with M\$ 2,340 mn in the previous fiscal year. Overall expenditure is estimated at M\$ 3,350 mn — 2,463 mn ordinary and M\$ 887 mn development, compared with M\$ 3,234 mn in the previous year. With the additional revenue from the tax changes, a current account surplus of M\$ 38 mn is anticipated. Taking into account development expenditure, overall deficit will come to M\$ 644 mn. It will be met from borrowings, both domestic and foreign, as well as foreign aid and grants etc.

The ordinary expenditure of M\$ 2,463 mn mainly goes for social services (30%), defence and internal security (25%), debt servicing (14%) and general administration (11%). Expenditure on development is estimated at M\$ 887.5 mn — 640 mn for direct expenditure, 207.5 mn for loans to States and various authorities and M\$ 40 mn contingency reserve. Interim development estimates allocated M\$ 604.2 mn for economic and social development, M\$ 193.7 mn for defence and security and M\$ 49.6 mn for general projects. The exploitation of natural resources—agriculture, forestry, mining and rural development—account for the largest slice *i.e.* M\$ 253 mn or 30 per cent of the estimates.

In framing the 1971 estimates, due attention has been paid to the following

Malaysia — Statistics

Area (square km)	... 333,507
Population (1970)	... 10,850,000
G.N.P. (1970)	... M\$ 11,821 mn
Defence Expenditure (1971)	... M\$ 568 mn
Armed Forces :	... 47,750
Army	... 40,000
Navy	... 3,250
Air Force	... 4,500
US\$ = 3.10 Malaysian dollars (M\$)	

policy considerations within the limits to financial resources available:—

- (i) to provide for essential defence and internal security requirements,
- (ii) expenditure on social services—health and education, and
- (iii) emphasis on programmes likely to generate greater economic growth.

The budget reflects the government's new economic policy. It is the first budget of the country's second five-year plan (1971-75) which has three broad objectives:

- (i) reducing unemployment,
- (ii) raising productivity and the incomes of "have-nots" and
- (iii) achieving a higher rate of economic growth.

The planned allocations for Malaysia's first five-year development plan (1966-70) amounted to M\$ 4,840 mn. Agriculture and rural development accounted for 25 per cent, industries and mining 4 per cent and transport and communications 17 per cent, utilities 15 per cent and social services 16 per cent. The emphasis was on agriculture, rural development and providing greater infrastructural facilities.

The second five year plan (1971-75), presented to the Parliament in July 1971, involved total outlay of M\$ 14,350 mn, M\$ 7,250 mn in the public sector and M\$ 7,100 mn in the private sector. The gross national product is expected to grow by 6.5 per cent annually. Per capita

incomes should rise by 1975 to M\$ 1,300, an increase of M\$ 220. Nearly 600,000 new jobs are planned to be created, enough to contain unemployment to the present estimate of just over 7 per cent of the labour force.

Malaysia's gross national product (GNP) during 1970 was estimated M\$ 11,821 mn, showing an increase of 6.3 per cent over 1969 compared to a 9.6 per cent increase in the previous year. Malaysia had an average annual growth rate of 6.5 per cent during the past five years.

The Finance Minister said that economic activity in 1970 in both the public and private sectors taken as a whole had been impressive. The public sector continued to set the pace in terms of economic growth.

The most striking feature of Malaysia's economic performance in 1970 has been the remarkable upsurge in private investment which is expected to register a record growth of nearly 18 per cent compared to 4.3 per cent for the period 1965-69. The high rate of economic growth is expected to be dampened by "the dramatic drop" in export earnings in 1970 as compared with 1969 due almost entirely to falling price of rubber and also a faster rate of growth of imports.

About 27 per cent of Malaysia's GNP is derived from the agricultural sector and over 50 per cent of the labour force is engaged in agriculture. Surplus manpower in rural areas, where 65 per cent of the country's population live, is sought to be diverted to urban industrial centres. Rice production is increasing and eventually, the country would be self-sufficient or nearly self-sufficient.

A dramatic research development, that can double the yield of old rubber trees, was announced in Kuala Lumpur on 18 July 1970 at the World Plantation Conference. The new development involved the use of a chemical stimulant ethylene (trade name of a preparation of chloroethyl-phosphoric acid) on the bark of rubber trees.

The manufacturing sector is expected to contribute about 12 per cent to the gross domestic product compared to 10 per cent in 1969. In terms of net value, industrial output during 1970 rose by nearly 24 per cent compared to 1969 figure of M\$ 1,020 mn. The growing importance of this sector is reflected by the size of its labour force which is estimated at 302,000 workers — 13,000 workers were absorbed in 1970 alone.

The MARA shipyard received orders worth M\$ 2 mn for building 11 vessels since the beginning of 1970. A M\$ 1 mn plant to assemble and later manufacture Lambretta scooters is being set up in Selangor in Batu Tagu industrial estate. Initially it would turn out 200 scooters a month. A weedicide plant, estimated to cost M\$ 4.5 mn, is to be set up at Klang as a joint venture between a local firm Mega Chemicals and Chemetics of Vancouver. It will produce 6,000 tons of sodium chlorate annually commencing from mid-1971. A syndicate of businessmen is setting up a distillery in Perak with an authorized capital of M\$ 3 mn. When in full operation, it will be capable of producing 2,000 gallons of brandy daily. Kumphulan Guthrie will invest M\$ 11.5 mn in setting up two palm oil processing factories at Rantau

and Yong Feng. One will be built in 1971 and the other in 1972.

A French petroleum company, Aquitaine Petroleum, has been drilling for oil, off the east coast of Sabah. The company had spent more than M\$ 20 mn by the end of 1970 on drilling operations. A Japanese petroleum oil company began oil drilling operations in July 1970, 9 miles off Tawau on the east coast of Sabah. The company, which obtained oil concession in an area covering 7,230 square miles in 1964, plans to spend M\$ 10 mn on the drilling of three oil wells.

The boom conditions in the export sector in 1969 tapered off in 1970. Exports in 1970 totalled M\$ 5,089 mn, an increase of 2.1 per cent while imports totalled M\$ 4,055 mn, a rise of 15.7 per cent. There was a favourable balance of payments totalling M\$ 1,034 mn compared to M\$ 1,481 mn in the previous year—underlining once again the inherent strength of the country's external payment position. At the end of 1970, Malaysia's net external reserves aggregated to M\$ 2,520 mn compared to M\$ 2,470 mn last year.

Inflation reached a rate of 14 per cent in 1969 and a level of about 10 per cent was estimated for 1970. These high figures were largely due to price rises in manufactured goods.

The unemployment problem faced during the year was the single most important economic and social problem. The high incidence of unemployment, estimated at about 9 per cent, is a feature common to both urban and rural areas especially among the youth and those leaving schools—those in the

lowest age group. It became acute after May disturbances in 1969 and was further aggravated by the British pull-out. Although short-term measures can help, it is realised that the only enduring remedy is a much faster rate of economic growth. An important aspect of the problem, it is said, is the need to increase Malay participation in the modern sector of the economy. The government urges employers to maintain a racially balanced working force at all levels.

By the end of 1970, over 30,000 Malaysian citizens reportedly replaced non-citizens holding jobs in the country. This was the result of the Employment Restrictions Act of 1969 introduced soon after racial riots which aimed at replacing non-citizens holding jobs which can be done by Malaysians—*Bhumiputras* (sons of the soil). The jobs were either unskilled or semi-skilled. The government had, however, renewed work permits of more than 58,000 non-citizens because they were eligible to become citizens. Most of the non-citizens who lost their jobs were Indians and Chinese. Thousands of Indians have returned to India since the introduction of work permits in Malaysia.

The Malaysian-Singapore economy is inter-linked and dominated by the Chinese community. The Chinese form 38 per cent of the Malaysia's population and dominate the country along with the 10 per cent of Indians. Extremist Malays are naturally resentful of the growing economic strength of the Chinese as well as Indians and would like it contained in the interest of Malay development. "There is currently much loose talk about 'urbanising' and

'industrialising' the predominantly rural Malays—when making the rural sector more intrinsically productive appears to make better sense racially, economically and nationally", said *The Financial Times* (London) of 8 October 1970.

Tun Razak is planning the economy of the country to make it independent and viable, manned and managed by a majority of the sons of soil—*Bhumiputras*. He has promised to narrow the gap between the 'haves' (Chinese and Indians) and the 'have-nots' (Malays). On 1 February 1971, he assured the Chinese and Indian communities that they would not be deprived of their rights and interests while the Government tried to bring Malays into the commercial and economic life of the nation—to correct the economic imbalance between them and non-Malays. Addressing Alliance Party MPs on 17 February 1971, Tun Razak said, "Let me be frank. National unity cannot be achieved unless the economic balance existing among the community is rectified and unless the nation's prosperity is enjoyed much more equitably among the people".

Communications

The Government has approved a M\$ 5.5 mn programme to modify the Kuala Lumpur international airport for jumbo jets and included it in the second plan (1971-75). Sabah plans to expand international airport at Kota Kinabalu at an estimated cost of M\$ 13 mn. It will include a 9,400 feet runway—with a provision to be extended to 11,500 feet to take all types of airliners in the next 10 to 15 years. The Aerofloat inaugurated its regular commercial service between Moscow and Kuala

Lumpur on 12 April 1970 with an Ilyushin 62 aircraft. Pakistan International Airlines (PIA) will extend its services to Kuala Lumpur. The PIA will have two flights a week to begin with. Malaysia has decided to set up a M\$ 100 mn airline as its national flag carrier —The Malaysian Airlines Limited —with assistance from Qantas.

The Government is planning to build a M\$ 30 mn port to handle bulk cargo at Pasir Gudang, 25 miles from Johore Baru. The first stage of a feasibility survey had been completed by the consultants—Wallace and Evans. Malaysia's first ocean-going 14,500 dwt cargo liner, *Bunga Raya*, built at a Japanese shipyard, arrived in December 1970. It was assigned to regular service between the Far East and Europe. The ship is the first of 11 cargo liners to be built in Japan for Malaysia's International Shipping Corporation. Two of these are to be supplied as "good will" ships costing M\$ 25 mn towards Japan's "blood debt"—compensation offered by the Japanese Government for the massacre of civilians by Japanese troops during the last war.

A survey ship of the Royal Navy, HMS *Hydra*, completed survey of the Malacca Straits zone, an area of about 1,200 square miles allotted to it, by April 1971. Japan, Indonesia, Malaysia and Singapore carried out a joint full-scale 80-day hydrographic survey of the Straits of Malacca from 1 October to 19 December 1970 to confirm the Straits' capacity to handle super tankers and bulk carriers. Indonesia provided two ships for survey work. As many as 21 areas in the Straits which are too shallow for 200,000 ton tankers were discovered.

Japan met the cost of the survey estimated at M\$ 2 mn. Japan stands to benefit most from the survey as 80 per cent of foreign vessels plying the Straits, are Japanese. Ninety per cent of Japan's oil also passes through the Straits. Japan, well aware of the Straits, potential importance, has repeatedly stressed the need for speedy improvement of navigation facilities. A preliminary survey was done by the Japanese early in 1969. There is a proposal to introduce a two-way traffic in the Straits by the end of 1971.

Work on the 185-mile east-west highway linking Butterworth in the west to Kotah Baru in the north-east state of Kelantan commenced in July 1970. The project estimated to cost M\$ 235 mn is expected to be completed in two years. Work is also in progress on 95-mile long highway, known as the North Klang Straits bypass, to provide direct access from the new port at Port Swettenham to the Klang-Kuala Lumpur highway. The project, estimated to cost M\$ 10 mn, is expected to be completed in 2 or 3 years. A 1,360 feet long bridge, estimated to cost M\$3.2 mn, will be constructed across the Perak river at Bota by 1972.

Malaysia has placed an order for microwave equipment on a German firm for the tele-communications link between Penang and Hat Yi in southern Thailand. The joint Thai-Malaysian project is scheduled to be completed in the fall of 1971 providing high quality telephone and telegraph links between the two countries.

The earth satellite station built at a total cost of M\$ 9 mn at Kuantan by a Japanese electronic group of companies

was inaugurated on 7 April 1970. The station links Malaysia, via the Indian Ocean satellite—Intelsat III, initially with India, Pakistan, Indonesia, UK, Japan and Australia. Antenna working to the Pacific Ocean satellite is likely to be constructed later.

The Asian Development Bank approved a loan of M\$ 4.5 mn in December 1970 for the expansion of Sibu port in Sarawak. The project estimated to cost M\$ 5.3 mn is scheduled to be completed by the end of 1974.

Economic Co-operation

A three-day meeting of the ASEAN's Permanent Committee on Finance held a three-day meeting in Kuala Lumpur commencing from 18 June 1970. It discussed regional projects to be assisted out of the new ASEAN Fund as well as ways of getting external financial help for the projects. The ASEAN Permanent Committee on Transport and Communications met in Kuala Lumpur from 6 to 8 October 1970. It reviewed progress of various regional projects. An ASEAN seminar held in Kuala Lumpur on 19 November 1970 urged member countries to coordinate and intensify their efforts to boost the tourist industry in the region.

The six-member Association of National Rubber Producing Countries—Malaysia, Thailand, Indonesia, Ceylon, Singapore and South Vietnam—ended their three-day meeting in Kuala Lumpur on 16 October 1970 after agreeing to set up a committee to work out the mechanics of a proposed joint marketing system.

A 36-member Malaysian delegation led by Inche Mohamed Khir Johari visited Jakarta in August 1970 to participate in the third session of the Malaysia-Indonesia Joint Commission on Trade and Economic Relations. Representatives of both the countries agreed to establish a common customs area and to reduce red tape to boost mutual trade. The agreement signed on 24 August also called for the establishment of a Joint Consultative Committee to coordinate export price levels of common commodities including rubber, pepper, coconuts and palm oil.

Pakistan is planning to buy iron ore from Malaysia for its proposed steel plant in Karachi. This was disclosed by the Chairman of the Pakistan Steel Corporation S.N. Yusuf when he arrived in Kuala Lumpur on 25 May 1970 on a four-day visit. It was indicated that Pakistan would need at least 1,700,000 tons of iron ore annually.

A 12-member Pakistani trade and industrial delegation, led by their Minister of Labour, Health and Social Welfare, A.M. Malik, paid a five-day visit to Malaysia in the first week of August 1970. A joint statement issued in Kuala Lumpur on 6 August stated that Pakistan and Malaysia had agreed on ways to enhance their co-operation in commercial, technical, educational, cultural and other fields.

A three-member Malaysian trade delegation visited Pakistan in October 1970. It discussed measures to promote bilateral trade with officials of the Trade Corporation, Export Promotion Bureau and representatives of the Chamber of Industry. Malaysian

Minister for Commerce and Industry Mohamed Khir Johari called on the Industries Minister Hafizuddin in Islamabad on 29 October and discussed the possibilities of further co-operation between their countries in the economic and technical fields.

An understanding is reported to have been reached about the management and ownership of eleven Malaysian branches of the nationalised Indian banks by a private company. Majority of the shares of the company will be held by Malaysians and Indians settled in that country. The Indian Government will have minority shareholding.

The Hindustan Machine Tools is considering setting up an assembly plant in Malaysia on a joint venture basis with a local firm. The Birla group will set up a textile mill at Butterworth soon. India Pistons Ltd of Madras will set up a factory near Kuala Lumpur for manufacturing pistons and automobile liners in collaboration with the National Development Corporation. The plant will eventually manufacture machinery.

A two-week Indian trade and industrial exhibition was held in Kuala Lumpur commencing from 7 July 1970. The display highlighted India's progress since 1947. Products of about 300 manufacturers were on display. Opening the exhibition, Tun Abdul Razak expressed the hope that Indian industrialists would participate in Malaysia's second development plan. He urged joint ventures and increased trade between the two countries. Tun Abdul Razak added that Malaysia was grateful to India for providing nearly 3,000 places in military and higher educational institutions for Malaysian nationals.

A seven-member delegation of the All-India Manufacturers' Organisation visited Malaysia in September 1970 at the end of seven-country tour of South East Asia to explore the possibilities of collaboration in industrial development and to promote trade. Minister of Commerce and Industry Johari assured the delegation that his country would welcome Indian entrepreneurs wishing to set up joint industrial ventures and extend them every kind of possible assistance. The leader of the delegation Dahanukar told a news conference in Kuala Lumpur on 25 September that there were 12 more joint ventures in the pipeline. These included manufacture of ropes, razor blades, bicycles, and starch products. Malaysia's friendly attitude towards India was an encouraging factor for Indian investment, he said. So far in Malaysia, only two joint Indian ventures have been started. These are Godrej (Malaysia) and an integrated textile mill.

Mohamed Khir Johari arrived in Moscow on 30 October 1970 for trade talks with Soviet leaders. He discussed matters relating to bilateral trade including exports of rubber and tin of which Malaysia is a major producer. The USSR Trade Representative in Malaysia B. Kokorev said on 8 March 1971 that the Soviet Union is prepared to offer Malaysians a new type of joint venture in manufacturing industries. Under this system, Malaysians will retain the profits and full ownership as well as control of the project concerned while the Russians provide the equipment and know-how.

Foreign Aid

Malaysia received M\$ 4.2 mn loan from the Asian Development Bank to

help finance the Besut agricultural project. Malaysia signed two loan agreements with the World Bank amounting to M\$ 64.5 mn in May 1970 to finance Jengka Triangle projects :

- (i) M\$ 39 mn for the second phase of land settlement project and
- (ii) M\$ 25.5 mn for a forestry project.

The World Bank in July 1970 approved a loan of M\$ 20 mn to Malaysia to finance the expansion of its electricity supplies. The amount will be used for new generating units to increase thermal power production. Since 1958, the World Bank has granted five loans worth more than M\$ 140 mn to Malaysia for its power projects.

Canada signed two agreements on 21 May 1970 to lend M\$ 9.9 mn as technical and economic aid. Canadian Prime Minister Pierre Trudeau visited the Canadian forest project in Sabah State on 16 and 17 January 1971. Canada is to spend C\$ 980,300 on mapping and surveying the project.

The Soviet trade representative in Kuala Lumpur said on 15 July 1970 that the Soviet Union is prepared to assist Malaysia in carrying out its second development plan by providing technical aid, heavy machinery and agricultural equipment. The Soviet Union is also interested in setting up assembly plants and commercial enterprises on a joint venture basis.

During his visit to Rumania in 1970, Tun Abdul Razak signed the country's first economic and technical

agreement with a communist country on 17 September. The agreement reportedly paved the way for joint ventures in the exploration and exploitation of mineral resources including petroleum, forest resources, and manufacturing and assembly industries.

Under a contract signed in Tokyo on 18 August 1970, the Export-Import Bank of Japan and 13 foreign exchange banks are to extend a credit of about 965 mn yen (360 yen = US\$) to Malaysia for the purchase of equipment for radio broadcasting. At the end of a 12-day visit to Japan, Tunku Abdul Rahman while addressing a Press Conference in Tokyo on 3 August urged Japan to make more 'positive and honest efforts' to become a leading nation in Asia by helping developing countries in the region. Japan had not done enough, he added. The Tunku said, "Japan had been offering assistance in loans but she is taking back almost twice as much with conditions that the money be used to buy materials from Japan. The terms for loans are also very stringent with annual interest rates running 4 to 5.7 per cent which are higher than those offered by any other country."

The Government signed a contract with some Japanese banks on 28 January 1971 for a M\$ 1.3 mn loan for the construction of a micro-wave and television network in Malaysia. It is part of the M\$ 33.3 mn loan agreement reached between Japan and Malaysia in 1967. Two leading Japanese firms are working on a plan to co-operate in a M\$ 300 mn development programme for Sabah. The plan includes the construction of 44,000 kw hydro-electric power station in the Padas valley, 800 miles

of trunk roads and 800-mile railway from Tenom to Sandakan or Tawau and the development of Mount Kinabalu as a resort.

In January 1971, Malaysia signed an agreement with a consortium of 15 US commercial banks for a \$ 50 mn loan to finance the country's development projects under the second five-year plan beginning in July 1971.

POLITICAL DEVELOPMENTS

Elections were held in the East Malaysian state of Sabah on 27 June 1970 and Sarawak in early July. Elections in the two states were earlier suspended following racial disturbances in West Malaysia in May 1969 and the declaration of State of Emergency on 15 May 1969 throughout the country. The ruling Alliance Party won all the five contested seats for the Federal Parliament in Sabah; the other seats in the state had already been won unopposed by the Alliance candidates giving the party a clean sweep in the state.

In Sarawak, the Sarawak Alliance Party got 24 of the 48 seats in the State Council. Out of 24 federal seats, the ruling Alliance won only 7 seats. The ruling alliance had 90 seats in the 144-member Federal Parliament—*Dewan Ra'ayat*. Its strength went up to 93 in February 1971. Dato Ong Kuee Hui, Chairman of the Sarawak United Party was appointed a federal Minister on 11 December 1970—the first non-Alliance man to become a Cabinet Minister. He alongwith other members of his party will vote with the ruling Alliance giving it two-third majority.

A team of Indonesian observers visited Sabah in the course of elections.

They were satisfied with the way the elections were conducted. Indonesia's decision to send the team was in keeping with the Jakarta Agreement signed in 1966 normalising relations between the two countries after the confrontation.

The Sultan of Kedah Abdul Halim Muazzam Shah (42) was elected by his 'brother rulers' of nine states on 23 July 1970 as Head of the State—*Yang di-Pertuan Agong*. He was sworn in as the new King on 21 September 1970 for a period of five years. He replaced Sultan Ismail Nasiruddin Shah of Trengganu.

On 1 September 1970, the King announced five principles of national ideology—*Rukunegara*—which could lead to peace and prosperity in the country. The five guiding principles are—belief in God, loyalty to the King and country, upholding the Constitution, respect for the rule of law and good behaviour and morality.

On 22 September 1970, Tunku Abdul Rahman, Prime Minister since 1957, stepped down. He was succeeded by the Deputy Prime Minister Tun Abdul Razak. The retirement of the Tunku is stated to be one of the most graceful instances of change of leadership in Asia. Thus the Tunku era came to a close and the Tun Razak one got under way. The communal fires which burnt so tragically in 1969 have been dampened down and racial harmony restored.

A new Cabinet of seventeen Ministers and seven Assistant Ministers was announced on 23 September 1970. It has come to be known as the "New Order" Cabinet. The ruling triumvi-

rate are Tun Razak, Tun Ismail and Tan Sri Ghazali.

The Parliament was reconvened on 22 February 1971 when the King opened the first session of the Third Parliament. The Parliament was suspended for 21 months after the General Elections in May 1969 which were followed by racial disturbances. All restrictions on political activity in the country were removed earlier on 31 August 1970.

The country was ruled by the National Operations Council with Tun Razak as the Director of Operations. With the dissolution of the National Operations Council, a new body known as the National Security Council composed of former NOC members under Tun Razak was set up to tackle matters of security. The National Consultative Council and National Goodwill Council will be dissolved and a National Unity Council will be set up.

The Constitutional (Amendment) Bill seeking to redress racial imbalance in certain sectors and national language was passed by the *Dewan Ra'ayat* on 3 March 1971 by an overwhelming majority which placed sensitive issues—citizenship, national language and the use of the other languages, special position of the Malays, legitimate interests of the non-Malays and sovereignty of the Rulers—beyond challenge.

Tun Razak has inherited many problems. Internally he will have to preserve the crucial political balance between the three races—Malays (50%), Indians (10%) and Chinese (38%) through their respective parties—mainly the United Malay National Organisation, the Malaysian Indian Congress, the

Malayan Chinese Association. Simultaneously he will have to neutralise the influence of the leftist organisations, mainly Chinese, who are allegedly in league with communists. Even within his own organisation the UNMO, some extremists will not mind a blood bath if that could flush the Chinese and Indians out of the country, according to the *Quarterly Economic Review* (EIU, London-1970 Annual).

Malaysia's Minister for Special Functions Lee Suk Yew, who is also Deputy Chairman of the National Goodwill Council, while speaking in Kuala Lumpur on 16 April 1970 urged the Chinese and Indians to demonstrate to the Malays their undivided loyalty to the country. He also called for inter-racial harmony. Earlier speaking at Muar on 8 April, he criticised 'certain Indians', who he alleged sent their money to India and refused to invest in Malaysia. He called them 'fence sitters who will flee the country at the first sign of trouble'. He called on them to change their attitude.

In a new year message, Tun Razak stressed the importance of a genuine spirit of nationalism and appealed to the people for racial harmony and co-operation within the various strata of a multi-racial society.

INSURGENCY

Another problem that Tun Razak inherited from his predecessor is the insurgent and subversive activities along its borders with Thailand and Indonesia. While the government regained its grip over the situation in the riot-torn country, after the outbreak of racial disturbances in May 1969, the

hard-core insurgents stepped up their acts of terrorism in the fall of 1969.

Thai-Malaysia Border

It was earlier estimated that about 800 to 1000 hard core insurgents were active along the Thai-Malaysia border and they lived in a network of concealed hide-outs. It was reported in April 1970 that the insurgents had increased their strength by 200 to a total of 1,200. They had three secret camps in the border area. The *Straits Times* (31.5.70), however, reported that their number was believed to be about 1,600. "A few months ago the Kuala Lumpur Government was talking in terms of only a few hundred communist terrorists lurking in the Thai-West Malaysia border region. Today few will deny that the Malayan Communist Party leader Chen Peng could have as many as 2,000 well trained and armed men on call and thousands more would be guerrillas working out apprenticeship in the Malayan Communist Youth League", reported the *Far Eastern Economic Review* (31 October 1970).

On 8 August 1970, the New China Agency reported a broadcast of the new clandestine "Voice of Malaysian Revolution" calling on the Malayan peasants "to unite round the Communist Party of Malaya, develop an extensive people's war and overthrow imperialism". The Malaysian Government says that the radio is located in southern Yunnan and its policies are directed by Peking.

On 23 April 1970, the Police launched 'a widespread crackdown' against subversive elements in seven states—Selangor, Negri Sembilan, Malacca, Johore, Pahang, Perak and Kedah. There were, in all, 10 explosions in the seven

states. The police picked up large quantities of "red" pamphlets, hammer and sickle flags and Mao banners—reported to have been issued by the "Malaysian National Liberation Front".

A massive hunt was launched to track a group of about 60 insurgents who ambushed and killed seven members of a security forces patrol and wounded two others on 20 April 1970 in Klian Intan, about five miles from the Thai border. On 22 April, artillery was brought in to blast out suspected insurgent hide-outs. Helicopters airlifted Malaysian security forces and Thai police units to cut off the fleeing insurgents.

Joint Malaysian and Thai operations were launched against the insurgents in the 4th week of April under the overall command of General Chen Pittachive, Commander of the anti-guerrilla forces of Zone 4 (Southern Thailand). The combined forces captured five major camps which could accommodate 200 to 500 persons each.

- (i) The combined force fighting their way up rugged hills, captured a large guerrilla camp in Betong district of Thailand, about 5 miles from the common border on 30 April. The Thai Air Force had earlier bombed the camp situated on a hilltop: 500 persons were defending the positions. It was believed to be the headquarters of Chin Peng.
- (ii) Another detachment of the combined force attacked and captured a second camp, 10 miles from the town of Betong.

- (iii) A combined force of 400 Malaysian and Thai troops captured another insurgent camp on 26 May in Yalu province, six miles away from the camp captured on 30 April. The "No. 2 Red Fortress" was captured after a three-day aerial and mortar bombardment. It was believed to be an alternative headquarters for Chin Peng.
- (iv) Thai para-troopers and marines, operating in close liaison with Malaysian forces, captured a fourth camp on 28 May. The insurgents, numbering over 200, fled the camp situated at Ayerkem, close to a place where another camp was captured on 26 May.
- (v) A combined force captured another major camp in Ayerkem Ox atop a 2,000 feet hill on 29 May after a three-day siege and concerted attack with mortars and helicopters in the Betong salient. The camp could accommodate about 400 persons and had underground tunnels, a gun repair shop, a radio transmitter and carrier pigeons. There was also a large vegetable garden. The camp was reported to have been commanded by a woman leader Ah Ying. It was the fifth major camp captured since operations were stepped up in April 1970.

Three insurgents, two of them women, were killed in a clash with the Malaysian troops in the Batu Melintang area on

25 May. On 31 May, a security patrol engaged a group of 30 insurgents and foiled an attempt to lay an ambush on the Kroh-Baling road. In an ambush by the terrorists in the area on 3 June, four soldiers were killed and ten wounded. Security forces reportedly shot dead four insurgents. Operations along the border were intensified. Security forces on 9 June repulsed an ambush by a band of insurgents in the area. The terrorists escaped into the Thai jungle after a brief exchange of fire. The security forces discovered a guerrilla camp believed to be the biggest found south of the Thai border for several years. Three guerrilla hide-outs were also discovered in the area while pursuing a group of 60 insurgents.

The Straits Times in an editorial dated 12 June 1970 said, "The joint operations there have not been a complete success. The large permanent camps have been destroyed but few prisoners were taken and guerrilla casualties were small. Perhaps this was to be expected. They can be beaten only by persistent harrying and the isolation, where necessary, of villages otherwise exposed to terrorist penetration and pressure....The hunt must go on giving the guerrillas no rest, leaving no sanctuary, cutting of all supplies".

In June 1970, Tun Razak announced a scheme for the resettlement and regrouping of villages especially in the "very bad" areas of Kroh, Klian Intan and Baling because of increased insurgent activity. Resettlement will prevent villagers from supplying the terrorists with food and other necessities. At least, 7,000 persons were involved in the "Operation Big Shift" to regroup isolated communities living in certain

"hot spots" in upper Perak. Villages which were not to be shifted would be fenced. Barbed wire fences were to be erected around four towns—Kroh, Klian Intan, Kampong Tasek and Ayer Panas—all in the sensitive area near the Thai border blacklisted as the staging points of ambushes by the terrorists. The next step would be to move villages scattered around these towns into enclosed areas.

The security forces carried out an artillery bombardment on 10 and 11 July 1970, while attempting to flush out a group of terrorists from their hide-outs near Baling in the Alor Star area. A joint Thai-Malaysia border police patrol drove off an unknown number of terrorists who attacked their camp in Betong jungle in the first week of September.

Tun Abdul Razak announced on 9 July that Communist terrorists along the Thai border would be given land if they surrendered. The Kelantan state government would give them land to enable them to lead a normal life.

After a four-day visit to Thailand, Tunku Abdul Rahman said in Kuala Lumpur on 15 September that China was assisting the terrorists lurking along the Thai border. The Malayan Communist Party leader Chin Peng was making frequent visits to China to seek arms and other supplies for his guerrilla band. He had received reports from Thai authorities of young Malaysian youths from Chinese schools infiltrating into Thailand to join the Communist terrorists for indoctrination and training. Some had crossed into Thailand by sea. Moreover, the insurgents were getting their supplies from China by sea through Vietnam.

The Thai Chief of the Armed Forces Air Chief Marshal Dawee Chullaspaya visited Kuala Lumpur in early October to attend the 11th General Border Committee talks with Malaysian leaders. It was agreed to undertake a two-pronged operation on the seas to contain Communist infiltration by co-ordinating their sea patrols in the northern waters of West Malaysia and to conduct joint naval checks on vessels to prevent supplies reaching the insurgents. Joint sea patrols in the Straits of Malacca and the South China Sea in areas adjacent to their common border started towards the end of 1970 following the meeting of Thai and Malaysian officials in Songkhla in Thailand on 11 November.

The Malaysian Information Minister Hamzah bin Abu Samah said on 7 October that communists along the Thai border were using short-wave transmissions for psychological warfare against Malaysia. The Malayan Communist Party, he said, was using several frequencies eluding the government's jamming. The broadcasts, he added, were from a clandestine transmitter and included propaganda from Communist China. Tun Abdul Razak has directed that all sources of mass media be co-ordinated towards countering Communist propaganda. Malaysia launched a psychological warfare campaign against the insurgents in November 1970. Thousands of leaflets urging them to surrender were airdropped in sensitive areas along the Thai border.

The Regional Border Committee met at Sungei Patani, 190 miles north-west of Kuala Lumpur, on 15 February 1971 and reviewed operational and intelligence activities along the Thai-Malaysia border. The Thai delegation was led by Maj-Gen

San Jit Patima, A joint statement issued at the end of the meeting said that Thai and Malaysian security forces had killed 13 terrorists and captured three in operations along their common border in the previous three months. Two insurgents' camps were also captured.

The terrorists dynamited the railway bridge spanning Sungei Jarak, two miles from Tasek Glugor, near the Thai border in northern Malaysia, on 7 March 1971. The explosion tore up a section of the rails and disrupted train services between Butterworth and Padang Besar.

Sarawak-Indonesia Border

There was a decrease in the activities of insurgents since August 1970 along the Thai-Malaysia border. There had been, however, recrudescence of terrorist activity in the state of Sarawak along its border with Kalimantan (Indonesia). They have pulled off some ambushes.

General Ungku Nazaruddin, GOC East Malaysia, said in Kuching on 27 April that during the operation *Jala Raja* (Royal Net) against the terrorists along the Malaysia-Indonesia border, security forces killed 62 terrorists, captured 19 and arrested 276 suspects. The Commander of the Third Malaysian Infantry Brigade said in Kuching on 24 April that "the backbone of militant communism has been broken."

A terrorist was killed and some others captured on 1 May in Sibuti in the Fourth Division of Sarawak. In an ambush on 25 May near Simanggang, a member of the security force was killed and another wounded. On 13 June, security forces killed two terrorists along the Sarawak-Indonesia border. Three

election officials were killed and four others wounded in an ambush by terrorists at Nanga Petai near Sarikel in Sarawak on 30 June. A band of eleven terrorists armed with automatic weapons ambushed a security force patrol on 21 July in the Kanowit area injuring a constable. A follow-up operation was launched. On 16 July, security forces captured six guerrillas including a woman in and around Kuching.

A band of six armed terrorists killed a policeman on 13 August in Sungei Lukup in Kuching. Another policeman was killed in Sabu. Security forces killed four terrorists and captured another in clashes in the Third Division area in the first week of October. In a river ambush in Sarawak, the insurgents killed 12 border scouts. They also killed two soldiers in another ambush on the same day. It was reported to be the bloodiest incident since 18 policemen were killed in an ambush near Kroh on the Thai border in 1968. On 21 September, security forces killed a terrorist and wounded two in an ambush in the Sungei Sarikel area during mopping up operations. A group of 20 insurgents ambushed a security forces patrol while travelling in boats down a narrow river near Sungei Katibas in the Third Division of Sarawak on 20 November killing six and injuring two. Three of the raiders were killed and two wounded in the encounter.

In October 1970, security forces launched yet another major operation in Sarawak's Third Division where communist terrorists have thwarted repeated pacification effort. They uncovered 14 camps and resting places in the forests, killed about half a dozen insurgents and captured several others. Some of the

camps were quite large and set up in Vietcong style. The seriousness of the problem is highlighted by the fact that much of the area covered by the operation is in the same sensitive Third Division area that was combed in 1969 and claimed to have been "pacified". The Third Division area's capital Sibuh with a large Chinese population is a known centre of insurgent activity.

Three *Tebuan* armed jet trainers of the Malaysian Air Force bombed and strafed suspected insurgent hide-outs in the Third Division of Sarawak in the last week of November 1970. The air attacks were aimed at destroying insurgent camps and to soften hostile resistance to enable the ground forces to carry out follow-up operations against the terrorists. It was later said that it was merely "target practice". *The Straits Times* (5 December 1970) said that these operations were a distressing evidence of a worsened situation.

A combined Malaysian-Indonesian force operating along the North Kalimantan (Borneo) border killed five guerrillas in the third week of December. They belonged to a group known as the North Kalimantan People's Army (*Paraku*). They also launched joint operations to eliminate another group — the Sarawak People's Guerrilla Army (PGRS).

On 4 December 1970, Tun Abdul Razak announced a new strategy to combat communist subversion in Sarawak. Community service projects, successfully used in West Malaysia to combat Communism during the first emergency, are to be introduced for the first time in Sarawak. The second prong will be "to get down to the people".

Malaysian forces killed 14 terrorists and captured 19 weapons in January 1971 in the Sarawak region. Five soldiers were killed at Biawak in Sarawak's First Division when a band of 20 terrorists ambushed two convoys of security forces on 19 March 1971. Security forces launched "*Ops Hentan*" in the First Division in March. Seventeen insurgents were killed, five wounded and 57 suspects and sympathisers were rounded up.

At the end of 1969, the strength of terrorists along the East Malaysia, Indonesia border was placed between 350 to 400. Their strength on both sides of the border is now estimated at more than 500. At least 270 of them are reported to be "roaming" in the jungles of the First, Second and Third Divisions of Sarawak. Another 230 or so are said to be based on the Indonesian side, crossing the border from time to time while making sorties in Sarawak. The number of their sympathisers has also gone up particularly in the Third Division.

Although not a major direct threat to the regimes in Kuching or Jakarta, the substratum of Chinese frustrations in Sarawak and West Kalimantan (Borneo) do constitute a continuing security problem that shows few indications of being solved despite periodic claims by Malaysian and Indonesian army commanders that the terrorists have disintegrated or that insurgency along the border is virtually over. However, militarily the insurgency is well under control.

FOREIGN RELATIONS

Foreign Policy

In his first major foreign policy speech on 22 September 1970, Tun

Abdul Razak said that Malaysia would pursue a non-aligned policy and seek friendship of all countries, both in the West as well as the East. He expressed the hope that Big Powers like the US, USSR and China would make South East Asia a neutralised zone to ensure peace, security and stability in the region. He emphasised that Malaysia's future aim was now different from the past and a new approach was also needed at home. The policies of the former Prime Minister Tunku Abdul Rahman were considered generally pro-Western.

In a radio and television address on 29 November, Tun Razak said, "Our policy and our cause have been and will always be to maintain peace, particularly in South East Asia. We believe that if South East Asia were to be made a neutral region, we would be saved from any threat or indeed any calamity of war in future. Today, China is rapidly progressing to become a nuclear power. We as a small nation and living close to her geographically cannot ignore a country which has a population of about 700 million people and whose area covers a big portion of the earth's surface."

In a new year message over TV and radio network, Tun Razak while emphasising the need for peace and stability in the region again called for the neutralisation of South East Asia to be guaranteed by the Big Powers. Speaking on the second day of the Conference of Commonwealth Heads of Government in Singapore on 15 January 1971, Tun Razak called for regional co-operation, understanding and harmony among the South East Asian countries. "In our view, peace and stability in the region can be a reality

only if the neutralisation, which should cover the entire area, is guaranteed by the US, USSR and China". Opening the Parliament on 22 February 1971, the King said that the Government will continue to practice an independent foreign policy consistent with the times and situation and compatible with national interest as an independent sovereign and developing country. The USSR has welcomed Malaysia's call for the neutralisation of South East Asia.

The Canadian Prime Minister Pierre Trudeau paid a three-day official visit to Kuala Lumpur commencing from 20 May 1970. He discussed the South East Asian situation, China and bilateral cooperation with Tunku Abdul Rahman. Earlier, the West German Foreign Minister Walter Scheel visited Malaysia from 11 to 13 May.

Tunku Abdul Rahman, in the course of a four-day official visit to Sweden, said in Stockholm on 1 July 1970 that the Indo-China conflict was a power struggle between the Eastern and Western blocs. "In this power game, one thing is clear; the small countries of the region are merely pawns", he said. The loss of Vietnam, he added, must mean that the other countries in South East Asia will, in a matter of time, succumb.

Britain

Tunku Abdul Rahman during his visit to London after the return to power of the Conservative Government said in a special interview on 23 July 1970 that he was satisfied with the British Government's intentions to maintain a force sufficient to demonstrate its involvement in the defence of the Singapore-Malaysia region. During his visit, the Tunku had

talks with British Prime Minister Edward Heath and Foreign Secretary Sir Alec Douglas-Home. He had been looking to the Conservatives to make good their assurances to continue their military presence in the region.

British Defence Secretary Lord Carrington during his visit to Kuala Lumpur on 1 August 1970 assured the Malaysian leaders that Britain would fulfil the treaty obligations contained in the Anglo-Malaysian defence agreement. On his return, he said in London on 6 August that he preferred a new five-power arrangement to replace the *Anglo-Malaysian Defence Agreement of 1957*.

Prime Minister Tun Abdul Razak told newsmen in Kuala Lumpur on 1 October 1970, "We should realise that we must depend on our own defence. If friends want to help us we will be very grateful. Factors have, however, changed and we must be more self-reliant. We have to review the *Anglo-Malaysian Defence Treaty* and arrive at some loose arrangement that will suit us and Britain". Commenting on the British Defence White Paper, Tun Razak said on 29 October, "We accept the new situation that the defence arrangement has to be a political commitment of a consultative nature. It is a much looser arrangement than the previous *Anglo-Malaysian Defence Agreement*". Former Defence Minister Denis Healey had described it as a blank cheque. Later speaking at Ipoh, Tun Razak said that it was right that after thirteen years of independence "we have grown as a nation and we must stand on our feet."

This is a major change in Malaysia's defence policy, for the Tun is not very

particular about the stationing of British forces in the country to meet outside aggression. What he wants is a strong self-reliant Malaysian armed force capable of tackling the defence of the peninsula. The armed forces are being expanded under a programme phased over five years, on the completion of which the country will have a viable defence force.

On his way to participate in the Commonwealth Prime Ministers' Conference, British Prime Minister Edward Heath visited Kuala Lumpur and had discussions with Tun Abdul Razak on the progress of five-power defence arrangements on 12 January 1971. Tun Razak told Heath that arms sale to South Africa would not only hinder the efforts to force the South African regime to give up its apartheid policy but also undermine the Commonwealth.

Tun Razak told the Parliament on 12 March that Malaysia's participation in the proposed five-power defence arrangement with Britain, Australia, New Zealand and Singapore in no way committed her to any particular power bloc. It did not contravene the country's policy of non-alignment and its intention to have a neutral South East Asia. "As long as Malaysia's intention to make South East Asia an area of peace and calm is not achieved, Malaysia will be forced to take measures it thinks fit to ensure the nation's security", he added.

Tun Abdul Razak attended a conference of the five Commonwealth nations held in London on 15 and 16 April 1971. He told a press conference in London that the new arrangements made at the conference were in line

with Malaysia's aspiration to self-reliance. "We feel that the defence of our country is primarily our own responsibility but our friends are there to help us should the need arise", he said. While returning he visited Paris and Bonn.

Tun Razak said in Kuala Lumpur on 24 April 1971 that the new defence arrangement which takes effect from 1 November 1971 might last until South East Asia was neutralised.

Regional Co-operation

Malaysia feels that the Indian Ocean ought to be kept free from tension as suggested in the non-aligned nations' declaration issued at the Lusaka Conference in September 1970. Malaysia also feels that the presence of the Soviet fleet in the Indian Ocean does not pose any threat to the security of the region. Tun Abdul Razak told a press conference in Kuala Lumpur on 19 December 1970 that his country was not concerned with the establishment of a military communication base on the island of Diego Garcia in the Indian Ocean by the United States and Britain. He was rather anxious about the security of the land-mass in South East Asia than about the vast expanse of the Indian Ocean. His approach was sub-regional rather than regional.

The war in Vietnam, its spill-over to other states of Indo-China and the unpredictable seventies form the focal points of Malaysia's policy. In his recent talks with Thai and Indonesian leaders, he indicated the general line of thinking which united the ASEAN group. This is now identified with the plan for

the "neutralisation" of South East Asia.

Prime Minister Tun Abdul Razak stated on 29 November 1970 that his country wanted to live in friendship and co-operation with neighbours based on the policy of non-interference in the domestic affairs of another nation. He expressed the hope that his neighbours would reciprocate. The emphasis now was on regional co-operation and non-involvement in Big Power politics.

Tunku Abdul Rahman said in Kuala Lumpur on 17 September that it was vital for Malaysia and Singapore to live together as good neighbours. Singapore was much too close for the two nations to lead separate lives. "If Singapore leaders review their policies and think straight, there is no choice for them but to come close to Malaysia", said the Tunku. He hoped that the leaders of Singapore, who were inclined sometimes to be strangers and even hostile, would review their policies. (The Malays have always looked at the Chinese-dominated Singapore with suspicion).

Earlier on 5 May 1970, the Tunku accused Singapore of taking undue advantage of the confusion following the racial riots in 1969. He complained that Singapore was trying to exploit the situation by offering incentives to intellectuals and investors from Malaysia to work and invest in Singapore,

The former Sultan of Brunei, now Royal Adviser to the British protectorate, in a statement issued on 8 October 1970, reiterated his claim to a part of Sarawak state. Malaysia, he said, had no right to the area known

as Limbang because according to Muslim Law "anything taken by force should be restored to its rightful owner." He called on the Malaysian leaders to hand over the area—a finger protruding 35 miles into Brunei, dividing the 2,226 square mile enclave. Limbang was taken over during the time of Sarawak's white rulers,

On 10 July 1970, Indonesia and Malaysia reached an agreement on bilateral co-operation in the field of mass media between the two countries. The agreement provided for the early implementation of various projects such as the exchange of radio and TV programmes, film and drama scripts and other mass media material. Earlier, an Indonesian team led by their Information Minister Air Vice Marshal Budiardjo arrived in Kuala Lumpur.

Prime Minister Tun Abdul Razak paid a goodwill visit to Thailand from 14 to 16 December 1970. A joint communique issued at the end of the talks said that the two Prime Ministers expressed their deep concern over the situation in Vietnam and the Indo-China area in general. They exchanged views on the Malaysian Government's proposal for the neutralisation of South East Asia in an effort to contribute to the establishment and maintenance of peace, stability and security in the region. They reiterated their firm faith in regional organisations, particularly ASEAN and ASPAC. They agreed to intensify joint efforts to eradicate the Communist menace existing in their border areas. They noted that bilateral arrangements on fisheries, international road transportation and anti-smuggling measures were due to be finalised soon.

Thai Prime Minister Thanom Kittikachorn visited Malaysia from 14 to 16 June 1971. He was accompanied by his Foreign Minister Thanat Khoman and Deputy Prime Minister Pote Sarasin.

Tun Razak paid an official visit to Indonesia from 17 to 19 December 1970. A joint communique issued on 19 December stated that President Suharto and Prime Minister Razak expressed satisfaction with the development of co-operation to-date under the aegis of ASEAN and agreed that in due course they would consider an enlargement of the Association's membership. They agreed that South East Asian nations should co-operate in solving their problems and emphasised that peace and security in the region were basically the responsibility of the countries in the area.

On Indo-China, they expressed their concern that the problems had not been solved on the basis of the aspirations of the people in the areas. They promised to make continuous efforts to prevent the situation from deteriorating and to offer their services for the implementation of the communique of the May 1970 Jakarta Conference.

Expressing satisfaction at the development of bilateral relations, the two leaders noted with particular satisfaction the existence of a common approach in tackling problems connected with the Malacca Straits. Tun Razak appreciated Indonesia's co-operation in the joint efforts to restore security along their common border. They also expressed hopes for expanding the trade between the two countries.

Tun Razak expressed his gratitude for the help given by Indonesian doctors

and teachers and for the opportunities given to Malaysian officers and students to attend educational institutions in Indonesia. He expressed the hope that Indonesia would continue to train Malaysia's armed forces personnel and to provide doctors and teachers.

Thailand and Indonesia were reported to be cold to Tun Razak's proposal for the neutralisation of South East Asia. Thailand considered China the main threat to the region. Unless China changed its attitude towards her neighbours, any move to approach China for a neutralisation of the region could amount to appeasement of China and acceptance of her domination over the region. Jakarta is believed to be less vocal in its opposition to the move but has expressed doubt if such a policy could succeed in the present mood of Peking.

China

Speaking in Bangkok on 15 December 1970, Tun Razak said, "We have to take into account the emergence of the People's Republic of China as a nuclear power. We believe that China should be made conscious of her share of responsibility in maintaining world peace and stability and, therefore, there must be rapport and dialogue between China and other major powers of the world".

During his visit to Indonesia, Tun Razak while speaking at a state banquet in Jakarta on 17 December, expressed concern at subversive threats and called on Asian nations to determine a common strategy to safeguard their future. "Communist China is the biggest power in Asia. She must be persuaded to adopt a peaceful attitude

and accept the principles of co-existence and to respect the sovereignty of other nations. Our objective for peace and progress can be achieved if Communist China shows a more constructive attitude towards the countries in this region", he said.

Tun Razak stressed the need to establish a network of bilateral contacts among the South East Asian countries to achieve a co-ordinated strategy to face the subversive threat by Communist China. He pointed out that no single country in South East Asia is free from Communist China's threat.

Addressing a press conference in Jakarta, Tun Razak said, "China's 700 million people cannot be ignored and isolated. She must be included with the Big Powers to guarantee the neutrality of South East Asia". His new foreign policy approach to China differed slightly from that of his predecessor Tunku Abdul Rahman. Malaysia's support for Peking's admission to the United Nations was a change in basic policy, he said. Malaysia wanted Taiwan to stay in the United Nations but he dismissed the suggestion that his country had adopted a two-China policy.

Malaysia, however, abstained from voting on the Algerian-Albanian resolution favouring the admission of China to the United Nations and the exclusion of Taiwan in the General Assembly on 20 November 1970. In the past, Malaysia had been opposing China's entry into the world body.

Earlier on 15 October 1970, Tun Razak spelt out Malaysia's conditions for a dialogue with China. These were

that Peking should change its hostile policy and assure Malaysia that she believed in peace and non-interference in Malaysia's internal affairs and respects the country's sovereignty. He also wanted China to stop anti-Malaysia propaganda from the clandestine radio of the "Liberation Force of Malaysia" based in South China.

While addressing the Conference of the Commonwealth Heads of Government in Singapore on 15 January 1971, Tun Razak appealed to countries which enjoyed good relations with Communist China to help persuade Peking to accept the neutralisation of South East Asia. Tun Razak, in the course of his visit to Singapore where he took part in the Commonwealth Conference, held talks with the Canadian Prime Minister Pierre Trudeau on 20 January 1971. Trudeau reportedly agreed to convey to China Malaysia's desire for eventual diplomatic relations with the Peking Government. Tun Razak, however, emphasised that no dialogue or contact with China could begin until it stopped supporting the Communist insurgents in Malaysia. There has been no indication that Peking is calling off its largely propagandist support for the insurgency movement.

Peking's generous offer of M\$625,000 worth of supplies in February 1971 for the victims of January floods by the Red Cross Movement of China came as a surprise to the Malaysian Government. Some observers interpreted the offer as the first indication of the changing attitude of Peking towards Malaysia which for the past few months had been making approaches for a peaceful co-existence with China based on mutual respect of sovereignty and non-interference in each other's internal

affairs. Since the beginning of 1971, Peking has been officially using the form Malaysia, not Malaya. Radio Peking has also dropped its anti-Malaysia broadcasts. Appreciating the flood aid offer, Tun Razak said on 12 February, "I hope this indicates a change of attitude on the part of Peking towards us". This is perhaps the result of our new policy, he added.

Winding up the debate on the King's speech on 12 March 1971, Tun Razak said, "We have taken note of China to be the *de jure* and *de facto* Government of mainland China. The Government did not recognise Taiwan nor did it accept her as the representative of the Chinese people on the mainland. "It can be seen that we are not adopting a two-China policy". Malaysia, he added, had made "many adjustments" in its policy towards China,

Addressing a press conference in Kuala Lumpur on 25 April 1971, Tun Razak expressed the hope that China would be admitted into the United Nations this year. "We feel that China as a big power should not be isolated but made to shoulder her responsibility. This was possible only by her entry as a member of the UN," he said. Speaking in the Parliament on 6 July 1971, he supported China's admission to the UN.

A 19-member unofficial trade mission visited China in May 1971. It received "a warm and friendly welcome" from Chou En-lai on 15 May 1971. The mission was the first to visit China since 1956. Prime Minister Tun Abdul Razak said that the visit would mark the beginning of "a people-to-people" relationship between the two countries. He was happy that Peking was adopting a

more realistic attitude. In view of Peking's recent change of heart and its attitude towards other countries, he expressed the hope that there was a chance of success for Malaysia's neutralisation policy. The mission, it was stated had paved the way for better relations between the two countries. China agreed to buy the entire rubber stock with the Malaysian Rubber Fund Board. In addition, it would buy 150,000 tons of rubber annually at average world market prices.

President Nixon's announcement on 16 July 1971 to visit China was welcomed by Tun Razak. The detente, he said, was an encouraging step towards the realisation of Malaysia's proposal for the neutralization of South East Asia.

South and West Asia

King Faisal of Saudi Arabia paid a four-day visit to Malaysia from 6 to 10 1970. In a joint communique issued on 10 June, Malaysia and Saudi Arabia expressed concern at the deteriorating situation in South East Asia particularly in Cambodia and blamed Israel as the cause of tension and instability in West Asia. They called for the settlement of the Palestinian problem. They had discussions on the establishment of an Islamic Secretariat at Jeddah. Both the countries decided to strengthen co-operation in the political, economic, cultural and religious fields.

Pakistan's Information Minister Nawabzada Sher Ali Khan arrived in Kuala Lumpur on 22 October 1970. During his three-day stay, he called on the Prime Minister and held talks with some Cabinet Ministers on further strengthening the relations between Pakistan and Malaysia. He discussed with Tunku Abdul Rahman the proposed Islamic

Secretariat and details of the December 1970 meeting of Foreign Ministers of Muslim countries held in Pakistan.

A delegation headed by Tunku Abdul Rahman attended the second conference of Foreign Ministers of 23 Islamic countries held at Karachi in the last week of December 1970. Addressing the conference on 26 December, the Tunku urged the Muslim countries to co-ordinate their activities and potential to attain their common goal of solving the numerous political, economic and social problems besetting the Muslim world. The Conference nominated the Tunku as the first Secretary-General of the Islamic Secretariat to be based in Jeddah.

A Malaysian delegation led by Tun Abdul Razak participated in the Lusaka non-aligned summit from 8 to 10 September 1970.

A 20-member team from the Indian Defence College, led by Maj-Gen Mohinder Singh, paid a three-day visit to Kuala Lumpur beginning 17 August 1970. The team was on a tour of the area to study matters of strategic interest in connection with their training.

ARMED FORCES

Allocations for defence and internal security during the fiscal year 1971 were M\$813.7 mn. Spending on defence is estimated at M\$567.7 mn—411.1 mn revenue expenditure and 156.6 mn capital expenditure.

The strength of Malaysia's armed forces in 1970 was estimated at 47,750—Army 40,000, Navy 3,250 and Air Force 4,500. Para-military forces number about 10,000. The Navy has two frigates (K.D. *Jebat* and K.D. *Hang Tuah*), six coastal minesweepers, two inshore minesweepers, a survey vessel, 4 fast patrol boats, 24 other patrol boats (less

than 100 tons), a seaward defence boat and 2 small landing craft. The Air Force has 30 combat aircraft — 10 Sabre fighter-bombers and 20 CL-41G *Tebuan* light training and strike aircraft. Besides, there are 70 other aircraft including 22 transports, 30 helicopters and 7 liaison aircraft.

The Police Field Force has 14 battalions, 11 of which are based in West Malaysia and 3 in East Malaysia. One battalion consists of 500 to 700 officers and other ranks.

General Tan Sri Ibrahim bin Ismail was appointed as the new Chief of the Armed Forces Staff. He took over on 17 July 1970 from General Tan Sri Abdul Hamid bin Bedin on his retirement. A document presented to the Parliament on 24 February 1971 showed that four battalions and a brigade group with artillery units were raised in 1970 and a further three infantry battalions, one brigade headquarters and support units would now be raised by June 1972.

The Commandant of the Royal Military College in Sungei Besi Col Jaafar bin Onn said on 14 April 1970 that Malaysia and Indonesia will have an exchange programme of cadet officers in order to build the spirit of co-operation between the officers of the armed forces of the two countries. A group of 12 Indonesian military cadets and 6 officers arrived on 21 June "to live and train" with their Malaysian counterparts at the College for 10 days. Fourteen Malaysian cadets and two officers would pay a return visit to Indonesia in 1971. Twenty-eight Malaysian soldiers attended a seven-

month basic para-troop training course which commenced at Batudjadar in Indonesia on 14 July 1970.

The expansion programme of the Malaysian Navy, to be completed by 1973, calls for re-equipping naval boats with modern and sophisticated weapons including surface-to-surface and surface-to-air missiles, the establishment of Malaysia's own naval base and the enlargement of the force, both in men and vessels. The strength of personnel will be increased by one-third by the end of 1973 or early 1974. There is also a proposal to form a commando unit soon.

The survey ship K.D. *Perantau* arrived on 1 July 1970. K.D. *Duyong*, a diving tender built in Singapore, was commissioned on 5 January 1971. K.D. *Rohmat*, a frigate undergoing trials in the UK, is now expected to join the Navy this year. The frigate is equipped with *Seacat* surface-to-air missiles. In August 1970, the government signed a contract with a French firm for the purchase of a squadron of fast patrol craft with missile capability. The gunboats were believed to be of the same type which left Cherbourg secretly for Israel in December 1969. The Chief of the Naval Staff Commodore K. Thanabalasingam announced on 19 January that the Malaysian Navy was re-arming its fast patrol boats with French-made missiles. When the conversion is completed by the end of 1971, the strength of the Navy would be boosted with two squadrons of fast striking boats equipped with surface-to-surface missiles. The boats will be stationed at the RMN base in Singapore. Groups of naval personnel were currently being trained in France

to handle the converted boats. A converted fast patrol boat KD *Gempita* successfully fired surface-to-surface missiles on 4 June 1971.

The Malaysian Navy is to set up its own Naval College in Singapore. Under a crash programme, an interim college will take in 45 cadet officers in May 1971. Malaysia will, however, continue to send the same number of cadets for training at the British Naval College at Dartmouth.

The newly expanded base at Tawau in Sabah is to be used as the forward support base for the Malaysian Navy's ships deployed in the eastern wing of Malaysia. The M\$2.5 mn base will have a 750 feet jetty among other naval facilities. The Navy's base is to continue in Singapore for at least another ten years. The Chief of Staff of the Armed Forces General Tan Sri Ibrahim on 18 August 1970 ended speculation that "K.D. *Malaya*" would be withdrawn from Woodlands to Lumut in Perak, Port Swettenham or Penang. The base, he said, symbolised defence cooperation between Malaysia and Singapore. Earlier in July 1970, Commodore Thanabalasingam had hinted building a naval base along the west coast of Malaysia.

Six Malaysian warships (coastal minesweepers) arrived at Tandjung Priok harbour on 3 October 1970 on a goodwill visit of Indonesian ports. Commodore Thanabalasingam visited Surabaya, Bali and Bandung and called on General Panggabean and Vice-Admiral Sudomo.

The Malaysian Air Force Chief of Staff, Air Commodore Sulaiman Sujak,

paid a week's visit to Indonesia beginning 8 June 1970. The visit was aimed at fostering good relations between air forces of the two countries. The Indonesian Air Chief of Staff Suwoto Sukendar paid a seven-day goodwill visit to Malaysia in October 1970. At the end of his visit, he said in Kuala Lumpur that Indonesia and Malaysia had agreed on a programme for the training and exchange of technicians between the air forces of the two countries. Suwoto Sukendar said in Jakarta on 26 January 1971 that Malaysia had offered to give Indonesia 12 twin-engined *Pioneer* aircraft as "a sympathetic gesture on a good-neighbourly basis."

Malaysia is negotiating to buy 30 of France's latest *Mirage* jets, called *Milan*. The aircraft is part of the family of *Mirage-III*E interceptors and *Mirage V* tactical support planes. The aircraft is particularly designed for use from short airfields in mountainous country and tight manoeuvring in hills or for anti-aircraft evasive tactics. In March 1971, the Ministry of Defence placed an order for six helicopters for the RMAF from the US. The first two were to arrive in June. The first of the three Marconi F-600 radar units bought by the RMAF arrived at the Butterworth airbase from Britain on 9 March 1971.

Malaysia plans to construct its first ammunition plant in collaboration with two West German and Swiss firms to supply ammunition to its armed forces. The joint venture—*Sharikat* Malaysia Explosive Company, is estimated to cost M\$ 6.5 mn and will be set up at Batu Arang, 20 miles northwest of Kuala Lumpur. Some of its 300 employees will be sent for training to West Germany and Switzerland.

The Assistant Minister of Defence Tengku Ahmad Rithauddin said in Malacca on 25 November 1970 that Malaysia's armed forces will be progressively expanded over the next five years to meet increased commitments. "We are now faced with a situation where we have to depend solely on ourselves for the defence of our country. The British withdrawal east of Suez makes it necessary for us to expand our armed forces to meet the situation", he said. In a radio and television address on 29 November, Tun Razak said, "We will continue to expand our armed forces and to equip them with modern weapons because we believe

that the defence of our country, in the last analysis, is our responsibility".

Addressing the new Parliament on 22 February 1971, the King said that the country's armed forces would be further expanded in the interest of the country's security against internal and external threats. When the accord on five-nation defence agreement, which was of a consultative nature, becomes operative, the British Malaysian Defence Agreement would get abrogated. Consequently, the armed forces would have to assume the responsibility for the defence and sovereignty of the country with the aid of friendly countries, if necessary.

8. SINGAPORE

NATIONAL ECONOMY

Finance Minister Sui Sen presented "a painless" budget to the Parliament on 8 March 1971. Revenue receipts for 1971-72 were estimated at S\$ 1,307.20 mn and expenditure at S\$ 1,306.81 mn—showing a small surplus of S\$ 393,820. There will be no new taxes during the year unless tax yields fall very considerably below expectations or sudden calls for contingency needs arise. A sum of S\$ 636 mn has been allocated for development projects.

For defence and security, a sum of S\$ 483.8 mn is provided compared with S\$ 328.6 mn for 1970-71, raising the defence share of the budget from 31.7 to 37 per cent. "The building of our defence capability maintains top-most priority", said the Finance Minister.

In his speech to the Parliament, the Finance Minister said, "Our economy in 1970 was able to more than maintain the healthy level of economic activity achieved in the previous two years. The sound growth of the economy has been responsible for this happy state of affairs which the Government expects to continue into the future".

In 1970, Gross Domestic Product increased by about 15% to S\$ 5,564.5 mn compared with annual growth rate of 14.5 per cent for 1969 and an average of 9.5 per cent for the past decade which is stated to be exceptional—far in excess of the 6 per cent per annum target of the new UN Second Development Decade.

The Finance Minister, however, pointed to "a dark cloud"—the accelerated rundown of the British

Singapore—Statistics

Area	(square km)	...	581.5
Population		...	2,074,500
Gross Domestic Product (1970)		...	S\$ 5,565 mn
Defence Expenditure (1971-72)		...	S\$ 484 mn
Armed Forces:		...	14,800
Army		...	14,000
Navy		...	500
Air Force		...	300
Currency:	US\$ = 3.10 Singapore dollars (S\$)		

military bases by the end of 1971. British military spending in 1970 was put at S \$350 mn—the greater part of this would be lost by the end of 1971. Some 15,000 civilian employees and 2,000 locally enlisted personnel would lose their jobs. A decline in national income of the order of S \$250 to 300 mn is likely to affect the economy in 1971 and 1972.

Prime Minister Lee Kuan Yew in a New Year message on the eve of 1 January 1971 cautioned that the island's stability, progress and prosperity should not be taken for granted. The "economic crunch", he said, will come in October 1971—by then all British personnel and their families would have left. Defence Minister Goh Keng Swee, however, said, "Another three years of sustained effort and we should be over the hump".

Singapore's current unemployment rate of about 5 per cent showed that there was no real unemployment problem anymore. "In effect we already have a situation of full employment. So the final rundown will cause no more than a ripple in the pool. It is no longer a serious problem", said the Finance Minister.

Industrial Progress

The government is studying the possibility of setting up a S \$3,000 mn integrated steel plant with assistance from a Japanese steel consortium. The proposed plant is expected to have an annual production capacity of 5 mn tons. A new S \$5.4 mn steel processing mill, Leong Huang Industries—the first to make plates and strips in the island, went into production in July

1970. The mill is geared to meet the needs of Singapore's flourishing shipbuilding, repairing and construction industries.

With over 50 shipyards, Singapore's shipbuilding and repairing industry had a turnover of S \$190 mn in 1969. The growth rate over the last five years has been at 20 per cent per annum. The American industrial giant Bethlehem Steel Corporation, will set up a new shipyard as a joint venture, to be called Bethlehem Singapore Private Ltd, on a 79-acre tract of British naval base property, adjacent to the Sembawang Shipyard. The yard is estimated to cost S \$30 mn.

Hitachi of Japan will lend a helping hand in Robin Shipyard's S\$ 32 mn five-year expansion programme. Hitachi will supply the technical know-how, design methods and naval engineers. Hawker de Havilland is to set up its fourth project in Singapore—a marine venture, mainly for building pleasure craft of fibre glass and aluminium. Two American firms are setting up yards for building mobile off-shore drilling platforms in order to meet the mounting demand for oil rigs in the Far East, particularly around Indonesia and in the South China Sea.

Vosper Thornycroft built two fast patrol boats—each costing S \$800,000, 62 feet long and armed with 20 mn guns, for the Brunei Government. The vessels were described as "mini boats carrying a maxi-punch." Vosper Thornycroft have also entered into a joint venture with British Leyland Motor Corporation for the assembly, and eventually the manufacture of marine diesel engines in Singapore. Ishikawa-

jima-Harima of Japan and Jurong Shipyard are launching a S\$ 4 mn joint venture to fabricate industrial plants in the island. North American Rockwell Corporation, a US firm, is to build a precision roller chain plant in Jurong with an initial investment of S\$, 30 mn. In February 1971 work commenced on the construction of a S\$ 1.5 mn plant for manufacturing telephone equipment at Jurong as a joint venture in co-operation with a Swedish firm. One of Britain's big industrial combines, the Beecham Group, will invest S\$ 24 mn in a factory in Jurong to produce semisynthetic penicillins. Production is scheduled to commence in 1972.

ESSO plans to spend another sum of S\$ 90 mn to expand its S\$ 200 mn refinery commissioned on 18 February 1971 in Pulau Ayer Chawan. The expansion is expected to boost production from 81,000 to 231,000 barrels a day by 1973. The oil giant—MOBIL—plans to spend upto S\$ 135 mn to expand its S\$ 50 mn refinery in Jurong. The expansion will raise its production capacity of 25,000 barrels a day by seven times to 175,000 barrels a day. British Petroleum's expansion scheme which began early 1970 is nearing completion. In April 1971, its refinery in Pasir Panjang will have its daily output of 20,000 barrels boosted to 25,000. The Shell group has invested S\$ 70 mn in a new lubricant plant and is considering a second S\$ 70 mn venture—the fourth refinery in Singapore.

Minister for National Development E.W. Barker said on 10 July 1970 that four international companies will soon invest a total sum of S \$180 mn in 21 new factories that will provide 10,000 jobs. About 16 foreign countries are

reported to have so far invested in various industries in Singapore. Heading the list are Britain (S\$ 5,145 mn), US (S\$ 625 mn), and Japan (S\$ 100 mn). Britain makes up about 37 per cent of the total investment in the island. Recently, however, American factories have been "mushrooming" in Singapore. The larger part of American investment is in oil refining and oil exploration industries while a good part of the remainder is in electronics. Japanese capital of about S\$ 100 mn and expertise has gone into setting up 20 local ventures. The main ones are the Jurong Shipyard, Bridgestone Tyres and Singapore Textile Industries. Indonesia has given Singapore industrialists the go-ahead for 24 industrial projects, totalling S\$ 110 mn.

Land Reclamation

Singapore is to spread out to off-shore islands in view of the "acute problem of a very limited supply of potential urban lands...aggravated by a high land consumption rate". The 62 off-shore islands have a total area of 14 square miles compared to 210 square miles comprising the mainland. Singapore has density of 9,260 persons a square mile.

About 20 per cent of the land is used for agriculture : but the farm land is facing encroachment by urban development as well as both military and civil airports at Tengah and Payar Lebar. In November 1970, a Japanese firm won a S\$ 23.5 mn contract for carrying out the third phase of Singapore's east coast land reclamation scheme which will reclaim 3,000 acres of land. Work on the project commenced in February 1971.

Manpower (Civil)

According to census figures published by the Statistics Department in December 1970, the Singapore population was estimated at 2,074,507 — Chinese 1,579,866 (76%), Malays 311,379 (14%), Indians 145,169 (7%) and others such as Europeans, Arabs, Japanese and Jews 38,093 (2%).

Singapore is experiencing a shortage of labour, said Foreign Affairs and Labour Minister Rajaratnam on 23 November. "Five years ago the fear that haunted us was massive unemployment, especially after the separation when we were politically cut off from our Malaysian hinterland. Today the situation is different. As a result of accelerated economic growth we are experiencing a shortage of not only skilled labour but all grades of labour in general", he said. In order to ensure that the growth of economy is not jeopardised by labour shortage, the government is issuing work permits fairly liberally to non-citizens and recruiting technicians and specialists from abroad including Taiwan and Malaysia. In order to meet the growing needs of the economy, the intake of trainees at the eight training institutions has gone up steadily over the past three years.

Prime Minister Lee Kuan Yew on 22 June 1970 warned local employees of the British armed forces not to be under any delusions that a Tory victory meant "a reprieve". His advice to the 16,000 civilian employees working at various military bases in Singapore was that it would be better for them to collect their redundancy payments and retrain for some other jobs. The accelerating pace of economic expansion, he said, could

offer productive employment in the industrial and servicing sectors. It was better, that this be sooner. The staggered retrenchment, a direct result of the British rundown, went on as planned despite the new Conservative Government.

Economic Co-operation

The British High Commission in a statement issued on 5 August 1970 said that Britain's S \$375 mn aid programme to Singapore "to cushion off" the economic difficulties arising out of the military rundown will go on as planned despite the new defence arrangements proposed by the Conservative Government. A sum of S\$ 117 mn had been utilised since 1967 on various projects. These include roads, factories, defence schemes, the state-owned Orient Lines, vocational centres, technical education schemes, development of Keppel and Sembawang shipyards, the proposed industrial complex at Sembawang, land reclamation, airport facilities and other communication schemes.

A top Finance Ministry official visited Japan in November 1970 to negotiate the implementation of a S\$ 25 mn Japanese grant to Singapore. The S\$ 25 mn is part of S\$ 50 mn "blood debt" — compensation offered by the Japanese Government for the massacre of civilians by the Japanese troops during the last war. The other S\$ 25 mn is in the form of loans on special terms. The grant will go into the construction of the S\$ 10 mn earth satellite station on Sentosa and purchase of equipment for public utilities.

Writing in *Pravda* (9.8.70) A. Maslennikov said, "More than 500 Soviet

merchant ships annually call at Singapore". The Soviet Union is also assisting in the building of a watch factory and a tool making plant in Singapore. He expressed the hope for further development of economic and technical co-operation between the two countries particularly in the field of training personnel. Bilateral trade between the USSR and Singapore in 1969 amounted to S\$22 mn. A direct air service has been established between the two countries. Trade and cultural ties are developing.

An 11-member Indian industrial and trade team, headed by S.M. Dahanukar, President of the All-India Manufacturers Association, visited Singapore on 17 and 18 September. It discussed matters relating to industrial collaboration, joint ventures, trade promotion and technical assistance with officials and local entrepreneurs and manufacturers. Earlier, JRD Tata visited Singapore in April 1970. He called on the Finance Minister Dr. Goh. The Tata group plans to diversify its products being manufactured in Singapore.

The Asian Development Bank has so far lent S\$ 119 mn to Singapore for major projects — mainly utilities.

Communications

Delegates from the five ASEAN countries met in Singapore on 25 and 26 May 1970 and discussed problems relating to civil air transport in the region. A local company, Heli Orient, plans to introduce commercial helicopter services in the island. Under a new bilateral air services agreement signed on 8 October between Singapore and Britain, Singapore obtained a new trunk-route to London via a wide range of

intermediate points including Moscow and a major extension (trans-Pacific to USA and Canada) of its route through Hongkong while retaining all its regional routes. Additional points became available on the UK trunk route from London. The Hongkong airline (Cathay Pacific Airways) was enabled to extend services through Singapore to Indonesia and to operate additional services.

On 24 November, the Asian Development Bank approved a loan of S\$20.5 mn for the development and expansion of the Singapore international airport. The project, estimated to cost S\$ 34.7 mn, is scheduled to be completed in 1975. The 11,200 feet long runway was completed to receive Jumbo Jets from 26 April 1971. The ADB announcement said that Singapore had a strategic location on the world's air routes and the 21 airlines which operated services through Singapore in 1970 were expected to increase substantially by 1976. It added that air traffic in Singapore was expected to nearly double every five years. Plans to build a second Jumbo jet airport in Changi will depend on the outcome of the five-power defence talks, said the Minister for Communications Yong Nyuk Lin on 4 December.

Singapore is reported to be the world's fourth largest port, used by 200 major shipping lines covering services to all parts of the world. In 1970, an all-time record number of 38,079 ships aggregating 148.4 mn dwt called at the port. The Singapore wharves can handle 30 ships at a time. Besides there are 17 marine terminal berths owned and operated by the world's largest oil companies. Singapore is also one of the largest oil blending and distributing centres.

Two mooring piers for the over-200,000 ton tankers are also under construction. There are plans to build a dry dock to handle 400,000 ton super tankers. An extensive development programme presently in progress has plans for the construction, reconstruction and modernisation of existing buildings and berths. The Singapore Port Authority will spend S\$ 100 mn in 1971 to develop and improve its facilities. A sum of S\$ 57.72 mn is earmarked for major port development projects. The Asian Development Bank in November 1970 provided a loan of S\$ 25 mn for the proposed S\$ 30 mn expansion programme of Jurong port.

A marine radar training centre will be set up in Singapore with assistance from the UNDP Special Fund.

Four new vessels, 12,400 dwt each, are on order for Neptune Orient, Singapore's national shipping line. The freighters are due for delivery in 1972 and 1973. The line will buy a 220,000 ton tanker and a 150,000 ton bulk carrier. Singapore will be the first port in the region to cater for container traffic and provide feeder services to the smaller ports without container facilities. The Singapore Port Authority's East Lagoon cross-berth for feeder container vessels will go into operation soon. A S\$ 77.6 mn container complex is under construction at the port's East Lagoon.

Measures to overhaul Singapore's transport services were announced in a government White Paper on 22 July. The public bus fleet will be increased from 1,400 to 2,000 in the next three years and the 10 Chinese bus companies will be merged into three regional companies. The school fleet will be increas-

ed from 3,800 to 5,000. In the first year, the government hopes to create 4,150 jobs, in the second 1,300 and in the third 1,050 in the island's transport service.

Japanese contractors and engineers arrived in Singapore in September to begin work on the S\$ 10 mn communications satellite earth station on Sentosa. This followed the signing in August of a S\$ 8.275 mn contract with the Nippon Electric Company of Japan to build and equip the station. The first phase was completed in November and the entire project is scheduled to be completed by August 1971. The 150 feet high dish antenna, facing the Indian Ocean International Communication Satellite, Intelsat-III, can receive communications via space as far west as England and as far east as Japan and north-western Australia.

POLITICAL DEVELOPMENTS

Singapore's Parliament on 30 December 1970 unanimously elected Dr. Benjamin Henry Shears (63) as the President. He took over from the Speaker of the Parliament Prof. Yeoh Ghim Seng who had been Acting President since 23 November 1970 following the death of Yusof bin Ishak.

Ten persons were arrested in June 1970 in connection with "a policy of terrorism" launched by the Communist Party in Malaysia and Singapore. Police accused *Barisan Socialis* of having taken part in some of the violent demonstrations in Singapore. Communist terrorists were reported in early August 1970 to have used scare tactics—by planting dummy or hoax bombs—in an attempt to frighten the people. Sporadic attacks

killed one young girl and burned some buses. Speaking at a National Day meeting on 15 August 1970, Foreign Minister Rajaratnam warned the people against the new tactics adopted by the Communists. Earlier in a National Day message, Prime Minister Lee Kuan Yew said that his government would deal with the terrorists firmly.

On 19 January 1971, the Singapore police arrested a dozen Chinese protesting against political detentions in Singapore, outside the Commonwealth Conference hall. They mostly belonged to the *Barisan Socialis* (Socialist Front). They called for the release of political detainees numbering about 69.

FOREIGN RELATIONS

Fiji's Chief Minister Ratu Sir Kamisese Mara, while on his way to London for talks with the British Government on his country's independence, paid a four-day visit to Singapore in mid April 1970. He discussed matters of mutual interest with the Prime Minister and the acting Foreign Minister. Fiji is to send several top officials to Singapore to study the recruitment and training programme for its overseas missions.

Prime Minister Lee Kuan Yew called off his visit to Malaysia only hours before it was to take place on 20 August 1970 following a row over police treatment of three Malaysian youths detained in Singapore. Lee said that he would wait for a better time to make his visit.

Foreign Minister Rajaratnam while speaking on the new basis for co-operation with Malaysia said on 15 December

1970, "Co-operation with Malaysia is no longer the issue it was 16 years ago. It has to be considered now against the wider background of regional co-operation though our relations with Malaysia will continue to be more intimate and more special than with any other country in the region".

Earlier, Rajaratnam said on 9 April in Manila, where he had gone to participate in the "One Asia" assembly of the Press Foundation of Asia, that Singapore would prefer that ASEAN remained primarily a regional economic and social organisation. He ruled out Singapore's membership in the SEATO.

Finance Minister Goh Kong Swee paid a five-day visit to Jerusalem in the fourth week of April 1970. He met the Prime Minister, Foreign Minister and other Israeli leaders and discussed bilateral relations and matters of mutual interest. Singapore is training its Citizen Army with the help of Israeli army experts and instructors. Singapore wants to build highly trained reserves on the lines of the Israeli Army. Soh Tiang Keng writes in *The Straits Times* (17.12.70), "Indonesia frowns upon any prospects of Singapore becoming the 'Israel of the East', but welcomes her development as "a Switzerland of Asia".

A six-member Parliamentary mission from New Zealand visited Singapore in the last week of July 1970. The leader of the mission, Sir Leslie Munro said, "We favour strengthening our military presence in the area...This is in line with our country's forward defence concept". New Zealand had an under-sized infantry battalion, two frigates and an air transport squadron in the region in 1970-71.

Taiwan's Minister for the Interior Hsu Ching-chung visited Singapore from 16 to 19 September 1970 "to see the many facets of Singapore" especially housing, social welfare, agriculture and land administration.

Prime Minister Lee Kuan Yew proceeded on a 12-week world tour on 26 August 1970. He visited Ceylon, India, Tanzania, Zambia, the UAR, the Soviet Union, France, West Germany, Britain, the USA and Japan. He led his country's delegation to the Lusaka Summit of non-aligned nations from 8 to 10 September. He was accompanied by his Foreign Minister.

Lee arrived in Colombo on 26 August for a four-day visit. He discussed with Mrs. Bandaranaike, the situation in Asia particularly in Indo-China and West Asia, the third non-aligned summit and bilateral relations.

He arrived in Madras on 30 August on a six-day visit to India. He called on President Giri in Madras on the same day. Premier Lee held discussions with Smt. Gandhi and External Affairs Minister Swaran Singh in New Delhi. A joint communique issued on 4 September, called for the strengthening of relations between Singapore and India in all fields. The Prime Ministers of both the countries discussed the international situation especially with reference to South East Asia, the Lusaka Conference and bilateral relations. They re-affirmed their faith in non-alignment and called for the withdrawal of all forces from Indo-China.

Answering questions on the moves

to fill the "power vacuum" in the Indian Ocean area, Mr. Lee said at a press conference in New Delhi on 3 September that the tensions and difficulties in the region had come into prominence only after the premature announcement by Britain of her decision to withdraw from the east of Suez, and by moves made by those wanting to fill the vacuum. He felt that British presence east of Suez for a few more years would help the region through a difficult period of transition. He, added, "The present British Government's decision to maintain presence east of Suez would add to the stability and security of the region and make possible more economic development".

Tamil Nadu's Minister for Education and Health V.R. Nedunchezian, while on his way home after a study tour of the US, Japan, Hongkong and Thailand, visited Singapore on 26 and 27 October to study Singapore's educational system and health facilities.

A 20-member team from the National Defence College of India paid a familiarisation visit to Singapore on 16 and 17 August. They called on Foreign Minister Rajaratnam and later visited the armed forces training institute. The party, led by Maj-Gen Mohinder Singh, had arrived from Jakarta on 16 August where they had spent two days talking to senior officers and visiting military institutions.

Mr. Lee paid a two-day visit to Tanzania from 5 to 7 September. He arrived in Cairo on 14 September after attending the Lusaka Conference for a three-

day visit to the UAR. He said in Cairo on 14 September that the presence of British troops east of Suez should be accepted. "We have to live with it as long as guerrilla warfare and foreign intervention threaten the region", he said in an interview with *Al Ahram*.

Lee arrived in Moscow on 16 September on a week's visit. He met Prime Minister Kosygin at Sochi on 17 September and discussed international and regional problems and bilateral co-operation. A joint communique issued at the end of his visit on 23 September stated that the two countries expressed profound concern over the West Asian situation and favoured a solution of the Indo-China problem without outside interference. It expressed support for the UN, efforts at disarmament and stressed the importance of peaceful coexistence and the renunciation of force in international relations.

The two countries also pledged further to broaden and intensify commercial ties and economic, scientific, technical and cultural co-operation between them, including the training of personnel.

Mr. Lee reached Paris from Leningrad on 23 September on a four-day visit. He called on President Pompidou on 24 September and met the French Foreign Minister and discussed mainly South East Asia. They agreed to further develop their economic and cultural links. He arrived in Bonn on 28 September for a four-day official visit to West Germany.

After a five-week journey, he arrived in London on 2 October on a five-day visit. On 4 October, he discussed, a

broad spectrum of world affairs including Britain's supply of arms to South Africa and British presence in the region with Sir Alec Douglas Home. He met Defence Secretary Lord Carrington and Prime Minister Edward Heath on 5 October and exchanged views on the current international situation, five-power defence co-operation in the Singapore-Malaysia region and bilateral co-operation—especially British investments in Singapore.

Mr. Lee arrived in New York on 22 October to take part in the 25th anniversary session of the UN General Assembly. He called on President Nixon on 5 November and reviewed the security situation in South East Asia. While on his way back, Mr. Lee arrived in Tokyo on 13 November for a five-day visit to Japan at the invitation of the Japanese Foreign Minister. He discussed bilateral economic co-operation and matters of mutual interest with the Japanese leaders. He returned home on 20 November.

During his visit to the United States, Mr. Lee said in Cambridge (Mass) on 20 October that any proposal to bring stability and peace to South East Asia would have to have the blessings of Communist China. "Even if the Big Powers—the United States and the Soviet Union—were to agree on a course of action to bring peace to the area, it would be of little worth without China's endorsement", he said.

On his return from the world tour, Mr. Lee said on 20 November, "I have always said that it is a good thing if China enters the UN because it is a very large chunk of the world". Singapore, however, abstained from voting on the

Algerian-Albanian resolution favouring the admission of China to the United Nations and exclusion of Taiwan in the General Assembly on 20 November. Lee welcomed Malaysia's proposal for South East Asia as the best answer for the region's security. The plan called for the neutralisation of the region backed by guarantees from the USSR, the USA and China. Lee at the same-time, expressed concern about the possible spread of Communist insurgency to the island.

Foreign Minister Rajaratnam told a press conference in New York on 20 October that the Russians were moving into Asia in "a systematic and clever way" which might be beneficial to Asia, while the United States was thinking of quitting. The growing Soviet naval power in the Indian Ocean, he said, need not be a threat because it was natural that any super power should have a presence throughout the world—they must sail all the seven seas.

Commonwealth Conference

A conference of Commonwealth Heads of Government was held in Singapore from 14 to 22 January 1971 under the chairmanship of Prime Minister Lee Kuan Yew. All the 31 Commonwealth countries were represented—7 by their Presidents, 17 by their Prime Ministers, one by Vice-President and six by senior Ministers.

A joint communique issued on 22 January stated that the Heads of Governments reviewed the world political situation and trends. Views were exchanged on East-West relations, China's representations in the UN, the conflict in Indo-China, the neutralisation of

South East Asia, a durable settlement in West Asia, complete disarmament, the cessation of nuclear weapons and the complementary role of regional organisations.

They discussed fully the sale of arms to South Africa and the factors affecting the security of maritime trade routes in the South Atlantic and Indian Ocean. They decided to set up an eight-member study group to consider the question further and to report to them. The Heads of Governments in their discussion of a paper presented by the Prime Minister of Ceylon agreed on the desirability of ensuring that the Indian Ocean remained an area of peace and stability.

They had a full and frank discussion on the world economic situation and broadly reviewed the recent developments. They discussed a common agricultural policy, export market development, a common information programme and the Commonwealth Fund for Technical Co-operation.

The Heads of Governments approved unanimously and issued a **Commonwealth Declaration** when the Conference came to a close on 22 January. The declaration enunciated the following five principles in the common interests of their peoples for the promotion of international understanding and world peace.

- (i) "We believe that international peace and order are essential to the security and prosperity of mankind; we therefore support the UN and seek to strengthen its influence for peace in the world, and its efforts to remove causes of tensions between nations".

- (ii) "We believe in the liberty of the individual, in equal rights for all citizens regardless of race, colour, creed or political belief".
- (iii) "We recognise racial prejudice as a dangerous sickness...and racial discrimination as an unmitigated evil of society".
- (iv) "We believe that wide disparities in wealth now existing between different sections of mankind are too great to be tolerated...We, therefore, seek to use our efforts to overcome poverty, ignorance and disease in raising the standards of life and achieving a more equitable international society".
- (v) "We believe that international co-operation is essential to remove the causes of war, promote tolerance, combat injustice and secure development among the peoples of the world".

In pursuance of these principles, members of the Commonwealth coming from territories in six continents believed that they could provide a constructive example of the multi-national approach which was vital to the peace and progress in modern world.

ARMED FORCES

The Government has decided to form a Civil Defence Organisation within the Vigilante Corps in which national servicemen may serve. The organisation will develop a capacity to meet the civil defence needs of a national emer-

gency in the country including national disasters.

The strength of Singapore's armed forces in 1970 was estimated at 14,800 — Army 14,000, Navy 500 and Air Force 300. Army reserves number over 6,000.

New pay scales and service conditions for the armed forces came into force on 1 January 1971. It will cost the government an additional sum of S\$10 mn a year. Technical pay supplements have been provided to attract a sufficient number of persons to the technical vocations. Fringe benefits have been increased. The Defence Ministry proposes to offer incentives for graduates and under-graduates who accept regular commissions after the completion of their studies.

The government has amended the enlistment regulations to enable boys under 18 to join the armed forces as regulars. No minimum age for voluntary enlistment is set but boys as young as 16 or under would be considered for acceptance with the consent of their parents. With the rapid expansion of the armed forces and the introduction of sophisticated weaponry, it has become necessary to train and build up a core of technicians.

A batch of 152 technical trainees completed their course at Seletar West Camp on 10 October 1970. Singapore purchased some V-200 armoured personnel carriers from a US company in 1970. Eleven such vehicles were on display during the National Day Parade in August.

The Air Force has 17 combat aircraft—7 Hunters and 10 BAC-17

Strikemasters (six more were scheduled to be delivered in 1970-71), 8 *Cessna-172* light aircraft and 8 *Alouette-III* helicopters. It received two *Air Tourer T-6* trainer aircraft, from New Zealand on 8 October 1970 as a gift. The first batch of British *Hunter* jet fighters was delivered in the fall of 1970. The entire consignment of 20 *Hunters* was expected to arrive by the end of 1970. The *Hunter* jets will form the main strike force of the Air Defence Command.

Four pilots of the Air Defence Command undergoing flying training in Britain got their "wings" in July 1970. The pilots later received advanced training on *Hunter* jets. The first eight pilots trained in the SAF Flying School got their "wings" on 31 January 1971. A new University Air Squadron is being formed in Singapore to train pilots for the Air Defence Command. Its membership is confined to students from the local universities and other educational institutions. The measure is aimed at building up a sufficient reserve of trained men for the growing needs of the air force.

In early 1970, Singapore had two seaward boats and some patrol boats were on order. Two Australian-made patrol boats arrived in Singapore in June 1970. Five more boats were to arrive in September 1970. The 20 knot boats are 45 feet long and are equipped with machine guns.

The Maritime Defence Command placed orders for six fast naval patrol boats—2 are being built in UK and 4 in Singapore. The 30 knot boats with 1,500 miles range will form the backbone of Singapore's air-sea rescue squadron. The cost of the boats, about

S \$30 mn, is being met by the special aid programme. Britain, Australia and New Zealand are now training the crews of the Maritime Defence Command. A locally built fast patrol boat, *SS Darling*, was launched on 1 December 1970 by Vosper Thornycroft Ltd in Singapore.

The fifth battalion of the Singapore Infantry Regiment underwent training in April 1970 at the Jungle Warfare School in Kota Tinggi and later participated in the five-nation Commonwealth defence exercise, *Bersatu Padu*, held in the region. On 1 July 1970, Defence Minister Lim Kim San announced that Singapore was ready to contribute troops to a Commonwealth defence force. In June 1970, the UK provided a sum of S\$ 35 mn for the build-up of Singapore's Armed Forces.

The Singapore Armed Forces' 45-member medical team on a mercy mission to cyclone-devastated Sandwip Island of East Pakistan returned on 23 December. Its two-month assignment was cut short by 5 weeks as the Pakistan Government decided to close down all relief centres. Pakistani warships—destroyer *Jahangir* and three fast patrol boats *Comilla*, *Jessore* and *Rajshahi*—visited Singapore in the third week of February 1971.

FIVE NATION DEFENCE CO-OPERATION

Combined exercises

The five-nation Commonwealth defence exercise, *Bersatu Padu* (complete unity), was held off the eastern coast of Malaysia from April to June 1970

under the overall command of Maj-Gen Dato Mohammed Sany bin Abdul Ghafar, GOC, West Malaysia. The exercise was held to prove Britain's general capability to move troops quickly to the Far East after her withdrawal from the region. The 19th British Brigade was flown from a base in southern England to Singapore in April to take part in the exercise.

A three-day exercise, called "Spring Handicap", was held in the Endau-Kota Tinggi wild life reserve and the Lengor forest reserve from 27 to 29 May. About 4,000 troops from the Singapore Infantry Regiment and the British Brigade took part in the exercise in a brigade size warm-up for the three-week long main phase of *Bersatu Padu* in June. The RAF and RAAF assisted in reinforcement and re-supply operations.

Forty warships, 50 aircraft and 8,000 servicemen from Britain, Australia, New Zealand and Malaysia held a twelve-day manoeuvre, code-named "Crack Shot", from 25 May to 6 June in the South China Sea, off West Malaysia. Some of them reportedly carried top secret weapon systems. The exercise was designed to bring the navies of the four countries to peak efficiency for the main maritime phase of the air-sea-land exercise, *Bersatu Padu*.

The final stage of the *Bersatu Padu* operation *Granada*—the climax of a series of war games which began in April—was held from 13 to 30 June in the tropical jungles of the State of Trengganu on the eastern coast of Malaysia facing the South Sea. More than 40 warships, 200 aircraft and 20,000 servicemen of five Commonwealth countries—Britain,

Australia, New Zealand, Malaysia and Singapore—took part in the exercise. The enemy was supposed to have come from Ganasia—an imaginary expansionist communist country sandwiched between southern Thailand and north west Malaysia.

The exercise was designed to show how the combined forces of the five Commonwealth countries could defend the region against external aggression after Britain's military pull-out from the region. It was reported to be the biggest military exercise ever staged in the region in peace time.

A modest British military presence

Thinking on Security in the region has undergone a change since the Conservatives regained power in June 1970. The British Foreign Secretary Sir Alec Douglas-Home in his first policy statement in the House of Commons on 6 July said that the former Labour Government's plans for military withdrawals from the east of Suez were "too hasty." He added that his government planned to join Australia, New Zealand, Malaysia and Singapore in setting up "a modest military presence" to build confidence in the South East Asian region.

British Defence Secretary Lord Carrington arrived in Singapore on 25 July 1970 on a twelve-day visit to the four Commonwealth countries in the region for talks on the size and nature of Britain's future regional defence contribution. He discussed the defence requirements of the region with national leaders and the British Service Commanders in Singapore and Malaysia.

Lord Carrington told a press conference in Singapore on 27 July 1970 that the British military withdrawal would continue as planned under the Labour Government but the present Government would retain some of its forces on equal basis with the other four Commonwealth countries. He gave four main reasons why Britain was determined to keep a military presence in South East Asia :

- (i) to carry out treaty obligations to Singapore, Malaysia, Australia and New Zealand ;
- (ii) to provide stability in the region where Britain has trading interests ;
- (iii) to protect British investments ;
and
- (iv) to carry out Britain's worldwide commitments to safeguard the "Free World".

Lord Carrington said in Kuala Lumpur on 1 August that the Conservative Government would not halt or slow down the pull-out of British forces. On his return, he said in London on 6 August that Britain would be an equal partner rather than a dominant partner in the new defence arrangements in South East Asia. A British presence would be important for political reasons and also as a deterrent. It would be modest but useful and comparatively cheap. He described his reception in New Zealand, Australia, Malaysia and Singapore as "most cheerful". His proposals for retaining British troops in the region were warmly welcomed by Malaysia and Singapore besides Australia. Continued British presence, it was felt would mean added safety and security in the region. It would give confidence and deter aggression in the area.

The British Defence White Paper, issued in London on 28 October 1970, announced that Britain will maintain a military presence in South East Asia within the framework of a defence alliance involving Malaysia, Singapore, Australia and New Zealand. Britain's military contribution to the five-nation defence arrangement would involve five frigates or destroyers, a battalion group, a detachment of long-range maritime aircraft, a squadron of helicopters and visits by combat units for training in the area. The Brigade of Gurkhas will remain in being with either four or five battalions. The greater part of the Brigade will be stationed in the Far East.

On South East Asian defence plans, the White Paper said that the Government believed that the withdrawal of forces planned by the Labour Government would have weakened the security of Malaysia and Singapore and that a continued British presence on the spot would help preserve confidence in the area.

The five-power defence plan would be based on "a political commitment of a consultative nature" by all the five powers concerned with the defence of the region. Later at a press conference Lord Carrington said on 29 October that Britain intended to change the open-ended commitment to come to the aid of Malaysia and Singapore in any circumstance other than internal security. The new commitment, he said, would be in line with the realities of the situation and would be a commitment to consult.

Singapore's Prime Minister Lee Kuan Yew welcomed the British decision as "a significant contribution to peace and

stability". Tun Abdul Razak accepting the change said that a small force could be an advantage but this should be reinforced, if necessary. Asked if the Conservatives were really making the best of the Labour policy or whether there was change in substance, Tun Razak said, "There is a definite change. Labour was not prepared to station British forces beyond 1971. On the other hand, the Conservatives are being realistic".

The Soviet armed forces' daily *Red Star* (15 November 1970) attacked Britain's plans for a five-nation military grouping in South East Asia as being "aimed at breaching the neutrality and non-alignment of a number of Asian countries". The paper said that the US would be an invisible sixth member through its close treaty ties with Australia. It warned Asians to keep a close watch on the US-British policy which was aimed at "enmeshing Asia in the cobweb of their military bases".

Senior officials of the five nations met in Singapore on 7 and 8 January 1971 and reached broad agreement on the future defence of the region. A document was drawn up setting out the political framework for defence arrangements of the area after the Anglo-Malaysian defence agreement expires in 1971. The Prime Ministers of Australia, New Zealand, Singapore and Malaysia met aboard HMS *Intrepid* at the Naval Base at Singapore on 15 January 1971 at the invitation of Prime Minister Edward Heath. Defence arrangements in the Singapore-Malaysian region were stated to have figured in the meeting.

The British White Paper on Defence, issued on 17 February 1971, pointed out :

"We have decided as a reflection of our concern about the Indian Ocean to provide the additional frigate to those we have already announced to station east of Suez and contribute a submarine to the Australian submarine squadron which will be able to provide one boat for a semi-permanent submarine presence in the area". Britain's contribution to the defence of the area would have a valuable role in countering Soviet activity in the Indian Ocean, according to Lord Carrington.

A conference of the five Commonwealth countries was held in London on 15 and 16 April, 1971 to plan the framework of the new defence arrangement for the Singapore-Malaysia region. It approved a new defence structure for the region emphasising consultation instead of commitment. A communique issued after the meeting confirmed that in the event of any form of external armed attack against Malaysia or Singapore the participants would immediately consult each other to decide what joint or separate measures should be taken. The consultations will take place in a Joint Consultative Council. The agreement comes into effect on 1 November 1971 and will replace the 14-year old Anglo-Malaysian Defence Agreement.

Integrated Air Defence System

Air Commanders from the five Commonwealth powers involved in Malaysia-Singapore's defence, in a conference held in Singapore on 6 November 1970, agreed on plans to set up an integrated air defence system headquarters at Butterworth in Malaysia. The nucleus of the headquarters started operating in January

1971. It will expand its activities later in the year under the direction of Air Vice-Marshal R.T. Susans of the Royal Australian Air Force, who was appointed Director of Air Defence Planning in the region. The Commander of the Far East Air Force, Air Marshal Sir Neil Wheeler, while talking to reporters at a farewell interview, said in Singapore on 4 November 1970 that the new "air defence umbrella" covering the Malaysia-Singapore region was expected to be operational by September 1971. Till then, the FEAF would maintain a squadron of *Lightning* interceptors, some long-range maritime surveillance planes, *Hercules* transports and two squadrons of helicopters in Singapore.

The five-power conference held in London on 15 and 16 April in 1971 agreed to establish an Air Defence Council which would provide direction to the Commander of the integrated air defence system to be established on 1 September 1971.

ANZUK FORCE

Australian Defence Minister Malcolm Fraser, in the annual defence report tabled in the Parliament on 17 September 1970, said that the Australia-New Zealand forces to be stationed in the region would consist of two squadrons of RAAF *Mirages*, two naval vessels and a two battalion ground organisation. The Australian contribution to this ground force would be about 1,200 men plus some communications and other support personnel. Under the new commitment, Britain would keep between 2,000 to 3,000 persons belonging to all the services permanently ashore in South East Asia and another 1,500 men aboard ships. It will be known as the ANZUK Force.

The Chief of the Defence Staff Admiral Sir Peter Hill-Norton said in Canberra on 7 July 1971 that the final relocation of British, Australian and New Zealand forces in the region was likely to be completed by 1 November 1971.

Australia will provide Malaysia and Singapore £ 9.3 mn in defence aid over the next three years. The aid will include equipment and training of more than 700 servicemen from both the countries in Australia. Australian military aid to these countries since 1964 has totalled £ 21 mn. New Zealand has given military equipment worth NZ\$ 1 mn to Malaysia and NZ \$ 250,000 to Singapore since 1964. Prime Minister Keith Holyoake told the Parliament on 22 April 1970 that the current 1969-72 aid programme to both the countries covered NZ \$ 450,000. (NZ\$ = US\$ 1.12).

Foreign Bases

Air Chief Marshal Sir Brian Burnet, G-O-C-in-C of the Far East Command, announced at a press conference on 5 November 1970 that Britain had agreed to hand over fixed military assets totalling S\$ 354 mn (£48.63 mn) to Malaysia and Singapore after 1971. Singapore's share totalled some S \$212 mn. The assets included bases at Butterworth, Klang and Seremban in Malaysia and assets at Pulau Brani, Kranji ammunition depot as well as parts of Seletar and Tengah air bases in Singapore. Most of the properties have been handed over and the rest would be transferred in 1971. The Changi base, too, was likely to be handed over to Singapore in 1971. The No. 110 RAF squadron

based at Changi was disbanded in February 1971.

Sir Brian said that the strength of the British forces and supporting civilians in the region had been reduced from 74,000 in 1968 to about 39,000 in November 1970. The British services employed 14,000 civilians. Under the pull-out programme, the strength of the British forces in the region was expected to be scaled down to 20,000 at the end of 1970.

Six warships of the British Navy based in Singapore—*Intrepid*, *Triumph*, *Sir Galahad*, *Olwen*, *Resource* and *Hydra*—forming part of the British Mercy Task Force for relief and rescue operations, arrived in East Pakistan on 24 November from the Singapore base along with necessary supplies. RAF *Hercules* planes also airlifted helicopters, shallow-draft boats and relief supplies to Chittagong and Dacca. Helicopters, landing craft and marine commandos carried supplies to the cyclone devastated area of Patuakhali. Royal Engineers assisted in repairing

damaged jetties, bridges and buildings. The mission, called "Operation Burlap", in which more than 2,000 British servicemen took part, was withdrawn on 12 December after a three-week assignment.

The Chief of the British Air Staff, Air Chief Marshal Sir John Grandy, said in Singapore on 17 February 1971 that Changi, which is now RAF's main transport base, would be handed back to Singapore at the end of 1971. The RAF would share Tengah base with the Singapore Air Defence Command from early 1972. Other than a number of helicopters and four long-range maritime reconnaissance aircraft, Britain would not station any planes in the region. The Seletar airbase was returned to Singapore on April 1971 after 40 years.

A group of high ranking USAF officers headed by General Jack G. Merrel, Commander of USAF Logistics, paid "a familiarisation visit" to Singapore on 12 and 13 March 1971. General Merrel called on the Defence Minister on 12 March.

9. INDONESIA

ECONOMY

Economic Growth

Indonesia's economic progress in 1969, the first year of its first five-year plan (1969-73), raises hopes that the country should not only be able to fulfil but exceed the target of the annual economic growth rate set for the plan period. During the year the gross national product (GNP) recorded a growth of 7 per cent to \$ 9·8 bn against the plan target of 4·5 per cent. Performance in 1970 was reported to be even better.

Economic Recovery

President Suharto in his new year (1971) address maintained that much

had been achieved in economic sector during 1970. Economy achieved stability and production and development activities were stepped up. The inflationary trend was contained and against 10 per cent in the previous year, it had been held at 8·8 per cent. The Government opposed the idea of deficit financing which would, President Suharto argued, have allowed inflation "to eat up hard won gains in development." Further, in order to achieve monetary stability and to increase state's income, as well as production, important economic measures, such as, the adjustment and simplification of foreign exchange rules, tax laws and import duties were undertaken. The President had also announced in April 1970 an exchange reform which enabled Indonesia's rupiah to stabilise at Rp 378 to a US \$.

Indonesia—Statistics	
Area	... 1.9 mn sq. km. Comprising some 3,000 small and big islands
Population	... 124·24 mn
G.N.P.	... \$ 9·8 bn (1969)
Defence Expenditure (1970)	... (\$ 278 mn (Rp 105 bn)
Armed Forces :	... 365,000
Currency	... Rupiah 378 = \$1

Earlier on 16 August 1970, addressing the Indonesian Parliament on the eve of the 25th Independence Day, President Suharto declared that since the "New Order" was established in 1966 the economy had improved. Great success was achieved during the last four years in curbing the rate of galloping inflation. There were no longer queues for rice, oil, sugar or salt. There was enthusiasm to work for higher output. Rice production was already higher than the five-year plan target. Exports were nearing the highest figure ever reached since independence—more than one billion US dollars. He, however, called for fundamental re-organisation of imbalanced structure of the country's economy which mainly relied on agriculture. Large-scale industrial development was only possible after the creation of a firm and solid agricultural base, he emphasised. He expressed the hope that by the end of the five-year plan, Indonesia should no longer import rice; food production should no longer be a problem and agricultural production should be increasing rapidly.

Press reports on Indonesian economy was generally favourable. *The Financial Times*, London, wrote in connection with the World Bank sponsored aid meeting: "Reports on the Indonesian economy...are understood to have been favourable." It continued: "The modest foreign exchange reserves have increased slightly, an increase in domestic savings is apparent, and tax receipts show a gradual but steady increase, allowing a greater part of the cost of economic development to be borne by the Indonesian Government." The Dutch Finance Minister Hendrik Witteveen after a visit to Indonesia

while speaking to the Press in Amsterdam on 28 April 1971 praised the Indonesian Government for its outstanding achievements in restoring stability in the country. "Inflation has been controlled. The country's budget was more completely balanced. A good start has been made with the increase in rice production. Indonesian *Rupiah* has become a hard currency so that it was easy now to attract foreign credits", he said. The President, he added, had accepted vigorous restrictions on the budget for his armed forces. Other Press reports have, however, serious reservations and are of the view that, "it will take Indonesia long to get out of the wood." Western industrialists visiting Jakarta, it is reported, were somewhat sceptical about President Suharto's capacity to sustain a steady rate of economic growth. The biggest worry was the ever present threat of political instability.

Foreign Aid and Investment

Political stability in Indonesia under General Suharto has been able to attract foreign capital in a large measure. Most of the foreign entrepreneurs pushed out of Indonesia during Sukarno's rule are now back. Under the favourable conditions created by the new foreign investment law of 1967, foreign capital and expertise have been persuaded to return with a fair degree of success. International and governmental aid are now flowing in regularly and in increasing amounts. By mid-1970 intended foreign investment had reached over \$ 1 bn, spread over more than 170 projects. The most favoured sector was mining which accounted for 38 per cent of the total. Other important sectors were timber

(25%), petroleum (22%) and industry (11%). Total foreign investment in Indonesia which stood at \$ 300 mn in 1966 has now gone up to \$ 4 bn. Most important among the investors are USA, Hong Kong, Singapore, UK, Holland and West Germany. The Soviet Union was to send an economic mission to Jakarta for talks on the resumption of abandoned Russian projects including an atomic reactor at Serpong.

Upto mid-1969, 89 plantations had been returned to 28 foreign firms and 18 foreign industrial enterprises brought back into operation by their original owners. Eleven foreign banks opened branches in Indonesia. In forestry, out of 95 projects 40 have started operation.

Indonesia has also been able to secure through the Paris Aid Club satisfactory terms for the repayment of debts to the extent of \$ 2.2 bn (as on 1 January 1969), major part of which was contracted during Sukarno's regime. The debts will now be paid in equal instalments over a period of 30 years. The Soviet debt of \$ 750 mn will also be re-paid in 30 years. Dr. Adam Malik paid a two-week visit to Vienna, Belgrade, Prague and Warsaw in June 1971 and discussed the rescheduling of old debts with the governments of those countries also.

The nine-member Inter-Government Group on Indonesia (IGGI) in their meeting held in Amsterdam on 20 April 1971 decided to extend \$ 649 mn to Indonesia during 1971-72. This included food aid totalling \$ 160 mn. Indonesia pledged to curb inflation, excessive government spending and

boost exports. The group made a total commitment of \$ 600 mn to Indonesia during 1970-71. The Soviet Union, which suspended aid in 1966, has also agreed to resume economic aid to Indonesia unconditionally.

Agriculture

Agriculture absorbs over 70 per cent of the labour force and provides more than half the national income. Before the II World War the islands now forming Indonesia were self-sufficient in basic foodstuffs but in the post-war period the country has been forced to import large quantities of rice. The government, however, has succeeded in promoting increased rice output but production could not yet keep pace with the population growth. The five-year plan laid great stress on larger supplies of fertilisers; consequently consumption of fertilizers increased rapidly from 78,700 tonnes in 1965 to 120,000 tonnes in 1968. In May 1970, President Suharto issued an order under which the government's Rural Banks were to provide credit directly to the farmers through their village and mobile units.

Gen Suharto has also taken a very important measure to stimulate plantation production which is primarily responsible for agricultural exports. Consequent on the confiscation of foreign owned estates by the Sukarno regime, the plantation production was reported to have been static and in some cases declining. The Suharto regime has invited the foreign planters back and offered the estates on 30-year lease with optional renewals. Much rehabilitation, after years of neglect, will however, be necessary.

The target for rice production for 1971 has been fixed at 12.5 mn tons. A total of more than 2 mn hectares of paddy land will be brought under "intensification" programme during the next planting season. The position of the growth of consumption, production, imports of rice together with population growth is given below :

in March 1971 is to expected to reach 1 mn barrels a day in 1971-72. Most of the petroleum produced in Indonesia is exported as crude. Crude oil constitutes about 47 per cent of the total exports of the country on the basis of 1969 performance and earns about \$ 400 mn a year. The prospects of future export are also very bright as

Year	Consumption needs (estimated) (000 tons)	Production (000 tons)	Import (000 tons)	Population (mn)
1967	12,299	9,234	347	110.95
1968	12,606	9,802	626	113.72
1969	12,926	10,582	500	116.59
1970	13,308	11,760	600	120.70

Indonesia produced 11.76 mn tons of rice in 1970 exceeding its target of 11.43 mn tons. Indonesia hopes to be self-sufficient in rice by the end of the five-year development plan in 1974.

Mineral Resources

Indonesia is a major producer of tin ore, though its relative weight has declined as the industry was badly neglected for many years. The Government had taken some belated steps in 1964 to rehabilitate the mines and Dutch credits have now been made available to the industry. Currently Indonesia's most valuable mineral resource is oil. Indonesia claims to be the largest producer of crude oil in the area east of the Persian Gulf. Production of crude estimated at 900,000 barrels a day

Indonesian crude is relatively sulphur-free and finds market easily.

During the last two years, *Pertamina* - the state oil monopoly - collected at least 40 per cent of the country's overall foreign exchange earnings.

Overseas oil giants, some of them pushed out during Sukarno's rule, have come back. Thirty-five foreign oil companies propose to invest about \$ 400 mn within a period of 10 years. The massive search for oil carried out by the foreign oil companies as well as the state monopoly, *Pertamina*, has led to new discoveries on land and offshore in the West Java. Oil industry extrapolations show that the whole of the Java Sea area is rich in oil. Other promising areas are north Sumatra and the Button region of south-east Sulawesi. Recent

oil discoveries include offshore oil wells near Borneo, found by a combine of American and Japanese companies and another offshore oil strike by an American Company in the sea north of East Java city of Surabaya.

The US giant Free-port Sulphur Company which is developing copper deposits in West Irian is likely to invest \$ 120 mn on the project. The region is estimated to contain deposits of 32.6 mn tons of copper mixed with gold and silver.

Industry

Both large and small-scale industries in Indonesia have been suffering from lack of financial resources and scarcity of imported raw materials and machinery owing to foreign exchange shortage. The government did what it could within its resources to promote industrial development by financial and technical assistance. Production in a number of industries especially in textile and paper is on the increase. In textiles, 1969 figures showed 31 per cent rise (total 415 mn metres) over 1968 and in paper it was 50 per cent. A number of foreign firms especially Japanese and American have opened joint ventures in almost all branches of industries. The Government has, however, banned foreign investment in 30 types of light industries to promote local enterprises in those fields. A Japanese firm has been asked to develop a hydroelectric project in the Asahan valley (East Sumatra) to produce 3.2 bn Kwh of power in the first phase with a view to setting up an aluminium plant. IDA and ADB have sanctioned a \$ 68 mn loan to finance setting up a fertilizer plant in Sumatra with a capacity of 380,000 tons

based on local natural gas which now goes waste. The third galvanised sheet iron factory in Sunarang, a joint venture with Japan, was opened and the fourth one was also to be opened in September 1970. Each would have a capacity of 15,000 tons per annum. Four small rolling mills based on local scrap were to be set up at Medan, Surabaya, Tjilat-jap and Jakarta. An American firm is to set up an iron and steel mill near Belawan port in North Sumatra. It will use scrap iron as raw material. By the end of 1970, 11 automobile manufacturers were to assemble their vehicles in Indonesia. The first in the field was Japan's Toyota followed by US manufacturers and West Germany's-Volkswagen-Daimler-Benz. Indian companies have entered into arrangements for the manufacture of trucks and jeeps and a licence has been obtained for setting up a steel pipe factory. The Indonesian Government has also agreed to buy small cement plants from the Tamil Nadu Industrial Development Corporation. A pharmaceutical factory which will produce antibiotics under licences of US, West German and Dutch firms will meet about 20 per cent of country's requirements. Two big crumb rubber factories were opened in Sumatra, one of them by a Singapore firm.

Budget

President Suharto presented a balanced budget for 1971-72 to the House of Representatives on 6 January 1971. The Budget estimate places revenue receipts at Rp 585 bn, against last year's Rp 320.5 bn, an increase of Rp 264.5 bn. The estimated expenditure which is also placed at the same level provides for development outlay of Rp

221 bn, 38.8 per cent higher than last year.

The highest amount of revenue receipts will be contributed by indirect taxes, Rp 220.6 bn (an increase of 36.7 per cent over the last year) followed by development projects, Rp 169 bn and oil revenue Rp 126.3 bn (an increase 32.8 per cent over the last year).

The routine expenditure of Rp 364 bn will include 35 bn (\$ 92.5 mn) for interest payment and 33.3 per cent increase (amount not stated) in the salaries of civil servants and members of the armed forces. It may be recalled that in last year's budget also the emoluments of civil and military personnel were raised by 50 per cent (Page 102, Annual Review 1969-70 refers). The development expenditure will include Rp 119.5 bn on economic sector, Rp 76.6 bn on social sector and Rp 10.8 bn on general sector.

Although General Suharto called it a balanced budget, a former Indonesian Finance Minister, Jusuf Wibisono, criticised the budget proposal and called it a deficit budget. In the 1971-72 budget, according to Wibisono, the deficit was as big as the amount of foreign credits, namely \$ 640 mn, which was about 41 per cent of the entire budget. For an economy which the government referred to as stable, such a deficit was quite big, he added.

Power

The Asian Development Bank has agreed to provide technical assistance

totalling \$ 185,000 to Indonesia to conduct a feasibility study for the rehabilitation and development of the electric power supply system in West Sumatra. The United States will also provide a loan of \$ 16.8 mn for the rehabilitation of electricity network in Central Java.

Trade

Under a regulation issued on 17 April 1970, the Government has simplified the export-import procedure with a view to pushing up export revenues. During 1969-70 exports exceeded \$ 1 bn, the highest figure for 19 years and substantially higher (by approximately 9.1 per cent) than the target set for the first year of the first five-year plan. The rise in the export value, it is claimed, indicates the progress in the economy, but it is partially also due to rise of international prices of certain commodities. Imports also exceeded \$ 1 bn. Increase is mainly due to import of capital goods required for development of production. In the first six months of 1970, Indonesia's exports totalled \$ 572.7 mn, an increase of 16.8 per cent over the corresponding period in 1969. Oil accounted for \$ 220.2 mn. Imports during the same period were up by 38 per cent to \$ 354.7 mn.

Communications

In the Sukarno era, inter-island shipping which is of primary importance to Indonesia was seriously disrupted by the quarrels with the Dutch and Malaysian Governments. Consequently docks and wharves needed extensive modernisation and reconstruction. Dredging of harbours had not kept

face with silting. Now under an agreement signed recently with the Netherlands, Indonesia will get technical and financial assistance in the field of inter-island shipping and supporting facilities. Dutch assistance will include harbour rehabilitation, docks, buoys and maintenance of communications. The Dutch Government has earmarked a sum of 4.2 mn guilders for the project (\$ 1 = 3.6 guilders). A team of Dutch navigation experts arrived in Indonesia in mid-July 1970. Under another agreement signed in July the Malacca Straits will be surveyed as a joint effort financed by Japan.

In June 1970 President Suharto told the Economic Stabilisation Committee of the Cabinet about his plans for rehabilitating inter-island sea transport. Among the measures he suggested were that ships under 1,000 tons must be built within the country, and higher priority be accorded to the infrastructure needed for shipbuilding.

An effort is being made to develop the air transport system in the islands. According to the Communication Minister, 38 airfields need constructional improvements. Priority will, however, be given to the improvement of Macassar, Bandjarmasin, Medan, Palembang, Menado, Bali, Ambon and Jakarta at an estimated cost of Rp 2.9 bn. A new airport will be built at Tjengkareng with US aid. Three new STOL aircraft, Skyvan, are being bought from UK for air communications in West Irian.

The air service agreement between India and Indonesia signed in 1968 was ratified in June 1970. Pakistan gave Indonesia four transport aircraft complete with accessories, pilots and

technicians. Although Pakistan announced that the Constellation aircraft were given as gift, it was rumoured that those were exchanged with Russian MiG-19s which Indonesia could not use for want of spares. Steps were also to be taken to establish a joint venture with Pakistan in the aircraft assembly industry. Canada signed in May 1970 an agreement to provide aircraft spares and related technical assistance worth \$ 190,000.

In July the Indonesian Government set up a special committee to revise the five-year plan targets for improving communications because the original plan had been overtaken by the rapid development of transport and telecommunication. Australia which has been assisting this project since 1968 has now sanctioned \$A7 mn for improvement of the facilities. Facilities of the Aeronautical Fixed Telecommunications Network installed in 1968 by Australia under Colombo Plan is being expanded at a cost of \$ 2.8 mn donated by Australia.

A micro-wave communications system for Sumatra is to be built with a World Bank credit of \$ 12.8 mn.

POLITICAL DEVELOPMENTS

Sukarno who was stripped of the Presidential power and held under detention and house arrest died on 21 June 1970. Although it apparently looked like a controversial matter in view of Sukarno's alleged complicity in the 1965 abortive coup, he was accorded full honours of a state funeral. His death, however, had put an end to President Suharto's anxiety that former President's admirers and

local Communists could plot to reestablish the Sukarno order in Indonesia through the elections to be held in July 1971.

After having partially, if temporarily, cleared the mess created by Sukarno regime in the country's economy, President Suharto faces, at home, two major problems namely corruption and the resurgence of the insurgent remnants which may constitute the worst threat to the country's political as well as economic stability. The former is so rampant that certain quarters claim it may be more serious than the problems posed by the banned Communist Party of Indonesia (PKI).

There were large-scale student demonstrations against official corruption. Seven "action fronts", consisting of students, scholars, women's and businessmen's organisations, issued a joint statement demanding prompt action against corrupt officials. A Commission appointed by President Suharto in its report in July 1970 stated that corruption in public life in Indonesia was increasing at an alarming rate. The growing corruption in the vast bureaucracy, it is reported, "creams off" an estimated sum of \$ 300 mn annually. Apprehensions have been expressed by the aid donors and foreign investors that if corruption is not checked there is "little hope of economic recovery and political stability." In order to fight this evil President Suharto on 11 August 1970 issued a new decree aimed at "breaking the back of the nation's widespread corruption." He also announced that he was taking personal command of efforts to wipe out corruption, which he described as a "threat to the nation's development".

Addressing the Parliament on 16 August 1970, President Suharto said "PKI remnants are still carrying out their underground activities, subversion and other actions which cause social tension. They are continuing to create underground groups." The ruthless campaign conducted against it including a blanket ban on its activities after the abortive Communist coup in 1965 has apparently not been able to solve Indonesia's biggest political problem. The Central Government and the provincial military commanders are primarily pre-occupied with the anti-Communist drive and anti-subversion measures. The military Commander of Java which was alleged to be a stronghold of underground Communists claimed that suppression of the Communist movement and the isolation of subversive elements in the armed forces would be completed by the end of 1970. The Communist Party (PKI) still appears to have some mass appeal. It is also claimed that substantial security purges were carried out among the civil servants and the members of the armed forces. Anti-Communist measures include arrests, military action against violent hostiles, and segregation of some of the Communist detainees in Buru Island in Moluccas. It was learnt that Oloan Hutapea, the successor of the former PKI chief D.N. Aidit, was killed a few months back in an encounter in East Java. An arrested Communist leader admitted that he was trying to revive the banned Communist Party (PKI) in West Java by forming a people's army on Vietcong style.

Insurgent activities persisted in the Indonesia-East Malaysia border. The Chairman of the Indonesian

Parliamentary Commission suggested joint military action against the insurgents by the two countries. Young Sarawak Chinese, trained in guerrilla tactics, who joined the local PKI elements and some of the Indonesian Chinese formed a "Sarawak People's Guerrilla Movement" and were found active on both sides of the border. It was also announced that the Indonesian army had started operations against a new insurgent force called the North Kalimantan People's Army who were connected with North Borneo secessionist movement of 1963. Indonesian troops captured 49 Malaysian terrorists in North-West Borneo and these were found to have extensive contacts with the insurgents across the Sarawak border. A band of 45 West Irian rebels surrendered after three-years of fighting with the Indonesian troops. Underground "Free Papua Movement" was active and some of the members of the organisation who had been terrorising the population of the Biak area were killed in military action. An estimated 450 Papuan rebels were reportedly holding out in the jungles near Manokwari and in the northern part of Biak island in West Irian. The South Moluccan separatists plotted to kill President Suharto on the eve of his state visit to Holland but the move was later abandoned. During Suharto's visit to Holland in 1970, representatives of separatist South Moluccan movement besieged the Indonesian Embassy in the Hague.

Suharto in his address before the Parliament on 16 August 1970 listed two major tasks his government faced: "First, we hold general elections; and second, we must ensure the success of the implementation of the five-year

development plan."

All the nine political-parties and the army-backed group *Sekbar Golkar* fought the July 1971 elections. They together proposed nearly 4,000 candidates for the 360 seats in the House of Representatives of whom 3,022 candidates were approved after screening. The Muslim Party *Parmusi* put up 327 candidates, Moslem Scholars Party 397, the Nationalist Party (PNI) founded by the late President Sukarno 506, and the army-backed group *Sektar Golkar* fielded 528 candidates.

In the general elections, the first in 15 years, the army-backed group *Sekbar Golkar* swept the poll winning more than 220 out of 360 contested seats, the Moslem Scholars Party won 60, Indonesian Muslim Party *Parmusi* 23 and PNI, founded by Sukarno 40 years ago, 20.

More than 20 million out of the 80 million people of voting age were disenfranchised on the ground that those who did not believe in democracy were not entitled to participate in the democratic process.

INTERNATIONAL RELATIONS

Two major foreign policy statements were made by President Suharto—one in the Indonesian Parliament on 16 August 1970 and the other earlier on 26 May in Washington before the US National Press Club. These two statements, in essence, indicate the directions in which Indonesia's foreign policy is moving. Events during the year illustrated broadly salient features of the foreign policy.

In his former statement the President reviewed his country's foreign relations and told the Parliament that Indonesia was following an independent and active foreign policy which had contributed a great deal to Indonesia's growing position in the world in general and helped in attracting foreign capital for financing the country's development programmes.

The President explained: "Some people view with concern that Indonesia's foreign policy at present tends to be one sided, that is, leaning towards the West. Such a view is incorrect. Indonesia will continue to adopt an independent and active foreign policy, demonstrating dynamism and will never be dependent on any other country. Indonesia wishes to be friend and cooperate, especially in technical and economic sectors, with any country of the western or socialistic bloc on the basis of mutual respect and benefit."

He added the formation of the Association of South East Asian Nations (ASEAN) was an important step in developing regional cooperation. "We are not sitting on the fence with regard to the tension in the Middle East or Indo-China", he said. Indonesia's other aims, according to him, were to set up cooperation with non-aligned and Asian and African countries and play a more significant role in international bodies.

In the latter statement made in Washington, President Suharto expressed the hope that peace would soon be re-established in South East Asian region and that subsequent Asian problems would be left to the Asians themselves

to solve, without outside interference from whatever quarter. He called on Asian nations and the major world powers to combine and bring peace in to the region. Expressing relief at America's decision to withdraw its troops from Vietnam, the President said, "the withdrawal of American troops from mainland Asia, however, should not mean the arrival of other foreign troops to take their place. This must be prevented."

Both President Suharto and his Foreign Minister Adam Malik on several occasions expressed Indonesia's desire to pursue an independent foreign policy and remain non-aligned. President Suharto attended the Lusaka conference of nonaligned nations in September 1970. The Foreign Minister Adam Malik sponsored earlier on 16 May a 21-nation conference on Cambodia. This conference, however, turned out to be a futile exercise. After initially having agreed to supply arms to Lon Nol Government of Cambodia, Adam Malik, apparently in a miscalculated move invited 21 Asian and Pacific countries including Communist China, to Jakarta to meet in a conference on 16 and 17 May to discuss a joint diplomatic move to maintain the neutrality of Cambodia. In this connection Malik said, "Asia must take the initiative and we have to prove that Asian problems can be solved by Asian nations". Simultaneously he appealed to U.S.A. not to send arms to Cambodia. He also declared later on 2 July that Indonesia had rejected a new request for arms from Lon Nol Government.

Only 11 countries turned up to attend the conference. By coincidence or otherwise, all the 11 countries who

came to attend the conference were in one way or the other tied up with either USA or Britain, the two important members of the Western bloc, in different collective defence arrangements. The participating countries were: South Vietnam, Laos, Thailand, South Korea, Australia, New Zealand, the Philippines, Japan, Malaysia, Singapore, Indonesia (host). Cambodia sent its Foreign Minister as observer. Obviously, the known ideological bias of these countries which attended had created an impression that some form of Western influence might have been there and thus Adam Malik's attempt to solve "Asian problem" might possibly not be wholly Asian.

The conference issued a 4-page communique; among other things, it included a call for a halt to the hostilities, withdrawal of foreign troops and reactivation of International Control Commission. The conference also formed a 3-member task force consisting of Indonesia, Japan and Malaysia, to convey the conference decisions to the concerned countries and canvass support. The task force visited Moscow, New Delhi, Paris among other places, but no tangible result was achieved.

India, one of the invitees, did not attend the conference. But India's stand that no piecemeal solution of the problem was possible had been vindicated by the principal conclusions of the conference, India's foreign office claimed on 18 May. Though relations with India were generally good, Adam Malik was particularly disappointed because of India's nonparticipation and remarked on 12 May: "I cannot understand why India is turning its back on us". There was another occasion

during the year when there was an adverse remark on India on 31 May by the Vice-Chairman of Indonesian Parliament Foreign Relations Committee, Chalik Ali, who said "thousands of Muslims have died from anti-Muslim hostilities in Gujarat and Maharashtra".

Adam Malik came out against any form of military alliance in South East Asia and refused to join either the proposed defence arrangements among the three nations - Cambodia, Thailand and South Vietnam or the five-nation defence grouping among Malaysia, Singapore, Australia, New Zealand and United Kingdom. He emphatically deprecated the idea that ASEAN should be developed into a military pact. He declared that Indonesia would not send troops overseas if a neighbouring country was attacked. He also declared that Indonesia would like the Indian Ocean to remain a neutral Zone.

Indonesia has since rehabilitated its relations with the Netherlands and called back the Dutch companies which were turned out by the Sukarno regime, to take part in Indonesia's economic development again. The President visited the Hague on 3 September 1970. Though there were unpleasant incidents created by Amboinese emigres for which he had to postpone his visit twice earlier and cut short the duration, his contact with the Dutch capital was on the whole successful. He addressed the Dutch Parliament and told the members to forget the bitterness of the past.

Indonesia has vastly improved its relations with the Soviet Union. The Soviet Union has agreed to resume work to complete the projects abandoned five years ago including the \$ 60 mn steel

mill at Tjilegon. Adam Malik visited Moscow in June 1970 as a member of the "task force" on Cambodia and availed himself of the opportunity to negotiate bilateral economic issues. Malik also visited Moscow in August 1970 for talks on economic cooperation. The Soviet Union, as a result of Malik's representation, agreed to reschedule the repayment of loans contracted by Sukarno. A Russian economic mission visited Indonesia to discuss further participation in Indonesia's development programmes.

President Suharto paid an official visit to USA in May-June 1970 and had talks with President Nixon on important issues. Suharto also paid an official visit to West Germany in September.

There is no improvement in Sino-Indonesian relations. Though there were feelers from the Indonesian side, there was no abatement of anti-Suharto tirades from Peking. A report in the *New China News Agency* on 20 May 1970 said "under the reactionary rule of the Suharto fascist military regime, Indonesia is plagued by increasing unemployment, serious famine and disease, and the broad masses of the Indonesian people are plunged into deep misery and suffering." Peking Radio on 24 May 1970 broadcast a call by the Peking-based Central Committee of the outlawed PKI for Maoist guerilla tactics in Indonesia to overthrow Suharto Government. According to Indonesian Government sources, it was discovered in January 1971 that guerilla forces aided by China had planned a long-term Vietcong-style war in West Kalimantan. On Indonesia's part, Adam Malik said on 28 July 1970 that he had sounded out the Rumanian Ambassador in Jakarta about

possible resumption of diplomatic relations with Peking. He repeated again in Sydney on his way to UN on 25 September that Indonesia wanted to resume diplomatic relations with Communist China. Malik added that he believed that China should also be admitted to the United Nations but not by exclusion of Formosa. Indonesia, Malik reiterated on 23 November, intended to normalise relations with Peking on the condition that the Peking Government respected the Suharto Government and stopped subversive activities in Indonesia. But there was no response to these overtures, he added. On 4 January 1971 Adam Malik made it known that Indonesia had no immediate plans to re-establish full relations with China. He said in Jakarta: "We are in no hurry to normalise relations." He also repeated his earlier conditions that Indonesia would not normalise relations with Peking unless China recognised President Suharto's Government and stopped its subversive activities in Indonesia. He declared China was involved in insurgent activities in the West Kalimantan border areas. On 1 May 1971 Adam Malik re-reiterated these preconditions for establishment of normal relations with-China. He, however, did not rule out the establishment of trade relations between the two countries.

Indonesia and Pakistan continued to forge economic and cultural relations through the Indonesia Pakistan Economic and Cultural Cooperation Organisation. The fifth-meeting of the organisation was held in July 1970. The meeting identified specific projects in the fields of jute, textile, assembly of aircraft and other joint ventures and steps were to be taken to implement them as

soon as possible. Pakistan agreed to extend training facilities to Indonesians and Indonesia offered similar facilities to the Pakistanis. As part of their 1971 IPECC programme Pakistan in December 1970 agreed to provide technical assistance in airport construction engineering and training facilities for air crew. During 1971 Pakistan proposes to train 100 Indonesian personnel in place of 30 last year. Pakistan, did not attend the Jakarta Conference on Cambodia called by Adam Malik in May 1970.

On the the issue of Pak Military crack down in East Bengal, Foreign Minister Adam Malik declared in Jakarta on 14 April 1971 that Indonesia did not want to interfere in the internal affairs of Pakistan and expressed the hope that the bloodshed there would end soon. He added that his country would not recognise the newly declared republic of Bangla Desh if approached. "We do not want to see Pakistan divided into small pieces", he said. Students of the University of Indonesia, and teaching staff marched to the local Pakistani embassy on 7 April 1971 in protest against the massacre in Bangla Desh. The Islamic Solidarity Committee expressed concern over the situation in East Bengal.

Indonesia played host at Bandung to the first Congress of the Afro-Asian Islamic Organisation in October, 1970. Delegates representing 24 countries including India and Ceylon attended the conference. The conference appealed to USSR and China to give freedom of worship and allow Muslims there to practise their religion. Adam Malik led Indonesian delegation to the Islamic

Conference of Foreign Ministers held in Karachi in December 1970.

The Indian Naval Chief of Staff, Admiral S. M. Nanda, paid a five-day visit to Indonesia from 4 to 8 March 1971. He visited defence establishments and called on President Suharto, Deputy Commander-in-Chief General Panggabean and Naval Chief Admiral Sudomo. Speaking to the Press, Admiral Nanda said, he was there to renew the friendship between the two Navies. He pointed out that in 1960 Indonesia and India had a joint naval exercise and there was no reason why both the countries could not have joint naval exercises once again.

ARMED FORCES

The Military Balance(ISS, London) 1970-71 places the Armed Forces strength of Indonesia at the same level of 365,000 as that of the last year. The Army with a strength of 275,000 includes as its regular elements 8 armoured battalions with Stuart, AMX-13 and PT-76 amphibious tanks, 15 infantry brigades, specialist units including the Para-Commando Regiment (RPKAD), the KOSTRAD (Strategic Reserve Command) consisting of approximately six brigades paratroops armour, artillery and engineers. About one-third of the army is engaged in civil and administrative duties. Army's mobility is based on Saladin armoured cars, Ferret scout cars, Saracen and BTR-152 APCs. It has various types of Soviet-bloc artillery including 57 mm Soviet anti-aircraft guns and associated radar. Small arms are of both Western and Soviet-bloc origin.

The personnel strengths of the Navy and Air Force are also placed at last year's level of 40,000 (including the naval air force and the 14,000-strong Marine Corps) and 50,000 (including air defence units and 2,000 paratroops) respectively. According to ISS, London, the operational strength of both the Navy and Air Force is well below the number quoted. It is reported that only the active fleet submarines, and the light-strike and transport aircraft are fully operational. The Navy operates 6 diesel-powered submarines (ex-Soviet W-class) (six other W-class vessels are normally kept in reserve), 1 heavy cruiser (ex Soviet *Sverdlov*-class), 7 destroyers (ex-Soviet *Skory*-class), 11 frigates (of which 7 are ex-Soviet *Riga*-class), 12 Coastal escorts, 12 *Komar*-class missile boats with *Styx* surface-to-surface missiles, 8 patrol boats, 30 motor torpedo boats, 15 coastal minesweepers, 18 motor gunboats, 25 seaward defence boats (less than 100 tons), 3 submarine support ships, 6 landing ships, and 7 landing craft. The land-based naval air arm includes 20 MiG-19 and MiG-21 interceptors, 5 HU-16 *Albatross* and PBY-5A *Catalina* ASW aircraft, about 12 S-55, S-58 and Mi-4 helicopters. The marines form two brigades. The Indonesian Navy carried out its three-day naval exercise in the first week of May 1971 in the area, off Karimun Djawa island, to test its torpedo and rocket firing systems,

The Air Force has 180 combat-aircraft comprising 25 Tu-16 medium bombers, some with *Kernel* air-to-surface missiles, 30 IL-28 light-bombers, 15 B-25 Mitchell light bombers, 15 F-51D *Mustang* light-strike aircraft, about 20 MiG-15, 40 MiG-17, 35

MiG-19 and 15 MiG-21 interceptors. The transport fleet consists of 50 IL-14, C-130B, C-47, An-12 and *Otur* and 30 Mi-4, Mi-6, *Alouette-II* and *Bell-47* helicopters. There are at least three surface-to-air missile sites, which are claimed to be equipped with SA-2 *Guideline* missiles.

The police force numbers about 110,000 and includes a para-military force (Mobile Brigade) of about 20,000. There is also a militia of about 100,000.

Problems of Defence

There are, however, indications that Indonesia might have, at least temporarily, a plan to reduce its armed forces especially the Navy and the Air Force though the defence budget did show an increase. Indonesia's assessment of its threat perspective appears to have undergone a thorough change under the Suharto Government necessitating a switch over from military to economic build-up.

Indonesia has since normalised its relations with the neighbouring Malaysia and Singapore. It has had the West Irian problem solved in its own favour. It has greatly improved its relations with the Soviet Union and has been throwing feelers to China to re-establish diplomatic relations although without success. Adam Malik believes (Malik wrote a few months back in the Japanese Quarterly *Pacific Community*) that the danger of large-scale open military aggression in South East Asia is very small despite China's bellicose attitude towards its neighbours. "China's capability for embarking upon military adventures outside her

own boundaries is going to be quite limited for a considerable time to come...”, he explains; but he feels “danger lies in China being one source of ideological and political subversion as the main pressure centre for the speeding up and shaping of discontent and the training and direction of professional revolutionaries in South East Asia.” It is, therefore, evident that Indonesia does not anticipate any external threat at the moment but its defence problem is related to containment of Communist subversive elements inside the country and isolating the under-ground Communists from the influence and abetment of China and the outlawed Peking-based PKI remnants. It is therefore possible that Indonesia might have planned to cut down its combat forces for the present to enable it to accord priority to economic measures needed to strengthen its economic base.

Purge and Reversion to Civil Jobs

The Navy and the Air Force which allegedly had in their ranks, a large number of Communists, are gradually being reduced in size both in personnel and equipment. The Navy was to reduce its strength from 60,000 to 40,000 and in the process get rid of Communist sympathisers who crept into the armed forces during Sukarno's time. Another 6,000 were to be pensioned off as part of the Navy's austerity programme. A total of 82 members of the armed forces including 12 officers were arrested as part of the purging operation in the East Kalimantan Command. A Brig. General was purged in September 1970 for alleged secret ties with the under-ground Communists. According to the Chief of the Armed

Forces Intelligence Service, Communists and their supporters were to be purged from government institutions to prevent trouble during the general elections. The Intelligence Chief said on 3 March 1971 that there were indications that Communists were planning to make Central Java their base to launch anti-government activities.

Indonesia proposes to “convert 10,000 armymen to work at production sectors”, namely, agriculture, forestry, and industries with a view to increasing national service output. It is unlikely that all these vacancies will be filled in immediately by new recruits. In 1970 only 973 cadets were commissioned as junior officers of the Army, Navy, Air Force and Police.

Disposal of Obsolete Equipment

Indonesia has decided to dispose of all obsolete equipment of the Navy and Air Force which were mostly obtained from the Soviet Union by Sukarno. This decision involving about 80 per cent of the equipment of the Navy including a cruiser and 50 to 60 per cent of Air Force is reported to have been made “in the light of the present calm strategic situation and the nation's economic needs”.

A special Parliamentary Commission, according to *The Guardian*, Rangoon, of 15 February 1971, is reported to have found practically all Soviet-supplied jet fighters and bombers non-operational and many had been cannibalized. The Commission which toured several Air Force bases in Java, suggested that the Government should buy spare parts to enable the planes to fly again.

At the main Air Force base in Madiun, East Java, the Commission

found 99 per cent of MiG-17s-19s, heavy bombers Tu-16 and other Air Force planes were grounded for lack of spare parts and proper maintenance.

The planes were bought on credit from the Soviet Union 10 years ago during Indonesia's campaign to liberate West Irian. They have been grounded for the past two years, and many have been cannibalized to keep the remaining few flying, the Commission report said.

Last year four MiG-19 jet fighters were reported to have been exchanged with two Super-Constellation transport planes from the Pakistan Air Force. (This report was denied by Indonesia. It was stated that President Suharto had prohibited sale of equipment given by USSR to a third country).

Indonesia is likely to abandon its plans to sell its Soviet-built warships and aircraft following a Soviet decision to sell spare parts on easy payments on credit basis. Indonesia reportedly needs \$ 4 to 5 million worth of spare parts to recondition some of the military hardware which the Soviets sold on credit to Indonesia during President Sukarno's regime. The Russians discontinued the supply of spare parts following the abortive coup in 1965 and Indonesia had to pay cash to get spare parts.

Arms Acquisition

The Deputy Commander of the Armed Forces said Indonesia would not go for Phantoms or Mirages to replace the Soviet MiGs which were lying non-operational for want of spares. France offered to sell Mirage to Indonesia to

replace the obsolete Soviet Migs. Adam Malik said in November 1970 that Indonesia at present did not need new light or heavy weapons; military equipment that Indonesia possessed was enough for the present. He also had said that his country had no intention of buying new arms since the Government was concentrating on economic development. However, Air Force Chief of Staff Air Marshal Sukendar confirmed on 3 May 1971 that Indonesia was negotiating to buy Mirage jets from the French Company Marcel Dassault. The problem was how to pay for the planes, he said. Indonesia has purchased 13 AMX-13 tanks, light armoured vehicles and 11 *Allouette* helicopters and other military equipment from France. Army Chief of Staff General Umar Wirhadikusuma paid a five-day visit to France commencing 16 April 1971.

A Japanese news agency, however, reported that top military leaders who were responsible for implementing the country's 10-year defence building programme were working on the possibility of receiving in the form of arms part of Japan's promised stepped up economic aid to Indonesia to enable the armed forces to replace the obsolete weapons by new ones obtained from Japan. It is stated that nearly half of Indonesia's para-military facilities, such as communications equipment, jeeps and trucks, were already made up of Japanese imports.

The Indonesian Navy has received 2 US vessels on a lend-lease system and placed an order for an Action Speed Tactical Trainer with Redifon of UK. It is planning to buy a 30,000-ton floating dock to enable it to repair its own ships.

Malaysia has gifted 12 twin-engined second-hand *Pioneer* aircraft to the Indonesian Air Force. The Indonesian Air Force was to take delivery of the aircraft complete with spares early this year.

Military Aid

A sub-committee of the US Congress on 15 February 1971 recommended the creation of a multilateral consortium to provide military aid to Indonesia. It further suggested that the proposed agency could consist of Australia, New Zealand, Britain, the Netherlands, France and Japan. The measure has been suggested to establish "a policy of maintaining a low US profile in Indonesia."

The sub-committee said that in the current financial year, military assistance to Indonesia had been limited to about \$ 5 mn. The United States has increased its military assistance programme in Indonesia by more than 300 per cent in one year.

It further said that after President Suharto's visit to Washington in May 1970, US agreed to expand its assistance to Indonesia significantly and for the first time since early 1960s to provide arms aid.

It is now reported that Indonesia had received till 1967 about \$ 1,200 mn worth of military aid from the Soviet Union as compared to \$ 60 mn provided by USA. A spokesman of the US embassy in Jakarta said on 2 June 1971 that US would give Indonesia several small type warships and coastal patrol boats. He pointed out that American transport aircraft such as the *Hercules*

were already being used by Indonesia. Total US military aid to Indonesia for the fiscal year 1971-72 amounts to \$ 18 mn including materials for Indonesia's armed forces civic aid programme.

Armed Forces Role in Civil Administration

There was growing criticism in the country, with the approach of Indonesia's first general elections in 15 years, of the armed forces' involvement in civil administration. The socio-political role of the armed forces (ABRI) was generally questioned and charges were levelled against them that the armed forces had deviated from the universal military system. *The Djakarta Times*, Indonesia's influential English daily, wrote in October 1970: "Members of the House of Representatives have started to question the double-function of the Armed Forces as socio-political and defence-security forces. A contest for power between the Armed Forces and politicians has started overtly. The 25th anniversary of the Armed Forces marks this beginning".

President Suharto has been defending the socio-political role of ABRI from time to time and firmly dismissed the criticism in his 1971 new year address emphasising "such criticism will not deter the army from executing its double function either in the form of functional group or civic mission".

Earlier on 16 August 1970 President Suharto told the Parliament: "ABRI has indeed played an important role in the realisation of political stability as an instrument of security and defence and a socio-political force... In the

past few years, there have been no significant disturbances of peace and order by armed elements". Commenting on ABRI's role in civil projects, Suharto said that the armed forces assisted in the implementation of the five year development plan by mobilising Army's Industrial Centre in Bandung and the Navy's Industrial Centre in Surabaya by mobilising construction units of the engineer corps and other units and other productive activities.

President Suharto reiterated his defence of the ABRI's civic role in his 25th anniversary of the Armed Forces Day address on 5 October 1970 and stressed that no group should try to curtail the socio-political role of the Armed Forces. The "double-function" of ABRI was but one aspect of the realisation of the *Pantjasila* based democracy and political system, he explained. He continued "such instance—to abolish the Armed Force's double function openly or secretly—is a negative act and could arouse the sentiments of the Armed Forces to take undemocratic measures". He added that Indonesians must stay on alert against negative excesses in the

realisation of the "double-function" and for that purpose the Armed Forces must continuously exercise introspection and self-correction.

Later on 24 October 1970, the Defence and Security Minister confirmed before the plenary session of the House of Representatives that the implementation of the double-function of the Armed Forces was not temporary, but would last as long as the country was based on *Pantjasila* and the 1945 Constitution. The double-function, in which the Armed Forces constitute both defence, security and socio-political force, enabled their members to contribute their greatest dedication for the people, the Minister said.

According to one source ABRI "is the best organised, best disciplined in the country and few people deny that Indonesia's present stability, economic well being and political harmony is due to the efforts of the armed forces. This hold is firm over all sections of the community...The elections...are clearly designed to legalise the existing political system".

10. THE PHILIPPINES

ECONOMY

The Philippines' economy registered a growth rate of 4.4 per cent in 1970 compared with 6.2 per cent in the two previous years. The National Economic Council estimated the 1970 GNP at 19,500 mn pesos as against 18,600 mn pesos in 1969. The slower growth rate was attributed to the de facto devaluation of peso early in the year (the peso had been at a floating rate since February 1970, averaging about P6.20 per \$). Previously the exchange rate was P3.90=\$ 1.00), which had put pressure on wages, and also to the

devastation caused by typhoons during the year.

The first Four-Year Development Plan (1967-70) called for a total investment of P20.3 bn and envisaged an increase in the annual growth rate from 5.8 per cent in 1967 to 6.8 per cent 1970. While in the first three years (1967-69) the growth rate exceeded 6 per cent, there was a shortfall in 1970 (4.4 per cent as mentioned earlier). The second Four-Year Development Plan (1971-74) calls for an investment of P40.35 bn and envisages an annual growth rate of 5.5 per cent.

The Philippines -- Statistics

Area	...	299,400 sq. km.
Population	...	38.1 mn
(1970 estimate)		
GNP	...	19,500 mn pesos
(1970 estimate)		
Defence Budget	...	480 mn pesos
(1969 estimate)		
Armed forces :		
Total strength	...	33,000
Army	...	18,000
Navy	...	6,000
Air Force	...	9,000
Currency	...	Peso (floating since February 1970, averaging P6.20 per \$)

President Ferdinand Marcos submitted to Congress on 10 February 1971 a record 4,574 mn pesos budget for the fiscal year beginning 1 July 1971. The budget, which included 763 mn pesos as capital outlays, represented an increase of 490.7 mn pesos (or 12 per cent) over the 1970-71 figure. To make up an anticipated 247 mn pesos deficit the President proposed to sell military camps and to introduce 13 new or additional taxes.

The serious monetary crisis and other associated economic difficulties, from which the country was suffering during 1959 and early 1970 (refer to p 115 of Annual Review for 1969-70) were somewhat arrested by the end of 1970, consequent on the adoption by the Administration of a number of restrictive measures, e.g., the de facto devaluation of the peso, tight restrictions on money supply, cuts in government expenditure, stringent controls on import financing, the restructuring of some of the country's short and medium term foreign debts, etc. The overall balance of payments position in the first half of the year (1970) was reported to be favourable—the country recorded a \$ 86.04 mn surplus as against a \$ 16 mn deficit recorded during the January-June period of 1969. For the whole of 1969 the country had a deficit of \$ 65.12 mn. According to latest reports, the Filipino export receipts in 1970 exceeded for the first time the \$ 1,000 mn mark (in 1969 the exports were valued at \$ 854.6 mn).

In his 1971 state-of-the-nation address to Congress on 25 January 1971, President Marcos called on the people to prepare for a "democratic revolution"—a revolution which would cut deeply

into the roots of the socio-economic order and oust the "oligarchs" who were responsible for the ills of the nation. Pledging to lead the movement, he made a number of socio-economic proposals and asked the Congress to approve them. The proposals included:

- (i) Creation of a National Economic Development Authority to provide effective overall direction to the country's economy.
- (ii) Immediate establishment of a State Trading Corporation to stabilise the prices of prime commodities.
- (iii) A tax on foreign exchange transactions with lower rates for essential goods and higher rates for unbanned non-essentials.
- (iv) A tax on affluent consumption.
- (v) Increase in inheritance tax.
- (vi) Ban on the import of luxury goods.
- (vii) A nation-wide system of co-operative farming.
- (viii) A massive land-distribution programme.
- (ix) Reorientation of the education system to meet the requirements of industrialisation, and
- (x) Anti-trust and anti-monopoly legislation.

The first Filipino step towards forging commercial links with Communist countries was taken on 20 July 1970 when the Philippines Chamber of Commerce signed a \$ 10 mn trade

agreement with Bulgaria. Under the agreement, initially Bulgaria is to supply two plants for concentration of copper ores, worth \$ 1 mn, in exchange for \$ 1 mn worth of tobacco to be supplied by a Filipino tobacco firm.

Russia and Czechoslovakia were also reported to be eager to establish trade and diplomatic relations with Manila. A four-man Congressional mission, which visited Russia and other European countries in mid-1970, reported that the Soviet Union was willing to provide the Philippines with money, equipment and technicians for mineral exploration in the country. Russia was also reported to be willing to extend trade loans at low interest (2.5%).

A Filipino trade delegation visited China early in May. The delegation—the first ever to Communist China—participated in the Canton spring trade fair and had an interview with Premier Chou en lai.

POLITICAL DEVELOPMENTS

The emergence of the student community as a significant political force was one of the major developments dominating the political scene of the Philippines in 1970. Student protests and demonstrations continued throughout the year 1970, although the level of violence of January which culminated in the abortive attempt at storming the Malacanang Palace on the "Black Friday" night (30 January) was not reached again during the year. However, in January-February 1971 fresh violence of considerable seriousness sparked off as a result of a student-supported transport strike in Manila. During the first week of February, when

several jeepny (jeep bus) drivers' associations struck to protest against increased prices in most fuel items, at least seven people were killed, 144 injured and 160 arrested in the greater Manila area. Four other people were killed on 13 January during a riot in an earlier strike. A prominent Filipino political leader, S. Manglapus, who is a former Senator and Foreign Secretary, and now head of the Christian Socialist Movement, called on 8 February 1971 for the mass resignation of President Marcos and members of Congress as a first step towards solving the bloody riots in Manila. Manglapus said that the leaders should resign "to allow the people to choose a new set of leaders".

In November 1970, the Philippines conducted a national election to elect 320 delegates to a Constitutional Convention. The non-partisan convention, which opened in June 1971, will be responsible for amending or rewriting the country's Constitution. This met one of the major demands of the students; another major demand was met by the President earlier in the year when he pledged not to seek a third term.

On 13 January 1971 Vice-President Fernando Lopez resigned from the Cabinet as Secretary of Agriculture and Natural Resources. This brought into the open the long-simmering feud between Marcos and the Lopez bloc headed by the Vice-President's elder brother, Eugenio. In accepting the resignation President Marcos told Lopez that "your position in the Cabinet has become untenable in view of your relationship with the financial and political interests that I have identified

as constituting a pressure group intent upon the destruction of my development programme".

During 1970 the Filipino authorities were concerned over a new internal security problem caused by the increasing number of "private armies" maintained by the politicians. Members of these so-called private armies often indulged in killing, looting and other lawless activities, their activities being intensified during election times. They often escaped the hands of law due to the influence of their political patrons. As many as 37 Congressmen including six Senators were allegedly maintaining "private armies". Following widespread clamour, for the disbandment of "private armies", renewed after the ambush of Representative Salipada Pendatun and the assassination of Representative Floro Crisologo, President Marcos on 25 October declared that he had ordered their dissolution. "I have long ordered the disbandment of the said armies and the so-called paramilitary units. I will not and cannot tolerate private warlords. Our peace-keeping agencies have standing orders to disband any armed clique maintained by politicians", the President said. On 2 November, 1970, the Chairman of the Commission on Elections (Comelec), Ferrer, pinpointed eight "private armies" and ordered the Constabulary to arrest the members and investigate why they possessed fire arms. Comelec also asked the Constabulary chief, Brig-Gen Garcia, to dissolve the provincial reaction forces set up by Governors. However, despite all these actions and protestations, the controversy over "private armies" continued throughout the year.

Huk and other terrorist activities were stepped up during 1970. Radio Peking on 30 November 1970 quoted the Filipino Secretary of National Defence as admitting that in the first eight months of 1970 in two provinces alone, the "New People's Army" (the Marxist-oriented pro-Peking Huk insurgent group, led by Bernabe Buscayno, alias Commander Dante) killed 61 officers and men of the Philippine army and police. Although Radio Peking's broadcast was essentially meant for propoganda, the statement as regards the army and police casualties was probably correct. Throughout the year there had been frequent clashes between the Army and the Constabulary on one side and the Huk insurgents on the other. During 1968-69 the activity of the Huk insurgents was mostly confined to Central Luzon; but during 1970 it spread elsewhere. Among the many daring surprise raids by the insurgents was one on San Marcelino town (situated 100 miles north-west of Manila) in Zambales province on 19 September 1970, in which a band of 40 Huks, believed to be belonging to Commander Dante's group, killed 14 people and wounded eight others. Among those killed was the Mayor of San Marcelino.

During the closing months of the year 1970, reports began to come in of the capture and surrender of a number of Huk leaders as a result of intensified military operations and other counter-measures by the Army and the Constabulary. On 15 September 1970, Harmonages Miranda, the number six Huk chief, known as Commander Zaragoza, and labelled as the "Chief liquidator" for No. 2 Huk leader, Faustino del Mundu, alias commander Sumulong, was captured by intelligence

agents at Pasig, Rizial. On 16 September, Sumulong also was forced to surrender in a counter-insurgency operation at a place near Mt. Arayat, about 55 miles north of Manila, and was brought to Quezon city for interrogation. President Marcos, after having a talk with Sumulong, issued an appeal to other Huks to surrender. He also renewed his offer of selective amnesty to the Huks. According to police sources, Sumulong also appealed to No. 1 Huk Commander Dante to give up his rebellion and surrender. On 15 October, Pedro Taruc, who was considered to be the ideological patriarch of the movement, and who had a price of 150,000 pesos on his head, was killed in an encounter at Barrio Tibagin, north of Angels city. Another Huk leader, known as Commander Noli, was arrested by the police on 8 December in Manila's Miranda Square. However, the most wanted Huk leader, Commander Dante, the Kingpin of the Huk rebel movement in the Philippines, who heads the estimated 250-strong "New People's Army", was still at large (till the end of April 1971), despite continued sustained efforts by the authorities for his capture. On the other hand, there were reports of some defections from the Army and the Constabulary to the "New People's Army". One report said that an Army Lieutenant, Victor Corpus, son of Colonel Corpus, the Surgeon-General of the Philippine Army, led 10 men in raiding the armoury of the Philippine Military Academy on 30 December and decamped with 35 automatic small arms and ammunition and joined the "New People's Army". According to official sources, quoted by the *Far Eastern Economic Review* (Annual 1971), armed Huk strength of all shades had been reduced by October

1970 to less than 500 men.

Meanwhile, the outlawed Communist Party of the Philippines issued on 2 January 1971 a statement aligning itself with Peking, and denouncing the decimated leadership of the Huk guerrilla movement. A Party Central Committee statement to mark the second anniversary of the re-establishment of the party, wrote off the Taruc-Sumulong Huk leadership as "a gangster clique and revisionists", and said the "New People's Army" was leading the movement for an "entire decade" of armed struggle in the countryside. Another statement issued by the "New People's Army" on the second anniversary of its founding was broadcast by Radio Peking on 10 April 1971. The statement said that "the complete collapse of the Taruc-Sumulong gangster clique" following the campaign of mass criticism and repudiation had completely justified the establishment of the "New People's Army" under a Communist Party "inspired by Marxism-Leninism-Mao Tsetung thought".

While the Huk insurgency was getting disorganised by the end of 1970 as a result of the capture, surrender and liquidation of a number of top-ranking leaders, the Philippine authorities were confronted with a new threat—the threat of Muslim separatism. The new threat came to surface in the early months of 1971 in scattered armed clashes between black-uniformed Muslim activists, called the "Black-shirts", and the Philippine Constabulary and in political rallies attacking President Marcos' policies. Tension was particularly high in Cotabato province where Muslim politicians had reportedly charged Christian settlers with land grabbing and burning of

mosques. Several thousand Muslim demonstrators gathered in Marawi city in the first week of May to denounce a "government plot" to "exterminate" the Muslims by promoting political rivalries among the Datus, their local leaders. The rallies were attended by members of the secessionist Lamalif and Ansar-el-Islam organisations and a radical youth group, "Muslim National Liberation Front".

Datu Udtog Matalam, former Governor of Cotabato, is said to be the titular leader of Muslim separatism. He is reported to be willing to compromise with a federated form of government in Mindanao, which would give Muslims greater freedom to develop the island's rich resources. But if that fails, he is reported to be quite prepared to go to the limit.

The Philippine military authorities expressed concern over the growing activities of the 100-strong "black-shirt" group. Brig. Gen. Garcia, the Philippine Constabulary Chief, during a tour of Cotabato province in February 1971, received reports that the "black-shirts" had been engaged in hit and run terrorism in the province and were believed to be agitating for a separate state. Intelligence reports also indicated that the guerillas were trained and led by an army captain from "a neighbouring country". In briefing President Marcos, the Brig. Gen. said on 23 February that the "black-shirts must be destroyed; they are not ordinary criminals, they have openly defied the government".

Congressman Salipada Pendatun, a Cotabato leader and one of the recognised spokesmen of Muslim rights, said the Muslim separatists were still hardly

more than paper organisations (According to a survey recently published by the Filipinos Foundation, Muslim militancy is limited to a minority; only 21.2% of 2 mn Muslims are in favour of separation from the Philippines Republic). But he warned that they could build up into a real secessionist threat if the authorities continued to neglect their grievances.

INTERNATIONAL RELATIONS

During the period under review, the Filipino-US relations passed through a period of stresses and strains principally on account of the controversy over the question of re-negotiation of the military bases agreement and the return of some bases to the Philippines. On 13 November 1970, President Marcos authorised the Foreign Office to initiate moves for immediate re-negotiation of the military bases agreement between the United States and the Philippines. The directive was issued because the President felt that the 1947 agreement must be re-negotiated to remove certain controversial passages which tended to divide national opinion on the upholding of Philippine sovereignty and dignity. The President's directive followed close on the heels of a case involving the Commander of US Clarke Air Base. The US authorities maintained that in refusing to hand over to Philippine authorities a US sergeant (Bernard Williams) charged with abduction and attempted rape, Col. Holman, the Commander, was acting in his official capacity as a member of the US Armed Forces and, as such, the Philippines had no jurisdiction over the matter (Col. Holman flew home on 24 November despite a Filipino Court order for his arrest on a charge of contempt of court for having failed to produce in Court

Sergeant Williams who was earlier sent back to USA). Senator Tanada proposed on 14 November that the question over the Holman case be submitted to the International Court of Justice. He assailed the American colonial distrust of "our native courts" and the discredited notion that only US courts were capable of dispensing justice. The controversy, however, cooled down for the time being when Acting Foreign Minister Manuel Collantes announced (November 1970) that the US Government was willing to review the 1947 US-Philippines Military Bases Agreement. (About the return of bases see the section on Armed Forces).

Another significant development in the field of international relations was the gradual advancement towards what Foreign Secretary Carlos P Romulo called an "open door" policy towards socialist states, particularly East European countries including Russia. Briefing the House Foreign Affairs Committee on the Philippine foreign policy for 1971, Romulo said on 1 February 1971 that the Philippines should either open diplomatic and trade relations with the Communist countries stage by stage, starting with Russia and the Soviet bloc or "take the plunge at once and make overtures" even to Communist China. However, he added, the latter course must be studied "with caution before we make a final decision".

The Foreign Secretary further said, "We in Asia are beginning to feel the impact of a Soviet Russian offensive, and there is no denying the growth of the Soviet presence". He added, "Only the People's Republic of China continues to present an enigmatic face to all the world, but there are indications that she will

soon move positively in the same general direction".

He noted that the Philippines, South Korea, Taiwan and South Vietnam were the only countries left in Asia without relations with any socialist or Communist state.

The Foreign Secretary further told the committee that the Philippines would launch a new diplomatic thrust which could be characterised "as an independent and aligned policy". "At one time we had all our eggs in one basket, that is to say in the American basket. We were aligned to only one set countries. To the rest we were unaligned. This time we are seriously re-examining our unilateral alignments of yore and what is likely to emerge is a more balanced set of alignments", he said.

Earlier on 20 December 1970, President Marcos said that he would soon convene Foreign Policy Council to consult its members on the move to establish diplomatic relations with the Soviet Union. The meeting was decided upon in the wake of opposition being raised by some Senators and officials to the seeming rush to establish relations with the USSR. The Senate earlier issued a formal statement reminding the President of the need for him to consult the Congress and the Foreign Policy Council before finalising ties with Russia. According to the latest report (May 1971), negotiations with the Soviet Union were under way in New Delhi.

In recent months, the Philippines appeared to have modified its stand on the China issue. Presumably taking the cue from Washington, President Marcos

on May 1971 announced that Manila was reassessing its position regarding the question of China's membership in the United Nations. He told a press conference that he had directed the Foreign Office to organise a special panel to study the issue and he expected the result within a month. The Philippines has so far consistently voted against Peking's entry into the United Nations. Earlier a *Manila Times* report indicated that Manila was ready to initiate exploratory talks for normalising relations with China and a preliminary move in this direction started in May 1971 with the sending of a trade team to visit the Canton Trade Fair and Peking.

The Filipino-Malaysian dispute over Sabah appeared to have been relegated to the background for the better part of the period under review. Speaking in the United Nations on 30 September 1970, Foreign Minister Carlos Romulo appealed to Kuala Lumpur to agree to bring the Sabah dispute before the International Court of Justice. Prime Minister Tun Abdul Razak's curt reply to the appeal was that, as far as his country was concerned, the Filipino claim to Sabah did not exist.

In May 1970 the Philippines participated in the 12-nation Djakarta conference on Cambodia and agreed to give humanitarian "token aid" to the Lon Nol Government. It, however, turned down Cambodia's request for military aid.

General Ne Win, Chairman of the Revolutionary Council of Burma, and his wife paid a four-day state visit to the Philippines from 11 November 1970. President Marcos said that Ne Win

"prefers that there be no formal talks nor communiques but merely an informal, private and confidential conversation with me". Pope Paul VI paid a three-day (27-29 November 1970) visit to the Republic. During the visit an abortive attempt was made on his life in Manila by a Bolivian artist, Mendoza, who later turned out to be of unsound mind. Among other visitors to the Philippines was King Mahendra of Nepal, who, accompanied by Queen Ratna, paid a visit to the Philippines during 20-22 April 1971.

ARMED FORCES

According to the **Military Balance 1970-71** (ISS, London), the Philippines has an Armed Force of 33,000 men, costing the nation about 480 mn pesos (1969 defence budget estimate). The total strength of the Army is 18,000. There are one combat infantry division, 4 training divisions (cadres only), 10 engineer-construction battalions and one Hawk surface-to-surface missile battalion. Army equipment includes M-4 Sherman medium tanks, M-24 and M-41 light tanks and M-3 half tracks. The Navy consists of 6,000 men (excluding naval engineers) and over 60 vessels. There are five naval engineer-construction battalions and one marine battalion. The strength of the Air Force is 9,000 men and some 75 aircraft (45 combat and 30 transport planes), including 20 F-5A fighter/ground support planes. There are observation, air-sea rescue and training units.

The Philippines' para-military force consists of the 22,000-strong Philippine Constabulary, whose main task is to maintain internal law and order and to

help the regular Armed Forces in countering insurgency.

Under the Filipino-US military bases agreement (1947), the United States maintained about 25,000 military personnel in the Philippines, the majority of these forces being located at three bases—the Clarke Air base, the Subic Bay Naval base and the Sangley Point Naval Air station. In pursuance of President Nixon's world-wide military reduction programme, USA has decided to visibly lower its military profile in the Philippines in 1971, although US forces will probably remain in the country for another decade or so. It was announced by Washington on 10 December 1970 that the US Naval Air station at Sangley Point, near Manila, one of the first US bases in Asia, and "the most visible one" in the Philippines, would be returned to the Philippines in about seven to nine months. (For some time past the Philippines Government had been demanding the immediate return of this base). More than 1,000 out of the 1,573 US military personnel, two anti-submarine air-craft squadrons and the staff of the Commander of US Naval forces in the Philippines would be moved to the

Subic Bay-cum-Cubi Point US Naval complex. The other two military installations—the Clarke Air base and the Subic Naval base—would continue to operate under a lease agreement which is valid upto 1993. According to Rear Admiral Shaw-Cross, Subic Naval base commander, the Subic base, which would not be much affected by the US world-wide reduction programme may become the main support base for the US Seventh Fleet's South-East Asian operations as a result of the reduced activities of US bases in Japan, Okinawa and Korea.

According to US official estimates, the strength of US military personnel in the Philippines stood at 24,900 on 1 July 1970. By September 1970 the strength was reduced to 23,000 and scheduled withdrawals during the current financial year would reduce it to 19,000 by 30 June 1971.

SEATO's 39th combined military exercise was held in the Philippines in early March 1971. Troops, ships and planes from Australia, New Zealand, Britain, USA and the Philippines participated in the three-day annual exercise.

III AUSTRALASIA

1. AUSTRALIA

Ever since the early stages of World War II, when it became evident that Australia could no longer depend on British power for its external defence, Australia has, strategically speaking, moved closer to the USA and the ANZUS (Australia, New Zealand and United States) Treaty has become the main prop of Australia's security against foreign aggression. On its part, Australia has made a valuable contribution to the USA's own security by providing a number of bases and facilities on Australian territory. These include the VLF (Very Low Frequency)

station at North West Cape for communicating with submerged submarines operating in the Indian ocean, and the secret bases at Pine Gap and Woomera, which are now believed to provide facilities for monitoring US 'spy in the sky' satellites and are said to be able to flash 30 minutes advance warning (as against 15 minutes provided by existing early warning radar systems) of missile launchings from anywhere within the areas surveyed by the satellite, and these apparently include large areas in both the Soviet Union and China.

Australia—Statistics

Area	...	7,605,964 sq km
Population	...	12.6 mn
GNP (1969-70)	...	29.99 bn
Defence Budget	...	1225 mn
1969-70		
Total Armed Forces	...	84,479
Army	...	44,533
Air Force	...	22,642
Navy	...	17,304
Currency	...	\$ A1=\$ 1.12

The army strength does not include 2434 indigenous members of the Pacific Islands Regiment.

Australia's Defence Report 1970
notes that :—

- (a) While the enunciation of the Nixon doctrine involves no US withdrawal from treaty commitments, it calls on the countries of the region to do more themselves to provide for their own security, and establish a new basis for the application of American security policies in the area.
- (b) At the same time there have been further movements in the policies of the Soviet Union, which has given notice of its expanding maritime power and its interest in exerting influence upon many countries surrounding the Indian Ocean.
- (c) China, which aspires to challenge the influence of the United States and the Soviet Union alike, continues to stimulate pro-Peking revolutionary ferment wherever it can beyond its borders.
- (d) The interest and role of Japan — now the third industrial nation in the world—are clearly to be affected by changes within Japanese society as well as the complex interaction of great power policies within the region. So too are the interests of Indonesia and India.
- (e) Australia's defence planning and preparations flow from a decision for continuing close involvement in Southeast Asian affairs and rest on the premise that as events unfold

in the region to which Australia's security is permanently linked, it must be able to influence the course of events more independently less as a supporter of the commitments of major powers and more as a partner with other regional countries. While the ways in which Australia's defence cooperation with partners operates in the region may vary from partner to partner and time to time, its objective would be to retain the military capability to play a regional role in whatever way seems best suited to particular circumstances.

On 1 March 1971 Australia's (the then Defence Minister stated that changes in British and American policy, at a time when Russia and China were increasing their military strength, were placing Australia in a position where it would be required to take its own independent defence initiatives.

Japan has already become Australia's top trading partner. Britain's entry into the European Common Market will no doubt further increase the importance of Japanese trade for Australia. According to a report in a leading Japanese newspaper in March 1971, Australia's Minister for National Development Swarts disclosed that he believed that in 10 years Japan would replace the USA in overall importance to Australia.

ECONOMY

Australia's 1969-70 GNP shot up by \$A 2716 mn to \$A 29,997 mn and was

expected to increase at the rate of 5.5 per cent during 1970-71. Instead of the estimated \$A 80 mn deficit budgeted for, the actual deficit in 1969-70 was only \$A 7 mn. At the beginning of the year various factors, including exceptionally high employment, a stock exchange boom and increased consumer spending, resulted in a dangerous overheating of the economy. The Federal Government quickly instituted measures, including raising the bank rate to 7 per cent to avoid uncontrolled inflationary pressures. These together with seasonal contraction in liquidity "gave the nation a severe economic chill", but from July 1970 onwards it began to warm up again. And in the December quarter consumer prices increased at an annual rate of 7.6 per cent — the highest since the Korean war boom. The extent of the rise reportedly shocked the government's economic advisers. When the Federal Parliament reconvened on 15 February 1971 it immediately became evident that the state of the nation's economy would be the main issue during the session. Prime Minister Gorton described the threat of inflation as the first priority for the nation. The adverse effect that the unexpectedly large expenditure, involved in setting up the Jervis Bay nuclear power station, would have had on the anti-inflationary climate was given as one of the government's main reasons for shelving that project for the time being.

Defence Industry

In the beginning of the 1970-71 financial year Defence Minister Fraser disclosed that the government was considering giving financial assistance to Australian firms bidding for defence contracts, and indicated that it might be

given to assist in the cost of tendering for large projects, towards development costs and for specialised equipment.

It was in June that the Australian aircraft industry won 3 sub-contracts worth \$ 760,000 for work on the Boeing 747 Jumbo jet. Under the deal, Hawker de Havilland would supply 600 escape slide containers worth \$ 400,000, the Commonwealth Aircraft Corp gear boxes worth \$ 180,000 and Government aircraft factories 2500 aircraft windows worth about \$ 120,000.

In July it was announced that government had awarded a contract worth \$A 860,000, for the preliminary design of a new light destroyer for the Australian Navy to Y—ARD Pty, a subsidiary of the British Yarrow—Admiralty Research Department. If the project proceeds as planned it would be the biggest procurement programme in Australian history. The Navy would use the one basic hull to develop a number of specialist destroyers. It wants at least 5 by 1980 to replace existing ships and would like at least 5 more to strengthen the fleet. Each vessel, it is estimated, would cost between \$A 35 mn and \$A 40 mn.

An Italian designed Macchi MB-326 jet trainer produced under licence in Australia was flown to New Zealand on 16 July in an Australian bid to win a \$A 10 mn order from New Zealand which was looking for a replacement strike-jet trainer for its air force in place of its Vampire jet trainers. On 22 July New Zealand's Defence Minister Thomson said his country would probably buy the Macchi to replace its Vampires in service with the air force,

In September it was disclosed that the *Ikara* antisubmarine missile, which was developed by the Australian Navy, would be fitted to 24 Leander class frigates of the British Navy. It would be built in Britain by Vickers. It was also stated that the frigates would be fitted with quadruple launchers for British Seacat air defence missiles.

Radar equipment worth almost \$ A 16 mn which should have been delivered three years ago had still not met Australian specifications in October 1970. A contract for "Hubcap" control and reporting systems, described as essential support for the air force's frontline aircraft was signed in 1965. Delivery was scheduled for the second half of 1967, but trials were still continuing. The delay that had arisen caused a dispute over increased costs now totalling \$ 3,00,000. The two radar systems are to be installed at air bases in Williamtown and Amberly and were chosen because of their extreme mobility. It was estimated that they could be assembled in less than 24 hours and transported by Hercules aircraft.

The Australian Government has decided to grant a virtual subsidy of \$ 12 mn to establish a helicopter manufacturing capability in Australia's aircraft industry. This was disclosed in March 1971 by Defence Minister Fraser and Minister for Supply Anderson who said in their announcement that the helicopter selected for the army light observation plane was the Bell OH-58 A and that 75 would be bought at a total estimated cost of \$ A 37 mn. The Bell company had tendered to manufacture the military helicopter in Australia as part of a combined civil military programme which would include an additional 116

helicopters for civilian use. The principal Australian sub-contractor to Bell would be the Commonwealth Aircraft Corporation in Melbourne, helped by Hawker de Havilland (Aust) of Sydney and the Government Aircraft Factory in Melbourne.

Mineral Resources

In 1970, 23 mn tons of iron ore was extracted from the Pilbara region in northwest Western Australia and exported. In 1971 the figure should be closer to 40 mn tons, by 1975 it was expected that it would be 68.5 mn tons even if no new contracts are signed. This along with increased alumina exports from Weipa, nickel from Kambalda and coal from New South Wales and Queensland indicated that mineral resources were likely to overtake the rural industry's role of underpinning the national economy.

It was reported in August that a new \$ 100 mn oil-shale project would be set up at Julia Creek in northwest Queensland, with production expected to start in 1974. The new venture would be owned by Australian, French and American companies.

A survey made by an American Chamber of Commerce in Australia revealed that 142 overseas companies were engaged in searching for Australian minerals and metals. 57 were American, 29 Canadian, 24 British, 18 Japanese, 4 French, 4 German, 2 Swiss and 2 South African.

On 18 February 1971 the Minister for National Development, Swats, told Parliament that the Government had relaxed restrictions on the export of uranium

imposed almost 4 years ago. as the embargo became unnecessary when the world's richest uranium deposits were announced at Nabariek in the Northern Territory.

A Japanese firm has approached Magellan Petroleum, Australia, for a daily supply of a minimum of 11 mn cubic metres of natural gas from Palm Valley in Central Australia. This was confirmed on 16 March 1971 by the US oil company which has a 54 per cent spare in the Australian company.

Foreign Trade

The balance of trade increased \$ A 14 mn in 1968-69 to \$ 597 mn in 1969-70. The inflow of capital payments for the first really large scale iron ore exports was the main reason for the rise. Imports increased by \$ A 381 mn or 11.9 per cent to \$ A 3384 mn, while exports leapt by \$ A 764 mn or 23.7 per cent to \$ A 3981 mn. Japan increased its imports from Australia by nearly 25 per cent to be well in front of Australia's next best customer, the USA. Japanese exports to Australia also rose substantially. Trade with Asia increased. Large wheat contracts pushed up the value of Australia's 1969-70 exports to China by \$ A 58 mn. Australia's Minister for Trade McEwen whilst in Moscow in June 1970 on an official visit, in his trade talks with the Russians stressed the need for salesmanship as a means of boosting the meagre Soviet exports to Australia, the balance of trade being heavily weighed in Australia's favour. Since 1965 Australia had been annually selling about \$ A 31.15 mn worth of wool and other items to the USSR, which sold only about \$ A 1.78 mn worth to Australia.

Canada's decision to recognise China was generally regarded as likely to lead to greater sales of Canadian wheat at Australia's expense. In 1968-69 out of \$ A 339 mn worth of wheat exported by Australia, China bought a total of \$ 118 mn worth. In the past Australia's major advantage in securing contracts rested on the fact that it could offer lower prices. During the last two years, however, the Canadian wheat industry, caught like Australia in a critical overproduction situation, had also managed to offer lower prices to China. Reporting from Peking on 3 May 1971 Gregory Clarke said official sources in Peking suggested that China's decision not to buy Australian wheat was the result of Australia's restrictions on trade with China. The sources declined to clarify the nature of the restrictions to which they objected, but indicated that such restrictions had not been imposed by Canada. The frequently raised formula "that economics and politics are inseparable", was also raised.

Britain's Minister for Agriculture James Prior told Parliament on 27 October that the government intended to change the existing system of support for British agriculture. The result was likely to be a rise in the cost of living in Britain but a lightening of the burden on Britain's exchequer as well as lower sales of Britain's traditional suppliers Australia and New Zealand whose cereals, lamb, mutton, beef and butter would have to sell at higher prices in Britain, irrespective of whether or not Britain joined the European Common Market. On 28 October Australia's Minister for Trade McEwen said that if Britain introduced a system of review on imports of some agricultural products, it would cut across Australia's trade

agreements with Britain negotiated in 1932 and reviewed in 1957 under which the British Government undertook to permit free entry to certain imports from Australia.

An official of the Department of Trade and Industry disclosed on 19 January 1971 that Australia's exports to Japan in 1969-70 were \$A 1020.5 mn (25.7 per cent of all exports), the first time that any country had imported more than \$A 1000 mn worth of goods from Australia. He also said the figure was expected to increase fourfold in the next ten years. The most important and influential economic mission ever to leave Japan arrived in Australia on 21 March 1972 for 2 weeks talks with Australian Government and industrial leaders. Later in the month it was reported from Tokyo that the Australian Government had approached Japan to borrow up to \$ 20 mn on the Japanese finance market, the stated object being to promote Australian industrial development.

POLITICAL DEVELOPMENTS

At one of the major functions during his six days' tour in June 1970 of Papua-New Guinea Prime Minister Gorton announced a major transfer of power from the Australian Government to the elected members of the Papua-New Guinea House of Representatives but no date was given for full internal self government. He indicated that in some spheres the territories' politicians would be given full powers and in other areas, responsibility would remain in the hands of Australians or expatriates in the administration. Law, external relations, trade relations and defence were specifically included in the

latter category. Later in the year the Administrator's Executive Council approved the introduction into the territories House of Assembly of 3 bills proposing far reaching changes in land tenure. On 27 April 1971 the Minister for External Territories Barnes announced that the Australian Government was prepared to grant full independence to Papua-New Guinea within 5 years.

After some sensational disclosures of alleged antagonism between the senior service officers and the Defence Minister on 2 March 1971, including a report that the Joint Intelligence Organisations had been ordered to report on the army's activity in Vietnam, Defence Minister Fraser saw Prime Minister Gorton and denied the story. On 8 March Fraser resigned as Defence Minister and informed Gorton that he regarded his conduct as Prime Minister as indicating significant disloyalty to a senior minister. "Such a situation is not tolerable, I therefore, resign", he announced. The next day both Gorton and Fraser made statements in the House of Representatives. A motion of confidence in Gorton's leadership was moved at a dramatic meeting of the Liberal Party on 10 March. It produced a 33 to 33 tie for and against the motion. Prime Minister Gorton used his casting vote as chairman against himself to defeat the motion.

In the ballot for a new leader Foreign Minister McMahon easily defeated the only other candidate, Minister for Labour and National Service, Snedden. The new Prime Minister began intensive efforts to rebuild the government. His first step was to appoint former Prime Minister Gorton as Minister for Defence. On 12 March he announced a sweeping

reorganisation of the two departments concerned with advising the PM and supporting the operations of the Federal Cabinet and on 21 March 1971, he announced 9 ministerial changes which included :—

- (a) Labour and National Service Minister, Snedden moving to the treasury
- (b) Navy Minister, Killen being dropped and his place taken by a new appointee Dr. M.G. Macay
- (c) Treasurer (Finance Minister) Bury becoming the new Foreign Minister
- (d) Attorney General Hughes being dropped in favour of another new entrant, P. Lynch.

INTERNATIONAL RELATIONS

Australia welcomed President Nixon's decision to send troops into Cambodia but Prime Minister Gorton decided that no Australian troops would be inducted into that country. While Vietnam held the lime light in Australian Foreign Policy, closer liaison with Japan developed apace with Australia's three most senior Ministers (Gorton, McMahon and McEwen) all visiting Tokyo.

The federal government welcomed the conservative party election victory in Britain and Prime Minister Gorton's government resisted pressure to withdraw militarily from Malaysia and Singapore and rejected the "Fortress Australia" concept.

Australia's policy makers evinced concern that Russia might reopen the

Suez canal and monopolise it to extend its sway in the Indian Ocean region. Defence Minister Fraser indicated in July 1970 that he considered Russia's naval presence in the Indian Ocean region would be "flag showing" at this stage— "the sort of diplomacy for which navies were used in the last century". What worried him, he said, was that Russia might be aiming at circumstances in which the Suez Canal would be reopened for Russian ships alone. Fraser was impatient at the reported 12 months delay in completing engineering studies for a Naval establishment at Cockburn Sound, for the defence of western Australian coast. On 11 November 1970 Fraser accused Russia of gunboat diplomacy. He said, "The Soviet navy encroaches upon the Indian Ocean where there is no Russian national interest, unless it be the interest of exercising political power on the countries in the region through a strong naval presence". He went on to add "this is gunboat diptomacy of the kind that the world might have hoped had been left behind in the last century". On 3 December the Foreign office announced it had banned a Russian jet airliner from overflying the US-Australian defence communications base at Pine Gap. Of Britain's East of Suez policy Australia regarded any British commitment in the Malaysia area as an added increment to security but one that would not cause Australia to trim its sails.

Prime Minister Gorton announced on 31 October that the USA had accepted an offer to use the proposed new Indian Ocean naval base in Cockburn Sound and that Britain had reacted favourably to a similar offer but had not immediately accepted it. Earlier on 8

October Defence Minister Fraser had announced that the USA had withdrawn from Project Mallard, the \$1000 mn global military communications system which it was developing with Britain, Canada and Australia. He said the direct cause was the refusal of the US Senate to vote funds for the project. The US Ambassador to Australia revealed on 10 November that Dr. Seamans, Secretary of the US Air Force, had visited the controversial Woomera joint defence space communications station during the weekend. He was accompanied by 3 US Air force generals. There was considerable speculations both in the USA and Australia that the base would be involved in a satellite spying system to give early (30 minutes) warning of a missile attack on the USA. The speculation was set off by the launching of a US "spy in the sky", satellite on 6 November. In January 71 the Australian Department of Supply and the US National Aeronautical and Space Agency negotiated a new contract to cover the agency's five stations in Australia. It was stated that NASA would pay the cost of operating stations at Honeysuckle Creek, Tidbinbilla, Carnarvon, which were supporting The Apollo-14 mission. Writing in the *Australian* on 5 April 71, Robert Lehane maintained, "Australians can hardly be blamed for suspecting the worst about the Omega radio navigation base to be built in northern Tasmania or southern Victoria. Three secret US bases have been announced since 1963 and every now and then there are reports of additional smaller facilities. There is no real doubt, despite the lack of official information, that Australia is now inextricably involved in the US nuclear weapons system. And we have acquired some priority targets for nuclear attack".

It was reported on 14 October that the Australian Government would be forced to review its policy on the recognition of China, because of the formula under which diplomatic relations had been established between China and Canada. But reactions within the Government and the special problems applying to Australia, which did not affect Canada, were said to make it unlikely as on that date, that there would be an early change of attitude in Canberra. Despite the visits of the US ping-pong team to China and a subsequent trip made by an Australian team, Australia's Foreign Minister Bury told the SEATO conference in London on 27 April 1971 that it was necessary to pay due regard to developments on China "but to those of us who are more nearly China's neighbours there is as yet little to inspire confidence." He went on to add "the rights and interests of Taiwan, which had shown itself willing to abide by generally accepted principles of international conduct, should also be borne in mind." So far as Australia is concerned "we can only express the hope that China will develop and display more convincingly than she has done up till now a readiness to live in peace with her neighbours", the Foreign Minister added.

Defence Minister Fraser announced on 16 February 1971 that Australian, New Zealand and UK forces to be stationed in the Malaysia-Singapore region would be reorganised into a combined ANZUK force. He said "planning in depth is now proceeding" and added, "It has not yet been decided precisely when the new force will come into existence, but it is expected that the organisation will start to be formed over the next two or three months,

and it has been agreed that the first commander of the combined force will be an Australian." Ministers from Australia, New Zealand, Britain, Malaysia and Singapore meeting in London on 16 April agreed in principle to the 5 power arrangements for the defence of Singapore and Malaysia, to come into effect in about October 1971. They agreed that a consultative committee would be set up to meet alternatively in Singapore and Kuala Lumpur composed of diplomats from Australia, New Zealand and Britain with senior officials of Singapore and Malaysia. The credibility of this defence arrangement is considerably reduced by the fact that as pointed out in the communique issued after the meeting, the five nations has forged a new defence alliance "pledging them to joint consideration on measures to meet any external attack against them". It was also stated that the ministers agreed to establish an air council and that further discussions would take place between governments on the practical arrangements required for the accommodation and facilities for the ANZUK force to be stationed there. Australian defence Minister Gorton maintained that the facilities of the former British base at Singapore should be made available for the force free of charge. This could well give rise to some friction amongst the nations concerned.

On the eve of a visit to Australia by Indonesia's Minister for Trade Sumito, Foreign Minister McMahon announced on 7 December 1970 civil aid worth more than \$ 11 mn for Indonesia. This amount included several projects spread over 3 years.

On 13 December the Australian Government announced defence aid

programme for Malaysia and Singapore worth \$ 20 mn over the next 3 years.

ARMED FORCES

The planned strength for 1969-70 was not fully achieved, but the strength of the permanent forces increased by almost 8000 to a total strength of 84,479 as on 30 June 1970.

Army

The strength of the army was 44,533. This consisted of 28,325 regulars, including the Citizens Military Force (CMF), full time duty and 16,208 national servicemen. In addition there were the 2434 indigenous members of the Pacific Islands Regiment as well as 822 in the Regular Army Emergency Reserve, 31,397 in the CMF and 9615 civil personnel. The army has: nine infantry battalions, including one battalion group based in Singapore and a task force of 3 infantry battalions with supporting arms and services in South Vietnam; 2 battalions of the Pacific Islands Regiment; 1 tank regiment with Centurions; 1 Special Air Services (SAS) regiment; 1 aviation regiment. Equipment includes Saladin armoured cars, Ferret Scout cars, 150 M-113 and some Saracen APCs, 105 mm howitzers and about 50 Sioux and Alouette III and 12 CH-47 helicopters.

The National Service Scheme continues to provide some 8400 national servicemen each year to supplement the regular army and without them it would not be possible for the army to meet its commitments. Since the inception of the scheme in 1965 to the end of June 1970 over 43,000 had

been called up. Of these 16,200 were currently serving, 700 had joined the regular army and some 24,000 had completed their full time training and had been transferred to the regular army reserve. The end of June 1970 saw the initial intake of 21,000 complete their 5 years national service obligation. A strength of 24,000 trained national servicemen will be maintained in the reserve, as those completing their full time service meet the balance.

The Citizen Military Force sustained a net loss of 2,859 men during the year. Wastage did not increase but the number of new recruits fell short of the target. Recognising the need for a strong CMF the target of 36,000 has been retained and plans for its reinvigoration are being examined. This force is intended to form 25 infantry battalions with supporting arms and services, which will include 1 battalion each in Papua and New Guinea.

Air Force

The Air Force's total strength was 22,642; it has :—

- 1 squadron Canberra B-20 light bombers;
- 4 squadrons Mirage III-interceptor/strike aircraft with Matra air-to-air missiles;
- 1 squadron Neptune SP-2H and 1 squadron of Orion P-SB maritime reconnaissance aircraft;
- 1 squadrons F-4E aircraft leased from USA
- 2 squadrons Hercules C-130 and 2 squadrons Caribou medium transport aircraft;
- 2 squadrons Iroquois UH-1;
- 1 squadron Special Transport.

Aircraft and Weapons

Mirage

A modification programme to give all Mirage III-O aircraft a full ground attack capability has been completed. This gives the RAAF an effective modern and flexible tactical fighter force which can meet a variety of operational tasks including air superiority, air defence, interdiction and close air support. Action is being taken to provide the Mirage force with a limited photographic reconnaissance capacity for tactical operations.

To ensure that the tactical fighter force can achieve maximum effectiveness in its close support role the RAAF recently formed No. 4 Forward Air Control Flight at Williamtown. This flight is currently equipped with modified Winjeel aircraft.

Canberra

No. 1(B) Operational Conversion Unit at Amberley continues to operate Canberra aircraft and train crews to support No. 2 Squadron in Vietnam. Nos 1 and 6 Squadrons aircrew are undergoing conversion training onto the Phantom F4E aircraft.

E 111C

Decision has been taken to store in the USA the 24 F 111 C aircraft on order for the RAAF until technical problems have been solved.

F 4 E

The RAAF has leased 24 F 4 E aircraft from the US as an interim

strike force whilst the F 111 C structural difficulties are being corrected. This will enable the RAAF to achieve a strike capability and to maintain expertise and training requirement in the strike role. The 24 aircraft were ferried to Australia during September-October 1970.

P3B Orion : SP 2H Neptune

The RAAF maritime force consists of two squadrons based in Australia but capable of deployment elsewhere as required. Both squadrons use the most modern anti-submarine detection systems available and are able to react immediately to any threat in the Australian area of interest.

Air Transport Element (Fixed Wing)

The RAAF fixed wing air transport element comprises two squadrons of C 130 Hercules aircraft, two squadrons of Caribou aircraft, and a special transport squadron equipped with BAC 1-11, Mystere 20 and HS 748 aircraft. The roles of these squadrons include strategic deployment, tactical support of ground forces, and special flights.

Iroquois Helicopters

The RAAF at present employs two squadrons of Iroquois utility helicopters, one in Vietnam, and one in Australia, for tactical support to the ground forces, and training. Two Iroquois have recently been deployed to Butterworth on Search and Rescue duties. Seven additional UH-1H Iroquois have been purchased and were due for delivery in Australia towards the end of 1970.

An order will also be placed for eleven Huey Cobra helicopters at a cost of \$ 12.2 mn. This includes initial stores, ground handling and test equipment, weapons, training weapons and the provision of associated works and housing. These 11 gunships are the first helicopters bought specifically for this role and are to be introduced into service in 1974.

There has evidently been an inter-service tussle over the purchase of these gunships. Early in March 1970 Defence Minister Fraser said that eleven gunships were to be purchased at a cost of about \$13 mn. But after a lengthy eight month evaluation the RAAF rejected the AH-1G Huey Cobra in favour of the armed Iroquois. Then in an unusual if not unprecedented action, the army rallied support at the Chiefs of Staff Committee to override the recommendation. According to a news report, within a matter of a day or two, the Chief of the General Staff Gen. Sir Thomas Daly was able to convince the Defence Minister, the Chairman of the Chiefs of Staff Committee Sir Victor Smith and the Chief of the Naval Staff Vice-Admiral Peek, that the specialised Huey Cobras would enable the RAAF to give greater aerial fire support to the army than it could with a make shift armed Iroquois. And although the RAAF will operate the helicopters the Chief of Air Staff, Air Marshal Hannan's recommendation was overruled.

Trainer Aircraft

As on 30 June 1970 a total of 72 Macchi Jet Trainers had been delivered to the RAAF. Macchi aircraft have replaced the Vampire at No. 2 FTS

Pearce and this school currently graduates four pilot courses per year. The Macchi has also replaced the Vampire at East Sale where it is used for Flying Instructor training and it is also being introduced as a Weapons Trainer at RAAF Williamtown.

Eight HS 748 Navigation trainer aircraft have been delivered to the School of Air Navigation at East Sale. Two basic Navigator courses, one Advanced Navigator course and one Air Electronics officers' course graduated during the period.

Navy

The Navy's personnel strength was 17304; it has: 4 submarines, 1 aircraft carrier; 3 guided missile destroyers (with Tartar surface to air missiles); 9 destroyers (3 Daring class and 6 River class); 4 coastal minesweepers (of which 3 are in operational reserve); 2 minehunters; 16 patrol boats, (1 in operational reserve); 1 fast troop transport; 1 destroyer tender; 1 oiler, 1 survey ship; 2 training ships (destroyers). Carrier borne aircraft include: 1 squadron A-4G Skyhawk fighters; 1 squadron Tracker ASW aircraft; 1 squadron Wessex anti-sub helicopters.

On 30 June 1970 the Naval Reserve force had a total strength of 5359 made up of: RAN Emergency Reserve 67 officers and 830 sailors; Citizens Naval Forces 1245 officers and 3074 sailors; WRANS Reserve 2 officers 141 WRANS. A total of 220 Reservists were serving periods of full time service.

New Ships and Projects

During 1969-70 the destroyer escort HMAS Swan joined the fleet and the

fourth Australian Oberon-class submarine HMAS Onslow was delivered from Scotland after trials and work up in UK waters. A sister ship to Swan, HMAS Torrens, will commission early in 1971.

The extended refit of the Daring-class destroyer HMAS Vampire has begun, and will be followed by HMAS Vandetta's extended refit in 1971. These refits will include the updating of several weapons systems.

The conversion of HMAS Snipe to a coastal minehunter was scheduled to be completed in 1970.

The preliminary design study for a destroyer has begun and approval has been given for the detailed design of this class of ship.

Other feature projects for which approval was given in 1969-70 include:—

- (a) A fast combat support ship to supply to combatant ships either at sea or in harbour a variety of fuels, ammunition victuals and other stores.
- (b) A specialised oceanographic ship which will replace the ageing HMAS Diamantina. The new ship, to be named HMAS Cook, is expected to be completed in 1974.
- (c) A small hydrographic ship which will replace HMAS Paluma.
- (d) Two Oberon-class submarines to increase Australia's submarine strength to six vessels.

- (e) Ten Skyhawk fighter bomber aircraft which will double the number of this type of aircraft in service with the Fleet Air Arm and increase the strike capacity of the carrier HMAS Malbourne.
- (f) Two twin-engined support and training aircraft which will be used for aircrew training, communications duties, Fleet requirements and trials.
- (g) Overhaul and modernisation of gun mounts for the guided missile destroyers. This will increase the fire power of the Fleet and, its offensive capacity.
- (h) New receiving facilities for the Naval communications station at Darwin. This will enhance communications facilities necessary for the control of operations in areas to the north.

**MAJOR EQUIPMENT AND INFRASTRUCTURE PROJECTS
(JUNE 69 TO JUNE 1970)**

Maritime Capability	<i>(Australian \$)</i>
Two Oberon submarines	\$ 37.2 m
Long Range Sonar for Submarines	\$ 2.9 m
Modernized-Gun Mounts for DDG's	\$ 8.4 m
Light Destroyers—Preliminary Design	\$ 0.9 m
Light Destroyers—Detailed design	\$ 5.0 m
 Support	
Fast Combat Support Ship	\$ 42.0 m
Oceanographic Ship	\$ 16.7 m
Hydrographic Ship	\$ 4.1 m
Manus Island improved facilities	\$ 1.1 m
Naval Communication Station, Darwin	\$ 3.8 m
 Strategic Mobility	
Logistic Cargo Ship	\$ 10.0 m
 Tactical Mobility	
Seventy two 6-Ton Tactical Carriers (M 548)	\$ 3.2 m
Twelve Medium Lift Helicopters	\$ 37.7 m
Forty-two Utility Helicopters	\$ 31.6 m
Eleven Armed Helicopters	\$ 13.2 m
Eighty-four Light Observation Helicopters	\$ 23.0 m
Eight Landing Craft Heavy	\$ 7.1 m

Offensive Capability

Twenty-Four F4E Phantom aircraft—lease	\$ 30.0 m
Ten Skyhawk aircraft	\$ 20.0 m

General Army Capabilities

Capital Commitments	\$ 42.8 m
Radio Relay Terminals	\$ 5.5 m
Manpack Transceiver Radio Sets	\$ 2.1 m

Air Defence

Six Low Cover Radars	\$ 6.0 m
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Training

Ten Macchi aircraft	\$ 7.6 m
Two support and training aircraft	\$ 1.0 m
Submarine Command Team Trainer	\$ 3.2 m

Infrastructure

Learmonth Airfield Development	\$ 12.5 m
Cockburn Sound Causeway	\$ 9.0 m
Oakey Army Aviation Centre	\$ 8.0 m

Research and Development

Project N Prototype Development	\$ 3.2 m
TURNA Target Development	\$ 2.7 m
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	\$ 408.5 m
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Department of Supply

New projects during the year included :—

- (a) Production for the RAAF of 500-lb MK-82 bomb—the largest bomb to be made in Australia—involved redesign of plant and development of new manufacturing techniques.

- (b) First Australian production of 30-mm DEFA ammunition for the RAAF's Mirage fighters.

- (c) Project N—design and prototype manufacture of a light utility transport aircraft for the Services with promising civil applications.

- (d) Design and development work on Turana — a pilotless target drone, based on the Ikara anti-submarine guided-weapon system — for the RAN.
- (e) Tenders were sought from two overseas organisations for supply of light observation helicopters required by the Armed Services, based on participation by Australian industry not only in manufacture of the military requirement (84) but also in commercial production to meet potential sales in Australia and abroad.

At least two projects, developed by the Research and Development Department are contributing to Australian exports: Jindivik drone aircraft has already earned about \$ 20 m in overseas sales and *Ikara* missile is expected to have an export income of more than \$ 30 m. In addition, certain new projects are regarded as having export potential.

In 1969-70 the Department placed orders for goods and services to a total value of \$ 243 m — \$ 189 m on industry and \$ 54 m on its own factories.

Research and Development

The Weapons Research Establishment (WRE) continued its activities at Salisbury and Woomera in support of the Joint Launcher Development Project, ELDO (which carried out its last Europa-1 rocket firing at Woomera on 12 June) and various Australian defence projects. These latter include weapons trials and studies and various types of research and engineering development.

Anti-Submarine Mortar

RAN ships are fitted with a MK 10 anti-submarine mortar capable of launching mortar projectiles singly or in salvos of three. In some cases two systems are fitted to double the launching capability. This launcher is stabilised in pitch and roll and has facilities for setting the range of projectile and the depth at which it is set to explode. By incorporating the latest electronic devices, WRE has developed modern systems to reduce weight and acoustic noise and enable easier maintenance. These design changes also provide some system rationalisation from the operational point of view, and it is expected that the manning of the mortar system will be reduced. Prototype work for this project is almost complete. An industrial briefing was held at WRE late in 1969 and since then a number of interested contractors has visited WRE regularly for familiarisation with the work and demonstration of the prototype equipment. A contractor will be chosen shortly to carry out manufacture of pre-production and production units.

Counter-Mortar Radar

Work has been undertaken by WRE to improve the reliability and performance of a portable radar set (AN/KPQ 1) used by the Army to locate the point from which mortar bombs are launched. In the field, the units used by the Army were found to suffer from several deficiencies. WRE was asked to rectify the problems.

Small Computers

Because warships have sophisticated means for seeking out the enemy and

attacking or retaliating, the post-analysis of events that occur during a mock naval battle calls for the assistance of computers. The data-gathering equipment must not interfere with a ship's normal operation. A recent RAN requirement for such equipment was handled by WRE which assisted by developing and building prototype components, preparing specifications and procuring a computer. The equipment supplied converted data, derived from navigational instruments, into a digital form on paper tape that could be read by correlating the recorded data with simultaneous photographs of radar displays.

Micro-Electronics

To alleviate an otherwise tedious and inefficient process, design and artwork preparation in the field of micro-electronics are being automated. Computer aids for these processes, and for subsequent analysis and testing, are fast becoming a dominant feature of micro-electronic design, development and manufacture. Proposals to undertake work of this nature at WRE are in hand.

Shell Telemetry

The Defence Science Laboratories have developed a telemetry unit for making measurements on an artillery shell during its in-bore or firing phase. The aim of the development is to provide continuous data on shell body strains, filling deformation, accelerations, contact stresses between the filling and the shell body as well as fuze behaviour during firing.

Mirage Test Flights

One of the Aeronautical Research Laboratories' (ARL) major tasks is the

estimation of fatigue damage suffered by RAAF aircraft due to the variable loading received in service. The purpose of the task is to assist forward planning by predicting the need for replacement of major components. The second stage of a comprehensive investigation of the fatigue life of the Mirage III-O is about two-thirds completed. Some 140 flights have been made by the test aircraft from RAAF bases at Williamtown, Darwin and Avalon. Analysis of the data, amounting to some 500,000 data points per flight, recorded on magnetic tape, has shown that the functional relation of strain to normal acceleration is non-linear and dependent upon the altitude and airspeed at which a load occurs.

Gust Probe

To measure how responsive an aircraft is to gusts of wind, it is necessary to measure simultaneously the gusts and the consequent strains. ARL designed and built a gust probe for the flight-test programme to investigate Mirage fatigue life and it was fitted to the nose cone of a test aircraft. The probe was recently modified to permit use in heavy rain and to provide a more linear sensor to measure large angles of attack and sideslip.

Ground Resonance Test

This test is required to determine the vibration properties of the latest Jindivik (Mk. 3B) so that the flutter speed and other phenomena, associated with the interaction of aerodynamic forces and an elastic wing can be calculated. These calculations will then be checked in flight tests at Woomera. If deficiencies are found, suitable modi-

fications can be made to the aircraft to ensure that failure does not occur in service.

Aircrew Safety

At the RAAF's request, ARL has been working on a system that allows an airman to lower himself safely to the ground after his parachute has become caught in high trees. Devices to achieve this are already in use, but none of the standard systems suits the installation requirements of all Australian aircraft. ARL's task was therefore to adapt existing components and techniques to form a new system compatible with RAAF needs.

Aircraft, Guided Weapons and Electronics Supply

The Supply Department operates the Government Aircraft Factories (GAF) at Fishermen's Bend and Avalon. Supply is also responsible for the letting of contracts in the aerospace field to private industry, the two main contractors being Commonwealth Aircraft Corporation Pty Ltd (CAC) and Hawker de Havilland Australia Pty Ltd.

Jindivik

The latest Jindivik model, the mark 3 B, which has exceeded 600 mph and can operate to an altitude of 68,000 ft, is now in production at GAF for the Joint Project at Woomera, the RAN at Jervis Bay and the British Ministry of Technology. One Jindivik, used for crew training at Woomera, was expected to complete 200 flights in 1970 - a magnificent performance by a pilotless drone. Of 434 Jindiviks ordered to date, 400 was to be produced by the end of 1970. Further expected orders

will ensure that Jindivik will continue in use as a target aircraft for many years to come.

Mirage

All fighter versions of the Mirage III-0 aircraft are now being converted to the ground attack role at GAF Avalon. CAC is manufacturing the RPK 10 external fuel tank/bomb carrier originally designed and developed by AMD France to meet an RAAF requirement. Both GAF and CAC continue to manufacture Mirage spares.

Project N

Early in 1970 the Cabinet approved expenditure of \$ 3.2 mn on the design, development and prototype manufacture of a light utility transport aircraft, currently known as Project N. The approval covers the manufacture of two prototypes and a structural test airframe at GAF. The aircraft incorporates advanced short take off and landing features. It will meet a series of roles for the Australian Forces, and with relatively minor design changes it could fill an otherwise vacant slot in the range of available light commercial aircraft. The first prototype is expected to fly in mid-1971.

Sabre

The complete re-wiring of electrical and radio looms in 31 RAAF Sabre aircraft at GAF Avalon was expected to be completed in September 1970.

The Australian Industry is overhauling and repairing Sabre components for the Royal Malaysian Air Force,

GUIDED WEAPONS

Ikara

The *Ikara* M3 missile variant (Mk 1) is in service with the RAN. The improved M 5 variant (Mk 2) is about to enter service. Design and development of M4 missile variants for the British Navy have been completed, and initial deliveries of substantial orders for missiles, shipborne and depot equipment have begun. Manufacture of the GAF-designed solid-state airborne telemetry, transmitter and associated equipment, both for the RN and RAF, is well advanced.

An Australian version of the British replenishment and storage missile crate has been developed to a stage where production orders for considerable quantities are expected.

SCIENCE AND TECHNOLOGY

Nine tenders were received by 15 June 1970 for the proposed 500 megawatt nuclear power station at Jervis Bay. On 23 August, National Development Minister Swarts said that only 4 of the tenders were still being considered. After initial evaluation 5 had been rejected including two natural uranium reactors offered by Kraftwerk-Union of Germany. This left Canada as the only country offering a natural uranium reactor. It had put in two bids for essentially one kind of station, with alternative contract conditions. The 4 under study were :

- (a) AEC Canada—heavy water, natural uranium fuelled reactor

- (b) Nuclear Power Group, Britain—steam generating heavy water reactor using slightly enriched uranium.
- (c) Kraftwerk-Union, West Germany—pressurised water system using ordinary water and enriched uranium.
- (d) Westinghouse Electricity International, USA—Pressurised water system using ordinary water and enriched uranium.

In March 1971 it was reported that after 8 months examination of the tenders the only reactor being mentioned was the SGHWR reactor offered by Britain's Nuclear Power Group. This would imply that the Australians had decided on enriched uranium fuel, rather than natural uranium as used by the Canada's Candu reactor. And if the government adhered to its original stipulation that the station must be able to use Australian produced fuel, an enrichment plant would have to be built in the country. Lennard Bickle writing in *The Australian* on 10 May 1971, revealed that plans to build Australia's first atomic power station at Jervis Bay were certain to be shelved and that this would keep Australia out of the nuclear power era until the early 1980s. Two factors were likely to lead to the scheme's deferment. Firstly cost, and secondly uncertainty about the technical role the station would fulfil in the national development programme. The tender favoured by the Australian Government's advisers—the British SGHWR reactor—could cost, according to official estimates, an unexpectedly large amount of \$212 mn for a power output of 500 megawatts, whereas Westinghouse USA was building a nuclear power plant

in Austria with a 900 megawatt capacity for a price nearly equal to that of the British recommendation. The Westinghouse plant is a pressurised water reactor using highly enriched uranium fuel. That firm's Australian tender was reportedly rejected because there was no accompanying offer on a separate enrichment capacity, but instead there was an offer of a government backed guarantee of nuclear fuel supply for 30 years.

On 22 September 1970 Prime Minister Gorton said the government's unwillingness to install a uranium enrichment plant had nothing to do with its refusal to ratify the nuclear non-proliferation treaty. He was replying to a question as to whether Australian uranium exports could be upgraded with an enrichment plant and said Australia would get more value for its mineral exports if more mineral processing was undertaken in the country; however, the cost of a uranium enrichment plant was very high. It was reported in March 1971 that Japan was likely to propose cooperation between Canada, Australia, Japan and possibly India to build a joint uranium enrichment plant. Backers of the proposal pointed to Japan's inability to

depend indefinitely on the USA for supplies of nuclear fuel, and claimed that joint development would help calm fears that Japan would use the facility to develop a military nuclear weapons capability. The idea of a joint enrichment was first floated by Nakasone, Director-General of Japan's Defence Agency, during his visit to USA in September 1970.

In July 1970 it was announced that the world's first laser lighthouse was expected to be operating later in the year from Point Danger on Australia's east coast, also that pre-installation test had been completed. Maritime authorities reportedly considered that the laser light heralded a new era in navigation aids for shipping. It stands only 5 ft high, is 12 inches in diameter, weighs about 100 lbs, uses less power than a mantle shelf radio and yet produces an intense beam of light that can be seen as far away as the horizon—about 22 miles in almost any kind of weather. In the event of a power failure it can work on 2 x 12 volt batteries. This unit can work for several years without servicing. This invention was expected to have a large export market.

2. NEW ZEALAND

ECONOMY

Enhanced prospects of Britain's seemingly imminent entry into the European Common Market continued to cause concern in New Zealand as Britain had been its long standing traditional market for more than 40 per cent of its exports. In early 1971 the picture brightened somewhat with prospects of EEC according New Zealand some special accommodation, at least for some years.

The need for export diversification was stressed at the national development conference which in 1968/69 surveyed the entire range of economic activity. In June 1970 a New Zealand trade mission to Japan offered a lifting of import restrictions of Japanese cars in exchange for Japan increasing its imports of New Zealand's meat and

dairy products, but Japanese response appeared on the whole to be lukewarm. Sales to Asian countries rose by 19 per cent to \$ 136.3 mn in 1969.

New Zealand's actual GNP in 1969-70 was \$ 4757 mn which was 9.3 per cent more than in 1968-69. The growth rate was 6.9 per cent in the previous year, 4 per cent in 1967-68 and 3.7 per cent in 1966-67.

Two major and closely related problems affecting New Zealand are inflation and a rash of industrial stoppages affecting all important sectors of the economy. A classical wage-price spiral threatens New Zealand's capacity to sell abroad.

POLITICAL DEVELOPMENTS

In 1970 Prime Minister Holyoake completed 10 continuous years in office. As long ago as 1967 he was reportedly

New Zealand—Statistics

Area	...	265,472 km
Population 4 (December, 1969)	...	2,809,000
GNP 1969 (estimated)	...	\$ 5.2 bn
Defence Budget 1969-70	...	\$ 99.45 mn
Total Armed Forces	...	13,135
Army	...	5,740
Air Force	...	4,475
Navy	...	2,920
Currency	...	\$NZ = \$1.12

looking forward to retirement. Within the ruling National Party, there seemed to be no obvious successor. Deputy Prime Minister and Minister of Overseas Trade and Minister for Labour J.R. Marshall had a strong claim but was 57 years old and 5 years ago sustained a massive heart attack. The only alternative to Marshall appears to be Finance Minister Muldoon. With the threat of open hostilities between the Marshall and Muldoon factions Sir Keith appointed each to the chairmanship of Cabinet Committees of equal importance and quietly signified his own intention of continuing as Prime Minister indefinitely.

INTERNATIONAL RELATIONS

During 1970 New Zealand's foreign policy appeared to continue to drift, partly because the country had been slow to evolve a distinctive role for itself and more so because of a tradition of allowing powerful friends to set foreign policy parameters on its behalf. On 10 June during an official visit to Australia Prime Minister Holyoake made it clear that there was no possibility of New Zealand joining a political union with Australia. President Nixon's Guam doctrine enabled Premier Holyoake to begin reducing the strength of New Zealand forces in South Vietnam. He announced on 26 January 1971 that New Zealand's special air service unit would return home in about a month leaving one infantry company and one artillery battery in that country.

ARMED FORCES

Effective from 1st June 1970, New

Zealand's Army, Navy and Air Force came under one commander. Defence Minister Thompson announced that Lieutenant General Sir Lenard Thorton, Chief of Defence Staff, would be overall commander of the three services.

The strength of the army is according to **Military Balance** 1970-71, 5,740. It has 1 infantry battalion (less two companies) in Malaysia, and two infantry companies and an artillery battery in Vietnam. The regular troops form the nucleus of a combat brigade group, a logistic support force, a reserve brigade group and a static support force. These units would be completed to full component by the mobilisation of territorials. It is equipped with centurian medium tanks and M-41 light tanks as well as Ferret scout cars.

The navy has 2920 personnel with a general purpose frigate (with Sea-cat surface-to-air missiles); 2 escort minesweepers; 12 patrol craft (less than 100 tons); 2 wasp helicopters (one operates from the frigate) and 3000 naval reservists.

The air force has 4475 personnel and 33 combat air craft with 8 Canberra B(1)12 light bombers, 10 Vampire FB-9 fighter bombers, 10 A-4K Skyhawk fighter bombers, 5 P-38 Orion maritime reconnaissance aircraft; 5 C-130 Hercules, 15 Devon and 9 Bristol Mark-31 medium transports (a transport squadron is deployed in Singapore) and 14 Iroquois and 13 Sioux helicopters. In 1970 there were reports that the canberras were sold to India.

IV SOUTH ASIA

1. NEPAL

NATIONAL ECONOMY

Five Year Plans

The fourth Five-Year Plan (1970-75) launched on 16 July 1970 envisages a total outlay of Rs (N) 3,540 millions—Rs (N) 2,540 mn in the public sector,

Rs (N) 130 mn in the *Panchayat* sector and Rs (N) 840 mn in the private sector. Annual rate of growth in national income is estimated at 4 per cent. Priority has been accorded to transport, communications, agriculture and irrigation. Sector wise allocations are as follows:

<i>Sector</i>	<i>Rs in millions</i>	<i>Percentage to total</i>
Transport and Communications	1,257	35.5
Agriculture and Irrigation	1,164	32.9
Industry, Power, Mining and Commerce	722	20.4
<i>Panchayat</i> , Education, Health and Social Services	382	10.8
Miscellaneous	15	0.4
Total	3,540	100.0

Nepal—Statistics

Area (sq kms)	... 141,400
Population (1971 estimate)	... 11,289,000
GNP (1969-70)	... Rs (Nep) 6,561 mn
Defence Expenditure (1970-71)	... Rs (Nep) 61 mn
Armed Forces	... 33,250
Army	... Regular 15,000 ; Militia, 18,000
Air Force	... 250
Currency	... US\$ = 10.12 Nepalese Rupees.

In the public sector, priority has been given to agriculture and irrigation (54%) while industry and commerce get 28.7 per cent and transport 17.3 per cent. The private sector will be provided incentives for investment in agriculture, industry and commerce.

The plan depends heavily on foreign assistance. The Chairman of the Planning Commission Gehendra Bahadur Rajbhandari said on 15 May 1970 that 42 per cent of the total financial resources of the fourth plan will be met by mobilising internal resources and 58 per cent through foreign aid.

Rajbhandari said that the objectives of the fourth plan were :

- (i) to maximise output,
- (ii) to establish the pre-condition for sustained and long term economic growth,
- (iii) expansion and diversification of international trade,
- (iv) to secure economic stability by controlling price level,
- (v) to make effective use of manpower and control of population growth and
- (vi) to create conditions conducive to the emergence of a society free from exploitation.

The plan aims at raising food production by 16 per cent and cash crops by 40 per cent. About 25,000 hectares of new land will be brought under cultivation.

The third Five Year Plan (1965-70) envisaged a total outlay of Rs (N) 2,500 millions and an increase of 19 per cent

in gross national product (GNP)—annual growth rate of 3.8 per cent. But the achievements have fallen short of the objective. The GNP is estimated to have increased by 11 per cent from Rs (N) 5,883 million to Rs (N) 6,561 mn during the third plan period. Prices increased by an average of 8 per cent each year over the same period. Food-grains production during the period increased from 3.3 million tons to 3.7 million tons, an increase of 12 per cent as against the target of 15 per cent.

In March 1971, the Government decided to set up *Panchayat* Development Corporation to provide loans for different units of *Panchayats* for their development programmes.

According to figures released by the Central Bureau of Statistics, Nepal's National Income for the period 1966-70 (at 1964-65 prices) was estimated as follows :

Fiscal Year	Rs (N) in mn	Growth Rate
1966-67	5,896	—
1967-68	6,282	6.5 %
1968-69	6,420	1.9 %
1969-70	6,561	2.2 %

The National Income is expected to reach Rs (N) 7,873 mn in the last year of the fourth five year plan i.e. in 1974-75.

Managing Director and Chairman of the Executive Board of the International Monetary Fund P.P. Schweitzer during his five-day visit to Nepal in October 1970 said in Kathmandu on 19 October that with the large reserves and a very favourable balance of

payments position the Nepalese currency was very strong and there were reasons to be confident about the future of the Nepalese rupee. He also pointed out that the reduction of Gorkha troops would have no adverse effect on the country's economy because of her developing tourist industry.

The Governor of Nepal's *Rashtra* Bank Dr Pant said on 20 October 1970 that Bank's foreign reserves totalled Rs (N) 950 million. There were Rs (N) 250 million worth of Indian rupees in the *Rashtra* Bank holdings. (Nepali Rs 135 = Rs 100 Indian). Nepal's

holdings of gold, silver and foreign currency and securities constituted 95 per cent of the country's currency. This shows that the currency is quite sound. Nepal was allocated \$ 1.7 mn under the IMF Special Drawing Rights in January 1971. Nepal can use the amount in case of balance of payments deficit with any country.

National Budget

Budget estimates for the fiscal year 1970-71 were presented to the *Rashtriya Panchayat* in Kathmandu on 6 July 1970. Estimates of expenditure and revenue receipts are :

Years	(Rs (N) in mn)			
	1968-69 (actual)	1969-70 (BE)	1969-70 (RE)	1970-71 (BE)
(i) Expenditure				
Regular	193.0	232.8	224.6	340.0*
Development	344.2	608.2	494.5	633.0
Total	537.2	841.0	719.1	973.0
(ii) Revenue				
Receipts	413.0	456.6	435.9	495.0
(iii) Foreign Aid	185.9	329.3	268.4	332.7
(iv) Deficit (—)/ Surplus (+)	+ 61.7	— 55.1	— 14.8	— 145.3
Total — (ii) to (iv)	537.2	841.0	719.1	973.0

Revenue Receipts are estimated at Rs (N) 495 mn compared with revised estimate of Rs (N) 436 mn in 1969-70, showing an increase of 13 per cent. Customs and excise duties account for 51 per cent of the total revenue. Taxes and levies have been imposed on several items, especially on luxury goods. Import duties on all types of cars, jeeps,

land-rovers, station wagons, vans and micro-buses have been increased by 50 per cent.

Total expenditure is estimated at Rs (N) 973 mn compared with revised estimate of Rs (N) 719 mn in 1969-70 — an increase of 35 per cent. The deficit of Rs (N) 145 mn will be met

* A 'phenomenal' increase of Rs (N) 115.4 mn or 52 per cent in the regular expenditure in 1970-71 was largely due to recurring development expenditure of the third plan becoming the regular committed expenditure during the fourth plan which commenced in mid July 1970.

through foreign loans Rs (N) 69.6 mn, internal loans Rs (N) 30 mn and cash balances Rs (N) 45.7 mn.

A sum of Rs (N) 633 mn has been allocated for development plans—an increase of 28 per cent over 1969-70. Out of this, Rs (N) 520.2 mn (82%) is allocated to economic services, Rs (N) 98.6 mn (16%) to social services and Rs (N) 14.2 mn (2%) for economic administration, planning and miscellaneous items. There was a shortfall of Rs (N) 114 mn in budgeted development expenditure during 1969-70.

Out of total expenditure on economic projects, the largest allocation of Rs (N) 346.8 mn (55%) is for the development of transport, communications and electricity. Agriculture and irrigation account for Rs (N) 95.1 mn (15%) and mining Rs (N) 48.1 mn (7%). Other allocations include Rs (N) 4.8 mn (0.8%) for land reforms and forests Rs (N) 15.2 mn (2.3%) etc.

In the Social Services sector, Rs (N) 41.1 mn (6.5%) will be spent on education, Rs (N) 36.4 mn (5.5%) on health, Rs (N) 11.4 mn (2%) on drinking water, Rs (N) 8.4 mn (1.3%) on *Panchayats* and Rs (N) 1.2 mn (0.2%) on other social services.

The fiscal year 1970-71 is the first year of Nepal's fourth Five Year Plan and the purpose of the budget is to accelerate the development process. The plan was an outline of the long term objectives of the country and the means to achieve those objectives was the annual budget, the Finance Minister told the *Rashtriya Panchayat* on 14 July 1970.

Economic Progress

Analysing the economic situation during 1969-70, the Finance Minister said that prices had remained generally stable except that of foodgrains like rice which registered a slight increase. The price of rice, pulses, oil, milk and cotton cloth had increased while prices of wheat, flour, *ghee*, sugar and salt had decreased. The price level had registered a rise of 19 per cent as a result of devaluation in 1966-67 and was only 3.7 per cent in 1968-69. The rise in the price level of foodgrains in Kathmandu valley and the Terai region was attributed to hoarding by exporters with an eye to rise in prices in India.

Agriculture

Nepal is an agricultural country—93 per cent of the total population depend on agriculture either directly or indirectly. About 73 per cent of the national income is derived from the agricultural sector. Agricultural commodities account for 70 per cent of the total exports and this constitutes nearly 5 per cent of the total agricultural output. Satisfactory progress was recorded in agricultural production during the year 1969-70. Production of paddy, wheat and maize had risen by 3.8 per cent, 6.6 per cent and 2.2 per cent respectively. As regards cash crops, production of sugarcane was expected to increase by 5.8 per cent and that of jute and oilseeds by 9.1 per cent and 5.2 per cent respectively. The sale of fertilisers, improved seeds and agricultural implements has increased markedly. The Agricultural Development Bank and the Land Reforms Corporation had together disbursed loans amounting to Rs (N) 27.3 mn in the first nine months of 1969-70. It will

receive \$ 2.4 mn long term loan and \$ 146,000 technical assistance from the Asian Development Bank in 1971.

The Government has abolished *Zamindari* system in five more districts. It had already been abolished in 13 other districts. The Land Reforms Corporation has imported 200 tractors from USSR and 1,000 water pumps from Japan. The first phase of the Chatra Canal has been completed with Indian assistance. Water was formally released on 7 September 1970. The project is estimated to cost Rs (N) 125 mn.

Nepal has requested Denmark to help her in launching an intensive agricultural development plan estimated to cost Rs (N) 10.9 mn as a part of freedom from hunger movement. Nepal is likely to get assistance from FAO also for agricultural development. On 6 October 1970, Nepal and US signed a Rs (N) 14.2 mn agreement for implementing four agriculture development schemes in Nepal—agricultural education and research, agricultural extension, agro-economic analysis and food analysis.

An agreement was signed in Kathmandu on 16 September under which the United Nations Development programme will provide Rs (N) 11.3 mn for the Rs (N) 20.6 mn project for increased use of high yielding crop varieties and fertilisers for agricultural development in Kathmandu valley and Terai region. A team of experts from Asian Development Bank visited Nepal from 21 to 31 October 1970 to carry out feasibility study of irrigation and agriculture projects in order to provide a loan to Nepal.

A Japanese delegation led by Dr Hitoshi Fukuda in December 1970

surveyed the possibility of launching an agricultural development project in Janakpur *Anchal* and Chitwan *Zilla*.

Industries

In the industrial sector, there has been an increase in the production of sugar and cigarettes. The production of sugar reached 16,000 tonnes in the first nine months of fiscal year 1969-70 which compared favourably with the previous year's total production of 10,000 tonnes. Production of cigarettes for the whole year was expected to reach two billion compared with last year's 1.68 billion. The production of stainless steel utensils and synthetic textiles was expected to decline sharply in 1970-71.

The Nepal Industrial Development Corporation will be provided with additional capital that will help the Corporation to expand its activities. The cottage and small scale industries will receive financial assistance through the Department of Cottage Industries. The industrial estates at Hitauda and Balaju will be provided with additional funds which will also provide central facilities to private entrepreneurs. Major portion of work for the establishment of new industrial estates at Dharan and Nepalgunj will be completed. The government is also considering opening two more industrial estates at Butwal and Pokhara where feasibility survey had already been completed.

Special attention is to be given to the development of raw materials such as jute, tobacco, tea, and sugarcane so that efforts at industrialisation do not get arrested by the limited availability of these raw materials. Jute, being a major export commodity, a scheme is

being implemented to modernise existing jute industries and to develop jute cultivation. A comprehensive feasibility study regarding the possibilities of developing forest based industries will be started.

The Asian Development Bank on 22 December 1970 approved a loan of \$ 4 million for a jute project in Nepal. The project calls for improved raw jute production, modernisation of two jute mills, owned jointly by private interests and the government, and upgrading of marketing and trading facilities. Jute commands a high priority in the fourth plan as a cash crop and as a raw material for the country's export-oriented manufacturing industry. It forms 80 per cent of Nepal's exports to countries other than India.

The National Industrial Development Corporation has sanctioned a loan of Rs (N) 32.9 mn for buying machinery to Ratna Textiles Pvt Ltd to be established in Bhairahwa. The factory, estimated to cost Rs (N) 65.9 mn, will have 11,200 spindles and 320 looms and produce 13.9 mn yards of cloth annually. The Corporation has decided to give Rs (N) 3,06,000 to a paddy husking mill to be set up at Kalaiya Gangapur in Narayani zone. The mill, estimated to cost Rs (N) 7,67,000, will have the capacity of threshing two tons of paddy per hour. The Savings Corporation has decided to set up two rice mills at Rauthat and Dhangadhi with a capital of Rs (N) 1.3 millions in collaboration with Food Corporation and the National Trading Limited.

An Indian industrialist has been given a licence to set up a flour mill and a vegetable *ghee* plant at a total cost of Rs (N) 12 millions in West Nepal.

China is planning to set up two steel re-rolling factories in Nepal at an estimated cost of Rs (N) 130 mn. The plants, proposed to be set up at Kathmandu and Biratnagar along the Indo-Nepal border, are likely to be completed by 1974.

A three-member delegation of West German bankers arrived in Kathmandu on 16 June on a week's visit to study the working condition of industries aided by Nepal Industrial Development Corporation.

Power

The Indian-aided hydro-electric project Trishuli has been completed at a total cost of Rs (N) 206 millions. The first phase of the complex was inaugurated in February 1970 by King Mahendra and has been supplying electricity to the whole of central Nepal since then.

Emphasis has been given to the need of utilising to the full extent the power that is already available rather than construction of new generating plants. The power development programme, therefore, consists mostly of projects related to transmission and distribution besides the electrification of some main urban centres. In view of the growing demand for power in the Biratnagar area and the need for agricultural development, survey work of the Kankai Project has been started. This will be followed by economic studies.

In the fourth plan (1970-75) construction of the Babau Kankai and Kulekhani and other projects, with a total generating capacity of 68,000 kw, have been included. An additional 40,300

Kw of electricity generating capacity will become available from Sunkosi, Gandaki and Trishuli at the end of fourth plan in 1975.

Work is in progress on the Chinese-aided Sunkosi hydel project. Under an agreement reached on 24 December 1970, China would provide assistance for installing power transmission stations and two separate transmission lines from the Sunkosi project to Chautara and Barabishe.

The Rs (N) 100 mn Sunkosi hydel project at Lamo Sanghu, 60 miles north-east of Kathmandu, is scheduled to be completed by July 1972. About 236 Chinese technical and administrative personnel are working on the project designed to produce 10,050 Kw power.

In view of the possible breakthrough that mineral resources can bring to the Nepalese economy, more emphasis has now been given to geological survey.

Imports and Exports

Exports and imports during the period 1968-71 are as follows :

Years	(Rs (N) in mn)		
	1968-69 (actuals)	1969-70 (RE)	1970-71 (BE)
(a) Merchandise Exports	137.30	90.60	80.00
(b) Merchandise Imports	74.80	124.20	207.50
Trade surplus (+) deficit (-)	+62.50	-33.60	-127.50

Invisible exports and imports during 1970-71 are estimated at Rs (N) 108 mn and Rs (N) 14 mn respectively.

Receipts from merchandise exports are estimated to decline by Rs (N) 10.6

mn to Rs (N) 80 mn whereas income from invisible exports is estimated to increase by Rs (N) 6.6 mn to Rs (N) 108 mn. Expenditure on merchandise imports is expected to rise sharply by Rs (N) 83.3 mn to Rs (N) 207.5 mn, an increase of 67 per cent. Foreign exchange earnings in 1970-71 are estimated at Rs (N) 252 mn and expenditure at Rs (N) 284.8 mn, showing a deficit of Rs (N) 32.8 mn compared with surplus of Rs (N) 70.4 mn in 1969-70 and Rs (N) 146.6 mn in 1968-69 respectively.

The sharp drop in export receipts, the Finance Minister said, was primarily the result of uncertain atmosphere in industrial and commercial activities created by the inconclusive trade talks with India. The increase in expenditure, he added, was due chiefly to the marked increase in imports to meet the growing need of a developing economy.

Economic Slackness in 1970-71

In analysing the current economic situation, Prime Minister Kirti Nidhi Bista, who also holds the Finance port-

folio, said in the National Panchayat on 8 July 1971, "The continued delay in concluding 'treaties' of trade and transit with India stands before us as a major economic problem... It is true that despite the absence of formal

'treaties', trade in most of the essential goods between the two countries has continued. However, this level of trade is adequate only to meet the day to day needs and is, therefore, not only insufficient but also proven to be a barrier to economic development. The present conditions had hampered the growth of industries in the private sector and delayed initiation of projects crucial to sustained development. In addition, the shortage of essential goods caused by the absence of unrestricted trade resulted in the rise in prices of these commodities in a way not always justified on economic grounds... This problem was aggravated by the shortfall in government revenue that resulted from the general economic slackness. Despite these problems, the government was successful in tempering the economic slowdown to some extent." But generally speaking, the 1970-fiscal year had been a difficult period for the Nepali economy, observed Kirti Nidhi Bista.

Foreign Aid

Nepal's first experience of foreign aid was heralded by the Point Four agreement of 23 January 1951. American aid was soon followed by formal economic assistance from India in October of the same year. China and USSR came into the scene in 1956 and

1958 respectively. These four countries have ever since remained the largest aid donors to Nepal. Other countries to provide aid to Nepal are UK, Switzerland, Australia, New Zealand and later Israel, Canada, France, Pakistan and Japan.

UN assistance to Nepal was first extended in 1952 and the UN has since been represented by numerous specialised agencies. Among other aid giving agencies, the Colombo Plan had an early association with Nepal going back to early 1950s and was later followed by the Ford Foundation, IBRD, IDA and ADB.

The quantum of foreign aid during the two decades 1951-52 to 1969-70 totalled more than \$ 178 millions-Rs (N) 1,800 millions. India has been the largest donor over the past five years. The percentage contributions by major donors were as follows: India 53, US 25 and China 16. It is significant that since 1964-65, Indian and Chinese aid amounting to \$ 90 mn together accounts for nearly 70 per cent of total foreign aid over the last five years.

In 1970-71, India was the largest donor followed by USA and China. Figures of external aid during the period 1968-71 are given below:

Country	(Rs (N) in mn)			percentage to total in 1970-71
	1968-69 (actual)	1969-70 (RE)	1970-71 (BE)	
India	106.48	140.06	150.19	45.1*
USA	38.53	43.78	67.22	20.2
China	37.55	72.51	65.30	19.6
UK	1.30	5.11	17.10	5.1
USSR	1.25	4.50	3.50	1.1
UNDF	—	—	25.81	7.8
Others	0.78	2.47	3.65	1.1
Total	185.89	268.43	332.77	100.0

(*Additional expenditures of Rs 33.20 mn and Rs 21.90 mn were incurred during 1968-69 and 1969-70 respectively in the projects executed by India. Adding these amounts in 1968-70, India contributed 56 per cent of the total foreign aid).

Such "a massive input" of foreign aid is supported by a large intake of experts and trained personnel. Foreign advisers for technical assistance constituted a large portion of the aid component which led one UN public administration expert to comment that Nepal was "overadvised and under nourished." The situation has much improved since but the great diversity of technical problems still engages a large number of foreign advisers experts and technicians mainly in the field of agriculture and irrigation, engineering, education and resource management.

The unique cooperation between India and Nepal which started with the construction of the Gauchar airport as far back as in 1951 now embraces a vast range of development activities. To mention a few of these joint ventures, the Mahendra Rajmarg, the Sidharta Rajmarg, the Trishuli hydel complex, the Chatra Canal, the horticulture farms, Kathmandu-Raxaul telephone link, the Central Veterinary Hospital and buildings in the Tribhuvan University campus stand out as permanent landmarks in the history of Indo-Nepal cooperation.

In monetary terms more than Rs 900 millions had been spent upto March 1970 on the Indo-Nepalese economic programmes. To date over 125 development projects in Nepal have been completed by the Indian Cooperation Mission since 1951.

Inaugurating a central veterinary hospital at Kathmandu on 15 June 1970,

built at a cost of Rs 2.4 mn with Indian assistance, Foreign Minister Rajbhandari expressed gratitude on behalf of his country to its true friend, India. Speaking on the occasion, Indian ambassador Raj Bahadur said that India wanted Nepal to be self-reliant, strong and capable of maintaining its sovereignty without depending on others. India, he said, had no vested interest in extending cooperation to Nepal. Minister of Education N.K. Pardhan, while speaking at a function in Kathmandu on 13 July 1970 to observe the 11th anniversary of the Tribhuvan University, expressed appreciation for the cooperation extended by India to the Tribhuvan University and said that India had "immensely contributed to the economic and educational development of Nepal."

India topped the list of countries providing scholarships to Nepal for 1970-71, according to *The Rising Nepal* (17 October 1970). Altogether 184 students were selected by the Ministry of Education. Of them, 133 were for India, 30 for USSR, 7 for UK, 4 for Pakistan, two each for US, West Germany and Thailand and UAR and one each for Italy and New Zealand.

Pakistani embassy, however, claimed that Pakistan had offered 27 scholarships to Nepal for 1970-71—5 in medicine, one in geology, one in engineering, 6 in civil aviation, 6 in banking, 6 in road construction and 2 in public administration. *The Rising Nepal* (27 September 1970) reported that Pakistan had given "a big boost" to the promotion of Nepal's civil aviation by extending training facilities under the Colombo

Plan to more than 100 personnel trained or being trained as pilots, aircraft mechanics and engineers in the period 1964-71 at a cost of over Rs 3.5 millions. Pakistan had also provided training facilities for 123 Nepalese in various fields since 1963-64 under the Colombo plan. Under the Cultural Scholarship Scheme, Pakistan has awarded nearly 60 scholarships to Nepalese students for studying medicine, engineering and agriculture. Assistance has also been made available in such diverse fields as banking, industry and sports.

Pakistan has expressed its desire to help in the study of the Lothar Irrigation Project. Establishment of a textile mill in Nepal with assistance from a Pakistani firm is about to take a final shape. Pakistan has also expressed its willingness to participate in Nepal's fourth five year plan.

The United Nations Development Programme (UNDP) in January 1971 approved a sum of Rs (N) 715,000 for the feasibility study of the development of irrigation facilities in the Terai region and road feasibility studies and highway maintenance. It also authorised Rs (N) 1,265,200 to provide tele-communication and civil aviation training at the Nepal Engineering Institute, Anand Niketan, in association with ICAO. UNICEF in early May 1971 decided to make available Rs (N) 8.2 millions for providing continued support to the development of comprehensive and integrated services for children and youth in Nepal.

On 25 September 1970, Nepal signed five project agreements with USAID. The agreements entail a total expenditure of Rs (N) 37.9 mn, of which Nepal's contribution is Rs 11.6 mn and

that of USAID Rs (N) 26.3 mn. The projects are malaria eradication scheme, western hill road—Dhangadhi to Dadeldhura, four suspension bridges, groundwater investigations in western Terai and housing and classroom buildings at Jhapa. Family planning has been given "a big boost" with USAID support. Twenty family planning clinics are to be opened during 1971 besides the 41 such clinics functioning at present.

Fifteen experts in agriculture from Nepal visited USA in 1970 for study and in-service training. Their training and travel was financed by the US government and private organisations.

Israel has provided experts for agricultural, rural and water development projects in Nepal. Some Nepalese are attending training courses in agriculture and medicine in Israel. A number of projects including the construction of an airfield and roads with assistance from Israel were reported to be under consideration.

Under an agreement signed in Kathmandu on 3 December 1970, the Export and Import Bank of Japan would make available a long-term credit of yen 360 mn (Rs (N) 10.3 mn) to Nepal's Industrial Development Corporation. The loan will be used for importing Japanese goods and machinery. Japan will also provide agricultural equipment worth Rs (N) 2 mn to cover the purchase of fertilisers, hand pumps and hand tractors etc. to increase foodgrains production. A ten-member Japanese team conducted preliminary studies in December 1970 to assess the possibilities for regional development in Nepal.

Nepal will receive \$ 6.5 mn from the United Nations for the development of Lumbini, the birthplace of Lord Buddha. UNESCO consultant Dr Tibor Szentmarthy visited Kathmandu in May 1970 to assist Nepal in the establishment of an engineering college.

UN Special Fund will provide assistance of Rs (N) 7.7 mn for the development of water supply and sewage in Kathmandu, Lalitpur and Bhaktapur which is estimated to cost Rs (N) 10 mn.

In early January 1971, Nepal signed three agreements with the Asian Development Bank in Manila for long term loan and technical assistance totalling Rs (N) 67.6 millions for the following three projects :

- (i) Rs (N) 20 millions for jute farming and marketing,
- (ii) Rs (N) 20 millions for modernisation of jute industry and
- (iii) Rs (N) 25.6 for the agricultural credit project and Rs 2.15 millions for the feasibility survey of the Kankai river irrigation project.

A World Bank team visited Nepal in May 1971 and discussed the possibility of assistance to Nepal for the development of agriculture, industry and tourism.

Foreign Trade

Inter-governmental talks between Nepal and India on trade and transit were held in Kathmandu from 19 to 23

June. The two sides discussed problems of deflection of trade, Nepal's tariff discrimination against India and the refund of additional and special excise duties to Nepal. There was a greater understanding of each other's view. Industry and Commerce Secretary Dr P.N. Pant visited New Delhi and had informal talks with Foreign Trade Secretary K.B. Lall on the new trade and transit treaty between the two countries on 12 July 1970.

Apart from the agreed quotas for stainless steel and synthetic yarn exports from Nepal, the Indian government was reported to have banned the further imports of these products from 10 April 1970. This, it is said, would necessitate the closing down of ten synthetic textile and seven stainless steel factories operating in Nepal.

Spelling out India's difficulties, Minister of State for Foreign Trade L.N. Mishra told the *Lok Sabha* on 12 August 1970 that Nepal's export exchange entitlement scheme had unfortunately resulted in the diversion of India's trade and the violation of India's import and export controls. The transit facility given by India to goods of Nepalese origin for export to third countries was known to have been misused by unscrupulous elements for deflecting Indian export products, notably raw jute and mica. Similarly imports into Nepal via the transit route through India — especially imports which are totally prohibited by India or were subject to heavy import duties, had been deflected into India via the transit system.

It was explained that the export exchange entitlement scheme had the

sole objective of developing Nepal's own exports and they had no desire to damage Indian interests or circumvent Indian rules or regulations. But in practice the Indian interests were hurt. A further problem arising out of the pursuit of different policies particularly with regard to import and export duties was discrimination in the levy of taxes on Indian goods by Nepal.

Earlier on 6 August, 1970 Minister for Industry and Commerce Nava Raj Subedi told the *Rashtriya Panchayat* that Nepal would not accept the suggestion to do away with the "bonus voucher system" as it would bring to a standstill its overseas trade. The system had, in fact, given great incentive to the exporters.

A high-powered Nepalese trade delegation visited New Delhi from 26 to 31 October for talks on a new trade and transit treaty. The delegation included Secretaries to the Ministries of Foreign Affairs, Finance and Industry. Commerce and Industries Minister Nava Raj Subedi arrived on 28 October to lend a helping hand. They held talks with Indian officials and Minister for Foreign Trade L.N. Mishra and External Affairs Minister Swaran Singh. The talks were inconclusive.

Talks were resumed in New Delhi on 14 November and continued upto 26 November which again proved to be inconclusive. Differences between the two countries mainly related to three issues—deflection of trade from India, Nepal's request for transit facilities to Pakistan via Radhikapur and duty free entry into India of Nepalese goods. Talks were again held in New Delhi on

11 and 12 December and later from 21 to 26 December ending in an impasse.

The ten-year trade and transit treaty expired on 31 October 1970. At India's initiative arrangements for mutual trade and transit were extended first upto the end of November 1970 and then again upto 31 December. Nepal did not approach the Government of India for further extension of the 1960 treaty beyond this date. On 31 December 1970, the Government of India issued a notification providing for continued trade between India and Nepal in view of the traditional economic and social links between the two countries.

The new treaty on trade and transit could not be signed mainly because of Nepal's insistence on a specific provision in the treaty guaranteeing transit facilities for their goods to Pakistan through India. Another reason was Nepal's reluctance to take India into confidence about the measures to be taken for preventing deflection of trade.

In the proposed draft treaty, India agreed to provide even greater facilities to enable Nepal to expand her trade with outside world and promote industrial growth in Nepal. For this purpose, besides the present railway route, India agreed to provide acceptable road route to Calcutta and Haldia. India also agreed to set aside covered warehouse accommodation to the extent of 175,000 square feet against the present 15,000 square feet in Calcutta port. Extensive facilities were also offered at the new port of Haldia.

King Mahendra's visit to New Delhi in June 1971, however, paved the way

for a new treaty. An Indian trade team visited Kathmandu in August 1971. India and Nepal signed a five year trade and transit treaty on 13 August 1971 under which they would accord the most favoured nation treatment to each other's goods. The treaty provides that primary products of Nepal would have unrestricted entry into the Indian market. These would be exempt from customs duties. India agreed to accord special treatment, on a non-reciprocal basis, to goods made in Nepal from Nepalese and Indian materials. These goods will have access to the Indian market without any quantitative restrictions and would be exempt from customs duty. The step is expected to promote industrial development of Nepal.

The new treaty also incorporates agreement on the use of overland routes and prevention of deflection of trade, the two controversial issues which had earlier bogged down the finalisation of a fresh treaty. Provision has been made for mutually acceptable overland routes to be used by the two countries within the framework of regional cooperation agreements among the countries concerned.

On deflection of trade, an understanding was reached on the areas of cooperation to prevent it. Accordingly, each country will prohibit re-export of each other's products. Export of products made mainly from raw materials of the other country would be

prohibited. Both the countries would take effective measures to enforce the ban. Similarly, diversion of goods imported from third countries and all goods which contained imported materials in excess of 50 per cent of the ex-factory value of the goods are prohibited. Manufactured articles which might have third-country materials would receive favourable treatment, if the value of Nepalese material and labour was at least 50 per cent of the ex-factory value of the product. The nature and extent of access to the Indian market and the tariff preference to be given would be decided on the merits of each case.

The new treaty also provided for the transport of goods between Calcutta and Nepal by road. The warehousing and other facilities available to Nepal would be considerably augmented. Ships flying the Nepali flag will be given equal treatment at the Indian harbours. Customs procedures have been simplified.

The despatch of a consignment of 50 packages of spikenard to East Pakistan through Radhikapur land route on 11 April 1970 marked a beginning of overland trade between the two countries. Pakistan concluded a trade agreement with Nepal in 1962 and a transit agreement in 1963. Although a number of years have passed since the trade between the two countries has remained at insignificant level because in the absence of transit facilities through India, the

goods were carried by air only. Prospects of Pak-Nepal trade were claimed to be enormous if India allowed transit facilities. Such transit facilities through India could not be made available on a unilateral basis in the light of Pakistan's refusal to afford similar transit facilities for Indo-Afghan trade.

The National Trading Ltd was to import Chinese goods worth about Rs (N) 24 mn in 1970-71. A three-member delegation, headed by the Chief Administrative Officer of the Corporation, visited China in October 1970 for selecting essential commodities, exhibited in the Canton Fair which commenced on 15 October 1970. The delegation also signed a contract for procuring essential commodities and industrial products from China. Ten thousand goats and sheep were imported from Tibet in exchange for jute bags in the fall of 1970 to meet the demands of local festivals. It was reported in February 1971 that China had agreed to buy 10,000 tonnes of rice from Nepal. Nepal will also supply 4,000 tonnes of sugar to Tibet.

Nepal and Soviet Union signed a fresh trade pact on 6 August 1970, under which both the countries agreed to accord each other the status of "the most favoured nation". The agreement, the second in the history of trade relations between the two countries, is valid for two years with a provision for extension every two years thereafter.

The last agreement signed in August 1965 was for a period of five years. Under the agreement, Nepal will export Jute, hessian, rice, timber and other commodities while it would import machinery, motor vehicles, tractors, spare parts and consumer goods. The annual trade turnover in 1970 was expected to go up to about Rs (N) 21 mn. In the past five years, the volume of trade between the two countries was about Rs (N) 22 mn only.

Nepal signed a two-year trade agreement with North Korea on 11 December 1970 providing for the exchange of a wide range of goods. Nepal would provide stainless steel goods, synthetic fabrics, minerals, rice, maize, leather and jute goods, Yak hair and human hair to North Korea. It would buy from North Korea tractors, bulldozers, lorries, machinery, cement, chemicals, fertilisers, insecticides, medicines, cotton cloth, iron and steel, X-ray plates and raw materials.

Economic Cooperation

A conference of the Central Banks of eight South East Asian countries sponsored by the *Rashtra* Bank was held in Kathmandu from 2 to 5 May 1970 to explore various possibilities to achieve as much cooperation as was possible within limitations imposed by diversities in fiscal and development policies of countries in the region, mainly emanating from the differences in the economic structure and the stages

of economic development. Delegates from Indonesia, the Philippines, Malaysia, Singapore, Nepal, Thailand, Ceylon and Laos participated in the conference.

A team of experts from the World Bank visited Kathmandu in the last week of May 1970 and had talks with members of the Planning Commission on the regional development plans included in the fourth five year plan.

A high level three-member ECAFE delegation headed by Prof Robert Triffin visited Kathmandu in mid-August 1970 and held discussions with senior government officials and the Governor of the *Rashtra* Bank and discussed monetary cooperation, proposed clearing system in Asia, regional trade and other allied matters.

A Nepalese delegation participated in the Asian Economic Conference held in Kabul from 17 to 19 December 1970 sponsored by ECAFE. Nepal proposed that transit facilities be granted to land-locked countries including Afghanistan, Laos and Nepal.

Communications

During the fourth five year plan period (1970-75), a sum of Rs (N) 1,257 million, 35.5 per cent of the total outlay has been allocated for the development of transport and communications. Allocations during the fiscal year 1970-71 amounted to Rs (N) 347 millions. In view of the need for building up infrastructure for rapid economic development, major portion of total development outlay has been allocated for the development of transport and communications.

Airfields

An airstrip for STOL aircraft was inaugurated at Lami Danda on 15 April 1970. The airstrip was constructed with assistance from USAID. A sum of 340,000 Rs (N) has been allocated for developing two new airstrips at Tumlingtar and Pabongtar in the hilly area.

On 2 September 1970, Nepal and the US Agency for International Development (AID) signed a major project agreement for the development of five airports at Kathmandu, Pokhara, Simra, Bhairahwa and Biratnagar. The project is estimated to cost Rs (N) 56.53 million, of which Rs (N) 46.17 million will be provided by the AID. It will be implemented during the next three years under the overall responsibility of the Department of Civil Aviation.

The new project will assist in the development of air transportation as follows :

- (i) The runway at Tribhuvan international airport will be extended from the existing 6,600 feet to 10,000 feet along with the expansion of the taxi tracks and apron area. It will make possible the safe landing and take off of jet aircraft such as DC-8, DC-9, Boeing 707, 727 and 737 etc.
- (ii) A new 5,000 feet runway, taxiways and apron area and other facilities will be constructed at Simra to serve as an alternative airfield for flights which might be deflected from Kathmandu.

- (iii) A new runway and other facilities will be constructed at Pokhara.
- (iv) The existing runways at Biratnagar and Bhairahwa will be reinforced and extended.

Earlier on 20 January 1970, Nepal and the Asian Development Bank had signed an agreement to cover the foreign exchange component of the project in the form of soft loan and technical assistance grant from the Bank. The agreement represents collaboration between Nepal, US and ADB.

The airport at Nepalganj will be expanded and improved and ten airstrips are to be constructed for STOL aircraft during the fourth plan period, 1970-75. At present, there are 30 airfields in Nepal. Fifteen airports are being used for scheduled flights by the Royal Nepal Airlines Corporation (RNAC). Of these 30 airports, 14 are located in the plains and 16 in the mountainous regions and are mostly used by STOL and small aircraft.

Civil Aviation

The RNAC is going to undertake a survey of the existing STOL airfields and the minimum requirements to make them serviceable. The survey is being undertaken to locate more places where such airports could be established and to link the Capital with the distant areas which at present have no regular communications. General Manager of Air Alps visited Kathmandu in the last week of October 1970 in connection with the technical assistance programme sponsored by the French Government for conducting the survey. The airline

specialises in mountain flying all over the French Alps.

Earlier on 12 July 1970, an agreement of mutual cooperation was signed between Air France and RNAC in Kathmandu to provide the latter with technical assistance in various fields of airline activity. Under the agreement, Air France has appointed a senior official who will assume executive functions of coordinating and controlling various departments of RNAC. He will supervise the commercial and traffic department. Besides, two more Air France executives will head the department of operations and the department of finance and administration.

Air France will undertake free of charge the training of RNAC personnel at their offices abroad or on the job in Nepal. Air France will also provide specialists on short term assignments and will assist RNAC in setting up a training school in Kathmandu.

The agreement was signed for a period of five years and may be extended for a further period of three years. It also included a provision by which RNAC is appointed general sales agent for Air France in Nepal while Air France will represent commercial interests in all French territories as well as many other countries. Air France agreed to bear all costs of remuneration of its exports for three months and of the short term specialists to be assigned to Nepal for the initial period of one year. Air France will help in developing the volume of foreign tourists coming to Nepal.

Air France started its technical assistance operations on 15 July 1970.

Speaking on the occasion, Vice-Chairman of Air France said that Air France was not going to take over in any way the ownership of RNAC—which is and has to remain an independent, purely and entirely Nepalese Corporation.

The Pakistan International Airlines (PIA) organised a 19-week Flight Operation Officers' Training Course at the RNAC's conference hall in Kathmandu commencing 13 April 1970. The course was attended by senior pilots and other technical officers of the RNAC. Six senior instructors from the PIA conducted the course.

Nepal has placed an order with the British Company of Short Brothers for one *Skyvan* aircraft, designed specifically to operate from short unprepared airstrips. Nepal expects to sign a loan agreement with Canada soon under which RNAC will acquire two 20-seater *Otter* planes. The loan is expected to total \$2 mn, free of interest and repayable over 50 years. The aircraft will be used for STOL services to link remote areas especially in the hilly region.

RNAC is also actively considering buying one medium size jet airliner for new international routes. Planes being considered are *Boeing-737*, BAC 111 and *Caravelle*. At present, the airline operates only 40 seater turbo-prop HS-748 on shorthauls from Kathmandu to East Pakistan and India. New routes being considered are :

- (i) Eastward to Bangkok and later perhaps to Hongkong and
- (ii) Westward to Lahore or Karachi and perhaps also Kabul via New Delhi.

Tribhuvan airport is the most important airport linking Kathmandu with New Delhi, Calcutta, Patna, Dacca and Bangkok. Besides Royal Nepalese Airlines, Indian Airlines, Pakistan International Airlines and Thai International airline operate their services to and from Kathmandu. The Union of Burma Airways commenced their Rangoon-Kathmandu service from 1 May 1970.

Since its inception twelve years ago in 1958, RNAC has made substantial progress. The number of passengers it carried shot up from 32,206 in 1958-59 to 190,232 in 1968-69 and 182,538 in 1969-70. However, air traffic on Kathmandu-Dacca sector is not promising. A review on Nepal's air services published in the pro-government daily *The Rising Nepal* (7.10.1970) said, "Air services with Pakistan need a serious rethinking. Air traffic on Kathmandu/Dacca/Kathmandu sector has not been promising over the last seven years. We should explore the possibility of another network connecting Pakistan with India by air".

Under an air pact signed between Thailand and Nepal on 14 January 1971, Thai International will operate five services to Kathmandu—four from Calcutta and one from Dacca.

The National *Panchayat* on 9 March 1971 passed the merchant ship flag and ship registration Bills. Introducing the Bills the Works, Communications and Transport Minister said that it had become imperative for Nepal to have her own ships with national flag and expand her international trade. This could considerably help Nepal to diversify its trade and earn more foreign

exchange, he said. Certain foreign merchant companies (non-Indian) were believed to have approached Nepal for permission to use Nepalese maritime flag.

Roads and Bridges

There has been speedy progress in the construction of major highways, namely :

- (i) Mahendra *Rajmarg*,
- (ii) Prithvi *Rajmarg* and
- (iii) Sidhartha *Rajmarg*.

Construction work on all these highways is expected to be completed in another two to three years.

India, UK, US and USSR are involved in the construction of the 1,040 km long East-West highway, Mahendra *Rajmarg*. India is constructing over 640 km of the highway in eastern Nepal. A 128-meter long and 7-meter wide bridge built over Burhi River on Mahendra *Rajmarg* near Itahari at a total cost of Rs (N) 1.335 millions with Indian assistance was declared open on 8 September 1970. Work on the Butawal-Kohlapur section will be started in 1971.

The 120-km long Butawal-Naryangadhi section of the highway is being constructed with British assistance. The section is scheduled to be completed in 1975.

Under an agreement signed on 25 September 1970, USAID will provide Rs 11.6 million for the 145 km long all-weather road from Dhangadhi to Dadeldhura in western sector during

the current fiscal year. Work is in progress on the construction of a 95 kilometer stretch of the road. The highway estimated to cost Rs (N) 43.2 mn is scheduled to be completed by 1975.

On 21 October, Home Minister Upadhyaya declared open three bridges at Pasha, Bakaiya and Bhamara on the Simra-Janakpur section of the Mahendra *Rajmarg* which is being constructed with Soviet assistance. Work on the construction of 364 meter long bridge across the Bagmati River began on 26 May 1971. Earlier, a 270 meter long Dhanasa bridge and 165-meter long Chandani bridge built on the same road were declared open to traffic.

The Chinese-aided 176 km long Kathmandu-Pokhara road, Prithvi *Rajmarg*, is scheduled to be completed before the target date of December 1972. About 75 per cent of the highway had been completed by the middle of 1970. On completion, the highway is estimated to cost Rs (N) 143 millions. About 4,000 workers are working on the highway in two shifts. A 367-metre long bridge will be constructed over Madi River at Damauli on the highway and another 158-metre long motorable suspension bridge near the confluence of Trishuli and Marsyandi rivers. There will be 26 medium size and 87 small bridges on the highway. Of the 87 small bridges, 35 have already been completed and 14 medium size bridges, were under construction. Work on the highway began in May 1967.

Work is in progress on the 10.3 km long Kathmandu-Bhaktapur road with Chinese assistance. An 87-metre long bridge on the road at Bagmati was completed in September 1970 at a cost

of Rs (N) 900,000 by the Chinese in a record time of four months. Three more bridges are to be constructed over Manohara *Khola*, Dhobi *Khola* and Hanumante *Khola*. The road estimated to cost Rs (N) 25 million is expected to be completed by December 1971.

The Kathmandu-Kodari road, Arniko highway, constructed with Chinese assistance was handed over to the Nepalese Government in June 1970. Repairs and maintenance of the highway will now be done by the department for general construction works. All the bridges on the highway are reported to be strong enough to carry the heaviest armour the Chinese have. Under an agreement signed on 3 March 1971, China agreed to grant Rs (N) 2.5 millions worth of assistance to Nepal for repairing the highway which was extensively damaged by heavy rains and landslides in 1970.

The 210 km long Sonauli-Pokhara highway, called Sidhartha *Rajmarg*, is virtually complete except the construction of one of the major bridges at Ramdhighat across Kali Gandaki River. The 301 feet single span steel bridge is expected to be completed by the middle of 1971. The 20-foot wide bitumen surfaced road being built with Indian assistance is estimated to cost Rs (N) 145 million. Preliminary work on the highway started in the latter part of 1964 and commercial traffic on the highway commenced in 1968.

Three north-south roads are planned to be constructed by the end of fourth five year plan (1970-75) :

- (i) Surkhet-Jumla road in the west,

- (ii) Dharan (in east Nepal) to Olangchungola (on the northern border) and

- (iii) Pokhara-Mustang road. China is reported to be showing some interest in the project.

In the far west, US AID is already at work laying the Dhangadhi-Dadeldhura road. Another north-south road, already exists in the shape of the Kathmandu-Kodari road and the Tribhuvan *Rajpath*, providing a direct route from Tibet border to India.

A suspension bridge has been constructed at Toksel Ghat in Okhaldhunga with US assistance at a total cost of Rs (N) 605,000. The bridge connects Okhaldhunga with Solukhumbu. In September 1970, US provided Rs (N) 2.4 million for four suspension bridges across —

- (a) Arun River at Turkeghat,
- (b) Budhi Gandaki at Arughat,
- (c) Sunkosi River at Dhaneghat and
- (d) Madi River at Jhapre Bazar.

Nepal is seeking assistance from US for the maintenance of roads in Kathmandu and the construction of bridges over the Bashnumati River on the way to Balaju, over Dhobi *Khola* near Maiti Devi, and three bridges and some suspension bridges.

It has now become necessary to give attention to the construction of more feeder roads for linking up with the trunk roads that have either been completed or are under cons-

struction. The United Nations Development Programme (UNDP) undertook a comprehensive economic and technical feasibility survey of 20 feeder roads to highways commencing in February 1971. The survey is estimated to cost Rs (N) 11.13 mn. UNDP will contribute Rs (N) 9.1 mn and the rest will be borne by Nepal. Their total length is estimated at 953 kilometres. Dhulikhel-Timalbari-Jortight is the longest (123 km) feeder road. Most of the feeder roads will be linked with the east-west lateral Mahendra Highway.

The International Development Association will provide \$2.5 mn to Nepal for the maintenance of roads and construction of five motorable bridges and five suspension bridges. Two bridges will be constructed in Kathmandu valley, two in Amlekhgunj and one at Parwanipur. The five suspension bridges will be constructed over Bali *Khola* at Phidim, Tamor river at Taplegunj, Kali Gandaki river at Purnighat, Ulli *Khola* at Gulmi and at Ranighat in Western Nepal. A 334-foot long bridge over the Badighat river at Gulmi was completed in March 1971. A bridge across the Lumghi *Khola* at Ligha was under construction while another 442 feet long suspension bridge at Karikota is to be built soon.

A 500-metre long rope way was installed in Sikha village of Mustang district in February 1971 for the transport of goods, with assistance from two Japanese institutes.

A five-member highway construction committee of officials was formed on 21 April 1971 under the Chairmanship of the Secretary for Works, Communications and Transport.

Tele-communications

A loan has been obtained from International Development Association for the development of tele-communications and a separate Board has been constituted to administer the tele-communication activities. The IDA has approved a credit of \$ 1.7 million for the modernisation and expansion of tele-communications in Nepal. The credit will assist in financing the \$ 4.15 million five-year development programme ending July 1973. India would provide Rs 18 millions for the project.

The principal items in the project are—

- (i) the expansion of telephone exchanges ;
- (ii) a long-distance trunk network to central, southern and eastern Nepal ;
- (iii) a new international trunk exchange at Kathmandu ;
- (iv) landline and carrier international routes between Nepal and India and
- (v) improvement of the high frequency radio telephone system to New Delhi and telex facilities at Kathmandu.

India will cooperate with Nepal to establish a trunk telephone link between Biratnagar in east Nepal and Calcutta via Joghani at a cost of Rs 60,000.

Wireless centres have been installed in all districts of Nepal. Installations of wireless centres in Lamjung and

Manang, the last two districts to have them, were completed in July 1970. The wireless centres in Pyuthan, Dailekh, Darchula and Panchtar districts are, however, not operating at present.

Telex line between Kathmandu and Hong Kong began operating from 10 February 1971. Nepal has shown interest in joining the Asian tele-communication circuit which covers the region from Turkey to Indonesia. Two radio transmission specialists from the International Tele-communication Union, visited Kathmandu in February 1971 for conducting regional tele-communication survey.

Meteorological Stations

India would soon hand over to Nepal some of the meteorological stations in that country now being manned by Indian personnel. There are over 100 such stations of various categories set up by India to collect meteorological data. The Nepalese government had expressed the desire to take over 58 of these stations. Nepal has promised to provide India with all the data collected from these centres. Such data is essential for India to forecast possible floods in the Gandak and Kosi rivers which have their catchment areas in Nepal as also for accurate weather forecasting particularly for aviation purposes.

India has been training Nepalese in this field ; and early in April 1970 the meteorological office at Gauchar airport was handed over to Nepalese control. The office which meets the civil aviation weather forecast requirements is now manned by Nepalese under the supervision of a Czech expert.

POLITICAL DEVELOPMENTS

New Cabinet

Prime Minister Kirti Nidhi Bista resigned on 12 April 1970 as his term of membership of the *Rashtriya Panchayat* had expired. He became Prime Minister on 7 April 1969. The King on 13 April constituted a new Council of Ministers under his own chairmanship. The nine-member Cabinet replaced the fifteen-member outgoing Ministry. The Council of Ministers comprised five Ministers and four Assistant Ministers.

King Mahendra's decision to appoint himself as Chairman of his Council of Ministers may appear novel; but it is neither unprecedented in Nepal nor does it mean material change in the situation. For a little over two years after the royal take-over in December 1960, the King held the Prime Minister's portfolio until Dr Tulsi Giri was made Prime Minister in April 1963. Since then, real power has remained firmly in the royal hands.

On 2 May 1970, the King constituted a Council of Representatives under the chairmanship of Crown Prince Birendra for carrying on the day-to-day administration of the country. Because of ill health the King had been advised complete rest for sometime more following an attack of "a virulent type of chicken-pox." The King, however, resumed normal duties on 24 June 1970.

Elections to various district *panchayats* as well as their Presidents and Vice-Presidents were held in April 1970. Elections to 19 out of 30 vacancies in the *Rashtriya Panchayat* were held on 28 May 1970 and 10 vacancies were filled on 15 January 1971. On 25 June

1970, Ram Hari Sharma was unanimously elected as Chairman of the *Rashtriya Panchayat*.

The *panchayat* system is stated to have infused a new life in the country for its reawakening and development. In a message on the occasion of the tenth anniversary of the *panchayat* system and the Constitution Day on 16 December 1970, Crown Prince Birendra said that the partyless *panchayat* system of democracy envisaged in the Constitution has enabled Nepal to achieve internal peace, political stability and progress in the development of the country with a wide participation of people at all levels.

On 14 April 1971, the King announced a new Council of Ministers comprising seven Cabinet Ministers, three Ministers of State and four Assistant Ministers. Kirti Nidhi Bista was brought back as Prime Minister after remaining out of office for a year. Chou-En-Lai, among others, felicitated the new Prime Minister on his appointment.

Prime Minister Bista submitted his resignation on 26 August 1971. The King, however, reappointed him on 29 August. A new Council of Ministers was sworn in.

Mahendra Narain Nidhi, a former Deputy Speaker of Nepal's Lower House of Parliament, that was dissolved after royal takeover in December 1960, was sentenced to 18 months rigorous imprisonment and a fine of Rs (N) 1,500 in April 1970 on a charge of sedition. Head *Panch* Dev Bahadur Pradhan of Dhankuta Bazar village *panchayat* was arrested under the Security Act in April 1970.

Some 54 students arrested on 20 April 1970 were released while 25 of

them were tried for violating Nepal's laws regulating organisations and associations. Ten persons were taken into custody on 1 and 2 May 1970 on charges of anti-national activities. They were arrested while distributing objectionable leaflets. Some of them attempted to make speeches violating the Organisation and Association Control Act. Four students were arrested on 24 May 1970 in Kathmandu.

Four persons were arrested in Bhairahwa under the Security Act in June 1970. Two of the arrests were for alleged crimes against the State. Six persons were detained under the Security Act in the central Tarai town of Kalaiya. All of them were stated to be sympathisers of the outlawed Nepali Congress. The Minister for Home and *Panchayats* told the *Rashtriya Panchayat* on 9 March 1971 that 49 persons were under detention under the Security Act.

In June 1970, the government confiscated all copies of a fortnightly published from Bhaktapur, about 16 kilometres from Kathmandu, which said Chairman Mao's thoughts were always correct. This is the first time any journal in the country had openly propagated Mao ideology.

Home and *Panchayat* Minister S.K. Upadhyaya while addressing a public meeting in Bhaktapur on 5 October 1970 warned his countrymen against worshipping pictures of a foreign leader and slogans of various political ideologies. He was apparently referring to some people adoring pictures of Mao Tse-tung. He stressed the importance of nationalism adding that Nepal had rejected socialism, communism or parliamentary democracy to which, he said, the people had once some attraction.

Assam's Revenue Minister Mahendra Mohan Choudhury said on 8 April 1970 that some Mao literature printed in Bengali in Peking was in limited circulation in some parts of Assam. Some books that had been seized recently at Gauhati indicated that these were smuggled through Nepal.

Naxalites were reported to have set up training camps in the thick forests bordering Nepal. One such training centre was discovered at Charnath hills in the Terai area of Nepal in May 1970. Extremists from this area were believed to have masterminded attacks on the Sathi farm in Champaran district of Bihar last year. According to unconfirmed reports, the Naxalites had made Dhangarhi, a few miles across the border in Nepal, their headquarters and were directing operations from there in the border areas of Lakhmipur district. Extremist bands had been roaming and intimidating the villagers in the adjoining areas capitalising on the unrest among the landless workers and small peasants.

According to a Kathmandu daily, *The Motherland* (5.5.71), a revolutionary Congress, attended by 1500 Indian and Nepali Maoists and Chinese "friends", met on 30 April and 1 May 1971 at Mari, a Nepali village bordering Champaran district of Bihar. The meeting reportedly decided to step up armed struggle.

Tibet Border

The government in May 1970, decided to open the greater part of its northern border area with Tibet excepting interior parts of four districts. The only prohibited areas now remaining are :

- (i) Chharka Bhot in Dopla district,
- (ii) the northern region of Jomson in Mustang district,
- (iii) Manang Bhot and Bhot Tingaun in Manang district and
- (iv) Tamar Keola Thum of Taplejung district.

Prior to this decision most of the border region with Tibet was banned for trekking. However, restrictions on the movements of "hippies" will be continued.

About 29 persons were stated to have been killed following clashes between rival *Khampa* groups in the fall of 1970. The clashes involving a dispute over leadership occurred in Manang Bhot, 115 miles north-west of Kathmandu. On 8 September 1970, the police arrested 7 *Khampas* while entering Kathmandu and reportedly seized from them some revolvers, ammunition and grenades.

CIVIL ADMINISTRATION

The King appointed G. B. Rajbhandari to act as Chairman of the National Planning Commission on 20 April 1970.

Thirty-seven gazetted officers were discharged from service on 28 August 1970 in, what is described as, a major overhaul of the Secretariat designed to inject a spirit of public service in the administration. Another 36 were served with transfer orders. Of the persons removed from service, 21 received retirement benefits. The government was also engaged in screening service records of higher civil service officers. On 1 September, the government dismissed five land reforms

officers. Cases against two were registered by the police for alleged misappropriation of government funds.

The massive shake-up in the administration was aimed at attaining the objective of a clean, efficient and public service oriented machinery as well as to streamline and modernise the administrative system in tune with the recommendations contained in the reports of the Administrative Reforms Commission, said the government controlled daily *The Rising Nepal* (30 August 1970).

The King formed a six-member Judicial Reforms Commission under the chairmanship of Chief Justice to undertake a comprehensive study of judicial reforms in the country. The commission was to submit its report in April 1971.

Four policemen were sentenced to prison terms ranging from six months to five years by a special tribunal in October 1970 on charges of spying. They were arrested in May 1970 for allegedly spying for a "neighbouring country".

INTERNATIONAL RELATIONS

Foreign Policy

Addressing the *Rashtriya Panchayat* on 29 June 1970, King Mahendra said,

"The foreign policy of Nepal is to safeguard the country's sovereignty and territorial integrity on the basis of non-alignment and peaceful co-existence. Nepal will remain effortful as ever to maintain friendly relations with all countries on the basis of equality, especially to develop mutual goodwill, coopera-

tion and cordiality with the neighbouring countries. In the context of ancient and friendly relations with India, Nepal would remain ever active in solving all problems one by one which have arisen between the two countries and in strengthening the atmosphere of mutual confidence and understanding. Nepal's relations with another friendly country the People's Republic of China have further developed during the year. My Government will remain alert in its determination to further strengthen Nepal-China relations."

King Mahendra returned to Kathmandu on 10 April 1970 after a sixteen-day visit to Thailand, Japan, Hong Kong and Burma. The King participated in the third conference of non-aligned nations held in Lusaka from 8 to 10 September 1970. He was accompanied by Foreign Minister Rajbhandari. He raised the question of "free and unrestricted transit facilities" while addressing the conference on 9 September. He said that even among developing countries there were some countries "which stand in need of more liberal and preferential trade policies from their more developed neighbours". Nepal had been demanding such facilities from India. He told the conference that no solution of major world political and military problems was possible without the cooperation of China. He asked the conference to devise ways of getting China into the United Nations.

King Mahendra visited India, UK, Italy, Kenya and Tanzania while on his way to and from Lusaka. The King paid a 25 day visit to the Philippines, Australia, New Zealand, Indonesia, Thailand and Singapore commencing

19 April 1971. He returned to Kathmandu on 15 May 1971. He visited India, Afghanistan and the Soviet Union in June 1971.

Nepal has signed the treaty of Non-proliferation of Nuclear weapons. Nepal has condemned the apartheid policy in South Africa, and supported the right of the people of Rhodesia to democratic government and the struggle of colonial people for independence. It has expressed its support for the lasting peace in West Asia and Vietnam and Nepal believes in negotiated settlement, respect for sovereignty of all the states in the region, rehabilitation of the displaced indigenous population and the ending of state of belligerency.

At present, Nepal has diplomatic relations with 40 countries. The total number of Nepalese missions abroad has reached 17 including the mission at the United Nations. There are twelve foreign residential missions in Kathmandu at present from Burma, China, France, Germany, India, Israel, Japan, Pakistan, USSR, UAR, UK and USA. Democratic People's Republic of Korea and Republic of Korea have also opened consulates in the country. Besides, there are sixteen different United Nations missions in Kathmandu. Nepal was elected as a non-permanent member of the Security Council in 1969.

Nepal's permanent representative at the United Nations, Padma Bahadur Khatri, was elected Chairman of the seven-member Rhodesia Sanctions Committee of the Security Council on 23 November 1970.

Soviet Union

A 21-member Soviet cultural troupe arrived in Kathmandu on 23 April 1970

on a week's visit to Nepal. A two-member team of Soviet Youth Committee visited Nepal in April 1970 to participate in the Lenin centenary celebrations. A Soviet goodwill mission visited Nepal in May 1970.

Prof T.Y. Petrovich of Lumumba University addressing the 10th annual convocation of Tribhuvan University said on 18 June 1970 that nearly 300 Nepalese were getting higher education in USSR and approximately 100 Nepali students had returned after finishing their studies.

An agreement on cultural and scientific exchanges between Nepal and USSR was signed in Kathmandu on 26 August 1970. A 20-member Nepali cultural delegation left for the Soviet Union on 25 August for a fortnight visit.

King Mahendra paid a state visit to USSR from 14 to 24 June 1971. He discussed the development of friendly bilateral relations and international problems of mutual interest with Soviet leaders—Podgorny and Kosygin.

USSR is constructing Simra-Janakpur section of the East-West Highway, Mahendra *Rajmarg*. Projects completed by the Soviet Union in Nepal are Birganj Sugar Mills, Janakpur Cigarette Factory, Birganj Agricultural Tools Factory and Panauti hydro-electric station.

Pakistan

Nepal and Pakistan signed a cultural agreement in Kathmandu on 25 May 1970. The agreement provided for the

establishment of cultural associations, information centres, reading rooms in each other's country. Exchange of scholars, scientists and cultural troupes was also envisaged in the pact. It also provided for friendly cooperation between the journalists, writers and radio organisations of the two countries. A six-member Nepalese cultural team visited East Pakistan in July 1970 to participate in the three-day long "Nepal Night" programme arranged by the Nepali Counsel General's office in Dacca.

President Yahya Khan paid a four day state visit to Nepal from 27 to 30 September 1970. His entourage included the Minister for Education, Foreign Secretary, Information and National Affairs Secretary, Chairman East Pakistan Water and Power Development Authority, Joint Secretaries in the Ministries of Commerce and Industry and a number of other high officials.

A joint communique issued on 30 September stated that the two Heads of State reaffirmed their faith in the principle of peaceful coexistence, non interference in the internal affairs of other countries, respect for the territorial integrity and sovereignty and the right of self-determination as enshrined in the UN charter.

They reiterated their faith in the United Nations which they believed could be more effective if the world body had global representation. In this connection China, they said, must be given its rightful place in the world organisation without further delay. On West Asia, the two leaders agreed that no solution to the problem could be permanent unless it took into account

the question of Palestine Arab refugees. Lasting peace in the region could be achieved only by faithfully implementing the UN Security Council resolution of 22 November 1967. The Indo-China problem, they said, could be solved without foreign interference. They called for the withdrawal of all foreign forces from the area. They reiterated their faith in the right of the peoples of Indo-China to determine their own destiny.

President Yahya Khan explained Pakistan's stand on Kashmir and Farraka Barrage. King Mahendra expressed the hope that both the issues would be peacefully settled.

The two Heads of State urged the adoption of more liberal and economic policies by more developed countries towards the developing countries in order to accelerate the pace of their economic development. King Mahendra stressed the urgency of signing and ratifying the 1965 convention on trade and transit of landlocked states to help these states to expand their international trade and to quicken the pace of development. He thanked the Pakistani President for the readiness of his government to provide adequate transit facilities for Nepalese cargoes through Pakistani territory.

President Yahya Khan offered to provide additional facilities to Nepali students in Pakistan's educational, medical, engineering and research institutions.

Replying to an address of welcome at a civic reception in Kathmandu on 28 September, President Yahya Kha-

called on the developing countries to cooperate with each other especially when they are neighbours.

In the course of a discussion in the National *Panchayat* on 30 July, some members expressed concern at the recent happenings in Bangladesh and said that Nepal should have played a major role in devising a peaceful solution of the problem. Some of them regretted that the Government had remained "indifferent to the genocide in East Pakistan". The King earlier addressing the 18th Session of the National *Panchayat* said that "the problem of East Pakistan should be peacefully settled in a manner acceptable to all concerned." A Kathmandu daily *The Commoner*, in an editorial dated 18 July 1971 said, "If Islamabad wants normalcy to return to its eastern wing then it must make moves towards political settlement. In other words, it must reduce its military presence there as far as and as soon as possible and take steps to come to a working arrangement with the aspirations of the Bengalis."

Foreign Minister Rajbhandari said on 10 August that the situation in East Pakistan was certainly tragic but added that it was an internal affair of Pakistan arising out of internal reasons. Nepal wished that the refugees from East Pakistan living in India should be able to go back to their country and live there in peace. The opinion of His Majesty's Government was that the solution to the problem in East Pakistan should be acceptable to all the parties concerned, he added.

Communist China

Speaking at a function in Kathmandu on 29 April 1970, to mark the 10th

anniversary of the signing of peace and friendship treaty between Nepal and China, Foreign Minister Rajbhandari said that relations between the two countries have been consolidated and were growing from strength to strength. He expressed his gratitude to Chinese technicians who were working "enthusiastically" for completing the construction of roads, and hydro-electric projects which were of immense significance for development in various fields. The economic and technical aid extended for Nepal's development, he said, were lasting pillars of Nepal-China friendship. He reiterated Nepal's stand that China should be given her rightful place in the United Nations.

On 26 April 1970, Rajbhandari congratulated Chou En-lai on the success achieved by China in launching her first earth satellite into orbit. The *Rising Nepal* in an editorial dated 27 April called it "a technological feat of a high order".

Foreign Secretary Yadu Nath Khanal in an exclusive interview on the eve of relinquishing his office said on 30 July 1970, "Our China policy has two aspects. Politically, Sino-Nepalese friendship is based on five principles of peaceful coexistence. Economically, Nepal has considerably benefited from the programmes of Chinese assistance." He believed that these two were not only an evidence of Chinese earnestness to live in friendship with Nepal but also an indication of the fact that China wanted to participate positively in the rebuilding of a progressive international community. He thought that there was room for further development of the country's China policy in the field of trade because all aid must ultimately give way to trade. This development,

he added, would neither disturb Nepal's non-alignment nor its character as a zone of peace.

The Red Cross Society of China donated Rs 200,000 in July and over Rs 1.2 millions in August for the purchase of blankets, vitamins, anti-biotics and other supplies for the flood victims in Nepal.

Foreign Minister Rajbhandari told the UN General Assembly on 16 October 1970 that entry of China into the United Nations was widely accepted as essential to making the organisation "as strong, purposeful and universal as we all desire it to be". Speaking at a function in Kathmandu on 30 April 1971 to celebrate the 11th anniversary of the Peace and Friendship Treaty signed between Nepal and China, Prime Minister Bista appreciated the "tremendous" progress made by China after the cultural revolution and said that China should be given a dignified place in UN.

A parliamentary delegation led by Ram Hari Sharma, the Speaker, paid a goodwill visit to China from 20 March to 4 April 1971.

India

Police officials of Nepal and India held talks in Kathmandu on 11 and 12 May 1970 to find out ways and means to control and check smuggling of goods, vehicles and narcotics between the two countries and the use of counterfeit currency notes. They also discussed ways and means of controlling the growing traffic problems between the two countries.

On the basis of understanding reached in September 1969, the Government of India decided to wind up the Indian military liaison mission by 20

August 1970. The last batch left Kathmandu—49 on 18 August and 2 on 19 August. Foreign Minister Rajbhandari was reported to have expressed gratitude to India for assisting in reorganisation of the Nepalese Army.

Indian personnel came to Nepal in 1952 to train the Nepalese Army. Their strength was 169 in that year. The Indian Military Mission became the main target of Nepalese resentment in 1958. It was further downgraded to an Advisory Group and in 1963 to a Liaison Mission—its strength reduced to 70.

Nepal's demand for the withdrawal of the Indian military liaison group and the handful of Indian wireless operators functioning in Nepal's northern border checkpoints have been fully met. Nepali personnel have replaced the Indian technicians. Indian technicians from eight checkpoints returned in 1969 and those from the remaining nine left at the end of 1970. A Pakistani writer reporting in a Dacca daily *The Pakistan Observer* (15 October 1970) alleged that their object was surveillance, observation and reconnaissance of the Tibet-Nepal border.

The issue of certificate of identity—an emergency travel document—to the former Prime Minister B.P. Koirala in August 1970 by the Government of India on purely humanitarian grounds enabling him to proceed to Europe for medical check up and treatment, displeased Kathmandu. It was the subject matter of a heated discussion in the *Rashtriya Panchayat* on 16 August. B.P. Koirala had been staying in India and he approached the Government of India for the issue of such a certificate enabling him to go abroad as the Nepalese Government had not issued him

a passport. Some angry members demanded retaliation for this "unfriendly act". Foreign Minister Rajbhandari said that Nepal had sent a communication to India objecting to the issue of certificate as it was "contrary to normal practice and etiquette".

Stressing the historical and traditional friendly relations with Nepal, External Affairs Minister Dinesh Singh told the *Lok Sabha* on 8 April 1970 that India must go on persevering in furthering her cooperation with Nepal and not get into a position in which cooperation was misunderstood for any kind of domination. The cooperation should be on the basis of recognition by both parties that it was in mutual interest and they should not allow one to be played against the other.

The year 1970-71 was a difficult year for Indo-Nepalese relations. The Treaty on Trade and Transit formed the subject matter of discussion between the two countries. Inter-governmental talks were held in Kathmandu from 12 to 23 June 1970. Foreign Secretary, Commerce and Industry Secretary and Finance Secretary visited New Delhi from 21 to 24 August 1970 and discussed the entire range of bilateral relations especially trade and transit with the senior officials of the Government of India.

King Mahendra while on his way to London visited New Delhi on 26 and 27 August 1970 and had free and frank discussions with Smt Gandhi. The proposed Treaty on Trade and Transit figured prominently in the discussions. The *Rising Nepal* (18 August 1970) said, "Nepal-India relations has hit all time low in the past few months and stand at crossroads".

King Mahendra told a special correspondent of *The Times of India* on 19 October 1970, "We feel that we have the right to follow an independent policy but we don't want to do anything detrimental to the interests of India or other friends and neighbours. I think a free and strong Nepal is always an asset to India. We do not see any Himalayas between Nepal and India". The king made it clear that Nepal wanted political and military issues to be kept completely separate from the economic arrangements between the two countries.

Talks on trade and transit treaty were resumed in October and later on in November and December. Negotiations were, however, not fruitful. India was charged with looking through coloured glasses, being unhelpful unreasonable attitude, tragic shortsightedness, using pressure policies and economic blockade against a small neighbour. In January 1971, rallies were held and demonstrations and processions shouting anti-Indian slogans were organised in Kathmandu and other towns to protest against the failure of talks. It was felt in Delhi that Nepal was over-dramatising the situation in spite of the fact that India had left its borders open to transit trade even after the breakdown of talks.

According to some observers, Nepal's insistence on a land route for trade with Pakistan through India led to the conclusion that Nepal was more interested in the politics of a trade and transit treaty than in the economic benefits to be derived from it. It was open to Nepal to trade with Pakistan through Calcutta and Haldia but Nepal had been insisting on having access to East Pakistan through Radhikapur. The route had

no great economic significance and had been hardly used all these years. Nepal's adamant posture on this issue was one of the main reasons why a new treaty could not be finalised. India was reluctant to agree to this proposal since Pakistan's attitude towards India had not been happy nor there was any trade treaty between India and Pakistan. Pakistan does not permit overland transit facility to Afghanistan for trade with India and Pakistan has ruled out tripartite talks on this subject.

Nepal raised the question of trade and transit practically at all international forums which its representatives attended during the year including ECAFE Conference in Bangkok, Asian Economic Conference in Kabul, Lusaka summit and UN.

Prime Minister Bista while speaking in Kathmandu on 4 May 1971 expressed the hope that there would not be delay in signing the trade and transit treaties. The non-conclusion of these treaties had given rise to many 'misgivings'. The 'misgiving', he said, should be urgently cleared up in the interest of close relations between the two countries.

King Mahendra paid a two-day visit to New Delhi from 10 to 12 June 1971 and held discussions with Smt Gandhi and Minister for Foreign Trade L.N. Mishra on a fresh treaty on trade and transit. The King expressed the hope that the problem of trade between the two countries would be solved soon in an atmosphere of good will and understanding.

The conclusion of a five-year treaty on trade and transit on 13 August 1971 brought to an end an unfortunate phase of misunderstanding and acrimony between the two neighbours.

About 1,300 persons of Indian origin, *Madhesias*, took refuge in Purnea district of Bihar following disturbances in Gauriganj and some other places in Mechi and Kosi *anchals* in Nepal in June 1971. Deputy Minister Surendra Pal Singh told the *Lok Sabha* on 29 June 1971 that the Nepal Government was doing its best to restore normalcy. The people of Indian origin, he added, had been told that it would greatly help ease tension if they adapted themselves fully to local conditions. There are about 50,000 persons of Indian origin in Nepal.

Commenting on Nepal's relations with India and China, Neville Maxwell said in *The Financial Times* (London) of 9 July 1970 :

"Indian domination, as it is felt, inevitably arouses countervailing political forces, and one natural expression of these has been to look to China. Nepal did this in 1956 opening diplomatic relations with Peking over strong Indian dissuasions, and since then has built up cordial relations with her northern neighbour, beneficial to herself in the the material terms of aid as well as a counter-balance to India."

"Nepal is oriented towards India, economically as well as socially, but has more than once been glad of the at least tacit threat of turning more to China, should India become, in Nepali eyes, overweening".

"Last year the Indians "created a wholly unnecessary quarrel" with Nepal when the latter insisted on the removal of some Indian observer posts from Nepal's border with China. Instead of

gracefully bowing to the inevitable, the Indian Government tried to "coerce Nepal with the threat of something like a virtual blockade". Such a measure, Neville Maxwell alleged, was tried in the early 1960 with New Delhi at least "conniving with the emigre attempts to bring down King Mahendra and it did not work then ; now with a road from Kathmandu to Lhasa, it must be less effective, and would inevitably be counter-productive politically. India had "to back down having caused unnecessary ill-will", he alleged. Maxwell was repeating in this article some of the unfounded allegations about an "Indian blockade" which was also the theme of Chinese propaganda.

The *Guardian* (London) reported on 2 September 1970 : "No matter how loudly Chinese power may speak in Kathmandu, the Chinese presence in Nepal is meagre and indirect, while the Indian presence is pervasive and not always prepossessing. Nepal's need to assert its separate identity in relation to India has therefore been pressing. Nepal has come to realise that even if its highest expectations of trade with China and Pakistan materialise, its dependence on the Indian market will continue to be overwhelming."

Former Foreign Secretary Yadu Nath Khanal said on 30 July 1970 that Nepal's foreign policy was consistent with his country's nationalism though he agreed it might have been misunderstood in certain quarters. He, however, denied that Nepal's foreign policy aimed at short-term gains. He also repudiated the charge that Nepal had exploited the differences between India and China for its own ends.

Earlier Foreign Minister Rajbhandari said in Kathmandu on 28 June 1970 that any impression that Nepalese nationalism is anti-Indian was totally incorrect. His government, he said, would work for strengthening relations with India. "For Nepal situated as it is, it is important that its nationalism does not take either an anti-Indian or anti-Chinese character," he said. King Mahendra told an Indian correspondent on 19 October that to be friendly with China did not mean unfriendliness towards India.

The Soviet weekly *New Times* (5 June 1970) said that China's policy in Nepal was to worsen relations with India. The Chinese were supplying weapons to rebel bands in Nagaland and the Chinese agents were carrying on intrigues in Sikkim and Bhutan. The weekly accused China of pursuing a policy of setting Asians against Asians and promoting insurrectionist movements in India and Burma. The New China News Agency on 4 January 1971 quoted comments from leading public figures and the Press in Nepal criticising India about the failure of talks on trade and transit treaty. On 9 January, the NCNA blamed India for "big-nation chauvinism" for the failure to conclude a new treaty. It charged India of power politics and exerting pressure on Nepal.

Pakistan Radio (Karachi) on 8 January 1971 quoting official sources described as untenable and irrelevant "the excuse given by India" for turning down transit and trade facilities to Nepal. Regretting the deadlock, it alleged that India had consistently hampered efforts to expand Nepalese exports through the land route to East Pakistan. Pakistan, it said, had always

been willing to enter into discussions with India or any arrangements that might be considered necessary for Nepal's trade to East Pakistan through Indian territory.

Commenting on the Indo-Nepalese trade talks *The Statesman* (New Delhi) of 8 January 1971 wrote : "The manner in which the Nepalese Government has been conducting the negotiations would seem to justify New Delhi's suspicion that solid economic gains are being neglected for the sake of some political game that Kathmandu is anxious to play. Even more unfortunate is the way in which the issue is being exploited in Kathmandu after the last round of inconclusive talks. Demonstrations were then organised...a general anti-Indian sentiment deliberately worked up. Mr Nav Raj Subedi, the Nepalese Commerce Minister, went to the extent of raising a scare of an economic blockade".

"The temptation to play off either China or Pakistan against India has often coloured Kathmandu's policies and even has impinged on trade negotiations. Before it is too late Nepal would be well advised to realise that there is such a thing as pushing a friendly neighbour too far. The one thing that the Nepalese Government cannot achieve by whipping up what can only be described as anti-Indian hysteria is to get concessions from India which goes against Indian interests", the daily said.

The *Guardian* (London) said in an editorial dated 26 January 1971, "Nepal's geographical position makes it a tempting target for aid—and propaganda. India, China, the Soviet Union, the United States, Britain, Israel and West Germany are all aid providers. Pakistan

has not remained idle in the face of periodical outbursts of anti-Indian sentiments. But the links of culture, history and religion are too close to permit permanent alienation. For India, the penetration by China still remains a credible bogey. Nepal has said that it has common defence needs with India. But India still fears that China could walk in any day on the road it has built from Lhasa to Kathmandu".....India and Nepal need each other, the daily added.

The Far Eastern Economic Review reported in its 1971 Year Book, "Kathmandu's growing alienation from New Delhi ran parallel to improvement of its ties with Peking and Islamabad".

"The triangular relationship places the King in an enviable position which he could exploit, if he so chose for constructive purposes in a troubled region", said the *The Statesman* in its editorial dated 19 April 1971.

ARMED FORCES

Expenditure on defence during the last two years and estimates for 1970-71 are as follows :

Year	Rs (N) in million
1968-69 (actual)	48·075
1969-70 (revised)	50·000
1970-71 (budget)	60·569

Defence spending during 1970-71 shows an increase of 20·1 per cent over 1969-70 compared to 4·2 per cent in the previous year. A sum of Rs 400,000 was allocated for personnel manning the checkposts. Estimated expenditure on defence during fiscal 1970-71 formed

6.2 per cent of total expenditure and 12.3 per cent of revenue receipts and 0.9 per cent of the country's national income.

While discussing the appropriation bill in the *Rashtriya Panchayat* on 28 July 1970 some members complained that allocations for defence did not look adequate in the present nuclear age and called for higher allocations. Some suggested that the Nepalese Army be equipped with modern arms and communications equipment. They also stressed the need to manufacture small arms and ammunition in Nepal. Some suggested that smuggling could be controlled if ex-servicemen were rehabilitated in the border region.

The Defence Minister G. P. Parsad Budhathoki dealing with the points raised in the *Rashtriya Panchayat* said on 5 August 1970 that the allocation for defence purpose was meagre in view of the country's economic condition. He added that efforts were in hand to station more men of the Royal Nepalese Army along the northern and southern borders of the country. He also pointed out that ex-servicemen were being settled along the open border to the extent possible.

Nepal's armed forces strength has been estimated as follows :

Army : a regular cadre about 15,000 strong consisting of 23 infantry battalions and three artillery regiments and a militia of about 18,000 ;

Air Force : 250, with 45 non-combat aircraft.

Lt-Gen Singh Bahadur Basnet (52) was promoted Commander-in-Chief of the Royal Nepalese Army on 10 May 1970. He succeeded General Surendra Bahadur Shah whose term of office had expired. Brig-Gen Guna Shumsher Rana was promoted to the post of Lt-General and Chief of the General Staff.

Talks for training Nepal's Army personnel were reported to have taken place between officials of Nepal and Pakistan in the course of President Yahya Khan's four-day state visit to Nepal from 27 to 30 September 1970. Some resistance to a training scheme by Pakistan is understood to have come from the Nepalese delegation who did not want an agreement unless it was on a long term and semi-permanent basis. Israel is reported to have provided training for paratroopers.

Winding up discussions on the National Cadet Corps Bill on behalf of the Defence Minister in the *Rashtriya Panchayat* on 13 August 1970, the Law Minister accepted the suggestion that compulsory military training should be imparted to the youth of the country. He said that the Bill made a provision for military training to the youth within the available resources of the country. He mentioned that 354 students including 131 girls were receiving military training in 1970. A sum of Rs 400,000 and services of 43 army staff as well as 10 civilians had been made available for their training.

The British Ministry of Defence on behalf of their armed forces donated a sum of Rs 145,000 towards the building of a war memorial and a meeting hall for Gorkha ex-servicemen.

The British Brigade of Gorkhas contributed another sum of Rs 24,300 for building a dispensary and a rest house in Nepal.

A team of 41 students and staff members of the National Defence

College from New Delhi paid a visit to Nepal in the last week of October 1970. India has given Rs 132,000 for a war memorial, *Sainik Smarak*, being built in Kathmandu by the Nepalese Ex-servicemen's Organisation.

2. BHUTAN

ECONOMIC PROGRESS

The second five-year plan which concluded on 31 March 1971 envisaged a total outlay of Rs 200 millions compared to Rs 101.6 millions incurred on the first plan (1961-66). The Minister of Development said that during the first two plans substantial progress had been achieved in the fields of communications, agriculture, power development, education and health services. The entire outlays on the first and second plans were financed by grants from the Government of India.

The draft third five-year plan (1971-76) was discussed in the National Assembly in May 1970. A Bhutanese delegation headed by Lyonpo Dawa Tsering, Minister of Development, visited New Delhi from 17 to 19 December 1970 and discussed with the Planning Commission schemes to be implemented under the third plan. The

largest allocation goes to communications, education and agriculture—agriculture Rs 52.3 millions, forest Rs 13.9 millions, animal husbandry Rs 1.32 millions, education Rs 78.8 millions, health services Rs 31.5 millions, posts and telegraphs Rs 14.6 millions, public works Rs 13.2 millions, hydel schemes Rs 11.8 millions and Ministry of Development Rs 11.1 millions.

The King told a Press conference in New Delhi on 10 April 1971 that Bhutan's third-plan launched on 1 April had a total outlay of Rs 355 millions. Of this Rs 330 millions is to come from India—Rs 300 millions as grant and Rs 30 millions as loan. Bhutan's contribution will be Rs 25 millions. Bhutan is reported to have received over Rs 600 millions from India as development assistance so far. The King acknowledged India's key role in the process of modernising Bhutan, ending the Kingdom's "age-old state of isolation."

Bhutan—Statistics

Area (square km)	... 46,600
Population (1970)	... approx. 1 mn
Armed Forces	... 4,850
Currency	... Indian <i>rupee</i> is the main currency in circulation. Bhutanese coin <i>Tikchung</i> is worth half a <i>rupee</i> .

The annual report for the Bank of Bhutan for the year ended 31 December 1970 showed that deposits increased from Rs 6,801,000 on 31 December 1969 to Rs 11,556,000 on 31 December 1970—showing an increase of 70 per cent. Advances increased from Rs 2.7 millions to Rs 7.3 millions showing over two-fold increase over the previous year. The Bank showed a net profit of Rs 136,517 compared to Rs 43,947 in 1969.

The National Assembly—*Tsongdu*—decided that from January 1971 all the civil offices would prepare a budget. The absence of a budget system so far had greatly inconvenienced the Audit Department and had often placed the Finance Ministry in difficulties.

The present levy of Rs 10 per maund on cardamom, which is exported from Bhutan, has been raised by 50 per cent to Rs 15. The Government also decided to levy duties on all goods of foreign origin imported into Bhutan, except those purchased by the government for its use or received in the form of foreign aid. Two Bhutanese officers will be posted at Calcutta and will work in liaison with the Indian Customs authorities. They will levy the prescribed duties. Commencing from 1 July 1971, the Government levied special duties on foreign goods ranging between 40 to 200 per cent *ad valorem* to boost the country's revenues.

An industrial estate is being developed at Phuntsholing in southern Bhutan. Facilities like factory sheds at nominal rents, water, electricity and approach road have been provided. Bhutanese entrepreneurs are being encouraged to set up small industries without participation of non-Bhutanese

nationals as far possible. A Rs 1.3 millions Government Central Workshop for automobiles set up at Lungtenzampa (Thimphu) was commissioned on 1 June 1971.

After careful study of the recommendations of a study team, the Government of India decided that it would be not commercially viable to exploit gypsum deposits in Bhutan. Earlier, a study team had reported availability of good quality gypsum in Bhutan. Over 19 million tonnes of quarriable gypsum have been proved. Gypsum is used mainly for the manufacture of ammonium sulphate and cement. Deposits of dolomite and limestone had also been discovered by the Geological Survey of India.

The Oil and Natural Gas Commission of India has been asked to make a preliminary survey for oil in south-eastern Bhutan. The survey was ordered at the request of the Bhutanese Government.

During the third plan, emphasis is also laid on the development of power—capital outlay of Rs 28.5 millions with a target of 3,000 Kw generating capacity is envisaged. During the second plan period, a sum of Rs 9.66 millions was spent and installed capacity was 1,000 Kw.

Hydel power generation schemes included in the third five-year plan 1971-76 are :

- (i) A 750 Kw hydel station at Kom in Thimphu,
- (ii) 200 Kw hydel project at Mongar and

(iii) a 300 Kw project at Tongsa.

(iv) The Tashigang hydel project started in the second plan would be completed in the first year of the third plan.

Substantial progress has been made in the field of education since planning began in 1961. The number of school-going children in Bhutan was about 2,500 before planning began. The number has gone upto 15,000. Bhutan has now over 100 schools including two public schools, a teachers' training institute and a technical institute. Besides, about 500 Bhutanese students were receiving education in India in 1970.

The most acute problem facing Bhutan to-day is shortage of technical and trained personnel to execute the development projects. The Planning Ministry is currently depending heavily on India for personnel and gradual replacement of Indians by Bhutanese started in some departments like posts and telegraphs and it is expected that the process will be accelerated when the present generation of school-going children is ready to shoulder the task of nation-building,

The Government of India made a grant of Rs 4 millions towards flood relief works in Bhutan. This included a sum of Rs 3.16 millions for the purchase of plough bulls, tools and implements etc. and Rs 100,000 for repairing monasteries. Besides, a sum of Rs 500,000 was spent by the Development Ministry.

Minister for Development, Lyonpo Dawa Tshering, opened the Indo-Bhutanese friendship hospital at Thimphu on 4 July 1970. Built with Indian aid, the

hospital will provide specialised treatment to the local population. It is run by medical staff attached to the Indian military training and advisory team in Bhutan.

In July 1970, Bhutan placed restrictions on the import of Indian mill-made cloth of Bhutanese design into the Kingdom. Import of such cloth, it was stated, had adversely affected the indigenous hand woven silk and cotton cloth industry.

The Divisional Forest Officer, Thimphu, visited Switzerland on a three-month study tour commencing from May 1970. He discussed with Swiss authorities the possibility of sending five Bhutanese for foresters' training there.

A Bhutanese national left for Japan in May 1970 to attend a group training course in Farm Machinery Utilisation for a period of eleven months under the Colombo Plan. Regional Agricultural Officer at Bhur left in December 1970 for 11-week training in crop protection at the International Training Centre in Sydney under the Colombo Plan. In March 1971, four women were undergoing training in Australia and New Zealand in medical science and secretarial work. An official of the Posts and Telegraphs Department proceeded to Singapore in May 1971 for two-month training in postal administration.

According to the 18th annual report of Colombo Plan Council for Technical Cooperation for 1969-70, Bhutan had 26 trainee and student places and one expert upto 1969. Technical assistance received by 1969 amounted to \$68,600 -- Australia \$ 500, Japan \$ 47,000, New

Zealand \$ 21,000 and Thailand \$ 100. Japan supplied scientific equipment worth \$ 28,000 in 1969. Of the 13 Bhutanese trained in 1969, Australia provided 5 places, Japan 3, New Zealand 3 and Singapore 2. Bhutan became a member of the Colombo Plan in 1962. Bhutan participated in the 21st Colombo Plan Ministerial Conference which ended in Manila on 25 February 1971.

A two-member Australian team visited livestock farms in western and eastern Bhutan in September 1970. It called on the Finance, Development and Trade and Industries Ministers at Thimphu and discussed Australian assistance to Bhutan in various fields. The Australian Government made a gift of 14 trucks to Bhutan under the Colombo Plan aid programme in July 1970. The total number of trucks received earlier under the Colombo Plan was 54. Next to India, Australia is the largest donor of aid to Bhutan.

Communication

The credit for opening up Bhutan to its own people goes largely to the Indian Border Roads Organisation which has so far constructed more than 1,000 kilometers of roads in the Kingdom under what is known as Project *Dantak*. The network of roads, which has cost more than Rs 300 millions covers mainly the southern half of the country and serves almost all the important *dzongs*.

(i) East-West Highway

Work is in progress on the construction of the 480 kilometer long eastwest lateral highway over the 13,000

feet high *Pele la*. This road connects Tashigang, Byakar, Tongsa and Wangdiphodrang. The King performed the opening ceremonies of the Wongdiphodrang-Pele *la* and Pele *la*-Tongsa sectors of the 140-kilometer long Wangdiphodrang-Tongsa road in December 1970. On an average, 4,000 persons work on this road. The entire project is likely to take another three years.

The King also inaugurated the road construction work from Tongsa to Bumthang at the junction of roads from east, west and south. The King appreciated "the efficiency, speed and above all high sense of service and dedication", shown by the men of the *Dantak*. The road from Tashigang has reached Mongar and marking of the alignment towards Bumthang is in progress.

A 14 km long Lobeyisa-Punakha, a feeder road branching off the East-West lateral highway, completed by the Bhutanese Public Works Department, was thrown open to traffic on 22 March 1971. Work has commenced on the construction of Tongsa-Byakar road.

(ii) Thimphu-Wangdiphodrang Road

A new bridge has been constructed on the road replacing the old bridge. Carpeting of the road will be completed by the end of 1971.

(iii) Four roads have been constructed so far from the Indo-Bhutanese border to different places situated in Bhutan. From West to East, these are :

- (a) Phuntsholing-Paro road, extended upto Thimphu and north of Wangdiphodrang on the Sarbhang-Punakha road.

The Phuntsholing-Thimphu road, completed long ago has been described by foreign visitors as "the best hill road they have ever seen";

- (b) Sarbhang-Punakha road ;
- (c) Hatisar-Tongsa road ; and
- (d) Samdrupzongkhar - Tashingang road.

One of the first public undertakings in Bhutan was the State transport service which now carries passengers and freight over a wide area in the country. The transport service contributed over Rs 4 millions to the State exchequer in 1970. The Bhutan Government Transport Service operates regular bus services on the following routes in Bhutan including routes connected with neighbouring towns and rail heads in India.

- (1) Phuntsholing to Paro, Thimphu, Samdrupzongkhar, Hashimara and Siliguri ;
- (2) Thimphu to Ha dzong and Wangdiphodrang ;
- (3) Samdrupzongkhar to Tashingang and Rangia ;
- (4) Gaylegphug to Bongaigaon, Samgang and Kokrajhar ;
- (5) Sarbhang-Kokrajhar ;
- (6) Paro-Dugyal Dzong ; and
- (7) Samchi-Banarhat-Garikatta.

A Motor Vehicle Board has been formed--consisting of a nominee each of the Police Department, Government Mechanical Workshop and the Royal

Bhutanese Army—to ensure safe and smooth traffic through preventive and regulatory measures. No vehicle will be allowed to ply in Bhutan unless it carried a regular registration number. Vehicles from India and Sikkim will have their licences endorsed on payment of prescribed fees.

The Director of Posts and Telegraphs said that his Department proposed to take over the telephone exchanges at Thimphu, Paro and Phuntsholing during the third plan, 1971-76. Necessary staff is being trained in India for this purpose.

There is an all-weather airfield at Paro. A private operator runs a weekly service from Paro to Thimphu, the capital.

POLITICAL DEVELOPMENTS

The spring session of the *Tsongdu*—National Assembly—was held under the chairmanship of Dasho Kesang, the Speaker from 22 April to 2 June 1970. The *Tsongdu* decided that a motion of no confidence against the Ruler would be admitted if it had the backing of one-third of the members. For such a debate or decision or any other Constitutional issue two-thirds of total membership of the *Tsongdu* would constitute the quorum. (The *Tsongdu* has 150 members.)

The measure for democratising the Regency Council was also adopted by the *Tsongdu* at the initiative of the King. It laid down a procedure for the appointment of a Regency Council to include people's representatives to discharge the duties of the Ruler in the event of:

- (i) his being asked by the *Tsongdu* to abdicate,
- (ii) retiring due to ill-health or
- (iii) passing away while the Crown Prince is minor, below 23 years of age.

The Regency Council will have four members—one representative each of the Royal family, the monastic order, officials represented in the *Tsongdu* and the elected members. The Regency Council hitherto was an exclusive prerogative of the Royal household.

On the proposal of the King, the *Tsongdu* approved by a large majority the appointment of Dasho Sangye Penjore as the Minister of Communications. Lyonpo Dawa Tsering, Minister of Development, was given the responsibility of looking after Bhutan's foreign affairs. Two new members—one each from Eastern and Western Bhutan, were elected by the National Assembly in November 1970 for its Advisory Council in place of two members who had completed their terms. Dasho Shinkhar was elected new Speaker of the *Tsongdu* in May 1971. The National Assembly passed a vote of confidence in *Druk Gyalpo* (The King) by 137 to 4.

Replying to a question at a Press conference in Thimphu on 26 April, the King said that he would not mind the growth of political parties in Bhutan provided these were organised by purely Bhutanese people. There was no ban on political parties in Bhutan. He, however, made it clear that he was not in favour of too many political parties. "One or two parties will be good for Bhutan", he said. Asked if Bhutan would liberalise its policy regarding the

entry of foreigners, he said, "Bhutan would have to open its window to outside world in the near future but not quickly. We have to go slow about it".

Home Minister Tamji Jagar told pressmen on 27 April 1970 that the government would impose stricter restrictions on both the incoming and outgoing foreigners including Indians. This step was being taken in view of the increasing *Naxalite* activity in the tea belt of North Bengal running along Bhutan's southern border. Some of the *Naxalites*, it was stated, escaped into Bhutan to avoid capture by Indian authorities. Bhutan was reported to have sought India's assistance to deal with the *Naxalite* problem along its southern border in order to prevent its extension or initiation in the Kingdom.

RELATIONS WITH INDIA

President V.V. Giri paid a five-day state visit to Bhutan commencing from 23 April 1970. He discussed Indo-Bhutanese friendship, co-operation and economic development with the King. President Giri complimented the King for initiating progressive political and constitutional measures in Bhutan.

Referring to India's assistance to Bhutan, the King said on 24 April, "The generous help has gone a long way in transforming our country and bringing it into the mainstream of modern thought and progress... Our government and people will always look to India for guidance and inspiration as we consider our destiny is intimately bound with that of India". The visit, he said, had established an excellent rapport between India and Bhutan. The King expressed his appreciation for the work

done by the Indian Military Training and Advisory Team, Border Roads Organisation and Police Advisory Team in Bhutan.

The President announced a donation of Rs 50,000 to the Thimphu hospital on 26 April. He reaffirmed India's pledge to assist Bhutan in every possible way.

External Affairs Minister Dinesh Singh visited Thimphu from 21 to 24 May 1970. He was accompanied by the Foreign Secretary. He had a series of "fruitful talks" with the King. On 22 May, he had extensive discussions with the Royal Advisory Council and the Council of Ministers. The talks mainly centred around the development of Bhutan and its admission to UN. As a result of Dinesh Singh's talks, collaboration between India and Bhutan in the military, economic and development fields increased considerably. Following Chinese incursions in May 1970 along the Chumbi valley, there was a growing recognition in Thimphu of the need for closer co-operation with India.

Minister for Trade and Industries Namgyal Wangchuk and Minister of Communications Sangye Penjor visited New Delhi in the last week of July. They called on President Giri, Smt Gandhi, Swaran Singh, Dinesh Singh and L.N. Mishra. They discussed matters relating to trade and industrial development as well as Bhutan's admission to UN with the Indian leaders.

A team from the Defence Institute of Work Study, Mussoorie, led by Colonel Chopra, conducted a Work Study Course at Thimphu on 8 and 9

September. Ministers and senior civil and army officials participated in the course. Topics discussed included the Concept of Management, Productivity, Work Study and Ergonomics. A team from the All India Radio visited Bhutan in the last quarter of 1970. It recorded songs and other interesting items. A team from the Films Division, Government of India, visited Bhutan in November and conducted an extensive tour of the country. The team also filmed various cultural facets of the country for a documentary film on Bhutan.

Inaugurating the autumn session of the National Assembly on 2 November 1970, King Jigmi Dorje Wangchuk said, "We have made closer and deeper friendship with India... India is very close to us geographically. If anything serious happens to Bhutan, it will have repercussions on India—so in self-interest India will have to come to the aid of Bhutan if Bhutan is invaded... Bhutan is placed in a strategic position and a prosperous and strong Bhutan is in the interest of India... Since we are getting all our aid from India, it has become important that our understanding should be perfect".

A five-member judicial team, headed by the Chief Justice of Bhutan Dasho Nydup Namgyal, visited India in the last week of November 1970 to study judicial system in India.

A 15-member delegation of the National Assembly visited India in the later half of January 1971 under the cultural activities programme of the Ministry of Education and Youth Services. It visited New Delhi and several other places of historical and

religious importance and cultural interest in India. A 20-member Royal Dance Troupe paid a fortnight's visit to India in January 1971 and took part in the Republic Day celebration in New Delhi.

The King paid a six-day visit to India commencing from 6 April 1971. Speaking at a banquet on his arrival, the King said in New Delhi, "The destiny of Bhutan is intimately bound with that of India and it is our mutual interest to still further strengthen the existing bonds of friendship and understanding between the two countries." At a Press conference on 10 April he said that he did not want any change in the treaty with India. "We are quite satisfied with the treaty", he said. To another question the King replied that Bhutan would be guided by India's advice but it was not bound to accept the advice.

The first representative of Bhutan to India Lyonpo Pema Wangchuk, presented his letters of accreditation to the President in New Delhi on 17 May 1971.

TIBET BORDER

Chinese incursions

The King told Press reporters in Thimphu on 23 May 1970 that about a dozen Chinese troops intruded at Chaipala along the western border of Bhutan three times during May. The third incursion took place on 20 May. The Chinese troops came about three-fourth of a kilometer into Bhutanese territory adjoining the Chumbi valley. The intruders, however, withdrew when the Royal Bhutanese Guards told them that they were in Bhutan's territory.

Since 1967, it was the first time that the Chinese intrusions had taken place into Bhutan.

According to an unconfirmed report, the Chinese have improved their lines of communications along the Bhutanese border. The Chinese have constructed a motorable road capable of taking heavy vehicular traffic within 1.5 kilometers of the international border at a number of points.

Addressing a Press conference in Thimphu on 26 April 1970, the King disclosed that some literature on thoughts of Mao and badges with his insignia were found in northern Bhutan last year. The Chinese, he said, had "airdropped" some copies of the red book. These were promptly collected by Bhutanese army patrols and burnt. Answering a question, the King said that he did not think the Chinese would make any military thrust against Bhutan as this would provoke a world war. Unlike 1962, India's defence arrangements today were fully adequate, he added.

Addressing the National Assembly, the King accused China of expansionist designs and claiming large portion of Bhutanese territory. He reminded the Assembly how Tibet was forcibly occupied by the Chinese and of Chinese claim that "Bhutan is one of the five fingers of its hand".

UN membership

External Affairs Minister Dinesh Singh told the Lok Sabha on 30 April 1970 that India would sponsor Bhutan's admission to the United Nations. A three-member Bhutanese delegation led

by Minister of Trade and Industry Namgyal Wangchuk visited New York in October and November 1970 to canvass support for Bhutan's admission to UN. India supported Bhutan's application.

Deputy Minister of External Affairs Surendra Pal Singh said in the *Rajya Sabha* on 16 December 1970, "We do not anticipate any difficulty in Bhutan's entry to UN next year. Even after its membership, we have agreed to respect the terms of the 1949 treaty of friendship". India has agreed to assist Bhutan in assuming responsibilities and obligations of UN membership. Bhutan is already a member of the Colombo Plan and the Universal Postal Union.

Bhutan formally applied for membership of the United Nations in the fourth week of December 1970. On 9 February 1971, the Security Council unanimously recommended Bhutan's admission to the world body. The King said in New Delhi on 10 April 1971 that Bhutan did not have any proposal to establish missions abroad at present. There were not enough facilities available in Bhutan to receive foreign missions.

Relations with Nepal

Bhutan is reported to be against the federation comprising Nepal, Sikkim and Bhutan mooted in certain Western circles. The Bhutanese feel that any such move would bring their country "under the heel of Nepal". According to *Kuensel* (15 November 1970), the Bhutanese Government has decided to impose a complete ban on the import of goods from Nepal of any kind. Arrangements were made to closely check the entry of such goods from Nepal. Answer-

ing a question at a Press conference on 23 May in Thimphu, the King said that Bhutan had "very little contact with Nepal". The Nepalese minority living in Bhutan did not pose any problem but he had disallowed any further immigration of Nepalese into the country. About 20 per cent of Bhutan's population was of Nepalese origin.

ARMED FORCES

Kuensel (15 April 1970), a fortnightly official bulletin of the Bhutanese Government, while commenting on the training and re-organisation of its armed forces said :

"A Military Mission from India was deputed for service in Bhutan in August 1962 to train and re-organise our defence forces on modern lines. Our association with the Indian Military Training Team (IMTRAT) was formed then...The Wangchuk Lo Dzong Military School was established in Ha and the task of running the school was given to IMTRAT. It was designed to train and provide the nucleus of instructors for the re-organised Army. Potential officers of our Army were also to be selected and prepared by the School to receive pre-commission training at the Indian Military Academy. In the meantime, to overcome acute shortage of officers, the scope of the School was temporarily enlarged to act as an Officer Training School for directly commissioned officers".

"Simultaneously with the establishment of the Military School, the government directed their efforts towards re-organising the Army.

The contribution made by IMTRAT in this regard, though unobtrusive and silent, is worthy of recognition. The present day standard of our Armed Forces in the fields of training, operational fitness, administrative efficiency and other activities is a clear indication of the selfless and untiring work done by IMTRAT and their devotion to duty", said King Jigme Dorji Wangchuk in the National Assembly in April 1970.

It was announced on 1 January 1971 that the strength of the Royal Bhutanese Army will be raised to 4,850. Earlier, *Kuensel* (15.12.70) had reported that the strength of the Army had been decreasing due to the release of personnel for various reasons particularly on compassionate grounds. In order to raise the strength to 4,850, it had been decided to recruit annually 600 to 700 persons. The King is personally handling the army portfolio.

General SHFJ Manekshaw, Indian

Chief of the Army Staff, paid a two-day visit to Bhutan on 25 and 26 May 1970. He visited Bhutanese army training centre at Ha Dzong and also studied the working of the IMTRAT. While at Thimphu, he called on the King and had talks on problems of Bhutan's defence. Col Lam Dorji, Chief Operations Officer of the Royal Bhutanese Army, visited India in November 1970. He called on Gen Manekshaw on 23 November.

Due to acute shortage of qualified medical practitioners in Bhutan, medical facilities for Bhutanese troops are inadequate at present. To overcome this drawback, IMTRAT has taken on additional commitment to provide medical facilities to local troops as well as civilians.

Six Bhutanese Cadets who completed their two-year training at the Indian Military Academy, Dehradun, were commissioned on 13 June 1971.

3. BURMA

NATIONAL ECONOMY

Economic Situation

The overall economic policy of the government is to step up production of primary output with the hope of increasing exports and creating scope for increased imports. At present, Burma earns 80 per cent of its foreign exchange from exports of its agricultural products and rice is the most significant earner.

Burma's economic problems revolve around two main factors—production and trade, both local and foreign. According to the *Report to the People* 1970, the bad shape of national finances began with a bad paddy harvest in 1965-66. The exceptionally damaging weather crippled paddy production.

The depletion in stocks had to be made good in 1966-67 resulting in the loss of exports for two years. Agriculture output recovered in the next two years. When production and exportability were regained, foreign buyers had reduced their purchases. Many of Burma's customers have themselves begun to grow paddy. The Americans have been giving away or selling rice on credit. Rice importer Japan has turned rice supplier and Italy, subsidised by the EEC, has been selling rice at reduced rates.

The drop in volume of rice exports was accompanied by a fall in price. But since prices of import items have been rising, the country had to draw heavily on previous savings thus depleting foreign exchange reserves. Foreign

Burma—Statistics

Area (square km)	...	678,000
Population (1970 estimate)	...	27.6 mn
G.N.P.	...	K 10,390 mn
Defence Expenditure (1970-71)	...	K 603 mn
Armed Forces :	...	143,250
Army	...	130,500
Navy	...	6,250
Air Force	...	6,500
Currency :	...	US \$ = 4.80 Kyats

exchange reserves had fallen from K 1,071 mn in 1962-63 to K 788 mn at the end of July 1969 and to K 509 mn at the end of September 1970. The adverse Balance of Payment during the fiscal year ending September 1970 amounting to K 326 mn was the heaviest during the past ten years. Gold reserves to the value of K 99.7 mn had to be sold in July 1970 leaving a balance of K 300 mn. In the foreign exchange budget for the 1971 fiscal year, payments are expected to exceed receipts by K 266 mn.

Myat Thin wrote in *The Working People's Daily* of 25 March 1971, "The rate of industrial growth in Burma since 1962-63 has been, to say the least, uninspiring. The average annual rate of growth between 1962-63 and 1969-70 was a mere 1.1 per cent as against 12 per cent annual rate of growth between 1946-47 and 1961-62. To pour oil into fire, as of last year, the rice price has taken a downturn, thereby substantially reducing Burma's capacity to earn foreign exchange and consequently making future prospects of industrial growth even dimmer".

The *Report to the People 1970* stated that the following remedial measures were being taken :

- (i) diversification of export commodities,
- (ii) substitution of import commodities,
- (iii) to use as far as possible locally produced raw materials in industries,
- (iv) to extend and expand foreign trade with other countries on the basis of mutual benefit,

(v) accelerating the completion of industrial projects under construction,

(vi) to give priority to the establishment of such industries as would ensure maximum production within a minimum period of time and

(vii) to encourage the entire nation to practise austerity.

The four-year economic development plan (1966-70) was launched in 1966. The plan was ambitious aiming to increase national product by 8 per cent and investment by 15 per cent per annum. Priority was given to the development of agriculture and achieving self-sufficiency through the establishment of processing and manufacturing industries utilising domestic raw materials. The plan was financed from internal resources.

Burma's national product is reported to have shown a gradual rise. Estimates of national income for the last three years are as follows :

Year	(in mn Kyats) Gross National Product
1967-68	9,600
1968-69	10,015
1969-70	10,390

There was an increase of about 3 per cent in 1969-70 over the previous year.

In January 1971, the government appointed a high-power nine-member Economic Committee with the Minister for National Planning and for Finance and Revenue as the Chairman. The Committee will co-ordinate the various aspects of the country's economy and promote development work.

The Report on guidelines for the framing and implementation of National Plan for the Economic Development was presented to the first Party Congress on 28 June 1971. A 2-year development plan is to be implemented through five consecutive four-year plans to lay the economic, social and political foundations for the establishment of socialism—the Burmese way to Socialism. A change from a pattern of national economy relying mainly on one or two branches only to a diversified pattern is envisaged. The three priorities laid down in the Directives for Economic Planning are export promotion, import substitution and the establishment of domestic industries.

The main objectives of the first four-year plan, 1971-72 to 1974-75, are to consolidate and improve the present economic pattern and to take preventive measures and safeguards against possible economic difficulties. Total value of output of domestic goods and services is to increase by 19 per cent, domestic

consumption by 19 per cent and per capita income by 8 per cent.

Total value of agricultural production is planned to increase by 16 per cent. To that end, 33,000 acres of virgin land are to be brought under cultivation, 671,000 acres of fallow land are to be restored to cultivation and irrigated area is to be increased by 194,000 acres.

In industrial production, a 20 per cent increase in the total output value is envisaged. In mining, crude oil production is to go up by 52 per cent and other minerals by 36 per cent. Social welfare includes measures to equalise demand and supply of educated persons, building of schools and public health works.

National Budget

The Revolutionary Council on 19 September 1970 reported to the people on the budget estimates for 1970-71. Estimates of receipts and expenditure were as follows :

Budget Abstract 1970-71		(Kyats in mns)	
Particulars	Receipts	Expenditure	
(i) Current Account	8,358.12	7,634.33	
(ii) Capital Account	0.04	989.73	
(iii) Debts	0.41	209.05	
(iv) Contributions	—	35.92	
(v) Investments	—	15.79	
(vi) Loans	453.27	448.45	
(vii) People's Savings	28.83	25.92	
Total	8,840.67	9,359.19	
Less expenditure met by foreign loans etc.	—	(—) 322.77	
Net expenditure met by internal receipts	8,840.67	9,036.42	
Deficit (—)		(—) 195.75	

The year 1969-70 ended with a deficit of K 372 mn instead of K 112 mn estimated in the budget. The fiscal 1970-71 would end with a deficit of K 196 mn. This deficit was estimated after taking into account K 332.8 mn that would have to be borrowed or obtained in aid from foreign countries and international agencies. The deficit was to be met by increasing national productivity and exporting more rice, teak, ores, pulses, beans, jute and maize. There would be no increase in taxes and no hikes in prices of commodities.

Current expenditure on administration and foreign affairs accounted for 4.7 per cent, economic projects 27.7 per cent, power 1 per cent, transport and communications 6.3 per cent, construction 4.1 per cent, trade and commerce 40.4 per cent and social welfare 7.5 per cent.

Capital expenditure for 1970-71 was estimated at K 990 mn compared with revised estimates of K 879 mn in 1969-70, showing an increase of K 110.5 mn. The increase was due to greater investments being made to increase national productivity, both in the agricultural and industrial sectors. Agriculture and irrigation accounted for 6.4 per cent, forests 2.8 per cent, mining 9.2 per cent, industry 38.8 per cent, power 4.6 per cent, transport and communications 13.1 per cent, construction 4.4 per cent, social welfare 2.8 per cent and trade 1.5 per cent.

Investment on industry, power and mining account for 52.6 per cent. The *Report to the People* explained that a bigger investment in industry would be "a guarantee for the future affluence". Next to industry, transport and communications claimed a sizeable slice i.e.

K 129 mn. Investment in agriculture and irrigation —K. 63 mn or 6.4 per cent —appeared to be rather low although agriculture still continued to be the traditional prop of the economy.

Agriculture

Agricultural production was reported to have fully recovered from the setback suffered in 1965-67 due to bad weather. Value of agricultural output during the period 1965-70 (at 1964-65 prices) is given below :

Years	(Kyats in mn)
	Amount
1964-65	2,529
1965-66	2,371
1966-67	2,137
1967-68	2,464
1968-69	2,520
1969-70	2,551

Area under crops rose from 19,013,000 acres in 1961-62 to 21,739,000 acres in 19.8-69 and to 21,761,000 acres in 1969-70. Irrigated area rose from 2,017,000 acres in 1968-69 to 2,018,000 acres in 1969-70. In 1969-70, 93,562 tons of chemical fertilisers were used compared to 41,498 tons in 1967-68 and 70,042 tons in 1968-69.

Paddy yield decreased from 7,896,000 tons in 1968-69 to 7,859,000 tons in 1969-70 in spite of the cultivation of improved varieties. Procurement of paddy in 1969-70 aggregated to 2,976,000 tons compared to 2,937,000 tons in the previous year.

Sugar cane production was better than in 1968-69 by 4,000 tons—total being 1,291,000 tons. Production of cotton

was reported to be 'still unsatisfactory'. Production of pulses and beans went down to 260,000 tons after reaching 294,000 tons in 1968-69.

Executive Director of the Agricultural and Rural Development Corporation Tan Aung said on 23 December 1970 in Mandalay that plans were being made for the substitutions of rubber plants with African oil palm because rubber prices were falling in the world market. The corporation has also made arrangements for putting 160,000 acres of land under jute cultivation in 1971-72.

The 70 feet high and 6,530 feet long Pyaungoya irrigation dam was completed in September 1970 at a total cost of K 8.8 mn. It is capable of holding 27,600 acre-feet of water and would irrigate 14,000 acres of land in Natogyi and Myingyan townships of Myingyan district.

The Irrigation Department is building embankments in Arakan division and Hanthawaddy district which add up to about 100 miles in length, at an estimated cost of K 2.6 mn, as a safety measure against the floods from inundating 80,000 acres of land annually. The work is expected to be completed by 1971-72.

A new Institute of Agriculture, Animal Husbandary, Veterinary Science and Forestry, estimated to cost K 20 mn, is under construction at Yozin in Yamethin district. On completion, the Institute would accommodate 1,720 students.

Over 5,784,000 peasants have been organised under 9,294 Primary Peasants Councils in 261 townships. The Central People's Peasants Council regulates their activities.

According to the first-four year plan 1971-72 to 1974-75, the value of agricultural production is to increase by 16 per cent through the following measures :

- (i) extending agriculture on 33,000 acres of virgin land,
- (ii) reviving agriculture on 671,000 acres of fallow land,
- (iii) extending irrigated area by 194,000 acres and
- (iv) raising yield per acre of 20 important crops.

Col Thaug Kyi quoted the following figures to point out that acreage under paddy would remain the same but acreage under other crops would be extended :

Crop	Acreage	
	1971-72	1974-75
Paddy	12,400,000	12,400,000
Wheat	200,000	260,000
Maize	450,000	550,000
Groundnut	1,750,000	1,900,000
Cotton	550,000	650,000
Jute	210,000	510,000
Matpe	210,000	240,000
Butter Bean	200,000	230,000
Peyaza	20,000	25,000

(Source : *The Working People's Daily* 21.9.1971)

Industries

The Revolutionary Government's 'intensive industrialisation plan', pushed through in spite of the yearly budget deficits, began 'to gain momentum' in 1970 and is expected to achieve more dynamism in 1971 according to the *Report to the People*.

The *Report* listed 30 new industrial plants built in 1969-70 in the State sector to bring the total at the end of September to 1,225. These new plants are in the following branches - food (6), wearing apparel (7), housing (9), household goods (1), raw materials (2), farm implements (2) and workshops/dockyards (3). Most of these plants obviously manufacture consumer goods.

Industrial production is reported to have been steadily rising. Value of production during the period 1965-70 is given below :

Year	(mn Kyats) Production
1965-66	4,100
1966-67	4,240
1967-68	4,850
1968-69	5,130
1969-70	5,329

(Source : *The Working People's Daily*, 21.9.70)

In 1969-70, production of sugar, soap, matches and aluminium ware had fallen and that of salt, cotton yarn, jute bags, bricks, cement, petrol, kerosene, water pumps and automobiles had increased. Burma produced 2,128 automobiles, 2,600 water pumps, 3,600 radio sets, 40,000 stoves, 4,000 tons of wire nails, 187,000 tons of cement, 17 million jute bags, 7,000 tons of cotton yarn and 179,000 tons of salt.

The Ahlone Dockyard of the Inland Water Transport during 1965-70 built 30 vessels including a touring boat, two 35-ton cargo boats, a 70-ton cargo barge, a 120-ton vessel, a 100-ton steel pontoon, four 250-ton cargo barges and

three landing craft. A self-propelled 96 feet long oil barge was built for the first time at the dockyard of the Myanma Oil Corporation at Syriam. Built at a cost of K 260,000, it can carry 210 tons of oil.

The chemical fertiliser plant at Sale, built at a total cost of K 100 mn by the Industrial Development Corporation, went into production in November 1970. The plant built with Japanese assistance is scheduled to produce 55,000 tons of ammonia and urea in 1970-71. Another fertiliser plant is under construction at Kyunchaung in collaboration with West Germany. It will produce 200 tons of fertilisers daily when it commences production by the middle of 1971. Burma, once the leading crude oil producer in the East, is considering a West German offer to help reorganise and re-build its oil and petro-chemical industries.

Tenders have been called from foreign firms for the construction of a cement factory in Myanaung. The factory scheduled to be set up in 1972-73 is expected to produce 800 tons of cement per day. The Sittang Paper Mill, at present under construction at Kyaikto township and estimated to cost K 130 mn, began test running in March 1971 at 60 per cent of its capacity. The mill will go into full capacity production in 1972-73 after gradually increasing output during 1971-72. It will produce 12,900 tons of paper annually.

Work is in progress on the construction of a new textile mill at Paleik. The K 20 mn project, undertaken by the Industrial Development Corporation and Construction Corporation, will

have 600 looms and 40,000 spindles on completion. An ice factory set up at Myabin on the Ngapali beach in Sandoway district went into production on 4 December 1970. The factory is capable of producing five tons of ice daily. In November 1970, the government took over three ice and aerated water factories in Moulmein.

According to *The Working People's Daily* (Rangoon) of 8 March 1971, nationalised industries in Kamayut, Rangoon, were plagued by discord and indiscipline due to shortage of raw materials giving rise "to long lay-off and subsequent demoralisation of workers leading to the struggle for survival with its inherent evils". Old machinery and non-availability of replacements have resulted in the production of inferior goods and failure to achieve production target. The private sector is also experiencing similar difficulties.

Three hydro-electric power generators, 28,000 Kw each, are being installed at Lawpitta. They are expected to be ready in 1973 along with the completion of Moby Dam. On the completion of the project, there will be six generators at Lawpitta—three under construction and three new ones—with total generating capacity of 168,000 Kw.

During the 1971-75 four year plan, industrial production is expected to increase by 20 per cent.

Minerals

Mineral output is reported to have shown all-round increase. This is

shown in the following table:

Minerals	Units	Years	
		1968-69	1969-70
Crude oil	mn gallons	209	210
Coal	tons	7,892	13,000
Tin	"	506	637
Tungsten	"	197	246
Antimony	"	—	237
Bentonite	"	250	1,008
Dolomite	"	756	770
Feldspar	"	306	660
Soapstone	"	275	1,008
Limestone	"	553,000	591,000
Fire clay	"	8,440	23,780
China clay	"	499	2,850
Gypsum	"	2,575	3,000
Graphite	"	36	126

Source: *The Guardian*, Rangoon, 21.9.70

In 1969-70, Burma produced 59.30 mn gallons of petrol and 79.30 mn gallons of kerosene. The refinery at Syriam is processing about 850,000 tons of crude oil annually. The 1971-75 economic plan envisages 52 per cent increase in petroleum production and 36 per cent in mineral output.

The Mineral Development Corporation is reactivating the Mawchi mine in Kayah State after a lapse of 11 years with technical assistance from USSR. A five-member Soviet mining and geological survey team arrived at the mine on 26 June 1970 for field surveys to reassess ore potential under the Burma-Soviet Technical Assistance Agreement of December 1969. Its tin and wolfram output constituted as much as ten per cent of the total production in the whole world at one time.

Geological surveys for exploring minerals will be conducted in an area covering over 3,600 square miles in eleven districts during 1970-71. In 1969-70, geological surveys were carried out on 2,508 square miles in nineteen districts. A mining delegation headed by Minister for Mines Commodore Thaug Tin visited West Germany and France in February in 1971 to study petroleum and mineral works. The Minister signed an agreement on technical co-operation on the exploration of mineral resources on 15 February 1971. An eight-member Japanese petroleum trade mission visited Burma from 21 to 28 February 1971 to study the Burmese oil industry.

A ten-mile vein of limestone deposits was discovered in Kalemyo township in March 1971 by Burmese and German geologists exploring the area.

Under a technical co-operation agreement between Myanma Oil Corporation and Prakla Company of West Germany, marine seismic surveys in the Gulf of Martaban began in November 1970. Survey vessel m.v. *Jason* arrived in Rangoon in mid-November from West Germany.

Three test wells at Manchaung exploration oilfields are now yielding over 40,000 gallons of crude oil per day. The oil is refined at the Chauk refinery. The distillate contains 22.2% petrol, 21.7% kerosene, 23.7% engine oil, 22.2% fuel oil and 10.2% wax. Manchaung oilfield is the fourth exploration area—the others being at Myanaung launched in 1964, Prome Hill area launched in 1965 and Shwepyitha launched in 1967.

Labour Force

According to the *Report to the People 1970*, there were over 10.7 mn working people. Industry-wise distribution shows that 68.6% of the labour force was engaged in agriculture and allied vocations, 8.4% in mines, manufacturing, power and construction, 9% in trade, 3.2% in transport and 4.2% in management and social services. Casual workers accounted for 6.6 per cent. Only 10 per cent were employed in the State sector and the rest, i.e. 90 per cent, were working in the private sector.

Social Services

At present, there are 370 hospitals in Burma—14 specialised hospitals, 7 general hospitals with specialised services, 5 divisional, 38 district, 233 township and 73 station hospitals. The government has opened over 4,000 more schools and appointed nearly 40,000 teachers in the past eight years since 1961-62. The number of students increased by over two millions during this period. In September 1970, there were 18,272 schools with 87,140 teachers and 4,020,290 students compared to 13,784 schools, 48,896 teachers and 1,936,077 students in 1962 when the Revolutionary Government came to power. The three Government Technical Training Institutes are now admitting 650 new students every year in various trades. The institutes are at Insein, Mandalay and Kalaw. Training is provided in civil, electrical, mechanical and mining engineering.

A new corporation, known as the State Cinema Film Corporation, was formed in July 1970 to manage the

nationalised cinema halls and the work of exhibiting motion pictures. About 120 cinema halls were nationalised throughout Burma in 1968.

Co-operatives

Green signal was given by the Burmese Government on 28 May 1970 for the formation of co-operatives in the country with the appointment of a Central Co-operative Council headed by the Minister for Co-operatives. To start with only consumer, producer and credit co-operatives would be formed. Industrial and trading co-operatives would be set up later. The plan envisaged setting up over 24,000 primary, 10,000 consumer, 13,000 agricultural and 300 credit societies besides existing 1,000 industrial co-operatives and 300 township co-operatives.

The newly formed primary and consumer cooperatives will supplant the existing "people's shops" in many places. The move is intended primarily to secure more efficient distribution of goods than has been possible under the present system by which distribution is handled by the state operated "people's shops".

Foreign Trade

The balance of payments in 1969-70 was "the most adverse" in the past nine years. Figures for the past six years are:

Year	(million Kyats)		
	Imports	Exports	Balance
1964-65	1,413	1,090	- 324
1965-66	803	929	+ 125
1966-67	817	672	- 144
1967-68	757	521	- 236
1968-69	753	552	- 201
1969-70	865	539	- 326

(Source : *The Working People's Daily*, 22-9-70)

Imports from and exports to India, China and Pakistan in 1968-69 were :

Country	(million Kyats)		
	Imports	Exports	Balance
India	69	140	+71
China	2	—	- 2
Pakistan	11	16	+ 5

In 1968-69, imports of foodstuffs accounted for K 21 mn, raw material K 10 mn, mineral oil K 30 mn, oil and fats K 10 mn, chemical stores K 82 mn, industrial stores K 250 mn, machinery and transport equipment K 301 mn and finished goods K 40 mn. The *Report to the People* explained that it would be difficult to reduce imports of machinery and raw materials. Cuts in imports of consumer goods have created shortage of such goods.

Main exports in 1968-69 included rice (K 235 mn), rubber (K 27 mn), teak (K 160 mn), minerals (K 29 mn), un-refined silver (K 17 mn), gems (K 11 mn), pulses and beans (K 33 mn) and animal feed (K 25 mn). Tourists spent K 3.35 mn in 1969. Burma's State Timber Board exported 130,000 tons of timber, mainly teak to 19 countries and earned foreign exchange worth K 160 mn. Burma meets about 90 per cent of the world's teak requirements. Since 1965-66, timber had stood second, in order of export earnings, after rice.

The trade imbalance has restricted imports, hampered development and depleted foreign exchange reserves.

Economic Co-operation

United Nations Development Programme (UNDP) has provided technical

assistance for a number of projects including those in public finance, water supply, industry, mines, hydro electricity, agriculture, fisheries, film industry, vocational training, health, science research and teaching. Its Special Fund Programme carried the survey and feasibility of three projects—Mu River irrigation scheme, Sittang River valley scheme and a Computer Centre project—during the year.

Australia has made available A\$5.31 mn to Burma under the Colombo Plan's economic development programme up to 30 June 1970. Burma purchased mechanised farming equipment, workshop equipment, brick factory, irrigation pumps, railway wagons and equipment for the University of Rangoon under the programme. Under the Colombo Plan's technical co-operation scheme, Australia has provided A\$ 3.09 mn to Burma. A lecturer in physics at the Rangoon University attended a six-week course in radio-isotopes at the Australian School of Nuclear Technology under the Colombo Plan in 1970.

Twenty-three Burmese railway engineers, technicians and skilled workers completed a railway tunnelling engineering course in Japan in August 1970. The Burma Railways sent them under the Colombo Plan in anticipation of future projects for the extension of railway lines in the hilly regions of the country. In June 1970, Japan presented to Burma a mass spectrometer and a recording spectro-photometer worth about K 300,000 as a gift under the Colombo Plan. An eleven-member Japanese economic delegation, led by the President of the Industrial Bank of Japan, Isai Masamune, visited Burma from 3 to 6 February 1971. They held discussions

with officials of the Ministries of Planning, Finance and Revenue, Industries and Mines and the People's Bank.

An agreement on technical and economic co-operation and another on financial assistance were signed in Rangoon on 18 September 1970 between Burma and West Germany. The latter will make available a long term loan of about K 28 mn at favourable terms for exploration and exploitation of mineral oil, both on shore and off-shore. A grant of K 10 mn provides for the services of experts and equipment. The project aims at opening up new oil and gas deposits and at developing existing fields. Earlier in May 1970, West Germany had agreed to make available a loan of K 41 mn to Burma.

A five-member Indian trade team arrived in Rangoon on 24 May 1970 to discuss the expansion and diversification of trade between the two countries. A trade agreement was signed on 27 May at the end of three-day talks. No specific commodities were listed in the agreement. An all-round increase in the volume of trade between the two countries is, however, expected with India offering to supply a wide range of engineering goods, electrical, railway and transport equipment and many other non-traditional industrial products. Burma offered to sell more of teak, hardwood and minerals besides rice.

India was to buy 100,000 tonnes of Burmese rice in 1970-71 compared to 200,000 tonnes in the previous year. The agreement was reported to be a concrete step towards reducing trade imbalance between the two countries. A four-member Burmese economic delegation led by their Deputy Minister

for Planning Col Maung Lwin visited India in November 1970. India agreed to consider favourably Burma's request for the supply of a wide range of industrial goods including steel, machinery and jute bags as well as the question of extending credit to Burma. The Burmese delegation expressed its keenness to enlarge the area of bilateral trade.

The delegation also paid a five-day visit to Lahore and Dacca. It held talks with officials of the Pakistan Trading Corporation and the Export Promotion Bureau and representatives of trade and industry and discussed measures to promote trade and economic collaboration between Burma and Pakistan.

A Malaysian trade delegation led by the Minister for Trade and Industry Mohamed Khir Johari visited Rangoon from 15 to 18 September. It discussed ways for promoting trade relations between the two countries.

The Financial Times (London) of 3 December 1970 reported that the official Burmese purchase mission which attended the Chinese Trade Fair, held at Canton from 15 October to 15 November 1970, was believed to have explored the possibility of making purchases from China under the £30 mn interest-free loan which China offered to Burma in 1961. Under the Burma-China Economic and Technical Co-operation Agreement, signed in Rangoon in 1961, the loan was to be utilised by September 1969. But by 1967, Burma had drawn only about £10.6 mn out of the loan. With the recent thaw in Sino-Burmese relations, it is probable that Burma might ask China for an extension of time for full utilisation of the loan as provided for in the agreement.

The University of Natural Sciences buildings at Thamaing, constructed with the assistance of US Agency for International Development, were handed over to the Burmese Government on 25 August 1970.

Two Burmese specialists left for India on 7 February 1971 to study production of anti-rabies vaccine for six months at the Haffkins Institute at Coonoor on WHO fellowships. Two officers of the Directorate of Fisheries left for Sydney on 7 February to study fisheries, oceanography and biology for about 8 months on UNDP fellowships.

COMMUNICATIONS

Civil Aviation

The Union of Burma Airways (UBA) acquired a Boeing-727 on lease-purchase from the Air West Company of USA in July 1970. The airliner is used on external flights such as Rangoon-Bangkok-Hongkong flights. A new Fokker Friendship F-27 passenger aircraft arrived in January 1971 from Holland. It was put on Myitkyina-Mandalay flight. The UBA introduced Rangoon-Dacca-Kathmandu service on 1 May 1970. The new service replaced previous flights to Chittagong. On 4 May 1971, UBA introduced Boeing-727 jet service on the Rangoon-Kathmandu flight returning via Calcutta for refuelling. The stops at Dacca were discontinued from March due to unsettled conditions in East Bengal.

A Burmese delegation visited Bangkok in August 1970 to amend the one-year old air agreement between the two countries. Burma was seeking to extend Burmese airlines flights to

Malaysia and Singapore and Thai airlines planned new flights to Rangoon. A Thai air delegation visited Burma in October. A Bulgarian delegation arrived in Rangoon on 24 November 1970 to negotiate an air transport pact. The agreement was signed on 26 November. Burma and the Soviet Union signed a new aviation agreement in Rangoon on 7 December 1970.

According to *Report to the People* 1970, the Union of Burma Airlines added a Boeing-727 to the fleet of 7 Dakotas, 5 Fokkers and 3 Viscounts. A batch of nineteen pilots and engineers left on 17 January 1971 for West Germany for training in the handling of Boeing-727 aircraft. During 1970, UBA carried over 500,000 passengers on internal and external flights. The airline operates over 30 flight routes in the country and its external flights include those to Calcutta, Kathmandu, Dacca, Bangkok, Phnom Penh and Hongkong.

Renovations are to be carried out at the airfield at Loikaw. There is a proposal to extend the runway. Extension and renovation of the runway at Moulmein airfield was completed on 23 May 1970 at a total cost of K 1.5 mn. The airfield at Mergui was also renovated.

Shipping

The Burma Five Star Line Corporation has bought two ships at a total cost of K 5,697,000. The ships have been renamed *Kalewa* and *Kalemyo*. Both the ships were built in 1952. The vessels can carry 12 passengers and

9,000 tons of cargo each. The Line had 14 ships.

The No. 1 wharf at Kyaukpyu port, built at a cost of K 360,000, was commissioned on 19 December 1970. A similar wharf will be constructed at Ngalapwe under a four-year plan.

Inland Water Transport

The Inland Water Transport Board (IWTB) has renovated the 385 feet long and 42 feet wide dockyard at Akyab. The dockyard, built at cost of K 4.6 mn and completed in 1963, had remained non-operational. It was commissioned in April 1971. Construction work on the K 800,000 dockyard at Moulmein is nearing completion; 85 per cent of the work had been completed by March 1971. The dockyard will be able to handle 8 vessels at a time. In September 1970, the private fleet of mechanically propelled vessels was 1,293 and the IWTB had 203 vessels. Restoration of peace in the Delta, it is stated, accounts for increased traffic by water transport.

The last of 35 push barges ordered from West Germany by the IWTB arrived in Rangoon on 10 July 1970. The barge has a capacity of 500 tons of oil and oil products. Burma received two boats from Japan—each measuring 60 feet long, 12 feet wide and 9 feet deep costing about K 300,000—on 5 November 1970. The boats are equipped with respirators for pearl divers and will be used in pearl industry.

Railways

The pre-war railway track running for some 175 miles from Rangoon to

Kyungon on the rail-road to Mandalay was completely restored by the end of June 1970. Double track was to be further extended to Swa during the fiscal year 1970-71. The new 26-mile rail-road from Kyaukpadaung to Kyeeni on the projected route to Sale was formerly opened on 10 October 1970. The rail-road is stated to be the first new line built in 40 years. All the existing rail lines were laid before 1930 by the colonial Government. The Railway Board intends to extend it up to Sale fertiliser plant.

The 63-lb rails on the 70 miles long Minhla-Prome rail track are being replaced with 75-lb rails for greater safety and higher speed of the trains. The section of the track between Rangoon and Minhla has already been replaced with 75-lb rails. Over 4,000 sections of 75-lb rails indented from India arrived on 30 September 1970.

The Union of Burma Railway Board plans to construct a bridge at a narrow point near Pagan-Nyaungu. A preliminary survey was carried out in October 1970. The UBR will extend its rail line to the bridge from Kyarikpadaung. UBR is building a loco-workshop at Ywahtaung in Sagaing. The project, estimated to cost K 34 mn, is scheduled to be completed in 1973-74. It would be mainly utilised for the repair and maintenance of diesel locomotives.

In 1970, Burma Railways' rolling stock included 397 locomotives, 9,286 freight wagons and 1,251 passenger coaches. Of the 397 locomotives, 269 were in running order, 84 were awaiting repairs, 34 were under repair and ten being beyond all repair would be dismantled.

Roads

Renovations, estimated to cost K 270,000, are going ahead on the following three roads linking Aungban with Mobyé :

- (i) Aungban-Pinlaung (42 miles),
- (ii) Pinlaung-Pekon (34 miles) and
- (iii) Pekon-Mobyé (11 miles).

The three roads will become a major highway of great commercial value after the completion of the Mobyé Dam in April 1971. It will also act as a link between southern Shan State and the Kayah State.

Some sections of the 110-mile long all-weather road from Dallah to Kadonkani have been completed and thrown open to traffic. The road is scheduled to be completed in 1973-74. A new 15-mile road linking Paunglaung and Pinlaung in Taunggyi district has been completed. The 40-mile long all-weather road linking Kadozeit and Kadatchaung Taungbaw in Pyinmama township is nearing completion. A 33-mile long road will be constructed from Yinpaungtaing village to Payawa village. The road is primarily meant to facilitate the extraction of timber. Two teams have surveyed the Rangoon-Mandalay highway for widening it from 12 to 18 feet.

Considerable progress has been made in the construction of roads in Kayah State bordering Thailand. There had earlier been only one road from Tisaka in the north to Mawchi in the south but now there are seven roads running from east to west as well which are either completed or are under construction. These include Isoka-Loikaw-Mawchi, Mawchi-

Toungoo-Demoso, Lawpitta-Loikaw-Shadaw, Dawnyeku-Demoso-Moby, Puchaung-Hypruso to Muso Hoya, Bawlake to Ywathit and Yado to Kekaw roads. A sum of K 495,000 was allocated for the completion of some of these roads during 1970-71.

A sum of K 870,000 was allocated for road laying in south-east during the fiscal year 1970-71. These are :

- (i) Moulmein-Mudon-Thanbyuzayat road,
- (ii) Nyaungbinzeik-Zathabyin road,
- (iii) Thanbyuzayat-Kyaikkame road and
- (iv) Chaungzong-Natma road.

The Construction Corporation carried out repairs to 22 bridges on the 21-mile long Thaton-Myaingale road linking Thaton and Pa-an districts by December 1970. These bridges had earlier been destroyed by the insurgents in 1967. The Ye-U-Kalewa road, damaged by heavy rains last year, has been reconditioned and opened to traffic on 3 January 1971. The entire road will be metalled by 1974. Moulmein-Tavoy road in Tenasserim division will be given tar surface under a five-year plan. Some section will be tarred in 1971 at a cost of K 1.7 mn. The 56-mile long stretch between Thanbyuzayat and Ye was reconditioned by the Construction Corporation in November 1970. A 470 feet long bridge is being constructed across the Ye Creek thus completing direct road link between Moulmein and Tavoy. The bridge, estimated to cost K 2.5 mn, is scheduled to be completed by 1972.

A sum of K 1.8 mn was provided during 1971 for the construction of Bassein to Monywa, Ye-U and Kalewa road. The 30-mile long fine weather Rangoon-Yadon section, part of the 124-mile Rangoon-Bassein road project, was thrown open to traffic on 15 March 1971. Work is in progress on the construction of Bassein-Pakoka-Monywa highway which would open an overland route on the westside of the Irrawaddy River between Upper and Lower Burma. The 18-mile Haka-Zokhual road built at a total cost of K 110,000, was formally opened on 14 May 1971.

The Construction Corporation was allocated K 200,000 during 1971 for building new roads and bridges and repairing old ones in Moulmein district. Construction is in progress on the Kaikmaraw-Taunggaile-Payangasu-Tagundaing road which is estimated to cost K 100,000.

Road Transport

Figures for 1968-69 and 1969-70 indicate that the Road Transport Board has strengthened its fleet of trucks from 1,921 to 2,142 and buses from 1,183 to 1,378. Privately operated trucks, however, decreased by nearly 2,000 and buses by nearly 3,000 since 1961-62. Improved security conditions have led to the increase in road transport. The Road Transport Board started a bus service between Taungup and Padaung, a distance of over 100 miles, in December 1970. The bus service is considered as a boon to the people of Arakan division.

Broadcasting

Burma Broadcasting Service Commission started operating a new 50 Kw

transmitter in Rangoon in early January 1971.

POLITICAL DEVELOPMENTS

Chairman Ne Win reshuffled his Cabinet on 4 August 1970. Col Hla Han, Minister for Health and Education, was appointed Minister for Foreign Affairs also in place of Col Maung Lwin who continued as Minister for Trade and Co-operatives. Appointments of four Deputy Ministers for Co-operatives, Industry, Health and Education were also announced.

Col Tan Yu Saing, a member of the ruling 13-member Revolutionary Council, of which General Ne Win was the Chairman, was removed from the Council on 26 October. No reason was given for his removal. Tan Yu Saing was also Chairman of the State Export and Import Agency. This was stated to be the first 'purge' in the ruling Revolutionary Council "in a move to ensure clean administration".

Brig Tin Pe, a member of the Revolutionary Council and the Council of Ministers of the Revolutionary Government, retired on 14 November 1970 at his own request due to impaired health. He went to London in April for medical treatment and returned in the second week of November.

On 28 November, Chairman Ne Win left for Britain "to undergo a medical check-up in connection with the urinary infection for which a surgical operation was performed on him in USA in 1956." He returned to Rangoon on 9 January 1971 at the end of six-week medical check-up. Ne Win again arrived in London on 21 February 1971 for medical

treatment. After his treatment, while on his way back, he arrived in New Delhi on 8 April on a brief visit. Following a setback in his condition, he flew back to London on 12 April 1971. He returned on 8 June 1971 after medical treatment and convalescence.

Brig San Yu was appointed Chairman of a 64-member Commission for the holding of the First Congress of the *Lanzin* Party — the ruling Burma Socialist Programme Party. The Commission was set up on 20 November 1970. Most of the members of the Commission were officers of the Burma's armed forces.

The Burma Socialist Programme Party (BSPP), formed in July 1962, is financed by the State and since 1964 has been Burma's only political party. Ne Win disbanded the other parties under a national solidarity law. The membership of the BSPP is dominated by Government servants and members of the armed forces who form over 60 per cent of the membership. It had 239,019 members in March 1971. Of these, 65,555 belonged to defence services and the remaining from Party units. They elected 825 delegates in early 1971 for the First Party Congress.

First Party Congress of the ruling Burma Socialist Programme Party — *Lanzin* Party — was held from 28 June to 11 July 1971. On its ninth anniversary on 4 July, it adopted a new Party Constitution and the BSPP was transformed from a cadre party into a people's party. The 825 delegates to the Congress elected 150 members (30 civilians and 120 from defence services for the Party Central Committee on 5) July, the supreme authority of the party. Gen Ne Win was unanimously elected as Chairman of the BSPP, Brig San Yu

as General Secretary and Col Thaug Kyi as Joint General Secretary. Chairman Ne Win stated that power had now been transferred to the Burma Socialist Programme Party.

On 7 July, the First Party Congress adopted a six-point programme : building a socialist democratic state, developing a planned economy, building firm and strong national solidarity, forming class and mass organisations within the socialist democratic structure, strictly pursuing a correct and independent foreign policy and promoting the leadership role of the Party. In his address to the opening session on 28 June 1971, Chairman Ne Win laid stress on three great tasks which called for immediate action. These were :

- (i) to build a solidly united Party,
- (ii) to build the unity of national races and
- (iii) to draft the State Constitution.

He appealed to the nation to rally round the Party in carrying out the three tasks.

The Revolutionary Council was reconstituted with the approval of the Central Committee on 9 July 1971 with the addition of four civilian members with Gen Ne Win as the Chairman. It has 15 members, 11 service personnel and 4 civilians. Ne Win said that it would act in consultation with the Party in discharging its tasks. A 30-member all-civilian Consultative Body was constituted by a proclamation issued by the Chairman of the Revolutionary Council on 10 July. It will examine and discuss the budget, legislation, economic plans, international treaties and agreements and other matters and give suggestions to the Revolutionary Council.

The Revolutionary Council, now reconstituted, will continue till such time as a State Constitution is drafted and adopted. It will function under the political leadership of the Party Central Committee.

On 15 July 1971, the Revolutionary Council announced the formation of a 11-member Council of Ministers with Ne Win as the Prime Minister. All of them belong to the Defence Services while ten are members of the Revolutionary Council. A Deputy Minister was also appointed and assigned the duties of the Secretary to the Council of Ministers.

On 15 September 1970, 401 political prisoners including politicians belonging to various parties, students and 16 monks were released from detention camps and prison camps in Rangoon, Bassein, Akyab, Moulmein and Mandalay. Security forces arrested more than 500 students in Rangoon on 22 November when about 1,000 students went on a rampage indulging in arson and destruction when they failed to get admission to the opening of a youth festival declared open by the Education and Foreign Minister Col Hla Han.

More than 9,000 civil servants have attended specialised courses in weapons training, drill and physical training at the People's Services Training Centre at Phaunggyi, 40 miles from Rangoon, during 1965-70.

U Nu's activities

Burma's population in 1970 was estimated at 27.6 millions. Among the main ethnic groups, Burmese constitute

67 per cent of the total population, Karens 9 per cent, Shans 8 per cent, Mon-Khmers 3.28 per cent, Chins 2.35 per cent and Kachins 1.3 per cent.

The former Burmese Prime Minister U Nu, who had taken up residence in Bangkok as a political refugee, was reported to have entered into an agreement with two powerful Burmese tribes—the Mon and the Karen—to set up a “National United Liberation Front” (NULF) aimed at overthrowing General Ne Win’s regime. U Nu is stated to have agreed to accede to their demands to run their own “states” if and when the NULF succeeded in overthrowing the regime of General Ne Win. Both the Mon and Karen areas adjoin Thailand. A number of Shan insurgents and hill tribes were reported to have joined the Front.

U Nu is now directing his efforts towards uniting the existing insurgent groups within Burma rather than attempting to gain support from outside which he attempted during his worldwide tour in 1969. He is offering to ethnic minorities the hope of some form of federal government, if and when he is returned to power.

(i) **“National United Liberation Front”**

News Agency Burma reported on 21 October 1970 that on 25 May 1970, a declaration of unity between U Nu’s Parliamentary Democracy Party, Karen National Union Party and New Mon State Party, was issued and a “National United Liberation Front” was formed with U Nu as patron, Mahn Ba Zan as President, Nai Shwe Kyin as General Secretary, Bo Let Ya Secretary of

political and organisation sub-committee and T. Cleft as Secretary of the finance sub-committee.

Earlier on 27 June 1970, the clandestine “Patriotic Youth Front Radio” broadcast a joint statement by leaders of the three parties announcing the formation of a “National United Liberation Front”. It would consist of various nationalities such as Kachin, Karen, Kayah, Chin, Burmese, Mon, Shan and Arakanese. Its aim is stated to be “to overthrow the Ne Win’s regime mainly through armed struggle” and to establish a federal republic with full autonomy for the various nationalities. It was agreed to put aside further discussions on the right of secession after recording that any state could demand this right at any time provided it was done through democratic means and not through armed revolution.

An official of the Defence Ministry told News Agency Burma on 26 June that a clandestine radio station situated on the outskirts of a foreign town not far from Burma’s border which claimed to be operating from a place in Burma’s jungles was slandering the Revolutionary Government. U Nu and his supporters reportedly acquired three radio transmitters from Japan and set up the clandestine radio station in the suburbs of Sunkhotai in Thailand.

(a) *Parliamentary Democracy Party*

The Party organised its military units in July 1970 in two regions—southern and central. Maj-Gen Saw Kya Deo was appointed Chief of Staff. In the southern region, it had three camps embracing 130 armed men and 30

assorted arms. Forty more were recruited later. In the central region, there were two camps with 80 armed men and 40 assorted arms. These areas are on the Thai-Burmese border. Following clashes between the government forces and U Nu's followers in areas along the Thai border, the government sealed its border with Thailand in early May 1971.

(b) *Karen National Union*

The Karen National Union (KNU) Front led by Mahn Ba Zan has an estimated strength of 2,000 to 4,000 scattered over a wide area in the Kawthoolei (Karen) State and Irrawaddy basin. Their headquarters are located at Bina on the Burma-Thai border, east of Papuan. The KNU has formed its "first division". There are "four brigades" under it. The division is led by Bo Mya with headquarters at Mailamat on the Burma-Thai border, east of Pa-an. KNU claims to have additional 12,000 irregular forces in the area, divided into three "Commands"—Eastern, Delta and Pegu Yoma. In August 1970, the clandestine radio station was shifted to the KNU headquarters at Bina on the Burma-Thai border along the Thaungyin River. Mahn Ba Zan is also the President of the United National Liberation Front.

The Communist KNUP under Kyaw Mya Than, which is opposed to Mahn Ba Zan's group, has 1,150 armed men—mainly operating in the Delta area. Moving in the area west of Salween River, they had been collecting taxes from the people.

(c) *The Mons*

The New Mon State Party led by Nai Shwe Kyin has only about 30 men

with 23 assorted weapons. The Mon Liberation Group led by Dhamma Nay has about 33 men. It moves about in Ye township. When the Government armed forces launched an offensive in September 1970, these groups escaped into Thailand.

(d) *Mizo hostiles*

It was reported in January 1971 that a band of about 150 Mizo hostiles was trekking from East Pakistan to join hands with U Nu's forces.

(e) *Incursions by Thai Communists*

About 30 Thai Communists occasionally cross into Thankyetchaung area of Tenasserim township on Thai-Burma border when chased by Thai armed forces.

(ii) **U Nu goes "underground"**

U Nu's whereabouts have been mystery ever since he left his residence in Bangkok on 16 October 1970, where he had taken up residence as "a political refugee" since 3 November 1969. He reportedly entered Burma in the third week of October "to raise a Castro-type revolution inside Burma against General Ne Win's military government". He was stated to have mustered about 1,200 men under arms at camps along Burma's southern border with Thailand. U Nu was stated to be inside Burma with the "United Liberation Front" which had claimed to have 50,000 persons under arms. A Defence Ministry spokesman on 21 October 1970 described it "a bluff, rather a mere stunt... to keep up the sagging morale of his followers whose number was fast dwindling in the face of anti-rebel

operations. Its strength of 50,000 was "a propaganda yelling and inflated by adding zeros".

"U Nu is not in Burma but in Thailand safe and sound", the spokesman said. Commenting on the report, Deputy C-in-C of Thailand forces General Kris Uivara said on 22 October that there was no evidence that U Nu was in Thailand. He urged the Burmese Government to investigate U Nu's whereabouts. Burmese diplomats in Thailand maintained that U Nu was still in Thailand despite claims by his supporters that he had returned to Burma. If one was to believe the most widespread rumours, U Nu was back in Burma, according to *The Hongkong Standard* 10 November 1970.

The Bangkok Post (31.12.70) reported that U Nu had set up his headquarters equipped with a powerful radio transmitter in mountainous terrain in Mae Sot district in Tak province which borders Burmese territory across Moi River. U Nu was frequently crossing back and forth across the border inhabited mostly by Karen tribesmen.

Commander of South-East Command Colonel Tint Swe briefing the Press and foreign correspondents on 28 May 1971 at Moulmein said that during clashes with U Nu's men in Tavoy, Moulmein and Thaton districts between February and May 1971, the security forces killed 8, captured 5 while 31 had surrendered. Arms and ammunition captured included 17 carbines, 14 M16 automatic rifles, two M79 rocket launchers, two pistols, one Thai 22 bore rifle, 17 hand grenades, 10,467 rounds of carbine and M16 cartridges, 57 mine detonators,

fuses, ten pounds of dynamite and 111 M79 rockets. It was claimed that "expatriate" U Nu's Patriotic Liberation Army was smashed in just little over three months in the South Central Command.

Burma Communist Party

The two other major insurgent forces in Burma are the Burma Communist Party (BCP) and the Karen National Unity Party. There were 20 members in the CPB Central Committee in 1964. Of them, some were demoted, dismissed and physically liquidated and some were killed in operations. Thakin Tin Tun was killed in a skirmish with the security forces on 8 September 1970 in southern Shan State at Chaungtha. Only four remain in the Central Committee. Two of them, Thakin Zin and Thakin Chit, are in the forests. The other two Thakin Thein Tin and Thakin Pe Tin are abroad.

The BCP has divided the country into eight regions. These are Headwaters region, Central Burma, Shan State, North-West region, Delta region, Pegu Yoma region, Tenasserim region and Arakan region. There were altogether 37 Regional Committee members in the whole of the country. Many of them were either assassinated in internecine quarrels or captured by security forces. Some had surrendered to the Burmese troops. Only 15 of them remain in the jungles. At present, Thakin Zin and Thakin Chit are leading all the CPB Regional Committees in the country.

Thakin Soe member of the Red Flag Central Committee was arrested on 12 November alongwith his wife and

son at Kyunchaung. When the Burma Communist Party split over doctrinaire interpretation in 1946, Thakin Soe went underground and started an armed revolt against the government. He named his Stalinist faction as the Red Flag Communist Party of Burma. He came to Rangoon in 1963 for peace talks with the Revolutionary Government, but later resumed insurgent activities after the talks broke down.

"Fears" about Burma's future

Commenting on reports about U Nu's attempt to raise a Castro-type revolution in Burma, *The Times* (London) said in an editorial dated 22 October 1970: "Whatever the failings of General Ne Win's Government—and they are many—the answer to Burma's complex problem does not lie in further disorder".

If U Nu were to succeed in his resolve to unite the rebels behind his banner, the result could be to tear the already divided country completely apart. Thus the stage is set for a further internal struggle, that can only add to Burma's economic and political difficulties, said *Quarterly Economic Review*, London (September 1970), while commenting on the political scene in Burma.

Henry Kamm reported in *The Times* (London) of 4 September 1970: "After eight years of military dictatorship, many Burmese fear the future of their country. Burma is stagnating at the point of bare subsistence, ravaged by insurrection and menaced along its 1,200 miles of border with China. Foreign observers agree that only two factors presently on the scene may

become a threat to the ruling Revolutionary Council: rebellions among tribal groups in Upper Burma or the Army, if the wear and tear of almost unfettered power brings too much disaffection. No signs of either eventuality is discerned."

The prospect is for more one-man rule. General Ne Win since he ended parliamentary democracy in 1962 has run a tight dictatorship and is not loosening control and deems his regime secure at present. No criticism of General Ne Win's way to socialism is allowed and no breath of reproach may touch its leaders. U Nu's call for rebellion leading to restoration of parliamentary democracy is, however, not considered a serious threat by either supporters of the regime or its opponents.

According to a Defence Ministry statement, issued on 10 November 1970, U Nu's support within Burma amounted to no more than 2,300 persons including Mon and Karen insurgents. The security forces, which have successfully contained at least five endemic insurgencies in the country, can also meet U Nu's challenge as well.

INSURGENCY

Perhaps the most serious problem next to the economic situation which the Revolutionary Government faces to-day is what might be termed law and order situation. Burma at its independence in 1948 inherited large groups of lawless elements—ranging from straightforward criminals and bandits, through ideologically motivated communist insurgents led by the Burma Communist Party, and actively encouraged by the

Chinese after 1967, to rebellious racial minorities. Poachers, pirates and smugglers, especially in the southern and coastal areas gang up to add to Burma's troubles. The Kuomintang remnants and Naga and Mizo hostiles make their appearance now and then in this confusion.

General Ne Win has described insurgency as twin brother of independence. If one searched for a country which had a variety of insurrections simultaneously at play one would find only Burma—the home of at least five endemic insurgencies. Rebel activity reportedly extended over 40 per cent of Burma. Altogether there are estimated to be about 20,000 insurgents throughout Burma.

Although the insurgents once operated all over Burma, most of them have been broadly limited to three regions :

- (i) densely populated Delta,
- (ii) the Pegu Hills—north-east of Rangoon,
- (iii) an isolated area in northern Shan State on the Chinese border.

(i) **Irrawaddy Delta**

The biggest open show of rebel strength and ingenuity was made at Ngathaingyaung in Bassein district on 3 May 1970. Two hundred insurgents drove into the town in broad daylight in seven commandeered motor buses, attacked the police station killing the commander and five others ; and looted arms, ammunition and stores from the government's godown and jewellery from private shops. They

were led by Sein Aung Min of the BCP.

Insurgent forces in the Delta region are "fast deteriorating in the face of relentless offensives by the security forces" claimed the Government. Operation *Shwelinyone*, phases 6 and 7, launched in Maubin, Kyaiklat and Wakema townships from 27 June to 19 July 1970, led to the surrender of 137 insurgents, death of 35 and capture of 9. A captain and 12 other ranks of the Burmese Army were killed in the encounters. Ten villages in Maubin township and 15 to the north of Kama-wet in Moulmein district were 'liberated'. Phase 8 of the Operation *Shwelinyone* launched from August to December in the south-east resulted in the death of 10 insurgents, capture of 30 and surrender of 415. In October, operations against the insurgents by the People's Army (*Pyithu Tamadaw*) in the Delta reached a climax when 315 insurgents were captured dead or alive. Phases 9 and 10 carried out in January and February 1971 against insurgents in the districts of Bassein and Hanzada under South-West Command resulted in the death, capture and surrender of 454 rebels and the capture of 257 assorted arms, ammunition and 22 elephants. They included a gang of 100 armed bandits. Two groups of 39 Karen insurgents surrendered in March 1971 in Hanzada district in the wake of phase 10 of Operation *Shwelinyone*. Pockets of insurgents still remain in Lemyethna and Kyangin townships and in Arakan Yoma where previous offensives had driven them.

A large number of insurgents in the Delta have surrendered to the security forces—196 in Bogale township alone.

The surrenders were seen as an index of success of the Burmese troops in combating communist insurgency in the densely populated and ethnically Burmese lower and central Burma—the country's rice bowl. In most parts of the Delta, insurgency has reached its nadir. It has even been claimed to have been virtually ended.

(ii) Pegu Hills

In the Pegu Hills, security forces in early 1970 routed another small Burmese Communist force ending more than two decades of intermittent communist operations in the chain of hills which divides Burma's two most densely populated areas—the Irrawaddy and Sittang valleys. Over 1,000 troops were deployed in Operation *Paduk* in the foothills of Pegu Yomas in Nathalin township in April 1970. Fourteen villages were liberated which had been under the sway of BCP. The Burmese troops seized the initiative in the Pegu Hills in 1970 in an unusual rainy season offensive during a period of factional dispute and physical extermination among insurgent groups.

Radio Peking in a broadcast on 13 November 1970 said, "Fighting valiantly in the Pegu mountainous region since last winter, the heroic Burmese People's Armed Forces have repeatedly crushed the series of counter-revolutionary military sweeps and encircling operations launched by the Burmese reactionaries. Since September last year, the Burmese reactionaries have mobilised 2,000 troops to launch repeated operations in the Pegu region. The People's Armed Forces in the Pegu mountain region have also attacked trains and sabotaged enemy communica-

tions and transport... Basic revolutionary administration has been established at a number of hamlets and villages in the area". Operation *Yan Myo Aung* was launched in January 1971 at the foothills of the Pegu Yomas by a combined force of Burmese troops and militia.

A column of the Burmese troops "smashed" central headquarters of the Karen National Union Party on 28 and 29 April 1971 near the headwaters of Pegu Chaung in the southern range of Pegu Yoma. Party's Secretary-General "general" Peo Koedo was captured but he later succumbed to his injuries.

(iii) Shan State : Chinese Border

In the vast hill areas of Burma, mostly populated by ethnic minorities, the government still faces a chronic insurgency. The decades-old struggle with disparate insurgent groups along Burma's borders shows few signs of abatement in the hills. It has been easy for China and Burma Communist Party to take advantage of these rebellions to weaken Rangoon's hold over the country. Most troublesome was an area in northern Shan State, near the town of Kutkai, where Peking backed communist insurgents had operated from Chinese sanctuaries. The area remained a major battleground between March and October 1970 resulting in fierce clashes between Burmese troops and organised insurgent forces.

The recent spurt in insurgent activity in the region began in March 1970. Security forces abandoned a small town of Kyuhkok in the face of

a strong attack by a large force of insurgents. Two more small towns of Mung Baw and Nam Tau, about 16 miles from the border, also fell to the insurgents shortly after Kyuhkok was abandoned on 28 March. The insurgent force was estimated at 4,000. About 200 insurgents were killed or wounded and the government forces lost 19 dead and 13 injured. The insurgents were equipped with light and heavy machine guns and automatic rifles. According to a report in the *Guardian* (London) dated 8 May 1970, Chinese troops assisted the insurgents to mount the attack as well as in evacuating the wounded, who were taken into China in captured civilian lorries. The attack was led by Naw Seng, a former captain in the Burmese Army. He has frequently launched attacks against the security forces stationed along the Sino-Burmese border.

A statement issued by the Defence Ministry on 10 April 1970 said, "A strong force of communist rebels attacked a company of the Burmese Army stationed at Kyuhkok on March 24. The defending force took care not to violate international practice and harm Sino-Burmese relations and as such could not apply its full force to defend the town which is only 100 yards away from the border. Eventually the defending company had to evacuate the town on March 28". The statement came close to accusing China openly serving as a sanctuary for the insurgents.

According to an official announcement issued on 5 June 1970, 42 insurgents were killed and about 100 wounded by Burmese troops who clashed with some 600 rebels in an area 15 miles north-east of Lashio, near the

Chinese border. The clashes followed rebel raids on Hsenwi and Lashio on May 17 and 19 respectively. Both the raids were repulsed by the Burmese troops. The Burmese forces suffered 6 killed and 11 wounded. Casualties among the insurgents totalled 200 including 52 killed. Lashio is a major air-rail terminal in northern Shan State. It was the jumping-off point for the famous Burma Road over which supplies were hauled to China during World War II.

Fierce fighting between columns of the armed forces and Communist insurgents took place in Kutkai township near the Chinese border in July 1970. The first of these encounters took place on 21 July when a column of Burmese troops on mopping-up operations came across 500 BCP insurgents firmly entrenched on a hill in Lwemun Range. The battle was fought at close quarters with fixed bayonets from 8-30 to 11-30 a.m. The insurgents suffered over 100 dead and carried about 60 wounded. While making the assault on the hill, security forces suffered 103 casualties—62 killed including 3 officers, 31 injured and 10 missing.

On 22 July, another column while on mopping up operations was ambushed by 30 BCP insurgents north-east of Kuktai. In the hand-to-hand fight, the *Tatmadaw* (Armed Forces) suffered 3 dead and 4 wounded. On the same day, Burmese troops encountered another group of 15 BCP rebels. An insurgent was killed and one of the *Tatmadaw* was wounded. On 23 July, Burmese troops captured Mongsii village where the insurgents were strongly entrenched.

Five major clashes with insurgents were reported in the second half of August 1970. The clashes started again in Kutkai township area on 15 August when two companies of an Infantry Regiment on a mopping up operation ran into about 1,100 BCP insurgents. In the close-quarter heavy fighting, 10 soldiers were killed and 24 were missing. On 27 August, Burmese troops stormed the divisional headquarters of the BCP about 25 miles west of Lawksawk killing 4 rebels and capturing their camp.

On the same day, a patrol of a Burmese Regiment encountered a band of 150 Kachin Independent Army insurgents near Kawngkha. Three soldiers were killed and six wounded in the fighting. On 28 August, a detachment of Burmese Army surprised a band of insurgents in Namtawng village and killed seven of them. One soldier was killed and one wounded. On 29 August, Burmese troops stormed Nawnglaw village and encountered 7 insurgents, killing one of them.

On 6 October 1970, an army patrol of 120 men ran into a column of 500 BCP insurgents in the north-western sector of the area near Sukmawn and in the ensuing clash about 70 insurgents were killed. The patrol lost 27 dead and 37 wounded. Remnants of the rebel force, about 400 strong, were later spotted and strafed by the air force fighters.

According to an official news bulletin issued on 1 November 1970, heavy fighting erupted again in the Kutkai township area when Burmese troops launched their "Operation *Aung Thiha*" in the second half of October 1970. The insurgents deployed a force

of 1,500 men in an attempt to occupy Mongsai village, about 40 miles from the Chinese border. The BCP forces were split into three main assault groups, each about 500 strong.

On 18 October, insurgents began day and night sporadic guerrilla attacks on three key government positions. On 23 October, they launched massive onslaughts. They suffered heavy casualties at the hands of Burmese troops and air force between 23 and 27 October. The insurgents lost about 200 dead alone in fierce fighting on 27 October. At some places the insurgent dead reportedly lay piled up over 40 in a single trench. By 29 October, the insurgents had cleared out of the area having lost over 500 men. Burmese Air Force attacked the retreating columns of insurgents on 29 and 30 October. In the week-long 20 fierce encounters, the government suffered 10 dead and 50 wounded or missing.

Quarterly Economic Review (EIU, London), September 1970, reported that in late May 1970 about 10,000 Chinese troops had infiltrated the Shan State which borders on China's Yunnan province. These Chinese troops joined up with the Kachin Independence Army and several fierce clashes with Burmese Army were reported. Burmese Foreign Minister, however, denied the presence of Chinese troops.

(iv) Ethnic minority areas

The communists are only one of more than a dozen factions intermittently up in arms against the regime. Others include Christian hill tribesmen, Muslims living near the Pakistan border and bandits. In the Shan and Kachin

States, where the insurgency is most acute, the insurgents are divided into numerous small, often mutually antagonistic factions. The Karens and the Mons are also split among themselves into two or more factions.

The government appears to be seeking solution to the hill insurgency, which is unlikely to spread to the Burmese populated plains because of its ethnic basis. Many observers feel that the insurgency in the minority ethnic area will continue so long as the Ne Win Government declines to honour agreements signed at Independence which permitted the larger ethnic minorities to opt for greater autonomy and self rule within the Burmese Union.

(a) Karens

A group of 20 Karen insurgents from Shwe Wah's group raided Makyi village in Thaton district on 1 May 1970 and made away with property worth K 10,000. Four hostages taken by the insurgents returned on the next day. About 30 Karen rebels raided Sarpyusu and Gayanzu villages of Thronze township on 8 June. They looted property worth K 5,000 and killed two persons. About 100 Karen insurgents belonging to the Karenni National Progressive Party looted a hospital in Phaikon in Taunggyi district on 12 September. A detachment of armed forces surprised 30 Karen insurgents while travelling in three boats in early September. The Commander, a "colonel", and 8 others were arrested. In a clash with Burmese troops near Meikthalin village, three Karen insurgents belonging to the Karen National Union were killed on 5 October. Fifteen Karen insurgents surrendered at Daungchaungwa in

Labutta township on 28 October. In a clash with security forces on 23 November near Hlelanku village in Toungoo district, 6 Karen insurgents were killed.

Karen insurgents, numbering about 30, stormed into Gonnyindan village, 11 miles east of Othegon, on 3 January 1971. A villager was killed and another wounded seriously. Some houses, shops and a cooperative shop were set on fire. About 100 Karen insurgents raided Tantabin in Toungoo district on 8 May 1971. They burnt down a trade godown and looted some shops and houses.

(b) Shans

About 300 insurgents raided Lwela village in northern Shan State on 7 May 1970, overran the militia post and ransacked the village. Seven of them were killed and 8 wounded. Three villagers were killed and two injured in the clash. About 30 Shan insurgents raided Naungcho village of Mongypin township on 1 August and shot dead a member of the Peasants Council. Nine Shan rebels surrendered at Mongywan along with some arms and ammunition early in November. On 14 November, Shan rebels blew up two bridges on the Mandalay-Lashio road. Another bridge, 9 miles away from Sipaw on Lashio-Loilem road, was set on fire. Seven Shan rebels surrendered to the security forces in Kengtung township on 22 December while another batch of 12 surrendered at Mongyang on 25 December following 'relentless pursuit' by the security forces.

A band of 20 Shan insurgents raided Kannalon and Nankhinwe villages in Kengtung township killing

one. A village elder was taken as a captive. Seven persons were killed and 25 injured when insurgents mined the railway track near Lashio on 8 February 1971 and a passenger train was derailed. The army and police escort, however, drove off a group of 50 insurgents who fired at the train.

(c) Kachins

About 200 insurgents raided Nantapai and Lwemun villages in Mohnyin area in Kachin State on 24 May 1970 overrunning the People's Militia posts. They seized six guns, collected K 10,000 'protection money,' seized cooperative stores worth K 2,000 and "marched off" 66 persons. On 19 September, a column of Kachin Rifles raided a hideout of the Kachin Liberation Army in Mohnyin township, where 35 insurgents were camping, killing and capturing 5. A band of Kachin Independence Army raided Myothitgale village in Mohnyin township on 15 October. They collected K 1,320 as protection money, ransacked the railway station and set a rice mill on fire. In a raid by 150 strong insurgents on Nanhkwin village in Mohnyin township, the railway station was burnt and a cooperative shop was looted.

In a clash with a 40 member strong group of Kachin Independence Army (KIA) on 4 November at Lakang village in Mohnyin township, 2 Kachins were killed and 8 wounded. A group of 200 KIA insurgents mined the railway track at a place between Namisong and Mawhan stations in Kachin State on 23 February 1971. The engine and five coaches of a passenger train were derailed and at least 16 passengers were killed and 15 injured.

(d) Mons

In a clash with a group of 60 Mon insurgents on 2 May 1970, near a bridge 18 miles from Mudon, a combined force of army and police dispersed the rebels and captured one. A soldier was killed in the clash. In an encounter with a band of 20 Mon insurgents on 3 July at Nerkhataung Falls near Mudon, two rebels were killed. A band of Mon insurgents raided Kawbein and Tarana villages in Kowthoolei township on 19 and 20 October. The attacks were repulsed by the police and militiamen. Five Mon insurgents raided Panga saltern on 13 December and took four men as prisoners—two of them were killed when they attempted to escape.

(e) Muslim hostiles in Arakan area

The Burmese forces cracked down upon underground Muslim hostiles, who style themselves as "Rohinga Muslim Independence Revolutionary Force", and are active along the Burma-East Pakistan border in the Arakan area, particularly in Maungdaw and Buthidaung townships in Akyab district. Led by Qasim, Zaffir Ahmed and Mustafi, the Muslim insurgency in the Arakan region demanding territorial independence stemmed from the *Mujahed* movement as early as 1950. The organisation was founded by Mustafi and Zaffir Ahmed in 1964-65. Following Mustafi's death in a clash with government forces in February 1969, Zaffir Ahmed became the sole leader of the band which eventually broke up into two factions—the one led by Zaffir Ahmed operating in Buthidaung township and the other led by Ragula in Maungdaw township, one teaming up

with the pro-Peking Burma Communist Party and the other joining the pro-Moscow Red Flag Communists.

The gang warfare between the two factions and the continued army offensive have reduced their numbers and most of these hostiles have turned into bandits looting and plundering the villages, exacting levies with the blessing of the BCP from the rural population. As Ragula was trying to surrender himself to the authorities with about 40 of his followers on 1 September 1970, he was attacked by a combined group of Muslim bandits and BCP insurgents at Thawinchaung village in Maungdaw township. Ragula and one of his followers were killed.

A faction of insurgents styling themselves as the Arakan National Liberation Front is active in Buthidaung township. The group was founded by U Po Sein and U Maung Sein Nyunt with 70 members. The group began to disintegrate after clashes with the security forces and rebel groups such as the BCP and Muslim bandits over territorial claims. Their number in the last quarter of 1970 came down to 11 with nine fire arms.

In February 1971, clashes were reported between Burma Communist Party (BCP) insurgents and those belonging to the other three groups—Arakanese Liberation Front, Rohingya Muslim Independence Revolutionary Force and Arakanese Communist Party (Red Flag) over jurisdictional claims. The BCP faction had about 60 men and the other three parties about 150. BCP insurgents, however, have forced out the other three rebel groups out of Rathedaung township to take refuge in Buthidaung and Maungdaw townships.

(f) Naga and Mizo hostiles and bandits

Some leaders of the underground Nagaland hostiles and the Kachin State "independence army" were reported to have met in June 1970 somewhere in the Hukawn valley of Upper Burma. A decision was taken to fight for the "liberation" of Naga-populated areas of India and Burma. Burmese troops launched operations against the hostiles who were camping on the banks of the Chindwin River which is not very far from the Indian border.

A gang of about 100 hostile Nagas returning from China, led by self-styled "colonel" Muiva, reported to be the General Secretary of the underground pro-Phizo Nagaland National Council, was intercepted by the Burmese security forces while lurking along the border since April 1970. The hostiles lost a large quantity of arms and ammunition which they had brought from China. A batch of 60 hostiles managed to enter Tuensang District in May 1970 and in this group was Muiva who led the first batch to Yunnan in 1967. Another batch of 80 China-trained hostiles sneaked across Upper Burma and entered the hilly areas of Manipur in November 1970.

A band of 50 Mizo hostiles was spotted in the Phaltalam in Tiddim township near the Burma-India border in the first week of August 1970. After a brief clash with Burmese troops on 6 August, the hostiles escaped into dense forests.

Burmese troops intercepted a caravan, comprising about 200 Chinese opium smugglers crossing the Namtu River in Kyaukme township near Talon

village on 18 October 1970. In the ensuing fierce clash, nine bandits died and 15 others were carried away by their comrades. Small arms, ammunition, bombs and bomb launchers, a transmitter, local and foreign currency, raw opium and six mules were seized.

There was a spurt of insurgent activity in the country during 1970 especially along the border region. Insurgent bands operating in the country side were stated to be disintegrating in some areas following increased security measures. They have been, however, largely contained by the security forces. The insurgents who mounted their attacks in the Kutkai region with Chinese backing could not make any significant headway and were repulsed with heavy losses. Whatever be the handicap of being close to the Chinese border, Burmese troops were capable of handling the situation.

FOREIGN RELATIONS

Foreign Policy

The Burmese nonalignment has a strong isolationist streak and Burma has been hesitant to take part even in conferences of non-aligned nations. Foreign Minister Hla Han explained that Burma did not take part in the Lusaka Summit of non-aligned nations in September 1970 because they considered it untimely.

Foreign Minister Hla Han visited UAR in the first week of October 1970 to attend President Nasser's funeral in Cairo. A three-member UAR delegation led by Dr Esmat Abdul Maguied, Minister of State, visited Burma in February 1971. East Germany's Deputy

Cultural Minister Herr Dieder Heinze paid a week's visit to Burma in November 1970 under the cultural exchange programme between the two countries. A Burmese cultural delegation returned on 8 December from a three-week study tour of USSR. A two-member team of Soviet journalists paid a two-week visit to Burma in December 1970 under the Burma-Soviet cultural exchange programme. An exhibition of folk arts and handicraft from USSR opened at the National Museum in Pansodan on 19 December. A 23-member Soviet stage circus troupe visited Burma in December 1970 and January 1971 and gave performances at several places. USSR handed over a gift of a 35 millimeter projector to the Burmese Red Cross Society in Rangoon on 30 April 1971.

Regional relations

There were, however, some signs of development by Burma of bilateral relations with its neighbours and other countries in the region. King Mahendra of Nepal while on his way to Tokyo visited Rangoon from 5 to 9 September. Earlier on 4 September, Foreign Minister Rajbhandari heading an advance party had arrived. A Burmese delegation led by their Deputy Foreign Minister visited Nepal from 18 to 23 February 1971.

Chariman Ne Win visited Japan in April-May 1970. He presided over the Burma Day at Expo '70 in Osaka on 17 April. He called on the Japanese Prime Minister Eisaku Sato on 6 May in Tokyo and discussed trade and economic co-operation between their countries. Ne Win requested Japan to purchase more mineral products and lumber from Burma with a view to rectifying the current imbalance in the bilateral trade

in Japan's favour. Sato pledged Japanese financial and technical assistance for the projected development of oil resources in the Bay of Bengal, off Burma's western coast. A Japanese Parliamentary delegation headed by Keikichi Masuhara visited Rangoon from 11 to 14 July 1970.

Chairman Ne Win paid a three-day state visit to the Philippines from 18 to 21 November at the invitation of the Philippines Government. He discussed common problems—Asian security and problems of economic development, with President Ferdinand E. Marcos. Health, Education and Foreign Minister Hla Han led a Burmese delegation to the first Asian Conference of Ministers for Social Welfare held in Manila from September 14 to 16. Philippines' Social Welfare Minister Gregorio Feliciano visited Rangoon in the last week of October 1970.

Thailand reportedly notified the Burmese Government that it was not in any way supporting any political activity by the former Burmese Prime Minister U Nu and that it was continuing its close friendship with its immediate neighbour, Burma. It was explained that U Nu could not be denied refuge for humanitarian reasons and international practice and custom. He was, however, asked not to engage in political activity. In December 1970, Thai Foreign Ministry warned newspapers which carried rumours of the death of Chairman Ne Win against publication of groundless reports which had caused misunderstanding with the Burmese authorities.

Thai Prime Minister Thanom Kittikachorn said in Bangkok on 6

January 1971 that he had ordered Thai police to investigate local Press reports of plans by Burmese exiles in Thailand to overthrow the Ne Win regime. If the reports were correct, the expatriates would not be allowed to remain in Thailand. He said that the government considered that any hostile activities by U Nu and his associates against Ne Win's regime would be detrimental to relations between Thailand and neighbouring Burma.

India

Chairman Ne Win, on his way back from UK, broke his journey for a two-day visit to New Delhi on 8 and 9 July 1970. He conferred with Smt Gandhi on Indo-Burmese relations and other matters of mutual interest. He again visited New Delhi from 8 to 10 April 1971 on his way back from UK.

The Indo-Burmese Boundary Commission met in Rangoon from 25 to 30 May 1970. It finalised the field programme for the next phase of demarcation involving a stretch of 250 miles towards north. Director General of the Survey Department of India, Brig JAF Dalal paid a six-day visit to Rangoon in October and discussed the mapping of the common border with Burmese officials. Earlier, Colonel Hle Aung Director General of the Survey Department of Burma visited India in September on a similar mission. A Burmese team headed by Col Kyi Maung participated in the meetings of the Joint Indo-Burmese Border Commission in New Delhi in June 1971.

Deputy External Affairs Surendra Pal Singh told the *Lok Sabha* on 7

December 1970 that the demarcation of the Indo-Burmese boundary had been in progress since 1968 and was being carried out satisfactorily. A total length of about 500 miles of the 909-mile long common border has been demarcated—240 miles in 1968-69 and 250 miles in 1969-70. A further stretch of 225 miles was covered in 1970-71 open season. Rest of the border is scheduled to be demarcated over the next two seasons by 1973. Minor differences between the survey parties of the two countries about the erection of seven pillars, involving a territory of three Fourths of a square mile—a matter of few yards here and there for about two furlongs in side the Indian territory—in the Behend area of Churachandpur sub-division of Manipur, were solved amicably.

Labour Minister D. Sanjivayya told the Rajya Sabha on 15 May 1970 that of the 178,510 persons who had come from Burma since 1964, 148,900 had been resettled in India. A ship chartered by the Government of India repatriated 3,000 local Indians classified as destitutes from Rangoon in October 1970 to Madras.

A 30-member Indian cultural troupe visited Burma from 28 March to 2 April 1970. It performed *Ramayana* at the open air theatre, Lanmaw, Rangoon. A 44-member Burmese cultural delegation visited India in December 1970. It visited New Delhi, Bombay and Bhuvaneshwar. A team of three Burmese health experts led by Lt-Col Hla Moe Additional Secretary in the Burmese Health Ministry paid a three-week visit to India in October 1970 to study the *Ayurvedic* system of medicine and its teaching.

The Burmese forces continued to track Naga hostiles returning from China and attempting to sneak across the Burmese territory. Eight Chinese trained Naga hostiles were killed and several others injured in a clash on 4 June 1970 with Burmese security forces in Somra tracts of Upper Burma bordering the Tuensang district of Nagaland.

Communist China

Ne Win in his Party Seminar speech in November 1969 offered Peking the olive branch. He wanted to forget the 1967 anti-Chinese riots and expressed the desire to establish friendly and normal relations with China. There were, however, fierce clashes between Burmese troops and Chinese supported communists between March and October 1970 along the border region. The security forces beat off determined attacks by the insurgents and inflicted heavy casualties on them. In one engagement in October 1970, about 50 miles from the Chinese border, insurgents deployed 1,500 persons. The insurgents launched their offensive from sanctuaries across the border in Chinese province of Yunnan.

Commenting on the situation in Burma, the *Guardian* (London) reported on 7 November 1970:

“Gen Ne Win may well have done his country a good political turn through extreme isolationism. This year there have been deliberate efforts to keep China unoffended in spite of border clashes. He seems to have succeeded so far. Although Burma contains the standard ingredients of exploitable discontented tribal groups, it has been largely

spared the fates of Laos, Cambodia and Vietnam... If even partial disintegration were to set in, China might act to ensure a buffer zone of influence beyond its borders”.

The Government, however, refrained from specifically accusing China of supporting the Burmese Communist Party (BCP), saying only that the insurgents were getting outside help. Foreign Minister Hla Han, on his way home from Manila at a brief stopover in Bangkok on 23 September 1970, denied a local report that Chinese troops had been operating in North Burma. “They are just Burmese Communists. We don’t consider them as giving too much trouble”, he said. Burmese relations with Peking, he added, had “improved much”.

Several high ranking civil and service officers attended the 43rd anniversary of the foundation of the Chinese People’s Liberation Army on 1 August 1970 in Rangoon at the invitation of the Chinese Military, Naval and Air attache. A new Chinese *Charge d’Affaires* arrived in Rangoon in September 1970. On the occasion of the anniversary of the National Day of China on 1 October, Chairman Ne Win sent a message of felicitations to Chou En-lai. He extended his country’s sincere good wishes to the peoples of China.

The Burmese mission to Canton Fair in the last quarter of 1970 was the first to visit China since the rupture of friendly relations between the two countries in 1967. Burma is likely to approach China for the resumption of economic and technical co-operation between the two countries.

Rangoon’s most important move towards rapprochement came in October 1970 when the new Burmese ambassador U Thein Maung presented his credentials on 21 November. The Burmese have chosen to regard it as a signal of Peking’s desire to return to peaceful co-existence.

Burma supported China’s admission to UN when it voted for the resolution favouring the admission of China to the United Nations to the exclusion of Taiwan in the General Assembly on 20 November 1970. On the occasion of the 23rd anniversary of the independence of Burma on 4 January 1971, Chou En-lai expressed “festive greetings and good wishes” to Chairman Ne Win, Government of Burma and the Burmese people. In February 1971, China appointed Chen Chao-yuan as its ambassador to Burma in a reciprocal move. He presented his credentials in Rangoon on 1 April 1971. A Hongkong daily *South China Morning Post* (24 March 1971) pointed out: “It also signifies China’s intension to improve her image in that part of the world and South East Asia to counter Russian inroads”.

Chairman Ne Win paid a friendly and informal visit to China from 6 to 12 August 1971 at the invitation of the Chinese government. He was accompanied by Foreign Minister Hla Han. He called on Mao Tse-tung and held talks with Chou En-lai and other Chinese leaders.

Speaking at a banquet in Peking following Ne Win’s arrival, Chou En-lai said that the Burmese leader’s visit would further improve relations between the two countries. “The Chinese Government has consistently pursued

friendly and good neighbourly policy, respected and supported the policy of peace and neutrality of the Burmese Government and worked for the safeguarding and development of friendship between the peoples of the two countries", said Chou En-lai.

"We are happy to see that over the past two years, the relations between our two countries have returned to normal, the two Governments have exchanged ambassadors and the trade between the two countries has developed", he added. In his reply, Chairman Ne Win said that China's and Burma's interests would be constantly promoted through such correct efforts.

It is felt that the three-year spell of strained relations between the two countries has come to an end. It may even herald the return of an era of active Sino-Burmese amity and co-operation which characterised the 1950s.

ARMED FORCES

Expenditure on defence in 1970-71 compared with 1962-63 is as follows;

Expenditure	(million kyats)	
	1962-63	1970-71
Current ...	410	480
Capital ...	73	123
Total:	483	603

In 1970-71, expenditure on defence formed 6.4 per cent of the total budget expenditure—K 9,359 mn.

Total strength of the armed forces was 143,250. The strength of the Burmese Army is estimated at 130,500.

The army is supplemented by a paramilitary police of about 20,000 men. It is largely an infantry force equipped mainly with British, American and Yugoslav light arms. The Navy has a strength of 6,250 men. It has one frigate, one escort minesweeper, two coastal escorts, five motor torpedo boats (less than 100 tons) four support gunboats, thirty-four river gunboats (less than 100 tons), and 10 support ships. The Air Force with a strength of 6,500 has 28 combat aircraft, 12 F86F Sabre fighter bombers and 16 armed trainers, 18 transport aircraft and 27 helicopters.

In-service ideological training courses were held from time to time in all the six Commands—Rangoon, Central, South-West, North-West, South-East and Eastern—during the year. The Commanders pointed out to the need for members of the *Tatmadaw* (armed forces) to have a clear concept of their goal, to strive to be politically mature and militarily skilful and to be always active, alert and absorbed in the service of the people. *Tatmadaw* is the backbone of the ruling *Lanzin* Party—the only political party permitted to function in the country.

Five main duties of the *Tatmadaw* are stated to be:

- (i) wholehearted participation in the social revolution,
- (ii) turning the *Tatmadaw* into a people's army,
- (iii) transforming the Burma Socialist Programme Party—*Lanzin* Party—into a people's party which will offer leadership to the nation in the socialist revolution,

- (iv) to assist in the construction of a socialist state, and
- (v) to annihilate destructionists, above-ground and underground.

About 808 retiring personnel of the Armed Forces attended three months' vocational training in engineering and basic technical trades at the Central Training School in Thuwunna commencing from 22 June 1970—arranged by the Public Works and Housing Ministry. On completion of their training, they were absorbed in two textile mills and Construction Corporation's units.

Hino Motors—Japan's major automobile manufacturer, concluded a contract with the Burmese Defence Ministry in July 1970 for exporting 300 units of trucks and 200 buses.

The US State Department on 25 August 1970 confirmed a report that the United States had granted Burma a total of \$ 88 mn in military aid since 1958. Information on the aid programme had been "suppressed" because of General Ne Win's desire "to present his country as completely neutral". It was stated that there was no money set aside in the current military aid programme for Burma but there was "still a small

concessional sales programme" which was in the process of being phased out. To fill the supply needs not met by local production and direct purchase, Ne Win had accepted American military aid to meet the challenge of at least five endemic insurgencies in the country.

The principal foreign source of arms has been the United States, according to *International Herald Tribune* (Paris) of 1 September 1970. Burma has begun making its own small arms.

In an article captioned "A problem of mending fences with Peking", T.D. Allman wrote in the *Guardian* (London) of 30 November 1970: "Although the Burmese are trying to mend fences, Burma has for several years had to face the penalty of incurring China's displeasures by seeking outside military help only from the United States. Having deliberately isolated Burma from outside influence, Ne Win has built up what may be called South East Asia's most self-sufficient and infantry-oriented non-Communist army. Burma also produces its basic weapon, a Sten-like gun called "Ne Win", as well as ammunition, light arms and artillery. Ne Win's decision to phase out American aid, direct purchases will apparently continue, is a part of policy to end the period of unpleasantness with China".

4. CEYLON

NATIONAL ECONOMY

Economic Policy

With the return of Mrs Bandaranaike to power at the head of a left-oriented coalition following general elections in May 1970, the new government announced a radical economic policy. Mrs Bandaranaike and her coalition partners during the election campaign had urged a total reversal of the economic and social policies pursued by their predecessors—the United National Party.

Outlining new government's economic policy, Governor-General William Gopallawa while inaugurating the Parliament on 14 June 1970 said that the

government "will put an end to policies of economic dependence and neo-colonialism which have characterised the previous regime". Instead the government will seek to develop all branches of the economy at a rapid rate and according to a National Plan in order to lay the foundation for a further advance towards a socialist society.

Salient features of the announced economic policy were :

- (i) The banking system would be nationalised. Specialised banks would be set up to finance development in industry, agriculture, foreign and internal trade and other sectors.

Ceylon—Statistics

Area (square km)	... 64,644
Population (1970)	... 12.25 mn
G.N.P. (1969)	... Rs. 10,800 mn
Defence Expenditure (1969-1970)	... Rs. 82 mn
Armed Force :	
Army	... regulars 6,700 reserves 2,500
Navy	... 1,980
Air Force	... 800
Police	... 11,000
US \$ = 5.95 Ceylonese Rupees 5.95	

- (ii) In order to eliminate foreign exchange abuses, to guarantee speedy and regular supplies to ensure fair distribution and as an indispensable condition for planned economic development :
 - (a) the import trade in all essential commodities would be handled by the State,
 - (b) the share of the State in the export trade would be progressively increased and
 - (c) the central wholesale trade in all imported essential commodities and certain local commodities would be handled by various state and co-operative organisations.
 - (iii) Retail trade would be carried out through Ceylonese retail traders, co-operatives and state shops.
 - (iv) The Agency Houses, which were stated to be "a major vehicle through which imperialism dominates the plantation economy", would be controlled in order to eliminate malpractices.
 - (v) There would be radical change in the Land Act. The alienation of land to non-Ceylonese would be prohibited. Irrigation rates would be abolished. The government would endeavour to relieve the acute pressure on land and landlessness.
 - (vi) The industrialisation of the country would be carried forward with utmost vigour. Heavy and capital goods industries would be state-owned. Other industries would be assigned to cooperatives and private enterprise. The policy of Ceylonisation of ownership in the private sector would be actively pursued. Legal provisions would be made for the State to acquire shares in both foreign and local companies.
 - (vii) An extensive scheme would be established to train Ceylonese industrial skill and techniques at all levels.
 - (viii) The agreements that the former government entered into with the World Bank and International Development Association to finance stage I of the Mahaveli Ganga Diversion Scheme would be reconsidered.
 - (ix) A comprehensive scheme of social insurance including old age benefits and a national scheme would be introduced.
 - (x) A comprehensive charter for workers would be enforced.
- In January 1971, a top level Cabinet Planning and Economic Affairs Committee was set up under the Chairmanship of the Prime Minister to tackle the country's economic problems and to enforce measures to implement the new economic policy. It consisted of the Ministers of Finance, Foreign and International Trade, Industries and Scientific Affairs, Agriculture and Land, Housing

and Construction, Plantations, Irrigation, Power and Highways.

The government has implemented the following measures in the last one year :

- (i) Re-organisation of the industrial sector, establishment of Public Corporations to widen public sector and Industrial Corporations to have worker-directors ;
- (ii) A five-member Ministerial Committee set up under the Chairmanship of Minister for Agriculture in November 1970 to draw up a comprehensive land reform policy ;
- (iii) The State Trading Corporations Bill passed in December 1970 regulating internal and foreign trade ;
- (iv) The Business Undertakings (Acquisition) Bill passed in May 1971 ;
- (v) Subsidiary companies of Shell, Caltex and Esso, manufacturing chemicals and pesticides, were nationalised and marine bunkering services were taken over from them on 1 January 1971.
- (vi) Co-operative Wholesale Establishment (CWE) became the wholesale dealer of consumer goods and co-operative shops the retail dealers from January 1971. The measure is aimed at eliminating middlemen between the producers and consumers, reduce prices of essential commodities and save the people from blackmarket. Price control was extended to most of the consumer commodities in January 1971.
- (vii) The government decided to enforce Ceylonisation measure, in trade, industry and employment and Work Permit System to control the employment and business of non-nationals.
- (viii) District Development Councils were set up to accelerate rural and economic development especially in the country side. People's Committees are also being set up.
- (x) The acute foreign exchange crisis has compelled the government to defer the nationalisation of foreign banks. At present, there are eight foreign banks—five British, two Indian and one Pakistani—operating in Ceylon.
- (x) Wage Boards and Remuneration Tribunals for the standardisation of wages and salaries for various categories of employees were set up in June 1971.
- (xi) The Government in July 1971 decided to take over 18 uneconomic tea and rubber estates.
- (xii) The projected 1972-76 economic development plan provides measures to raise incomes, increase productivity in agriculture and industry and finding jobs for nearly 759000 persons over a five year period.

National Budget

Finance Minister N.M. Perera presented estimates of revenue and expenditure for 1970-71 on 23 October 1970. Revenue was estimated at Rs 2,520 mn and expenditure at Rs 4,202 mn, showing a deficit of Rs 1,682 mn. There was a big rise in capital expenditure under economic development—Rs 919 mn compared with Rs 725 mn in the previous year's estimates. A sum of Rs 235 mn was allocated for irrigation, power and highways.

A sum of Rs 201 mn was provided for the "Short Term Employment Plan" of the Ministry of Planning and Employment out of the capital expenditure. The programme aimed at providing jobs for 105,000 persons. There was a provision for the employment of 5,000 unemployed graduates also.

Major items of revenue estimates were sale of Foreign Exchange Entitlement Certificates (Rs 370 mn), customs revenue (Rs 565 mn), excise revenue (Rs 704 mn), estate duty and stamps (Rs 376 mn), postal services (Rs 83 mn) and profits of State Corporations (Rs 18 mn).

Major resources expected to finance the deficit were aid receipts (Rs 461 mn), short term credits (Rs 401 mn), IMF (Rs 57 mn), borrowing from commercial banks (Rs 88 mn), Special Drawing Rights (Rs 78 mn) and suppliers' credits (Rs 156 mn). The government expects to borrow Rs 275 mn from domestic non-bank sources.

The value of exports in 1970 estimated at Rs 2,008 mn presented only

a slight improvement of Rs 9 mn over 1969. The total value of merchandise imports is estimated to be in the region of Rs 2,607 mn, Rs 46 mn less than in 1969. The trade deficit is expected to be Rs 599 mn compared with Rs 744 mn in 1969. When the deficit in the Services Account of Rs 99 mn and the net payments on capital account of Rs 579 mn are added the total resources gap will approximately be Rs 1,277 mn.

Public debt increased to Rs 305 mn from Rs 234.9 mn in 1969-70. The interest on IBRD loans and IDA credits was Rs 10.5 mn and other foreign loans Rs 37.9 mn compared to Rs 8.8 mn and Rs 29.4 mn respectively in 1969-70. The interest on rupee loans was estimated at Rs 165.1 mn compared to Rs 152 mn in 1969-70. In 1970, Ceylon received Rs 56.6 mn from the International Monetary Fund. At the end of May 1970, a sum of Rs 421.7 mn was due to be paid to the IMF. Since 1965, IMF has provided Rs 723.4 mn to Ceylon.

Economic Crisis

Speaking in the House of Representatives on 25 October 1970, the Finance Minister said that Ceylon's balance of payments in 1969, as in the past years, continued to be "the most vulnerable sector of our economy". Adverse trends in the world economy in terms of both commodity prices and the cost and availability of financing facilities were aggravated by shortfalls in the volume of some of the exports. The consequential drastic restrictions in imports programme were averted only by recourse to short term borrowings which in turn was the major causative factor of the current balance of payment

crisis. The deterioration in balance of payments witnessed in 1969 continued into 1970, he added.

The Finance Minister admitted that for a number of years, the country would have to depend on foreign aid. "To obtain this assistance on terms acceptable to us, we must however adopt certain remedial measures which would inspire confidence abroad about our determination to put our house in order", he said.

- (a) The first and most important of these remedial measures is balancing the budget.
- (b) The second is to contain the inflationary gap. This can be done only by large scale savings.
- (c) The third lies in diversifying the country's exports. The continued dependence on the three major products—tea, rubber and coconut—is fraught with danger. All these products are experiencing keen competition from substitutes. Besides, tea which provides 60 per cent of foreign exchange earnings suffers from over-production in the world.

There is no royal road to economic development except through hard work, sacrifice and a measure of austerity, emphasised the Finance Minister. He wanted dependence on foreign aid reduced to a minimum.

The theme of the budget was "save and sacrifice". A ceiling on individual incomes (Rs 3,500 per mensem) and on companies' dividends (12%), capital

levy on net wealth on higher income brackets, compulsory savings scheme demonetisation and foreign exchange amnesty were the radical measures introduced in the new government's first budget which highlighted the underlying principles—to draw out the hidden wealth, mobilise and encourage savings and tighten belts for planned economic development.

The Finance Minister appealed to all patriotic Ceylonese living abroad to send to Ceylon a minimum sum of £10 a month "to help their homeland in the hour of need". The amount will be credited to a special account in the name of the sender. A compulsory savings scheme for persons with an annual income of Rs 6,000 to Rs 12,000 was introduced. To encourage small savings, the rate of interest on post office savings was doubled—increased from 3.6 to 7.2 per cent.

The Government announced a foreign exchange amnesty up to the end of January 1971. It was later on extended to 31 July 1971. Under the scheme, funds held abroad by the Ceylonese could be repatriated without the permission of the Exchange Controller and free of both income tax and exchange control inquiries. There is a proposal to open "dollar shops" at which even local residents will be able to buy imported goods with foreign currency only.

The Finance Minister announced the levy of temporary residence tax of Rs 500 per annum on foreigners holding visas and temporary residence permits. Certain categories including those issued permits under the Indo-Ceylon agreement of 1964 and the

Nehru-Kotelwala agreement of 1954 were to be exempted.

Under a notification issued on 25 October by the Central Bank of Ceylon, currency notes of the denominations of Rs 50 and Rs 100 ceased to be a legal tender from 3 November 1970. Every holder of old notes, however, could exchange them with new currency notes up to a value of Rs 1,000 at any bank in Ceylon up to 15 November. On 26 October, the Finance Minister rushed through the anti-hoarding bill in the House of Representatives giving effect to his budgetary proposal for demonetisation. Police raided suspected currency hoarders and passports of a number of tax defaulters were suspended to prevent them from leaving the country.

Finance Minister's "demonetisation exercise", primarily aimed at tax evaders, and hoarders, had not realised the anticipated Rs 100 mn. He later told the House of Representatives on 8 March 1971 that the government had collected around Rs 25 mn.

In August 1970, the Government decided on a number of cuts in foreign exchange allocations in order to meet the cost of the second measure of subsidised rice ration estimated at Rs 144 mn. Allocations to state corporations and government departments were reduced by Rs 51 mn. The cancellation of open general licence was expected to save a further sum of Rs 60 mn. Similar cuts were also made in trade quotas and allocations for hotel projects. The Government also negotiated loans on deferred payment basis as a result of the serious foreign exchange situation confronting the country.

A two-member team visited West Germany and France in August 1970 to seek quick and short-term financial assistance. The Government also approached the International Monetary Fund for a stand-by loan. The IMF reportedly suggested the devaluation of the rupee as "a corrective to Ceylon's economic difficulties". Ceylon, however, did not agree as it was felt that devaluation would create further financial difficulties for the country.

On 18 March 1971, the IMF announced the approval of a stand-by credit enabling Ceylon to purchase foreign currencies equivalent of \$ 24.5 mn over the next 12 months with a view to assisting in stabilising the country's domestic monetary situation and strengthening its balance of payments.

Commenting on the country's economic situation, *The Ceylon Daily News* said in its editorial dated 27 October 1970, "The vulnerability of our tea-and-rubber based economy and our continuous exposure to external forces which are beyond our control have placed us at the mercy of international finance agencies and aid-givers. Our economic dependence is a constant threat to our national sovereignty and self-respect. The sole final solution to it is self-reliance".

Speaking on the United Front Government's trade policy, Trade Minister T.B. Ilangaratne said in Colombo on 3 February 1971, "Ceylon is facing an economic crisis of the greatest magnitude. Its existence was ship-to-mouth one. Owing to the foreign exchange crisis rice, flour and sugar were being bought on deferred payment basis". For subsidiary foodstuffs like

chillies, onions, pulses and fish, he added, the country had to depend upon imports. Food imports constituted nearly 25 per cent of the import bill.

He explained that the government's policy was not a rigid doctrinaire one but based on realities. They were adopting certain drastic measures in trade because the economic crisis demanded such measures. Essential imports would be taken over by the State. The government would progressively take over the export trade. The control of agency houses was also essential in the prevailing crisis. Referring to the existing situation, "In a sense, we have no control of either our imports or exports", he said. He called the freight increase of 15 per cent by foreign shipping lines as an example of "imperialist manoeuvre".

In state trading and distribution, the government would use four limbs—government departments, corporations, co-operatives and private sector. He, however, admitted that state trading was not a panacea for their ills. Its main purpose was to get the best use of foreign exchange. He complained that it was very difficult to develop civic consciousness and national outlook when the country's trade was in the hands of foreigners.

Earlier on 27 January 1971, the Trade Minister said, "There can be no true economic freedom until the monopolies held by foreign traders in Ceylon are broken". After a tour of West Asia in the fall of 1970, Hangaratne called a conference of the private sector and the agency houses and explained the problem that if Ceylon could buy crude oil and asphalt from some of the Arab countries, they would buy Ceylonese tea. They, however, rejected barter trade.

A proposal to halve the present textile ration of 8 yards per consumer per annum was under consideration by the government. Ceylon at present imports 54 mn yards of textiles and halving of the ration would result in considerable savings of foreign exchange.

Arthur Sandies reported in *The Financial Times* (London) on 8 March 1971 that for some time now Ceylon had been using aid money in order to buy rice and dried fish instead of factory equipment and farming machinery. He further said that the parlous exchange position had provoked an import clamp down.

The Prime Minister in her New Year message for 1971 called for harder work and greater productivity. She asked her countrymen to generate within themselves an intensive desire to cultivate to the fullest extent possible their own resources and as far as possible not to be dependent on others for their needs. Addressing a conference of workers in Colombo on 31 January 1971, she urged them to work harder. "Socialism cannot be chanted like a *mantram*. Only work and more work can usher in true socialism", she emphasised.

Harvey Stockwin wrote in *The Financial Times* (London) of 27 April 1971: "Ceylon's dire economic straits seem certain to get worse as a result of the strains imposed by the insurgency. The economic situation was critical before the present emergency; now it is potentially catastrophic. The essential aspects underlying the gloomy view are the country's mounting inflation, unbalanced budget, virtually non-existent foreign exchange reserves placing even essential imports of food and raw

materials in jeopardy and the imperative need for increased defence spending for a country which has traditionally allocated a fraction of 1 per cent of GNP to defence."

A comprehensive appraisal of Ceylon's economy, prepared by a seven-member World Bank team and published on 11 May 1971, declared that priorities in the matter of three main export crops had been ill-defined. Government's budgetary policies have failed to generate any significant amount of savings. They were around 1 per cent of GNP. The Government's strategy in the import budget had been directed to realising more goods for consumer expenditure. Domestic savings had played little or no part in investment. The rate of private investment was declining rapidly (25% in 1970). Some of the important public sector corporations still worked below rated capacity e.g. textiles, steel) tyres and tubes".

Very few of the Government's policies could be represented as a sacrifice of present consumption for future benefit, according to the Report. The Government by releasing a large chunk of resources for social expenditure (subsidies etc.) was only making the problem of long term development more difficult. The Government would be spending Rs 130 mn more this year on rice subsidy as a result of the second measure of rice. The Government had not given the promotion of export crops the priority attention it deserved.

The report says that Ceylon's economic difficulties have been caused by two main structural characteristics of the economy :

- (a) firstly, the increase in population which is expected to be about 13 mn in 1971 and
- (b) secondly, the rapid decline in prices fetched by the island's three main export commodities—tea, rubber and coconut.

On the subject of growth policies, the team observed that the record over two decades of Independence had been disappointing. Sacrifices which were needed to improve growth were not politically acceptable. The measures needed to improve growth suggested by IBRD team were :

- (a) a high rate of investment ;
- (b) the quality of investments, particularly with regard to public sector, had to be improved ;
- (c) investment to be directed at replacing Ceylon's current imports of food, textiles and light manufactures and
- (d) promoting exports of both traditional and new items.

National Income

Despite the country's numerous difficulties and the worsening terms of trade, the national income is reported to have increased. Ceylon's Gross National Product, at constant 1959 prices, rose by 8.2 per cent in 1968 and 6.2 per cent in 1969. In 1970, a growth rate of 6 per cent was expected. In 1969, GNP was estimated at Rs 10,821 mn (at current prices) and Rs 9,370 mn (at constant prices)—per capita GNP being Rs 889 and Rs 767 respectively.

Agriculture accounted for 34.8 per cent, manufacturing, mining and quarrying 12.2 per cent, construction 6 per cent, transportation 10 per cent and internal trade 15.7 per cent of the Gross Domestic Product in 1969. The main cash crops are tea, rubber and coconut. Tea accounted for nearly 20 per cent of the national income.

Food and Agriculture

Production of paddy during 1971 is estimated at 80 mn bushels, an increase of nearly 9 mn bushels over the estimated production in 1970. This would make the country around 80 per cent self-sufficient in rice. (Total requirement for the rice ration is 1.1 mn tonnes.) The Agricultural Ministry expects 75 per cent of total production to be bought under the Guaranteed Price Scheme (GPS). Private sale in paddy and rice has been banned with the setting up of the Paddy Board and the government became a monopoly buyer in March 1971. Self-sufficiency in rice is planned to be achieved before 1975.

Commencing from 26 September 1970, the government restored the second measure of rice ration. Now every ration book holder in Ceylon gets two measures—one free and the other at the subsidised rate—every week. The cost of two measures of rice is Rs 1.55 and both are given to the public at 75 cents—81 cents being the subsidy per person per week. The Government reportedly spends Rs 257 mn annually to import rice. In 1970, Ceylon contracted to import 260,000 tonnes of rice. Later on, it contracted to purchase 140,000 tonnes of rice from Burma,

10,000 tonnes from Pakistan and 100,000 tonnes from China for a buffer stock. The free market price of rice reached "rock bottom" at 80 to 95 cents a measure with the second measure of rice being made available to consumers in September. (Measure=2 lbs)

In the budget for 1970-71 the estimate for the purchase, requisition and rationing of food was Rs 377 mn—total food subsidy Rs 604 mn less profit on sugar and flour amounting to Rs 227 mn. The Government will be spending Rs 120 mn more in 1971-72 on rice as a result of the second measure of free rice.

The year 1970 proved a good year for Ceylon's tea industry contrary to the expectation of a bleak future. Anticipated foreign exchange earnings are expected to be in the region of Rs 625 mn—a Rs 25 mn increase over the previous year. Total crop upto November 1970 was lbs 428 mn as against lbs 446 mn in 1969. In 1970, tea sold at local auctions aggregated to lbs 377 mn compared to lbs 390 mn in the previous year. The average price for a pound of tea has shown an increase of about 12 cents from Rs 1.53 to Rs 1.65. Tea circles attributed this to marked improvement in quality. Prospects for tea industry in 1971 seem to be bright. The crisis in East Pakistan gave Ceylon's low and mid country teas a boost. West Pakistan purchases in early May 1971 resulted in these teas fetching the best price in recent years.

Leader of the Opposition J.R. Jayewardene, commenting on Lusaka summit conference of non-aligned countries' decision on trade with South Africa, said on 25 September 1970 that it

would be "sheer madness" for Ceylon to sever economic ties with South Africa. South Africa is the largest buyer of Ceylon's high grown teas, the mainstay of the market, and is the fifth largest buyer of its teas. In 1969, South Africa purchased 27.3 mn pounds of teas worth Rs 81 mn.

Ceylon suffered her most severe setback in the desiccated coconut trade—a drop of Rs 76 mn in foreign exchange. Earnings dropped from Rs 163.8 mn in 1968 to Rs 87.4 mn in 1969. The unprecedented drop was mainly due to fall in prices, Earnings in 1970 were expected to drop due to decline in exports.

During 1970, the production of tea was expected to increase to lbs 505 mn (an increase of lbs 22 mn), coconut 3,000 mn nuts (an increase of 400 mn nuts) and rubber to lbs 355 mn (an increase of lbs 22 mn). At present, about 90 per cent of Ceylon's foreign exchange earnings come from the export of tea, rubber and coconut. The international dollar crisis helped rubber prices "to bounce higher" than it has ever been in 1971. The market price reached an all time high of 91¼ cents per pound on 5 May. The market stood at 91 cents on 9 and 10 May and 88 cents on 11 May. The downward movement from the May 5 peak was partly due to increasing dollar stability.

Finance Minister N.M. Perera said in Colombo on 12 August 1970 that economic realities rule out nationalisation of the plantation industry. If the State took over the plantations it might face problems of selling their products, he said. Nationalisation of the plantations, many of which are British-owned or

British managed, could have a great impact on the export trade, it was felt.

The Agriculture Corps, better known as the Land Army, set up by the Ministry of Irrigation in March 1967 to boost agricultural production, was wound up. The corporation reportedly incurred a loss of Rs 9.8 mn since its inception. About 5,000 employees were retrenched.

Industry

The Cabinet on 9 October 1970 approved Industries Minister Subasinghe's proposal for the re-organisation of the industrial sector with particular reference to :

- (i) the re-constitution of various state industrial corporations for greater management efficiency ;
- (ii) the regulation of the private sector industry for planned industrial growth and efficient utilisation of resources ;
- (iii) the demarcation of industry between public and private sectors ; and
- (iv) the role of foreign capital.

In December 1970, the Industries Ministry selected 14 industries for detailed study for development in the public sector. The study was a preliminary to a comprehensive five-year industrial development plan. The industries included tractor assembly, synthetic yarn, machine tools, glass, plastics, hardboard, graphite, charcoal, gas cookers and aluminium rolling.

The new government since its inception in May 1970 has accorded approval

for 132 industrial units. Most of these were small-scale and medium industries. Minister of Trade Subasinghe said on 28 January 1971 that a sum of Rs 514 mn had been allocated in foreign exchange for industries in 1971.

Total number of industrial establishments in Ceylon in 1969 was 1,804 as against 1,804 in 1968. Value of industrial production in 1969 was estimated at Rs 1,627 mn—52 per cent consumer goods, 31 per cent intermediate goods and 17 per cent investment goods. Food, drinks and tobacco accounted for 39.5 per cent and textiles 10.9 per cent.

In January 1971, the government accepted a tender from the Power Gas Corporation of Britain to build a Rs 200 mn fertiliser project at Hapugaskande. The Ministry of Industries plans to construct a Rs 111 mn paper complex at Embilipitya with assistance from West Germany.

Negotiations were in progress with China in the fall of 1970 to set up a textile mill at Pugoda. Machinery and equipment worth Rs 40 mn is likely to be an outright gift. In 1958, China agreed to set up this mill under the 1957 economic aid agreement. The mill was to have 700 looms and 41,000 spindles with annual production capacity of 10 mn yards of cloth and one mn pound of yarn.

After the present government came into power in May 1970, it had withdrawn approval of two textile mills which had promise of foreign collaboration. In one of these, the principal collaborator was Birlas and in the second, Pearl Textiles Ltd. The International Finance Corporation had promised

assistance to both. The reason behind the cancellations was that the government felt the danger of over-production of textiles with the units already sanctioned and also a danger of a big monopoly in the private sector being established. Earlier on 20 August, 1970 the Industries Minister told the House of Representatives that all the big textile projects to be opened in future would be in the public sector.

Mineral Resources

The Ceylon Petroleum Corporation on 18 October 1970 entered into an agreement with Techno-export of the Soviet Union for a team of experts to visit Ceylon to study available geological and geophysical data as well as prevailing field conditions and to make their recommendations for the next phase of Ceylon's oil development programme.

In 1968, the Corporation had carried out a seismic survey in the northern and north-western regions of Ceylon—a preliminary exploration for petroleum resources. Based on the result of this survey, a team of specialists from ECAFE made certain recommendations. The *Institute of French Petroleum*, who were called in as consultants, endorsed the recommendations that were made in regard to the next phase of Ceylon's exploration programme.

Ceylon's Junior Minister for National Planning R. Senanayake told the House of Representatives on 8 November 1970 that experts had reported oil deposits in the Kachativu region.

The three-member Soviet team which arrived in February 1971 has confirmed the existence of substantial oil deposits

around Mannar and Jaffna in north Ceylon. A report submitted by the Soviet team to the State Petroleum Corporation on 7 March confirmed an earlier French team's findings. France, China and the Soviet Union have offered to exploit the oil deposits.

Announcing the new policies of the state-owned Ceylon Petroleum Corporation, its Chairman ERSR Coomaraswamy said on 25 June, "We will extricate the Corporation from the oil consortium and have dealings with the socialist and Arab countries". It may be recalled that Mrs Bandaranaike's regime nationalised Shell, Esso and Caltex in 1963. Dudley Senanayake's government, which came to power in 1965, paid Rs 50 mn as compensation to the three oil companies.

The Ceylon Petroleum Corporation has invited world-wide bids for long-term supply of crude oil for the Hapugaskande refinery — supplies beginning in May 1971, despite the agreement between the Corporation and Shell operative till 1974. Ceylon is reported to be keen on getting her oil on barter deals that do not involve payment of hard currency. UAR and Iraq have offered to help Ceylon out of its present financial crisis by supplying crude oil at 'knocked down' prices in exchange for the island's low-grown tea and rubber or copra. Two delegations from these countries visited Ceylon in June 1970 to finalise the deals.

The Minerals Sands Corporation has applied to the Asian Development Bank for a \$ 3.5 mn loan for its expansion programme which is estimated to cost Rs 40 mn. The Corporation produced 76, 849 tons of Ilmenite. The

deposits at Pullmodai, it is estimated, would be adequate for about 20 years.

Atomic Energy

Ceylon's Atomic Energy Authority is drawing up plans for the use of radio isotopes for industry, agriculture and medicine. A comprehensive scheme for teaching the use of radio active materials in these fields is now being prepared. The Authority has also drawn up regulations for the use, transport, disposal and handling of radio-active materials.

Dr Kristian Svoboda of the International Atomic Energy Commission arrived in Colombo in December 1970 to assist Ceylon Atomic Energy Authority in drawing up its future atomic energy programme. He is working at the Colombo University's Radio Isotope Laboratory with Prof PPGL Siriwardene, Head of the Ceylon Atomic Energy Authority, and Dr KG Dharmawardene of the University.

Manpower (Civil)

Ceylon's population was estimated at 12.25 mn in December 1970. The number of unemployed was stated to be about 700,000 to 800,000. The World Bank in its report in September 1970 warned Ceylon about a possible "unemployment explosion". The report added that if Ceylon's high rate of unemployment is to be contained or reduced substantially new employment opportunities must be found in the agricultural sector.

Ceylon's Health Minister WPG Aryidasa on 28 June 1970 instructed the Health Department to stop all family

planning activities following opposition to birth control by the Sinhalese Buddhist leaders particularly the monks. The Buddhist leaders fear that the majority community might be reduced to a minority since, they say, Tamil Hindus, Muslims and Catholics are not practising birth control.

Under a short-term crash programme, prepared by a high power committee involving an expenditure of Rs 200 millions, about 100,000 jobs were expected to be provided between October 1970 and September 1971. Employment would be provided in Graduate Executive Pool, National Apprentice Scheme, coconut industry, marketing, slum clearance and at local authority level etc. Five thousand graduates will be provided with jobs as apprentices during the period with a monthly salary of Rs 200 to Rs 250. Under a scheme prepared by the Education Ministry, 2,500 graduates would be recruited as teachers at a salary scale commencing from Rs 400 per mensem. Another 2,000 non-graduates would be absorbed in schools at a salary scale of Rs 225 per mensem. Lakshman Jayakody, Parliamentary Secretary to the Ministry of Defence and External Affairs, told the House of Representatives on 6 May 1971, that total estimated cost of the crash programme for employment was Rs 450 millions.

Ceylonisation and Nationalisation

On 9 November 1970, the Cabinet approved proposals by the Prime Minister to amend the Immigration Department's Ceylonisation policy in the issue of visas for employment, trade or business and the Immigration and Emigration Act so as to require all

foreign passport holders to obtain visas for their employment, trade or business irrespective of whether they had entered Ceylon after 1 November 1949 or not. The proposal was made in view of the fact that attempts at Ceylonisation had so far touched only the fringe of the problem.

The Government also proposed to introduce a Work Permit System to control the employment and business of non-nationals in Ceylon. It was likely to affect about 10,000 persons mainly of Indian origin. In October 1970, the government cancelled the temporary permits of 43 non-nationals, most of them of Indian origin, engaged in jewellery and gem trade. The government is setting up a Gem Corporation. In the next phase, non-nationals engaged in the textile trade would be asked to quit. The process would go on until all the 20,000 non-national traders quit. British planters, whose number has dwindled to 73, would be exempt from Ceylonisation. In 1951, they were about 500.

The Ceylon Daily News (8 November 1970) reported, "The central purpose of Ceylonisation is the emancipation of the country's trade and industry from foreign control and domination. Since industry is a comparatively new sphere of economic action, it is Ceylon's trade which has always felt the heavy hand of foreign manipulation. For a nation whose economy is so strongly centred on export-import business, such domination has done grievous injury to our national interest".

Ceylon Government's policy "to break the foreign stranglehold" got under way on 5 July 1970 with the cancellation

of import licences of 15 Indian temporary residence permit holders. The licences cancelled related to import of dates from Iran. The import was entrusted to government agencies. Import of pulses, onions and spices from Bombay, jointly handled by the Co-operative Wholesale Establishment, and private traders mainly of Indian origin, was also taken over by the State Trading Corporation in January 1971. The sole monopoly of sheet rubber exports of all grades was re-vested in the Commodity Purchase Department.

Trade Minister T.B. Ilangaratne, said in Colombo on 21 November 1970. "There is no place for non-nationals in trade in Ceylon in future. They will not be allowed to operate even in retail trade which will be left to Ceylonese to operate in competition with the co-operatives, state shops and other state organisations". He told a Press Conference on 10 December that the state intended to take over the import and wholesale trade of all essential commodities.

The State Trading Corporation Bill was passed by the House of Representatives on 15 December 1970. The Bill provided for the establishment of a corporation or corporations to carry on business as an importer, exporter, supplier or distributor of goods, commodities, wares, merchandise and produce of any kind or description. The Bill armed the state with sweeping powers to regulate the powers and duties of such corporations and enabled the acquisition or requisition of any movable or immovable property.

The import of tea chests, which was formerly handled by 19 firms in the

private sector will now be handled by the Ceylon Plywood Corporation. The existing firms would continue to function as retail distributors of the Corporation. Ceylon imported tea chests worth Rs 15 mn in 1970.

The government plans to set up three corporations in the public sector: namely Heavy Construction Corporation, Film Corporation and Tea Corporation.

The Business Undertakings (Acquisition) Bill, which empowers the government to take over any business, was passed in the House of Representatives on 17 December 1970. Leader of the Opposition J.R. Jayawardene described the Bill as "a most dangerous weapon in the hands of any government". Ceylon's newly formed State Trading Corporation on 5 January 1971 took over the business of Henderson and Co. Ltd. in Colombo—one of the biggest tea and rubber exporting companies.

The nationalised Bunkering Service was inaugurated on 30 December 1970 by Mrs Bandaranaike. The Ceylon Petroleum Corporation took over all bunkering services from Burma Shell, Caltex and Esso from 1 January 1971. The Corporation is likely to earn about Rs 20 mn in foreign exchange and a further Rs 6 mn annually as charges and for other services. It plans to offer cut-price bunkering to attract foreign vessels to Colombo or Trincomalee for fuel.

The government has fixed 31 December 1971 as the target date for complete Ceylonisation. By that date Ceylonese personnel would replace foreigners in employment, trade and

business at all levels, excepting executive positions. Renewals of visas for such non-nationals would be progressively reduced. Avenues of trade and industry which became State monopolies in early 1971 will be totally closed to foreigners. In future visas for employment in Ceylon would be given to foreigners only if their places cannot be taken by Ceylonese or if their continued service was necessary in the interest of the country. The People Bank is preparing for the takeover of the business from the south Indian *Chettians* who are winding up their business in the wake of Ceylonisation measures and squeeze on immigrants.

In February 1971, the government announced that non-citizens who wished to leave their jobs either in the public or private sector before the retiring age would be able to draw proportionately reduced pension or gratuity. The measure was introduced to give an incentive to the repatriates, most of whom happen to be persons of Indian origin.

The worst affected by the measure are people of Indian origin mostly south Indians, as well as some Pakistanis, who are being refused visas for extending their stay in Ceylon for any form of employment, trade or business. The Ceylon Workers Congress, which represents vast majority of employees of Indian origin, on 30 January 1971 urged the government to adopt a more humane attitude in the implementation of its Ceylonisation policy which, they said, had caused Indian workers grave hardship.

External Affairs Minister Swaran Singh told the *Lok Sabha* on 10 November 1970 that Ceylon's nation-

alisation of certain types of business were non-discriminatory and it was incorrect to assume that steps were specially directed against nationals of India. Earlier, some members of the *Lok Sabha* had expressed concern over the frequency of unfortunate occurrences in which people of Indian origin had to leave their hearth and home in the countries of their adoption—first Burma, then the African countries, Malaysia and now Ceylon.

Foreign Trade

In 1969, imports rose by 13 per cent to Rs 2,653 mn in value while exports fell by 3.4 per cent to Rs 1,909—leaving a trade gap of Rs 744 mn. Prospects for 1970 were another heavy deficit—estimated at Rs 599 mn on trade account and Rs 99 mn on service account.

Ceylon's main exports in 1969 were tea (Rs 1,113 mn), rubber (Rs 431 mn), copra (Rs 26 mn), coconut oil (Rs 108 mn) and desiccated coconut (Rs 87 mn). Imports were rice (Rs 268 mn), fuel and lubricants (Rs 167 mn), chemicals (Rs 195 mn) and machinery and transport equipment (Rs 334.5 mn). Main trading partners were UK, China, Japan and USSR. China, as in the previous two years, continued to be the second largest trade partner following UK. This was mainly due to the rice-rubber pact between China and Ceylon.

Ceylon's existing bilateral pacts are mostly with Communist countries. The largest volume of trade is with China. The trade turnover with China was

Rs 520 mn in 1969 followed by USSR (Rs 180mn), East Germany (Rs 105 mn), Poland (Rs 50 mn), Rumania (Rs 34 mn), Czechoslovakia (Rs 17 mn), Hungary (Rs 14 mn) and Bulgaria (Rs 2 mn). Ceylon has also bilateral pacts with UAR, Iraq and India.

In June 1970, China offered to pay for her purchase of 2,000 tons of sheet rubber in hard currency "to help Ceylon tide over her financial impasse". Under a barter agreement signed in October 1970, Ceylon was to buy textiles worth Rs 43 mn from China in exchange for crepe rubber and coconut oil. Earlier in July 1970, Ceylon placed an order for 50 mn yards of textiles from China.

The last agreement provided for the purchase of 44,000 tonnes of sheet rubber in return for 213,000 tonnes of rice in 1970. Ceylon also supplied China 20,000 tonnes of rubber subsequently to offset purchases of various other commodities from China. In 1970, Ceylon imported 310,000 tonnes of rice from China compared to 221,000 tonnes in 1969.

The merchandise trade deficit with China for 1970 was expected to be around Rs 50 mn. Ceylon exported rubber, coconut oil and other commodities to China; and in return bought from China rice, textiles, chillies, yarn and thread, pulses, tea chests and few other items. Rice imports constituted about 75 per cent of the total imports from China. Ceylon also negotiated the sale of a large quantity of grade IV rubber to China outside the rice-rubber pact.

Under an agreement signed in Colombo on 21 January 1971, China

will supply 200,000 tonnes of rice in exchange for 41,000 tonnes of Ceylonese rubber. After signing the Chinese Foreign Trade Minister Pai Hsing-Kuo announced a reduction in the price of rice by five shillings per tonne from the agreed price of £ 35. China will, in addition, pay for Ceylonese rubber a premium of $6\frac{1}{4}$ per cent over Singapore market prices. China indicated its willingness to buy another 20,000 tonnes of sheet rubber.

The 1971 protocol was in two parts—the rice-rubber pact and the agreement on the exchange of other commodities. The turn-over on the two agreements will come to Rs 174 mn each way. On 1 May 1971, China signed a contract to buy 20,000 tonnes of rubber over and above 41,000 tonnes contracted earlier in January 1971.

The Ceylon Daily News (23 January 1971) called the trade protocol a sound business deal and said, "The Chinese have a long and well established international reputation as very able and honest traders with an unimpeachable record of rectitude in their commercial transactions. Sentiment has no place in the harsh domain of commerce". The daily earlier said, "China's contract for the purchase of Ceylon's entire surplus of sheet rubber lends some welcome resilience to our export trade. The Chinese trade agreement will give Ceylon's economy a useful face-lift. But it would be unwise to bind our fate to one country or one market for ever".

Under an agreement signed in Colombo on 6 August 1970, Burma agreed to supply 140,000 tons of rice by the end of 1970. The rice was needed to meet the immediate demands to

give two measures of rice ration. Burma earlier undertook to supply 50,000 tons of rice under an agreement signed in October 1969. The rice was purchased on one year's credit with 4 per cent interest at £36 per ton.

On 27 August 1970, Ceylon signed an agreement for the purchase of 10,000 tons of rice from Pakistan at £ 36 per ton. Pakistan gave one-year credit for this purpose. A Pakistani trade team arrived in Ceylon on 9 October to negotiate the sale of dried fish and the import of some more items from Ceylon. Pakistan is reported to be Ceylon's chief supplier of dried fish providing about the 60 per cent of the island's requirements. Pakistan had earlier negotiated for the purchase of about Rs 50 mn of Ceylonese rubber. A shipment of 10,000 tons of sugar from Pakistan arrived in March 1971. Trade exchanges between the two countries have been by and large balanced.

In June 1970, India agreed to supply 10,000 tonnes of sugar urgently needed by Ceylon in response to a request from the new Ceylonese Government. After a lapse of over seven years India entered coconut oil market in August and purchased 1,000 tons of oil. The State Trading Corporation of India also purchased 2,000 tons of copra. India's entry, it was stated, would give the industry badly needed fillip and stabilise the market. An agreement was signed in New Delhi on 7 August 1970 covering the sale of 10,000 tonnes of sugar on one year's credit and free of interest for early delivery. The Ceylon Transport Board (CTB) received 200 buses from India in January 1971. CTB has placed an order for 800 buses from India. The payment is to be spread over four years.

Sudan re-entered Ceylon's tea market after five years. It contracted to purchase five million pounds of mid-country and low-green teas.

A five-year bilateral trade pact signed between Ceylon and Bulgaria in November provided for the exchange of goods worth £ 1.5 mn. Ceylon will purchase machinery and equipment, sugar, dyes and chemicals etc. Bulgaria's purchases will be rubber, coir, fibre, spectacle frames, floor tiles, garments and some industrial products.

Trade Minister Ilangaratne visited UAR and Iraq in February 1971. The trade protocol signed in Cairo on 21 February provided for a two-way trade of Rs 108.6 mn. Ceylon will export tea worth Rs 42.9 mn and rubber, coconut products and cocoa worth Rs 11.4 mn. UAR will export 240,000 tons of crude oil, 10,000 tons of sugar and other commodities. The trade pact signed in Baghdad on 25 February 1971 provided for a minimum annual purchase of 40 mn lbs of tea during the next five years, Ceylon will import 40,000 tons of crude oil and 14,000 tons of dates annually besides other commodities.

Under a five-year trade pact signed on 12 March 1971, Ceylon will buy goods worth Rs 20 mn from East Germany and exports goods worth Rs 28 mn per year. The Rs 8 mn surplus available to the credit of Ceylon each year will go to reduce Ceylon's current debts to East Germany amounting to Rs 32 mn. The payments agreement provided for the transfer of Ceylon's surplus credit currently with UAR to East Germany's account. Ceylon has considerable credit reserve with UAR.

Foreign Aid

Foreign aid during 1970-71 is estimated at Rs 130 mn—Rs 87 mn as credits, Rs 17 mn as grants from funds abroad and Rs 26 mn as grants from funds in Ceylon. Biggest components of the lines of credits were :

- (a) IBRD (for Mahaveli project) ... Rs 30 mn
- (b) Asian Development Bank (for Uda Walawe Scheme) ... Rs 26 mn
- (c) International Development Association (lift irrigation and drainage) ... Rs 8 mn
- (d) Canada (for the State Timber Corporation) ... Rs 8 mn
- (e) Communist China (for the Bandaranaike Memorial Hall) ... Rs 19 mn

The eight-member committee headed by the Minister of Posts and Telecommunications C. Kumarasuriy, appointed "to review or confirm" development loans from the World Bank for highways, gas turbine project and Mahaveli irrigation project by the former government, recommended on 23 June that the terms and conditions of the loan for the Mahaveli development project should be re-negotiated.

Mrs. Bandaranaike during the election campaign had charged that terms of the loan were "too stringent and compromised Ceylon's sovereignty".

Her party branded the agreement "slavish" and promised to review it if voted to power. The project is estimated to cost \$ 1 bn and apprehensions were expressed that the World Bank would have tremendous influence over the Ceylonese economy for years to come.

In December 1970, the government put forward new proposals to the World Bank as a basis for re-negotiation of the Mahaveli loan. The World Bank's chief negotiator Peter Cargill carried these proposals to the Bank. The government also asked the World Bank to divert \$ 9.8 mn credit for the country's highway project for the purchase of equipment necessary for a programme of rehabilitation and improved maintenance of existing network of roads in Ceylon.

Under a £ 3 mn loan signed on 28 August, 1970, Britain would provide Ceylon fibre glass, rayon tyre cord, motor cycles, fork lift trucks and spares for motor vehicles, locomotives and aircraft as well as earth moving, construction and agricultural machinery and tele-communications equipment. This brought total British aid to £ 6 mn pledged at the Aid Ceylon Club meeting in February 1970. In 1971, Britain will make available a loan of £ 625,000 to Ceylon to improve water supply in Galle. Britain will also provide £ 700,000 for purchase of flour during the harvest year 1970-71.

Under an agreement signed in Colombo on 26 January 1970, Canada agreed to provide Rs 26 mn interest-free development loan for a mechanised logging project in the Sinharaja forest. The Cabinet on 12 August 1970 approved the acceptance of C\$ 2 mn interest-free

development loan from the Government of Canada. An offer of a gift of wheat flour worth C\$ 3 mn from Canada was also accepted,

In October 1970, Australia made a gift of flour worth A\$ 701,000 to Ceylon. An Australian Flour Mission paid a goodwill visit to Ceylon in November. On 16 February 1971, Australia agreed to give 9,249 tonnes wheat flour to Ceylon. Australia provides about one-fifth of Ceylon's flour requirements.

US provided \$ 14 mn in long-term credits for the purchase of upto 160,000 tonnes of wheat flour under an agreement signed in Colombo on 27 September 1970. The agreement provided for repayment over a period of 20 years. US has made available a total of \$ 56.47 mn to Ceylon for the purchase of food mostly wheat flour under the US Food for Peace Programme in the four-year period commencing from 1967. The total tonnage had amounted 540,000 tonnes.

Addressing a Press conference in Colombo on 4 June 1970, Finance Minister N.M. Perera said that he proposed to approach friendly countries including China not to press for debt repayments and to give Ceylon breathing time. He was negotiating with the Chinese Government regarding the payment of Rs 135 mn which fell due under the bilateral pact with China, "I hope our American friends will also show consideration", he said. The results of these negotiations have not yet been announced.

The Government on 2 August 1970 accepted an offer from China to sell 100,000 tons of rice on interest-free credit on deferred payment spread over

ten years. The Government had been facing a shortage of foreign exchange since it came to power and finding it difficult to purchase extra rice to meet ration requirements. A five-member Ceylonese economic delegation led by Trade Minister T.B. Hangeratne visited China and signed the loan agreement on 12 September 1970 in Peking. On return, the Trade Minister told a Press conference on 25 September that China had offered Ceylon an interest-free loan of Rs 50 mn.

Besides, Prime Minister Chou-En-lai was reported to have offered further assistance for :

- (a) the purchase of rice, subsidiary foodstuffs and textiles on the basis of long term credit to enable Ceylon to tide over its immediate difficulties ;
- (b) project aid for a complete survey of the country's mineral resources including petroleum and the development of fishing industry ; and
- (c) further assistance, if necessary, for the industrial development of Ceylon.

Under an agreement signed in Colombo on 27 May 1971, China would make available an interest-free long-term loan of Rs 150 mn to Ceylon to overcome its economic difficulties. The loan would be used to support the Government's programme of economic development.

China has been a generous dispenser of aid to Ceylon and unlike loans from

other institutions and sources all her loans from China have been interest free. With this loan, the total economic assistance made available by China amounted to Rs 405 mn—Rs 130 mn in grants and Rs 275 mn interest-free loans.

An economic delegation led by the Trade Minister visited North Korea in the third week of September. It signed a trade agreement and a protocol on economic, technical and scientific co-operation on 21 September. North Korea agreed to provide an interest-free loan of \$ 1 mn repayable over ten years as well as scientific and technical assistance.

The Trade Minister led a high power delegation to Russia, Yugoslavia and East Germany to negotiate trade and aid. In the context of Ceylon's critical foreign exchange situation, the question of commodity aid from Socialist bloc countries assumed special significance. The delegation left Colombo on 25 October and returned on 15 November 1970.

The delegation arrived in Moscow on 26 October to hold talks with the Soviet leaders on the conclusion of a long-term trade agreement and economic assistance. The Soviet Union offered a credit of Rs 50 mn repayable in ten years carrying three per cent interest per annum. The credit will be used for the purchase of machinery and equipment, helicopters and spare parts for the existing factories and plants—a flour mill, a tyre and tube factory and steel re-rolling factory.

The Soviet Union, which had purchased only 2,000 tonnes of tea per year in 1969 and 1970 now proposes to buy 4,000 tonnes in 1971 and 5,000 tonnes in 1972. USSR will also buy a larger volume of traditional products like coconut oil and Ceylon's new industrial products like spectacle frames, garments, sheets, towels and canned fruits.

The Soviet Union will supply Rs 2 mn in money and materials for a pre-fabricated housing factory to be set up at Ratmalana as a gift. The factory will have a capacity of 18,000 houses a year. Earlier, a Soviet team visited Ceylon to prepare the feasibility report. A seven-member delegation of steel experts, headed by A.S. Konin, arrived in Ceylon on 28 January 1971 to study the second stage of the Oruwala steel re-rolling project. USSR also offered Moskovitch and Volga cars in exchange for tea, rubber, coconut and other local products.

The Soviet Union is reported to have offered to set up a nuclear reactor, radio chemical laboratories, thermal and hydro power station and power transmission lines in Ceylon. Since the United Front Government came to power, there appears to be some competition between Soviet Union and China in their offers of interest-free or low-interest long-term credits, convenient barter deals, deferred payments, rescheduling of debts, purchase of Ceylon's traditional commodities and gifts of plants.

East Germany in November 1970 agreed to allow the existing line of credit for machinery and equipment to be used for the purchase of fertilisers,

dyes and pigments and industrial raw materials. Ingra-Konstrukter of Yugoslavia agreed to grant a temporary credit of \$ 1 mn to Ceylon to meet its immediate obligations. Under the proposed scheme, the Yugoslav organisation will provide machinery and technical services for joint ventures in fruit processing and production of fish meal.

On 9 February 1971, Ceylon and Japan exchanged notes in Tokyo, under which several Japanese banks together will provide a yen credit of \$ 6 mn to enable Ceylon purchase fertilisers, steel plates, tyres, tubes and fishing devices from Japan. The loan will be redeemable in 20 years after a seven year grace period at an annual interest rate of 5 per cent. A team from Japan visited Colombo in February 1971 to study the gem industry in all its stages. Japan would buy gems from Ceylon once the Gem Corporation was formed.

During his visit to India, Minister for Industry T.B. Subasinghe discussed with Minister for Industrial Development Dinesh Singh on 21 December 1970 the possibility of further collaboration in the industrial field between the two countries. Ceylon was interested in Indian assistance for setting up automobile tyres and tube factory and also a graphite production unit. Subasinghe expressed his country's interest in developing a vast network of small-scale industries. Dinesh Singh assured him that India would be happy to extend assistance in this field. Ceylon was reported to have asked India for a Rs 100 mn commodity aid loan to import industrial and agricultural goods from India. Ceylon imported from India bus chassis and industrial goods against a Rs 50 mn loan given two years ago.

The 7th meeting of the Aid Ceylon Group which met in Paris on 28 and 29 April 1971 agreed with Ceylon Government's view that the country required substantial economic assistance. According to an IBRD report, Ceylon needed 60 to 70 million dollars of assistance if she was to tide over her balance of payments crisis which had worsened since the report was written in view of the damage suffered by the economy due to the April insurrection. Upto the end of March 1971, Ceylon had received Rs 1230 mn worth of commodity aid from the Group since 1965. There was a carry over of Rs 50 to 60 mn from previous aid programmes. Commitments in 1971 were expected to exceed those in 1970.

Foreign Debts

Foreign loans outstanding on 1 January 1970 aggregated Rs 1,375.5 mn—Rs 89.3 mn sterling loans, Rs 501.6 mn project loans and Rs 784.6 mn commodity loans. Important loans (in Rs mn) were :

Country	Amount	Country	Amount
USA	350	East Germany	89
UK	183	USSR	85
West Germany	158	Canada	55
IBRD	156	France	42
Japan	94	China	34
		India	27

(Source : EIU (London), *Quarterly Economic Review*, Ceylon, June 1970)

In an article captioned "Debt Explosion looms in Ceylon", the daily

Hongkong Standard (19 October 1970) reported: "A debt explosion looms large in Ceylon's immediate horizon. Mrs Bandaranaike's United Front is making every effort to avoid it. Overburdened subsidies—free health and education, rice at below cost, public transport at the cheapest rates in the world—provided regularly to its 12 million citizens over the past two decades have sent Ceylon deeper and deeper into debt".

"East and West, Socialist bloc-countries as elsewhere responded willingly and generously each time Ceylon sent out an SOS for aid. Assistance in all forms—project aid, commodity aid, credit lines—came in steadily. But now the day of reckoning has come. Further loans have been sought and negotiated. The government is hopeful that at least supplies of food will be regular. But at what cost? Not only does Ceylon now beg for more—it now also begs for the postponement to pay its debts. Industrial expansion is grinding slowly to a halt partly because of the heavy clamps on the import of raw materials and machinery. Heavy import curbs in other spheres have also been introduced".

Foreign debts in recent years have resulted in the accumulation of debt servicing burdens and 1971-72 would have been a very difficult year. After negotiations and diplomatic efforts the West German Bank from which Ceylon had borrowed Rs 150 mn early in 1970 had given a nine month extension. The loan was due for payment in March 1971. Meanwhile IMF has also 'rescheduled' a debt of Rs 210 mn—allowing Ceylon another two-year grace period to meet this commitment. Ceylon has thus got

a little breathing space on the critical financial front, according to the *Ceylon Daily News* (12 February 1971). Local financial circles, however, felt that the climate in 1971—for all imports, machinery, industrial raw materials, consumer goods etc—would depend on the stand-by credit of Rs 150 mn which Ceylon had been pressing on IMF to extend. In March 1971, IMF announced the approval of a stand-by arrangement for \$ 24.5 mn.

Communications

The Colombo international airport at Katunayake was renamed as Bandaranaike International airport on 8 January 1971. Air Ceylon now operates services to Bangkok, Singapore, Bombay and Karachi. Negotiations are under way for flight rights to other regional capitals in this area.

In April 1970, the Asian Development Bank approved a loan of \$ 2.6 mn for the construction of a new deep water tanker berth in Colombo harbour. When the project is completed, 60,000 ton tankers will be able to deliver crude oil for refining. At present, the harbour can take in tankers upto 25,000 ton capacity. The government is considering plans to convert Trincomalee into a modern port. A French firm of engineers has offered to undertake the project on a pay-later-from-profits scheme. The establishment of an oil refinery has also been suggested because of an abundance of oil storage tanks with a total capacity of 100,000 tons. The Government is seeking help of the World Bank for developing Trincomalee port.

Minister for Shipping PBG Kalugalle said on 1 September 1970 that the Ceylon

Shipping Corporation would start with an initial sum of Rs 150 mn—capital expenditure to be incurred for the purchase of first five ships by the end of 1971. The Corporation already owns one vessel, "The *Maldiva Explorer*". It purchased a 15,000 tons freighter "*Finnamore Valley*" from a British company in Singapore. It was renamed "*Lanka Ran*". Fifty officers and seamen were sent to Singapore in January 1971 to man the ship. The ship's skipper and the Chief Engineers were to be nominated by the German bank which advanced 90 per cent of the vessel's cost. The Corporation was converted into a fully state-owned Shipping Corporation on 6 June 1971.

UK-Ceylon Conference Lines announced the imposition of 15 per cent freight surcharge on imports to Ceylon from 15 July and 12½ per cent surcharge on exports from Ceylon operative from 15 August. Commenting on this, the *Ceylon Daily News* of 20 July 1970 said, "The surcharge will prove to be a big burden on the economy of the country. This issue again highlights the need for Ceylon to go ahead rapidly with the building up of her merchant fleet. The Maldives are a standing example to Ceylon in this respect". The Ministry of Shipping lodged a protest over the Conference Lines' decision to impose further surcharge of 15 per cent on exports from Ceylon operative from 4 November. The Lines later agreed to remove the surcharge from 1 May 1971 on exports.

Commencing from 1 June 1971, rail, bus and internal air service fares were increased. The increase would constitute a significant step in developing Ceylon's

transport services, said the Communications Minister Leslie Goonewardene in a radio talk on 29 May 1971. "As we go forward on the socialist path, state enterprises, instead of being subsidised by the State, must increasingly supply the state with the capital required for the country's development," he said.

A radio network was installed in Ceylon to enable provincial police to be in constant contact with the headquarters. About 25 transmitters were installed by May 1970.

An earth station, with an international automatic telephone exchange, for communication via satellites is to be established in Ceylon with assistance from the Asian Development Bank. In June 1971, the Bank announced a loan of Rs 25 mn for the project. It will link Ceylon with Britain and other European countries. The entire island, except the Northern and Eastern provinces, will come under direct dialling by mid 1972 when the Rs 70 mn Outer Colombo Area Development Scheme is completed. The project is being installed by Nippon Electrical Company of Japan. They have agreed to deferred payment.

POLITICAL DEVELOPMENTS

General Elections

Elections to the House of Representatives were held on 27 May 1970. In a landslide victory the left-oriented United Front headed by Mrs Bandaranaike routed the ruling United National Party of Dudley Senanayake and returned to power with an overwhelming majority.

The final party position in the Parliament is :

	No of seats	% to total
(i) The United Front		
(a) Sri Lanka Freedom Party (SLFP)	91	60
(b) Lanka Sama Samaj Party (LSSP)	19	13
(c) Communist Party	6	4
	<hr/>	<hr/>
Total :	116	77
	<hr/>	<hr/>
(ii) United National Party (UNP)	17	11
(iii) Tamil Congress	3	2
(iv) Tamil Federal Party	13	9
(v) Independents	2	1
	<hr/>	<hr/>
Total :	151	100%
	<hr/>	<hr/>

Tamil Congress later declared its support to the ruling United Front. Six members were nominated by the Governor-General on 31 May. They included two persons of Indian origin. Mrs Bandaranaike's own party SLFP has now enough seats to form a single party government. It increased its strength to 91 from 41 in 1965. The other two partners of the coalition LSSP (Trotskyites) and Communist Party also made gains.

Former Prime Minister Duldey Senanayake attributed the defeat of his party principally to the female vote going to the United Front on account of the promise to restore the cut in rice ration. The cut had caused widespread resentment amongst the people. Simmering popular resentment over growing unemployment, labour unrest and soaring cost of living outstripping gains in earnings during UNP rule reportedly snowballed into a massive support for the coalition.

New Cabinet

The new 21-member Cabinet headed by Mrs Bandaranaike was sworn in on 31 May. Seventeen Ministers were from SLFP, three from LSSP (Trotskyites) and one from Communist Party. For the first time a Communist member was included in the Cabinet. On 7 June, 18 junior Ministers were sworn in by the Governor-General. Portfolios of finance, communications and plantation industry went to Trotskyist LSSP and posts and tele-communications to the Communist Party.

General Administration

All army officers and other ranks who had been accused of conspiring to stage a coup against the former government in 1966 and acquitted in January 1970 by the Supreme Court were ordered on 30 May to be reinstated. All public servants dismissed for political activities by the previous government were also reinstated.

In an overhaul of the diplomatic corps, fifteen of Ceylon's seventeen representatives abroad were recalled. The two exceptions were Ceylon's Permanent Representative to UN and its ambassador to Burma. A few heads of public corporations and several directors, which were reported to be political appointments, resigned their posts. Several changes were made at the district administrative level.

The Ceylonese Administrative Service was reconstituted from December 1970. Under the re-organisation, the five-class structure was reduced to three. The new scheme will have 100 officers in Class I, 300 in Class II and 800 in Class III. Fifty-five per cent of the officers in Class III will be selected through the Public Service Commission (PSC) on the basis of open competitive test, 25 per cent by the PSC on the result of limited competitive examination and the rest of 20 per cent by promotion of suitable officials from lower ranks.

The government decided to make the administration more democratic and link it closely with the people through :--

- (i) elected Employees' Councils,
- (ii) Advisory Committees in government offices and
- (iii) People's Committees on territorial basis.

The government plans to set up District Development Councils consisting of the local heads of departments and Members of Parliament. The 22 administrative districts at present will be expanded to 30. There is also a

proposal to set up Divisional Development Councils which will be responsible for planning, programming, reviewing and control of developmental activities. The plan aims at reconstructing and decentralising the administration. Mrs Bandaranaike said in Colombo on 16 November 1970 that although Ceylon had been independent for 22 years it was still saddled with a colonial administration.

On 9 March 1971, the government appointed a *Janata* Commissioner to coordinate the activities of nearly 9,000 *Janata (People's) Committees* in the country. Each committee, representing a ward of a local body, will have 11 members who will be nominated. The Committees will have the powers to probe into abuses in public life and lack of amenities for the people etc. They can make suggestions to the proper authorities and also the concerned department on any matter. The measure is aimed at bridging the gap between the bureaucracy and the people.

The Cabinet on 6 February 1971 approved a proposal for the establishment of the Office of Special Commissioner for Investigations, similar to the institution of Ombudsman. It will deal with complaints of undue delay in transacting public business, neglect, inefficiency, bias, discretion in the performance of public duties against the higher authorities. The appointment will be made by the Governor-General for a fixed term of years. There is a proposal to set up a Press Council to ensure the freedom of Press, prevent abuses by the Press, maintain high professional standards, disseminate information of national interest, define a professional code of ethics for journalists and advise the

government in matters connected with the Press. It would act as "a watch dog" over the country's newspapers.

Constitutional Changes

The House of Representatives on 27 October 1970 voted by 117 to 16 to abolish the Senate. The opposition United National Party has a majority in the Senate. Government leaders have said that the UNP dominated Senate had been the biggest stumbling block to the United Front's programme of progressive legislation. On 21 May 1971, the House of Representatives passed the Senate Abolition Bill for the second time by 113 against 15 votes.

Ceylon's first Constituent Assembly came into being on 21 July when the 157-member House of Representatives resolved unanimously to constitute themselves as a legal body to frame a new republican Constitution for Sri Lanka.

Draft basic resolutions for the new Constitution were introduced in the House of Representatives from March 1971. Salient features of the new Constitution are as follows :

- (i) **Sri Lanka** shall be a free, sovereign and independent republic.
- (ii) The Republic shall be a unitary state.
- (iii) Buddhism, the religion of the majority of the people, shall be given its rightful place while assuring all religions the rights granted by a basic resolution.
- (iv) **Sri Lanka** shall be a Socialist Democracy.

(v) The official language shall be Sinhala. The use of Tamil language shall be in accordance with the Tamil Language (Special Provisions) Act of 1958. All laws shall be enacted in Sinhala. There shall be a Tamil translation of every law enacted.

(vi) The National Assembly shall be supreme instrument of state power. The legislature shall be uni-cameral. It shall function for six years. The Constituent Assembly shall be deemed to be the first National Assembly. It will have full control over finance.

(vii) There shall be a President of the Republic who shall be the Head of the State and the C-in-C of the Armed Forces. The President shall, except as otherwise provided, act on the advice of the Prime Minister.

(viii) The President shall appoint as Prime Minister, the member of the National Assembly who, in his opinion, is most likely to command the confidence of the Assembly. The President shall appoint from among the members of the National Assembly a Council of Ministers of which the Prime Minister will be the head.

The framework of new Constitution was finalised by the Constituent Assembly on 10 July 1971.

Tamils

Mrs Bandaranaike said in the House of Representatives on 24 June 1970 that her government had appointed a Tamil as Minister in her Cabinet and given representation in the Parliament to Indian Tamils, plantation labour and other minorities like the depressed classes. She was also working in other ways to bring the people of all races and creeds together. She appealed to the Tamil Federal Party not to be a stumbling block in the way of Sinhalese-Tamil unity by following divisive policies. The Governor-General in his Throne Speech on 14 June said that the government will implement the Tamil Language (*Special Provisions*) Act fully and fairly.

On 4 July, Mrs Bandaranaike assured a delegation of minority scheduled caste Tamils that she would bring forward amendment to the Social Disabilities Act to protect their rights. The situation in Kankasanturai in north Ceylon became tense following the government's order to Police on 6 July 1970 to ensure unhindered entry to all temples including the historic Maviddapuram temple. The festival at the temple scheduled to begin on 8 July was postponed indefinitely when a group of Harijans forced their way into the temple. The place has been the scene of clashes over the past few years between the high and low caste Hindus as a result of the temple trustee's decision to bar entry to Harijans.

In June 1970, the government stopped the activities of the three foreign agencies operating in Ceylon—Asia Foundation (US), American Peace Corps and Lanka Foundation (financed

by a West German agency). The government denounced these as subversive imperialist agencies. The agencies wound up their establishments by 1 October 1970.

INSURGENCY

A major problem for the new government was the revolutionary organisation *Janatha Vimukthi Peramuna* (People's Liberation Front), popularly known as "Che Guevarists". It is a loose collection of "disenchanted youth"—mostly University graduates and students whose objectives, set forth in their pamphlets, included the containment of unemployment, rapid Ceylonisation and the speedier end to the privileged and affluent classes. The JVP initially campaigned in support of United Front in the 1970 elections. Upto the end of 1970, their activities had been largely non-violent.

Janatha Vimukthi Peramuna (JVP)

The leader of the movement was reported to be Rohana Wijeweera (27) whose scholarship at the Lumumba University was terminated by the Soviet authorities for distributing Maoist literature. On return, he joined the Ceylon Communist Party (Peking Wing) led by Shamugathasan. He later left the party and organised the *Janatha Vimukthi Peramuna*. Another leader of the movement is Mahinda Wijesekera, President of the Marxist University Students Federation of Ceylon. The party, it is said, is "armed with the theory of Marxism and Leninism using the method of self-criticism and linked with the masses of the people". The Peking-oriented Communist Party was more disturbed about the movement than

any other political party. Members of the organisation contended that they have been incorrectly labelled as "Che Guevarists". "We are national liberators... We are definitely admirers of Che, Mao and Ho Chi Minh but we have our own plans and theories", said one of their leaders in early August 1970.

The seeds of the movement were sown sometime in late 1964 or early 1965. Police got a hint of the existence of the movement in 1966 when it was in its embryonic stage. From 1968, it began establishing cells throughout the island and training youths in revolutionary organisation. As the elections of May 1970 drew nearer their activities reportedly registered a marked rise. Soon after the elections, the movement started off with a campaign of hand written red-lettered wall posters denouncing the ruling and opposition parties and later on openly distributed a printed news sheet preaching their ideology. The news sheets hailed Mao's thoughts and Guevara's revolutionary theories.

Rohana Wijeweera, General Secretary of the *Janatha Vimukthi Peramuna* addressing a Press conference on 20 September 1970 in Colombo denied that they were an insurgent organisation intent on unleashing armed insurrection in the country. He added that his party followed a Marxist-Leninist doctrine and wanted 'true socialism' for Ceylon. He claimed that theirs was a peaceful movement, an ideological struggle aimed at presenting the correct picture to the people. He attacked capitalism, imperialism and Indian "expansionism". The strength of the organisation was claimed to be between 11,000 and 20,000 in early 1971.

There had been increased Police activity to meet this potential threat and necessary precautionary measures were initiated. The Police took into custody 60 persons who were suspected to be supporters of the movement in May 1970. In August 1970, three young persons were arrested at Narahenpita, 11 near a forest at Agalawatte, about 100 youths in Vavuniya jungles in northern Ceylon and 61 at Seeduwa, 24 km from Colombo and were interrogated to determine if they were connected with any insurgent movement.

Four persons suspected of being members of an insurgent movement were arrested by the Paiyagala police on 16 February 1971. On 20 February 1971, the Gampaha magistrate released 41 youngmen suspected to be members of an insurgent organisation after three-week detention. They were earlier arrested in Weliveriya. Police reported in January 1971 that a "Naxalite trend" was becoming evident in the Jaffna peninsula, northern Ceylon, following a series of incidents similar to Naxalite activities in India.

Spurt in subversive activity was reported in early March 1971 when a police sub-inspector was stabbed to death during a demonstration on 6 March against the US Embassy in Colombo by a 150 strong Mao Youth Front - a splinter group. Bombs were thrown at a vehicle belonging to a former MP and Mayor of Jaffna, an attempt was made to kidnap a Minister and there were discoveries of a large quantity of handbombs and other explosive materials at a number of places. The Police unearthed a cache of 45 home-made bombs on 15 March

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The Police later seized a large quantity of detonators, gelignite, sticks of dynamite, gun powder, crushed glass, bottles, wire nails and petrol —“a veritable arsenal”, in the Ceylon University campus on 25 March.

State of Emergency

The Government declared a State of Emergency on 16 March 1971 to curb the increasing subversive activities in the island. Security forces were deployed on key positions and strategic points. The Police carried out series of raids and over 450 persons including Rohana Wijeweera and Mahinda Wijesekera were taken into custody in March 1971.

In broadcast to the nation on 17 March 1971, Mrs Bandaranaike spoke of attempts by insurgent elements to cause chaos and confusion to capture power. Referring to “Che Guevara movement” she said that its aim appeared to be to bring about, what it called socialism by violence and bloodshed. She invited the youth to enter the mainstream of the national life. She cited the example of India to advocate free and unhindered use of the ballot paper for effective expression of the popular will for change and progress.

Explaining the reasons for the declaration of a State of Emergency, Mrs Bandaranaike told the House of Representatives on 23 March 1971 that there had been for some time a growing insurgency movement — *Janatha Vimukthi Peramuna*, aimed at the overthrow of the constitutionally elected government by violence. It contained a number of splinter groups with similar ideas and

anarchist objectives. Their activities included the holding of indoctrination classes, training in guerrilla warfare and manufacture of explosive materials. Large scale thefts of guns, explosives, corrosive acids and dangerous substances were reported in different parts of the islands. In these circumstances, the Government was obliged to invoke the Public Security Ordinance on March 7 and call troops and deterrent action against the conspirators had become necessary, she said.

Addressing a mass rally in Kandy on 2 April 1971, Mrs Bandaranaike charged that Wijeweera and others had become “scapegoat for vested interests”. Their activities, she said, were an insult to that great leader—Che Guevara.

April insurrection

In a special broadcast over Radio Ceylon on 6 April 1971, Mrs Bandaranaike told the nation that her Government had foiled a determined attempt by “Che Guevara” insurgents to take over Colombo and other parts of the islands. Insurgents armed with guns and handbombs attacked 74 police stations and succeeded in disrupting power supply, road and rail traffic and tele-communication links. The armed services, particularly the Police, were singled out for attack. The terrorists were reported to have planned to capture the Prime Minister “dead or alive”.

The insurgents were armed with a variety of weapons from automatics of a fairly recent vintage to remodelled World War II relics. The security forces captured shotguns, muzzle loading guns,

toy pistols, sickles, axes, spears, crackers, handbombs, equipment for signalling and first aid bags etc. from the insurgents. Tea and rubber estates, which offered ideal terrain for guerrilla fighting, were their chief targets. They seized a large quantity of dynamite from the island's richest graphite mines area in Kegalle district in the central region. They seized guns and other fire arms from civilians and plantations. They felled rubber trees to block high-ways.

They were clad in blue uniforms—in blue shirts, dark trousers or *shorts or sarongs*. Some of the captured terrorists were found with shaven heads in their attempts to disguise themselves as monks. They commandeered buses belonging to the state-owned corporation and private trucks and cars. They used forced labour to destroy culverts and bridges. They looted banks in some areas and seized currency. The insurgents flew on the occupied buildings red flags with the hammer and sickle emblazoned across it in yellow. The words *Janatha Vimukthi Peramuna* were painted on these.

Practically all of them were Sinhalese youths. The terrorists had no hold in the Tamil dominated area in the north and the area was free from insurgent activity. The insurgents reportedly enticed or forced teen age youths at gunpoint to join their depleted ranks in certain areas especially Elipitiya, Batapola, Kandy and Galagedra. They were fed either voluntarily or at gunpoint by rural dwellers. They also raided food stores. At the height of the insurgency, they had occupied hills across the length of the island: their deployments were in temples, schools and estates starting from Anuradhapura

to Galle. Their headquarters were believed to be at Maho, 100 km north of Colombo.

Some policemen, *grama sevaks* and other persons who helped the security forces were brutally murdered by the terrorists. They also indulged in looting, arson and destruction.

Speaking on the gravity of the situation, Mrs Bandaranaike in a broadcast to the nation on 9 April, described the insurgent movement as a terrorist movement hatched in secret, nurtured in jungles and motivated by a lust for power. "It is now clear that this movement is being backed by big money, diabolic minds and criminal organisers who had operated through youngmen and women whom they have successfully led astray", she said. She felt sorry for "the misguided youths" who laid their lives through youthful folly. As a mother, she appealed to them "to drop off from their mad campaign of destruction and come back to saner living".

At the height of the insurgency, the insurgents were in control of some trunk roads including the Colombo-Kandy highway where they had set up several road blocks. The road was cleared by an armoured column. Insurgent activity was particularly severe in certain parts of Kegalle, Kurunegala, Anuradhapura Polonnaruwa Deniyaya, Elipitiya, Ambalangoda, Amparai and Wallewa. Senior military officers were appointed as Co-ordinating Officers in the districts of Kegalle, Kurunegala, Matale, Anuradhapura, Kalutara, Galle, Matana, Hambantota, Ratnapura, Polonnaruwa, Amparai, Badulla and Monergala to assist the civil adminis-

tration, free areas from terrorists' control and the rounding of insurgents.

Mrs Bandaranaike told the Parliament on 20 July 1971 that the week immediately following 5 April was "an extremely vital week and the Armed Forces and the Police had to struggle against many odds during this period". After the first critical week was over, security forces were able to move from purely defensive action into the offensive.

The Government took strong and swift action to crush the insurgents. Armoured vehicles and artillery were also used in some places. Aircraft of the Ceylonese Air Force strafed concentrations and suspected pockets of insurgent activity. The JVP was outlawed.

By mid April, the security forces had consolidated their grip over the island and the backbone of the insurgency was broken. The insurgency was contained at the end of April and the situation was brought under control in early May. Abandoned and vacated police stations were re-established.

Amnesty was granted to the insurgents from May 1 to 4 and later from June 7 to 9. About 6,500 surrendered following the offer of amnesty. In July 1971, the total number of persons in custody was 14,000. They were detained in rehabilitation camps and were being released after screening.

Prime Minister Mrs Bandaranaike told the Parliament on 20 July 1971 that total deaths did not exceed 1,200. These

included members of security forces, terrorists killed in action and combing out operations and those killed by the terrorists themselves. Security forces suffered 60 killed (including 35 policemen) and 312 injured (including 194 policemen). She, however, cautioned about the possibility of isolated attacks by certain desperate terrorist elements who had not yet been apprehended.

The strength of the insurgent force was estimated at a minimum of 10,000. There were 200 to 300 girls in their ranks mostly nursing the wounded and stitching the blue uniforms of the insurgents, disclosed the Armed Forces Commander Maj-Gen Sepala Attygale on 21 April 1971 in Colombo. He described the insurgents well-disciplined and well-educated young persons mostly in the 18 to 20 years age group from middle class families. Some Western reports even suggested that at the height of rebellion the insurgents outnumbered the security forces, estimated at 20,000 to 25,000.

Most of them had attended indoctrination courses. They were given a series of five lectures on Sinhalese nationalism, Ceylon's links with its former colonial rulers, history of Ceylon's left wing movement, existing Parliamentary framework and Indian expansionism. The organisation also preached the need for armed action, provided instruction on the techniques of manufacturing handbombs and other explosives, and handling of weapons as well as other guerrilla type activity. Indoctrination classes were conducted since 1966 in the jungles, university backyards, monasteries and other places.

The JVP was suspected to have drawn inspiration from North Korea and China—especially Mao's thought and Kim Il Sung's philosophy. The North Korean embassy in Colombo was ordered to be closed on 15 April 1971 on the ground that by their activities they had indirectly contributed to insurgent activity. The Government, however, denied any Chinese or foreign involvement in the insurgent activity.

Ceylon made requests to several friendly countries for military assistance and India was the first to respond within 48 hours followed by Britain. India loaned six helicopters and their crew for relief, rescue and other humanitarian duties. Five frigates of the Indian Navy assisted in patrolling Ceylonese waters to prevent possible gun running and illicit incursions from the sea. On 23 April, Mrs Bandaranaike thanked India, Britain, US, Russia, UAR, Pakistan and Yugoslavia for coming to the assistance of her Government with military aid.

Speaking in the House of Representatives on 4 May 1971, Minister of Home Affairs Felix Dias Bandaranaike disclosed that it was "a hair breadth escape." "It looked as if our army would run out of ammunition before the enemy did. We escaped by the skin of our teeth," he revealed.

Crisis not only political but also economic

Commenting on India's help in the crisis, the *Financial Times* (London) of 16 April 1971 said, "The Indians have played a significant role in helping Ceylon Government in the present crisis. Five of their warships are in

Colombo harbour and six Indian helicopters arrived earlier this week. Additionally, it appears that at night Indian troops guard the airports at Kautnayake and Ratmalana, both near Colombo, to relieve the hard pressed Ceylonese security forces."

Harvey Stockwin wrote in the *Financial Times* (London) of 16 April 1971 that the security situation has improved but the crisis— not only political but economic—continued. "Almost out of sight but very real is the fact of the country's almost empty treasury and dire economic straits with imperative armed forces expansion, an additional potentially crippling burden", he said.

It is often claimed that JVP is an expression of the frustration and disillusionment of the educated but unemployed youth. Ceylon's economic difficulties—food shortages, rising cost of living and unemployment—have been the fertile soil for JVP.

Frustration among the youth over the employment opportunities was a major reason for the insurrection in Ceylon said Prof Dudley Seers of Britain, Chief of the ILO's Employment Mission, on 30 April 1971. The JVP had concentrated on the rallying cry of full employment. The JVP maintained that the ruling coalition Government which includes three Trotskyites and one Communist was not in a position to carry out the necessary reforms. According to the *Guardian* (London) of 14 April 1971, the insurgent movement was undeniably a manifestation of the economy's failure to expand rapidly enough to support a population growth 2.5 per cent.

The latest wave of unrest in Ceylon took place in the background, of economic crisis—falling exports prices and rising prices of imports, reported the *Financial Times* (London) of 7 April 1971. Minister for Home Affairs Felix Dias Bandaranaike, speaking at a news conference in Paris on 5 June 1971, attributed the uprising to economic factors rather than to political grievances.

Broadcasting to the nation on 24 April, Mrs Bandaranaike said that the terrorist insurrection was no haphazard adventure. It was a part of carefully prepared plan to seize power in a single day. The crucial attacks on Colombo, Kandy, certain vital installations and the Army Camp at Panagoda did not come off following security precautions. The Government, she said, was militarily unprepared for the kind of concerted armed attack that the terrorists launched. She described them as “a group of disgruntled and designing persons drawn from the rejects and the unwanted of practically every recognised political party, motivated by overweening personal ambitions, personal frustrations and disappointments and ready for instant solutions to all ills of the world.”

She explained that expenditure on defence had been minimised over the years to divert resources to agriculture and industry with the aim of raising the standard of living of the people and bringing about prosperity. “Democracy would appear to be a slow moving and even cumbersome process but it is definitely better than a rule imposed and continued by the shotgun and handbomb,” she emphasised. She appreciated that today’s youths were impatient for change but these had to

be within the framework of democracy. Promising progressive socialism which was begun by her late husband, she asked for time “to deliver the goods.”

Mrs Bandaranaike told the Parliament on 10 July 1971 that the insurgent uprising had dealt a severe blow to the country, particularly in economic terms, at a time when “we had to strain every nerve and sinew to ensure rapid economic growth”. A great deal of money would have to be channelled to maintain the security set up following the expansion of armed forces.

FOREIGN RELATIONS

Foreign Policy

Outlining the new government’s foreign policy, the Governor-General told the Parliament on 14 June 1970 that his Government will pursue an independent foreign policy guided by Ceylon’s national interests and based on:—

- (i) non-alignment with any power or power blocs;
- (ii) the principles accepted at the Bandung Conference of 1954, the Belgrade Conference of 1961 and the Cairo Conference of 1964;
- (iii) opposition to imperialism, colonialism and racism;
- (iv) solidarity with and support for all national liberation struggles against imperialism and colonialism; and
- (v) the maintenance of friendly and mutually beneficial relations with all states that respect Ceylon’s independence.

Winding up the debate on the Throne Speech on 24 June, Mrs Bandaranaike said that non-alignment did not mean sitting on the fence. She charged that the previous government had only paid lip service to the policy of non-alignment. She dismissed the allegation that with her left-of-the-centre foreign policy, Ceylon was getting into the Communist bloc. She declared, "We are not on any side." She also assured that the Indo-Ceylon Agreement of 1964 (Sirimavo-Shastri Pact) would be implemented fully both in letter and spirit.

Diplomatic relations with East Germany, North Korea and North Vietnam were established. On 11 August 1970, the Government announced full diplomatic recognition for the Viet Cong's Provisional Revolutionary Government in South Vietnam. Earlier Madam Nguyen Thi Binh, Foreign Minister in the Provisional Revolutionary Government in South Vietnam, paid a three-day visit to Colombo commencing from 27 July. A six-member parliamentary delegation led by the Speaker of the House of Representatives Stanley Tillekeratne paid a five-week goodwill visit to North Korea, USSR and East Germany commencing on 23 August 1970.

On 29 July 1970, the Government announced its decision to suspend diplomatic relations with Israel "until such time as the Government of Israel either conforms to the resolutions of the United Nations Security Council and withdraws its armed forces from the territories of UAR, Syria and Jordan or arrives at any solution acceptable to the Arab states concerned". UAR hailed Ceylon's decision to sever links with Israel. Economic black-mail by two of

the biggest Jewish controlled concerns in Britain dealing in tea—Marks and Spencer and Lyons—reportedly precipitated the Ceylon Government's decision as a gesture of solidarity with Arab countries.

Mrs Bandaranaike attended the third non-aligned summit conference held in Lusaka from 8 to 10 September 1970. She was accompanied by Minister of Home Affairs Felix Dias Bandaranaike. Addressing the conference on 9 September she called for the establishment of a positive machinery to make non-alignment meaningful and worthwhile. She also called for the withdrawal of US and other foreign forces from Vietnam and pledged full support for the Arab countries in the West Asia war. She called for the Indian Ocean area to be declared a nuclear free zone and an area of peace.

While returning from Lusaka, Mrs Bandaranaike paid a week's visit to France beginning from 14 September. She had talks with President Pompidou and other government leaders on economic and industrial matter besides international situation especially in Vietnam. Ceylon and France signed a cultural agreement on 16 September to promote the exchange of University professors and students as well as technological co-operation.

French daily *Le Monde* said in an editorial dated 16 September, "France is favourable to Ceylon's efforts to achieve independence from the two world blocs. Ceylon's foreign policy does not mean that Colombo leaders wish to do without western aid. But they want to reduce progressively their traditional dependence on Anglo-Saxon

world. Mrs Bandaranaike's visit to France in one sign of this".

Mrs Bandaranaike visited Cairo to attend President Nasser's funeral on 1 October 1970.

Mrs Bandaranaike arrived in Singapore on 10 January 1971 at the head of an eight-member delegation to participate in the Commonwealth Heads of Government Conference held from 14 to 22 January 1971. Speaking at the conference on 15 January, she said that any sale of arms to South Africa, would create all-pervading bitterness. South Africa, she added, had outraged the conscience of the world by her defiance of UN resolutions, conception of human rights and world opinion generally by persisting in apartheid policies. She strongly opposed the construction of an Anglo-US communication base on the Indian Ocean atoll of Diego Garcia. She also raised the question of admitting China into UN and economic co-operation among Commonwealth countries.

On 21 January 1971, Mrs Bandaranaike while introducing Ceylon's special paper on the Indian Ocean called on all Commonwealth countries to support its proposal for turning the Indian Ocean into a neutral nuclear-free zone guaranteed by the Big Powers and keeping the cold war out of the area. She commended the Lusaka resolution on the Indian Ocean to the Conference. She told a Press conference in Singapore on 23 January 1971 that Ceylon was opposed to the construction of foreign bases and the presence of foreign naval ships in the Indian Ocean but she could not do anything in this regard.

A conference of 30 Afro-Asian countries was held in Colombo from 18 to 27 January 1971. It discussed matters such as extent of territorial waters, rights of passage through international straits, fishing rights and the exploration and exploitation of the ocean bed. The Afro-Asian Legal Consultative Committee discussed and attempted to reach an agreement on the Law of the Sea and the Law of International Rivers.

Ceylon has extended the limits of its territorial waters from 6 to 12 nautical miles, it was announced on 1 November. Kachativu island is less than 12 miles from the Ceylonese island of Delft in the Palk Strait between India and Ceylon.

Canadian Prime Minister Pierre Trudeau visited Ceylon from 25 to 29 January. He discussed international situation, bilateral relations and economic aid to Ceylon with Mrs Bandaranaike. Prime Minister Burnham of Guyana spent a four-day holiday in Ceylon from 23 to 27 January after attending the Singapore Commonwealth Conference.

The Iranian Minister of Science and Higher Education Majid Bahnema visited Ceylon from 29 June to 2 July 1970. He exchanged views on the possibilities of co-operation between the two countries in the field of education and scientific matters with his Ceylonese counterpart.

The Ministry of Defence and External Affairs stated on 15 May 1971 that no foreign power had requested any base facilities and no such facilities would be conceded. The Ministry denied the Press report that a request

for base facilities at Trincomalee had been made by the Soviet Union. Earlier on 29 May, it also denied the reports that China had sought a lease of the port of Trincomalee.

China

The Ceylon Cabinet on 29 June 1970 accepted the Chinese offer to construct an International Conference Hall in Colombo as a memorial to the late Prime Minister Bandaranaike. China had promised to erect the hall in early 1960s. The foundation stone of the hall was laid on 17 March 1965. The project, however, was later suspended under Senanayake Government. After the United Front Government assumed office, China renewed its offer to construct the Hall. A team of Chinese engineers and architects arrived in Colombo in August. Work on the construction of the hall, estimated to cost Rs 55 mn, commenced on 21 November. In early 1971, 183 Chinese technicians were working on the project.

The new Chinese ambassador Ma Tzu-ching presented his credentials to the Governor-General on 1 September 1970. For the last four years, Peking's mission in Colombo had been headed by the Commercial Counsellor.

Speaking at a banquet during his visit to China last year, Trade Minister T.B. Ilangaratne said in Peking on 10 September 1970 that Ceylon had persistently supported the restoration of China's legitimate rights in U.N. "The UN organisation has become a mockery when it has barred its doors to a country which has the largest population in the world. To us there is only one China and that is the People's Republic of China", he said. He called represen-

tation of the Chinese people by Formosa in UN as a farce. Radio Peking on 10 September thanked Ceylon for supporting China's admission into the world body.

Mrs Bandaranaike told a Press conference in Paris on 16 September 1970 that if Ceylon was called upon to mediate between Peking and the West or New Delhi "we shall be very happy to do so." She, however, cautioned that Ceylon did not envisage such a role currently. The first thing to do was to seat China in the United Nations. That would settle many problems.

Ceylon was one of the 51 countries which voted for the resolution calling for the admission of China to the United Nations and exclusion of Formosa in the General Assembly on 20 November 1971. On the same night, 66 members also voted for the resolution that the issue of Chinese membership was an important question requiring a two-thirds majority. The *Ceylon Daily News* in an editorial dated 23 November called it "a mockery for which the world owes its thanks to the United States".

Addressing a public meeting in Colombo on 21 January 1971, Chinese Trade Minister Pai Hsing Kuo, who had earlier signed the 1971 protocol on trade, said that his government was ready to assist to speed up the socialist march of Ceylon by aiding Ceylon economically and in every other possible way.

The Posts and Telecommunications Minister C. Kumarasuriyera told the Senate on 17 June 1971 that Chinese Prime Minister Chou En-lai had offered financial and military assistance immediately after he learnt about the

outbreak of insurgency in April. He also regretted that the Chinese vessel, which had called on Colombo with a cargo of arms for Tanzania, had left the harbour before Ceylon's request for military aid reached Peking. He also expressed concern over Press reports in Ceylon of possible Chinese collusion with insurgents. Chou En-lai described the Che Guevara movement as counter revolutionary aimed at deceiving the masses and disrupting the government. He disapproved of their theories. The Chinese Prime Minister also expressed his appreciation at the confidence of Ceylonese Government in China and promised whole-hearted support saying "Whom else can we support in Ceylon except the Government of Mrs Bandaranaike".

The Ceylon Daily News (23 January 1971) wrote in an editorial captioned "The Chinese at work": "It is Pakistan rather than India which affords us a revealing example of Chinese foreign policy at work. Far from seeking the spread of Maoism or indulge itself in revolutionary subversion, China has been correct in its behaviour to the point of an impassive docility. Thus, Peking Radio lambasts the Soviet revisionists and the Indian reactionaries but not a squeak out of this truculent transmitter about those good bourgeois military gentlemen, Messrs Ayub and Yahya Khan. It is precisely how we ought to wish the Chinese conduct their affairs with an independent nation which wants to be friendly but is determined to go its own way".

Pakistan

A Pakistani destroyer *Alamgir* visited Colombo in the first week of

February 1970 and participated in Ceylon's independence day celebrations. Ceylon gifted a sum of Rs 10 Lakhs worth of tea and textiles to provide relief to victims of cyclone in East Pakistan.

In response to an urgent request from the Pakistan Government on 4 February 1971, Ceylon granted overflight and landing rights to Pakistan International Airlines in operating its air services between the two wings of Pakistan following India's decision to ban the flights of Pakistani aircraft over Indian territory after the hijacking and destruction of an Indian aircraft at the Lahore airport. Ceylon had granted similar facilities to Pakistan during the Indo-Pakistan conflict in 1965. The Ceylonese Cabinet at its meeting on 12 February 1971 deplored the hijacking of the Indian aircraft to Lahore airport and expressed grave concern over the resulting situation between India and Pakistan. The Permanent Secretary in the Ministry of Defence and External Affairs said in Colombo on 18 March 1971 that no Pakistani aircraft carrying their troops would be allowed to use port facilities in any of Ceylon's airports during the recent political crisis between the two wings of Pakistan.

In a letter addressed to President Yahya Khan in August 1971, Mrs Bandaranaike expressed her concern over the secret military trial of Sheikh Mujibur Rahman. She had also written to him earlier on the Bangla Desh issue. Pakistan's President, it is understood, said that he would welcome any concrete proposal from Ceylon to ease tension. *The Ceylon Daily News* of 24 August 1971 said "Ceylon feels that the situation in East Pakistan is basi-

cally an internal matter but there are certain human aspects of the problem such as the question of refugees and resultant difficulties. This situation has caused a threat to peace in the region. Earlier in a statement issued on 29 June, 1971, the Ministry of Defence and External Affairs said, "The influx of a large number of refugees from East Pakistan into the adjacent states of India has created a serious international problem of a humanitarian nature. It also posed major problems for the Government of India which has necessarily had to carry the burden and absorb the impact of the presence of this very large number of people within its frontiers".

India

The Ceylon Government received 645,000 applications from stateless persons seeking citizenship as against about 400,000 applications received by the Indian High Commissioner for Indian nationality. About 79,000 persons were registered as Indian citizens. Out of this 18,500 were repatriated to India. About 20,000 persons were expected to come over to India during 1970-71. As against this, Ceylon had granted citizenship to 8,050 persons.

According to a press handout issued by the Ceylon High Commission in New Delhi at the end of December 1970, the number of persons of Indian origin in Ceylon totalled 1,480,000 in October 1970. They were classified in four broad categories :

- (a) 160,000 persons who obtained Ceylon citizenship under the Ceylon Citizenship Act, the Indian and Pakistan Residents

(Citizenship) Act and the Indo-Ceylon Agreement (Implementation) Act ;

- (b) 1,080,000 of the so-called "stateless category", the majority of them being covered by the 1964 Sirimavo-Shastri Pact ;
- (c) 40,000 Indian passport holders; and
- (d) 200,000 illicit immigrants who entered Ceylon after 1948.

Mrs Bandaranaike has directed Government Agents in various districts to arrange for the speedy repatriation of stateless persons. Whatever the difficulties the government, it is said, would provide the necessary foreign exchange for "the speeding packing off Indians from Ceylon". Mrs Bandaranaike told a Press Conference in Singapore on 24 January 1971 that the repatriation of stateless persons will be implemented speedily. The previous government, she said, had not implemented the agreement "under pressure from local Indian groups". The implementation of the agreement, it is said, would mean solving the country's economic problem—more jobs for the Ceylonese who would ultimately replace Indian workers.

External Affairs Minister Swaran Singh told *Rajya Sabha* on 2 December 1970 that the Indian High Commissioner in Ceylon had made concrete proposals to expedite the implementation of the Indo-Ceylon agreement of 30 October 1964 on 'stateless persons' of Indian origin. India had agreed to take in 525,000 persons over a period of 15 years and Ceylon agreed to grant

citizenship to 300,000 during this period. The fate of another 150,000 stateless persons was to be determined at a later stage.

The Ceylonese Government decided to go ahead with the new Indian proposals, made by the Indian High Commissioner Y. Puri, with certain conditions and streamline the administrative procedure for the repatriation of persons of Indian origin under the 1964 pact for a period of one year to study its operation. According to the proposals, called "Puri Plan", India will take back 50,000 persons a year. They will not be granted Indian citizenship as has been done in the past. They will only be provided with travel documents and not Indian passports. Indian citizenship will be granted to eligible persons only after proper verification.

The House of Representatives on 20 June 1971 adopted an amendment to the 1967 Indo-Ceylon Agreement (Implementation) Act. The amendment links the pace of grant of Ceylon citizenship to the number of persons repatriated to India and not merely registered as Indian citizens. Winding up the debate on the Bill, Mrs Bandaranaike said, "The Indian Government is very keen on implementing the Sirimavo-Shastri Pact and is as anxious as we are to further cement the friendship between the two countries".

Ceylon's Minister for Housing and Construction P. Keunemen paid an official visit to India in September 1970. He headed a delegation on a study tour of housing programme. Minister for Constitutional Affairs and Plantations Colvin R de Silva visited India in November to take part in FAO's Inter-

national Conference on Tea. He said in New Delhi on 27 November that relations between the two countries were excellent.

ARMED FORCES

Ceylon has a small army, navy and air force—about 9,500. The Cabinet on 17 April 1970 accepted the recommendation of a special committee which reported on the salaries of the armed services. Expenditure on defence for the fiscal year 1970 was estimated at Rs 81.85 mn. The new Government announced in June 1970 that the armed services will be re-organised so as "to identify them with the national and progressive aspiration of the people and to reflect their interests". Regular force is supported by Reserve and Volunteer forces in all the three Services.

Ceylon's internal security network is being strengthened by the raising of a new Volunteer Battalion for the Ceylon Army. The new unit—the Third Volunteer Battalion of the Ceylon Light Infantry—is being raised in the Ratnapur district. The Government also decided to bring the Third Volunteer Battalion of the Sinhala Regiment stationed at Nuwara Eliya to full strength. Earlier, the company of Sinhala Regiment had only 150 men. Volunteer units, at present, are stationed at Galle, Matara, Kandy and Panagoda. The Government decided to terminate the training of officers of the armed forces by US, Israel and other countries.

Several officers and other ranks who had to leave the army during the past few years on political grounds were ordered to be reinstated on 30 May 1970 when the

new Government took over. Six NCOs who were charged for alleged complicity in 1966 coup were taken back into service by the new government. As an economy measure, the Army cancelled all camps that volunteer units were scheduled to attend during 1970 fiscal year. A saving of Rs 450,000 was expected.

There was a "shake-up" to clean the armed services of corruption and mis-management. Following a close look at the Command structure of the Ceylon Army by the authorities, 14 officers—three Lt-Colonels, nine Majors and three Captains—went on leave preparatory to retirement on 1 August 1970. The Army Commander Maj. Gen Sepala Attygalle submitted a report to the Government in August 1970 making suggestions for the re-organisation of the Army and to use the force as much as possible for national development.

Total strength of the Ceylon Army is estimated at about 6,700—60 per cent of these are combatants. About 600 Tamilians are reported to be in the county's armed forces. Following insurgent activity in April 1971, the Government started enlisting personnel for the army, medical services and air force. The strength of the army, is likely to be raised to a division's strength 13,000.

The Ministry of Defence and External Affairs in July 1970 ordered the Navy to re-establish the Kalpitiya naval base which was ordered to be closed by the previous government earlier in April 1970. A naval spokesman said that the Navy proposed to use the base to assist fishermen in distress and also for anti-illicit immigration work. The base was re-established in August.

Rear Admiral Rajan Kadirgamar Commander of the Ceylonese Navy, relinquished his Command on 30 June 1970. Commodore D.V. Hunter took over the charge on 1 July 1970. The Ceylonese Navy has a frigate, *Vijaya*, 27 patrol boats, 1 tug and 1 hydrofoil craft. Its total strength is 1,980.

The Ceylonese Air Force has 10 combat aircraft (BAC jet Provost T-51 armed), some non-combat aircraft including trainers/support aircraft and 2 or 3 helicopters. Total strength of the air force was 800. Air Commodore P.H. Mendis took over as the Commander of the Ceylonese Air Force on 31 December 1970,

The Government decided "to run down" the jet Provost squadron. Expensive spares that would be needed to keep them flying were not ordered. The air force ordered 12 of these aircraft in 1957. Two were lost in accidents. Four of the ten left had gone into "storage" at air force installations. The other six too were to go into storage once they were "run down". One jet Provost was lost during operations against the insurgents and an air force spokesman said on 16 October 1970 that the aircraft going into storage were being kept for use in case they were needed subsequently.

During a visit to the air base at Katunayake on 12 June 1971, Mrs Bandaranaike inspected six MiGs, four Jet Provosts, two Herons a Chipmunk, a Dove and ten helicopters before the aircraft took part in a flypast.

The Police Department will recruit about 1,500 constables in 1971. This number will be recruited every year so

that by 1975 the strength of the Police force will be stepped up from the present 11,000 constables to 16,000.

A special Task Force - comprising army, navy, air force and police personnel - has been placed under the command of an army officer as a co-ordinated unit to enforce anti-smuggling and illicit immigration measures especially along the northern, eastern and western coasts with the assistance of helicopters and naval patrol boats and searchcraft. A combined "Operation Snatch" was carried out in the 4th week of September 1970 in the outer reaches of Colombo harbour to combat the flow of contraband including foreign currency and fire arms.

A Pakistani vessel found in suspicious circumstances, off the Hambantota coast, south of Ceylon, was brought to Colombo on 28 November 1970 under naval escort. The 40-foot long vessel laden with textiles had a crew of 14.

A ship of the Royal Australian Navy, HMAS *Vendetta* paid a goodwill visit to Colombo from 9 to 13 October 1970. Two ships of the Indian Navy, *Godavari* and *Ganga*, paid a four-day goodwill visit to Colombo from 3 to 7 February 1971.

In response to a request by Mrs Bandaranaike to combat the JVP insurrection, military assistance was received from the following friendly countries.

INDIA

6 helicopters with crew, 5 frigates, and 150 personnel for guard duty and assisted during the operations. India

supplied arms, ammunition and full kit and equipment for 5,000 combat troops.

BRITAIN

Small arms and ammunition (ferried from a base in Singapore). Britain arranged to buy six helicopters from US and then gift them to Ceylon. Britain will also supply 17 scout cars.

US

Spare parts for the American-built helicopters used by the Ceylonese Air Force.

USSR

Six MiG-17 jet fighters and a twin-seat trainer alongwith maintenance crew of 80 Russians and other equipment possibly 10 armoured cars. Defence Minister Jagjivan Ram told the *Lok Sabha* on 7 June 1971 that India had accepted Ceylon's request to train the Ceylonese personnel for the MiG aircraft.

UAR, YUGOSLAVIA

Small arms and ammunition.

PAKISTAN

Two helicopters on temporary patrol duty during operations, hand-grenades, wireless and other equipment.

A Paris daily *Le Monde* reported on 25 May 1971 that Mrs Bandaranaike told its correspondent in an interview in Colombo, "Offers of military equipment have been received from many countries and the Soviet Union has come forward with very favourable delivery offers which we have accepted."

5. PAKISTAN

ECONOMY

Economic Growth

The Pakistan Economic Survey 1970-71 issued on 23 June 1971 as a pre-budget document gives a disturbing picture of the economy although the effects of the current civil war on the economy had not perhaps fully developed and felt. The **Survey** notes: "A marked slowing down of the economy was...registered. This reflected primarily the effects on GDP of the deceleration in the two major commodity producing sectors of the economy, agriculture and industry. Growth of GDP during 1970-71, according to the preliminary estimates..., is likely to

be 1.4 per cent (GDP Rs. 5,526.6 crores at 1959-60 prices) as against the increase of 6.7 per cent (GDP Rs. 5,450.4 crores) during 1969-70. However per capita income is likely to decline since income growth will be below the growth of population at 3.0 per cent per year. Preliminary estimates of fixed capital formation based on the use of investment inputs by the private sector and an estimate of public sector investment activity built up from the resource side suggests little increase over the level of Rs. 1,047 crores in 1969-70."

The agricultural production (major crops) declined by about 3.5 per cent below the preceding year. The index of food production is likely to register

Pakistan—Statistics	
Area : West Pakistan	... 801,408 sq. km.
East Bengal	142,797 sq. km.
Population : West Pakistan	... 58.5 mn
East Bengal	... 73.5 mn
G.N.P. At current prices	... Rs. 7,722 crores
Defence Expenditure 1971-72	... Rs. 340 crores
Armed Forces (Source Mily.	
Balance 1971-72)	... 392,000
Army	... 365,000
Navy	... 10,000
Air Force	... 17,000
Currency \$ 1	... Rs. (P) 4.76

decline of 1.9 per cent, and of non-food crops by 5 per cent. The production of jute, cotton, the two principal export crops, and sugarcane recorded declines of 10.2 per cent, 3.6 per cent and 6 per cent respectively. The rate of increase in industrial output during the current year is estimated at less than 3 per cent, as compared to 8.8 per cent in 1969-70. "The weaker performance of the economy was reflected in a deterioration in foreign trade and payments". "Consequent upon the dislocation in East Pakistan, the level of exports is now projected slightly below last year's figure of Rs. 327 crores." The decline of estimated 23 per cent in East Bengal's exports are, however, offset by the growth of 24 per cent of West Pakistan exports, the **Survey** claimed.

Last year, the then Finance Minister while presenting the budget for 1970-71 struck a mixed note on the performance of the economy during 1969-70. While GNP showed a growth rate of 6.7 per cent against 4.8 per cent in 1968-69 and agriculture 6.1 per cent against 3 per cent in the preceding year, the growth of production in large-scale industry slowed down to 7.5 per cent compared to an average rate of 10.8 per cent in the Third Plan. "Another disquieting feature of the performance of the economy", the Finance Minister said, "was the substantial slowdown in exports".

The statistical table published along with the **Economic Survey** 1970-71 reveals that the gross national product (GNP) at current factor cost in 1970-71 reached Rs. 7,722.3 crores as compared to Rs. 7,393.9 crores in 1969-70 and Rs. 6,815.6 crores in 1968-69. The

per capita gross income in 1970-71 according to provisional estimates is placed at Rs. 586 as compared to Rs. 576 in 1969-70 and Rs. 545 in 1968-69. At 1959-60 constant factor cost, however, the per capita income in 1970-71 declined to Rs. 419 (by 1.2 per cent) from Rs. 424 in 1969-70, the population growth being higher (2.7 per cent) than the economic growth (1.4 per cent).

The Third Five-Year Plan was completed on 30 June 1969 and the Fourth Five-Year Plan commenced on 1 July 1969. During the Third Plan period as a whole GNP increased by an annual rate of 5.7 per cent as against the target of 6.5 per cent. This shortfall is officially attributed to the dislocation of economy as a result of hostilities with India (1965) and disturbed law and order situation during 1968-69, curtailment in the amount and hardening of the terms of foreign assistance, and droughts and floods for two consecutive years. In East Bengal the gross regional product increased at an annual rate of 4.1 per cent while in the Western Wing the growth rate was 6.1 per cent per annum.

Industry

The rate of increase in industrial output during 1970-71 is estimated at less than 3 per cent as compared to 8.8 per cent in 1969-70. It was earlier reported that the index of industrial production increased at a lower rate in 1969-70 as compared to 10.8 per cent in 1968-69, due largely to under-utilisation of capacity.

Trends in the output of selected industries show that cotton textiles and

artificial silk and yarn which have relatively large weight in the index achieved a growth rate of 2 per cent and 10 per cent respectively. Jute textiles are likely to show substantial reduction in production following disturbed conditions from March 1971 onwards. Of 17 selected industries, 9 recorded gains ranging between 0.5 per cent to 23.5 per cent while the other 8 suffered production losses between 1.5 per cent to 9.5 per cent.

Pakistan claims to have reached a position of 90 per cent self-sufficiency in consumer goods and about 50 per cent in intermediate goods.

Industries in Pakistan generally suffer from under-utilisation of capacity primarily as a result of lack of raw materials. (Page 168, Annual Review 1969-70). The President of the Pakistan Chamber of Commerce and Industries told the US Export Promotion Adviser, Ludwig Rudel, in February 1971 that the present state of uncertainty and lack of planning in the industry in Pakistan was associated with Government policies and non-availability of adequate raw materials. The cumulative impact of the situation was that most of the industries were working much below their installed capacity.

The President of the Pakistan Association of Electrical and Mechanical Engineers on 25 July 1970 observed: "The productivity of national investment in Pakistan in general and engineering industry in particular is the lowest in the world".

The Planning Commission is examining a report prepared by a special

mission of the World Bank relating to the under capacity working of industries and lack of infrastructure in the under-developed areas in both the wings of Pakistan. The mission which visited Pakistan in 1969 at the invitation of the Planning Commission conducted a survey of the industrial situation in the country with reference to the capacity utilisation, price cut relations, incentive systems and foreign investment.

Pakistan's two most prestigious projects have become the cause of great concern to the Pakistani authorities. The Karachi Shipyard and Engineering Works, the country's oldest heavy industry, which was transferred to the Defence Ministry on 1 July 1970 from WPIDC has been incurring loss and the cumulative loss upto July 1970 was Rs. 4.63 crores. In addition there were overdrafts and loans. According to Rear Admiral S. Zahid Husain, Managing Director of the Company, shipbuilding industry which was given a very high priority in spite of other pressing needs of the country, had so far failed to come up to the expectations of the nation. The Admiral explained that although a most well-planned and well-equipped industrial establishment, the shipyard had a reputation for inefficiency, over-staffing and considerable overheads which drove the customers away. A team of German experts were invited to advise the industry. The second enterprise, the Chittagong Steel Mill, the only steel mill in the country based on imported raw materials and set up by Kobe of Japan in 1967, had been running under loss ever since it started production. It has now been decided to offer the Managing Agency to the private sector for a period of 10 years in order to ensure

operation of the mill strictly on commercial lines. It was reported that adequate foreign exchange had been placed at the disposal of the mill for import of raw material from Russia, USA and Japan. The services of two German and one Yugoslav advisers were also being utilised. It is difficult to say whether and to what extent the mill is working since 25 March, 1971.

Three new prestigious projects which Pakistan is planning to set up in the near future are Karachi Steel Mill project with Russian aid and two petro-chemical projects—one in each wing. Russia has agreed to finance to the extent of Rs. 100 crores and assist in setting up the Karachi Steel Mill. Pakistan is negotiating with Australia for the long-term supply of iron ore and coke for the mill. An agreement has been signed with a UK firm for the supply of the machinery for the country's first petro-chemical complex based on natural gas to be set up near Karachi. Although the National Economic Council has approved the second petro-chemical complex to be set up in East Bengal at a cost of Rs. 102 crores the source of finance is yet to be found. World Bank is to be approached for aid.

The Soviet Union has undertaken to prepare a feasibility study report on heavy machinery complex in East Bengal. An EPIDC delegation visited Moscow in July 1970 to sign an agreement for the setting up with the Soviet assistance of an electrical equipment manufacturing plant at Chittagong at a cost of Rs. 21 crores. The techno-economic report produced by the Soviet experts of the heavy electrical complex project to be set up at Taxila in West

Pakistan at a capital cost of Rs. 31 crores has been recently approved by WPIDC. The project will now be completed in two phases. The complex when completed is to produce power transformers upto 125 mv-amp. of 220 Kv and capacitors.

The Chinese aided heavy machinery complex at Taxila which is to produce road-building machinery, crane etc., has gone into partial production. The plant has a production potential of 14,000 tons of heavy machinery per year. The scheme of the factory has been revised according to the advice given by its Chinese experts. The heavy forge and foundry project will now cost over Rs. 17.6 crores instead of Rs. 14.35 crores as originally planned. The plant will go into full production in 1975.

The total installed capacity of assembly of passenger cars is estimated at 12,400 cars on a single shift basis against an estimated demand of around 10,000 cars per year. According to a new policy all the 27 established car importers in the country would be allowed to set up car assembly plants from their own resources, namely without involving foreign exchange expenditure from the government account. But the situation has since changed as car imports have been deleted from the bonus voucher schemes according to the recent import policy statement. Six of the 27 importers have full-fledged assembly plants all in West Pakistan. Only one West Pakistani concern—Gandhara Industries—has set up a subsidiary assembly plant in East Bengal.

The Railway Coach Factory in Islamabad has been completed with the help of a West German firm.

While the East Pakistan Industrial Development Corporation's net loss in 1968-69 amounted to Rs. 5.51 crores, three new factories have gone into production in this wing during the year. The factories are—a urea fertiliser factory at Ghorashal, with a production capacity of 34,000 tons per year, Chittagong cable-factory built by a West German firm with annual capacity of 6000 tons of cables and the Rs. 3.3 crore telephone factory at Tangi near Dacca.

Minerals

The mining industry recorded a growth of 10.2 per cent over the last year. The index of mineral production (1959-61=100) rose from 220.5 in 1969-70 to 241 in 1970-71. While the production of silica sand, natural gas, and chromite recorded substantial increase, that of gypsum and limestone declined.

Deposits of high grade iron ore, magnesite, corundum and copper have been found in various places in the NWF Province. Deposits of high grade iron ore have reportedly been located in Bammarm Nisar area of Chitral district. Deposits of coal of good quality have been discovered near Rakhi Ganj and Rakhi Moon and adjoining areas in Dera Ghazi Khan district. Large deposits of fluorite estimated at 200,000 tons which is used in hardening steel have been found in Kalat district of Baluchistan. The deposits discovered earlier are exported to Japan who has shown interest in importing it in large quantities.

The oil and natural gas production increased by 12 per cent during 1970 as compared to the previous year. The

production of oil and gas together in 1970 was about 22.7 mn barrels of oil equivalent as against 20.2 mn barrels in 1969 and 16.6 mn barrels in 1968. While the production of gas increased from 116.921 mn cubic feet in 1969 to 133.856 mn cubic feet in 1970, oil production in 1970 declined to 3.4 mn barrels from 3.5 mn barrels in 1969. An oil well, however, with "the highest flowing potential so far in Pakistan" is claimed to have been drilled at Meyal 76 miles West of Rawalpindi by the Pakistan Oilfields Ltd., a subsidiary of the Attock Oil Co. The well may produce 2,000 barrels of crude oil a day. Pakistan's current internal consumption of oil products has reached nearly 4 mn tons and consumption by foreign bunkers 221,000 tons. Of this, Iran supplies 50 per cent at present but proposes to take over 100 per cent of the requirement of external supplies of Pakistan. A joint Pakistan-Iran Oil Company would shortly come into being.

Iran proposes to set up a 5 mn ton oil refinery in West Pakistan and another 2.5 mn ton refinery at Dacca. The capacity of the Karachi National Oil Refinery is being expanded from 0.5 mn tons to 2 mn tons.

Two hundred and six miles of gas pipeline were laid connecting 12 industrial, 14 commercial and 448 domestic consumers by Titas Gas Transmission and Distribution Company in East Bengal by June 1970. The delivery capacity of Titas field was increased to 140 mn cft. of gas per day by drilling two new wells and installing a second unit for dehydrating the gas to meet the anticipated increased demand. Till June 1970, a total of 11.054 mn cft. of gas, equivalent to heating capacity of

395,700 tons of coal, was produced from Titas and Habiganj fields in East Bengal. Natural gas is now being used in the power stations at Ashuganj, Siddirganj and Ghorashal.

A Japanese team was to carry out survey of pipeline routes from natural gas fields in East Bengal to Chittagong port. Japan proposes to import natural gas from East Bengal.

In West Pakistan there is a demand for the transfer of the rights of Sui gas (Sui is the biggest natural gas field in Pakistan with estimated reserve of 6300 bn cft.) to Baluchistan as the province has now been restored.

The Soviet Union is to give Pakistan equipment and expertise for geological exploration in Baluchistan under an agreement signed in Islamabad on 1 October 1970. The foreign exchange requirements will be covered by arrangements under Pak-Soviet agreement of 1966. USSR has also prepared a comprehensive scheme to explore mineral ores in Pakistan. The Soviet experts, working in Pakistan, have been successful in exploring natural gas in West Pakistan and locating gas deposits north of Chittagong in East Bengal.

Food and Agriculture

The food situation presented a mixed picture—near satisfactory in West Pakistan but less comfortable in East Bengal. The provincial food Secretary of East Bengal was reported to have admitted that the target for attaining self-sufficiency in food production in the province by 1969-70 had failed and the Government had now set a fresh target for achieving self-sufficiency in food by 1972-73.

The production of major agricultural crops is estimated to have declined by slightly under 3.5 per cent below the preceding year. The index of food production is likely to register a decline of 1.9 per cent, of non-food crops by 3.7 per cent and of fibre crops by 5.8 per cent. This decline is attributable to large-scale floods in East Bengal during 1970. In West Pakistan, conditions of drought were experienced over wide areas with a marked decline in canal supplies caused by the drop in winter precipitation. This was the third year of sub-normal water availability and this in turn adversely affected utilization of fertilizer which requires abundant supplies of water. As a result, wheat production is expected to remain under 6.5 million tons during the year 1970-71 as against 7.2 million tons in the preceding year. The production of jute, cotton and sugarcane has registered decline of 10.2 per cent, 3.6 per cent and 0.6 per cent respectively.

Earlier during 1969-70, East Bengal's rice production was estimated at 11.725 million tons which fell short of the wing's requirements during 1970-71 by an estimated 1.8 million tons. With more than 10 per cent of the population pushed out and the transport and communication system in disrepair, it is difficult to forecast the nature and extent of deficiency. However scarcity pockets and consequent further efflux of refugees have been widely forecast. No imports were necessary in 1970-71 for the four provinces of West Pakistan.

The Government of East Bengal had undertaken a phased accelerated rice production programme with the technical assistance of the US Agency for International Development (AID). The

programme called for 5 mn acres to be sown with IR-20 and other high-yielding varieties of rice by 1973. Flood-free area of 200,000 acres had already been selected for the initial planting of IR-20. More than 12,500 farmers were given intensive training in the use of fertilisers, pesticides and irrigation facilities. In the next five years 91,000 tube wells were to be installed for irrigation purposes. Each tube well is expected to irrigate 50 to 60 acres of land during the winter season for the rice crop. It is obvious under the present conditions of civil war in East Bengal this programme cannot be implemented.

Water and Power Development

The revised Third Plan (1965-70) allocation for water and power development was Rs. 804.7 crores. During the Third Plan, only Rs. 590.18 crores were spent. According to the **Economic Survey 1969-70** issued by the Central Government of Pakistan, the considerable shortfall was due to diversion of a part of the development funds for operation and maintenance of the completed or partially completed schemes, organisational and management problems and lower inflow of foreign development loans.

Water Sector

During the Third Plan period, flood protection and drainage schemes were to cover 13.7 mn acres—1 mn acres in East Bengal and 12.7 mn acres in West Pakistan. The new area brought under irrigation, drainage and flood protection was expected to be 3.7 mn acres—1 mn acres in East Bengal and 2.7 mn acres in West Pakistan during the same period.

Of the total Third Plan allocation of Rs. 196 crores for water development programme in East Bengal, Rs. 131.2 crores *i.e.*, 67 per cent of the total expenditure was incurred during the Third Plan. The projects completed were (a) Dacca-Demra-Narayanganj Project, (b) Brahmaputra Right Bank Embankment Project, (c) Ground Water Development and Pump Irrigation Project in the Northern Districts of East Pakistan, and (d) Improvement of Old Dakatia and Little Feni River in the Noakhali and Comilla districts (Phase-I). (e) dredging of Gomti river in the District of Comilla, (f) comprehensive drainage scheme for Faridpur District and (g) Teesta subproject.

During the year 1970 in the Southern districts of East Bengal two unprecedented natural calamities took a heavy toll. The first one was in July/August and the second one in November 1970. In the August floods, 11 out of 19 districts of the Province were heavily devastated. According to official estimates the damage was estimated at Rs. 150 crores. The November cyclone hit five southern coastal districts of Khulna, Patuakhali, Noakhali, Barisal and Chittagong and over 100 offshore islands. Fourteen offshore islands were reported to have been wiped out. According to official but tentative estimates, loss of life was over 150,000 and the financial loss well over Rs 975 crores.

Flood control measures, consequently received utmost attention and adequate foreign aids were assured by World Bank and other aid giving countries. Rs 150 crores were allotted for flood control projects during the Fourth Plan. The World Bank, to whom 19

projects were referred to for seeking aid from aid-to-Pakistan Consortium made available \$ 40 mn. A Consortium of British Banks had agreed to finance upto £ 12.5 mn for a massive irrigation scheme in East Bengal.

Construction of over 1,900-mile-long coastal embankment of the total of 2,300 miles in the districts of Khulna, Bakerganj, Noakhali and Chittagong of East Bengal has reportedly been completed at an estimated cost of over Rs. 95 crores by June 1970. The total cost of construction of the embankments will come to about Rs. 112 crores.

The total Third Plan allocation for water development for West Pakistan was Rs. 218 crores. Rs 149.1 crores was spent during the plan period. The West Pakistan WAPDA had till June 1970 undertaken 9 water development projects at an estimated cost of Rs. 137.1 crores, of which 5 had been completed at a cost of Rs. 56.3 crores. The completed water projects are (i) Guddu Barrage, (ii) Rawal Dam, (iii) Tanda Dam, (iv) Chablot Khas Irrigation Scheme and (v) Pilot Wind Mills.

The first stage of construction on the Tarbela Dam has been completed at an estimated cost of Rs. 25 crores. The Indus river at Tarbela has been diverted into a 3-mile long diversion channel. The second stage which will continue upto 1973 is to divert the Indus for a second time through four large diversion tunnels.

Vast areas of land in Sind have been affected by salinity. A Rs. 99 crore-scheme prepared by Messrs Hunting and MacDonald under the Colombo Plan was shelved for want of funds.

Later a French firm prepared another Rs. 60 crore-scheme to lay a province-wide network of canals in 8-years. President Yahya Khan has called for a detailed report on this problem.

Meanwhile a dispute has arisen between Sind and Punjab on the sharing of the Indus waters. The Pakistan People's Party which has an absolute majority in the Punjab and Sind Assemblies is reported to be sharply divided on the issue. A 11-member Committee appointed by PPP to resolve the differences in the party over the issue had adjourned after sharp exchanges between members belonging to the two provinces. The Sind leaders accused Bhutto, the PPP Chairman, of bartering away Sind's interests for his "personal advancement."

Power sector

The Third Plan allocated Rs. 155 crores for power development programme in East Bengal. The total expenditure incurred during the plan period was Rs. 170.7 crores, 10 per cent higher than the plan allocation. In physical terms the total installed and generated capacity in the province was 475 MW by the end of June 1970 as against the Plan target of 830 MW. Over the next five years (1970-75), Rs. 284 crores were planned to be invested in power development in this province. This included 13 per cent on power generation, 19 per cent on transmission, 54.5 per cent on distribution and 13.5 per cent on various miscellaneous items including training of personnel. The generation capacity targetted to be added during 1970-71 is 128 MW.

In West Pakistan Third Plan allocation for power development programmes

excluding tubewell electrification scheme was Rs. 162.5 crores. Of this Rs. 139.2 crores i.e. 86 per cent was actually utilised during the plan period. In physical terms the total installed capacity increased from 815 MW in 1965 to 1,923 MW by the end of 1970, as against the Third Plan target of 2,013 MW. The Fourth Plan allocation of WAPDA power projects is Rs. 250 crores. It is proposed to create a generating capacity of 1,185 MW during the Plan period, including 350 MW from units 1 and 2 at Tarbela which is expected to be commissioned by the end of 1974-75.

Pakistan's first 137 MW nuclear power station located in Karachi became critical on 1 August and power may flow out regularly into the grid in 4 or 5 months time.

Trade and Foreign Exchange Position

Towards the end of 1970 the position of Pakistan's foreign exchange reserves and earnings became precarious. Unofficial estimate was that the country's foreign exchange reserves had fallen to Rs 80 to 90 crores less than what was required to finance three months imports. Pakistan's exports earnings during the fiscal year 1970-71 which were earlier expected to total Rs 35.7 crores, are now expected to be below Rs 32.7 crores. It was reported that Pakistan had asked for a standby credit of \$ 50 mn from IMF to tide over its foreign exchange difficulties. At the request of the Pakistan Government a two-member mission of the International Monetary Fund came to Islamabad in January 1971 and held discussions on arrangement for foreign exchange credit for Pakistan. The IMF mission

was reported to have agreed in principle on the dire need to replenish Pakistan's foreign exchange reserves which had been depleted due to shortfall in export earnings and aid receipts.

Pakistani rupee in the world market continued to remain under heavy pressure. Though the exchange rate is pegged at Rs. 4.76 to a US \$, the open market rates varied between Rs. 8.30 and Rs. 10.50 in the international market. Every World Bank team that visited Pakistan in the last two years was reported to have recommended that Pakistan should devalue its rupee to enable it to maintain a natural rate of exchange. A Planning Commission's panel reportedly conceded that the rupee was over-valued and recommended that "the range between the official exchange rate and the effective exchange rate under bonus should be narrowed". In September 1970 Pakistan Government in its bid to earn some foreign exchange through tourists trade increased the existing rate of bonus allowed to foreign tourists visiting Pakistan to a flat rate of Rs 20 to a £ (official rate £1 = Rs 11.44). Pakistanis serving abroad already had this concession on remittances to Pakistan. In March 1971 the leader of the World Bank economic mission to Pakistan suggested that the elimination of multiple exchange rates and enforcement of one single rate accompanied by liberalised imports could help increase the utilisation of the available capacity of the industries already installed.

In order to maintain the value of the rupee and to provide sufficient raw materials for domestic industries new import policy announced on 31 December 1970 curtailed imports under much

criticised Bonus Vouchers which, according to an ex-commerce Minister and a leading economist of the country, was largely responsible for the exchange rate of Pakistani rupee having suffered badly. The new import policy laid down that 50 per cent of imports under Bonus Vouchers would comprise industrial raw materials and 25 per cent of capital goods, the rest 25 per cent would be permitted to be utilised for importing consumer goods. For the first time in Pakistan a ban on imports of motor cars and certain other consumer goods considered less essential was imposed.

In April 1971, another important step was taken to change the import policy in the midst of a shipping period. All imports for which cash licences were being issued were shifted to cash-cum-bonus list. The cash-cum-bonus list was suspended with some exceptions for East Bengal. Imports of luxury goods were banned in order to make room for the import of essential raw materials. Simultaneous action was initiated to postpone repayment of debt service instalments. Pakistan requested aid-giving countries, both within the Consortium and outside, to postpone conversion of that part of debt servicing which arose out of bilateral aid commitments.

Balance of Payments Position 1969-70

Pakistan's overall balance of payments position during the year 1969-70 recorded a deficit of Rs. 3.39 crores as against the surplus of Rs. 44.25 crores in the previous year. This was the combined effect of an adverse balance of Rs. 21.34 crores on goods and services account and net inflow of Rs.

77.53 crores (Rs. 103.10 crores in 1968-69) and Rs. 190.42 crores on transfer payments and capital account respectively. The gold, dollar and sterling reserves held and controlled by the State Bank of Pakistan decreased over the year by Rs. 5.47 crores from Rs. 142.25 crores to Rs. 136.78 crores.

During the year 1969-70, the deficit in the merchandise account increased to Rs. 185.61 crores as against the deficit of Rs. 145.17 crores in 1968-69. The deterioration of Rs. 40.45 crores over the preceding year was the result of an increase in imports by Rs. 42.40 crores partly offset by an increase of Rs. 1.94 crores in export receipts. Out of the total imports (f.o.b.) of Rs. 499.91 crores during the year 1969-70, those amounting to Rs. 296.49 crores or 59.3 per cent were financed from Pakistan's cash resources and the balance of Rs. 203.43 crores or 40.7 per cent through foreign assistance.

The import of capital goods was around 50 per cent of the total imports and industrial raw materials around 37 per cent and consumer goods 13 per cent. Pakistan's defence imports are not accounted for under commercial imports.

Exports

The weaker performance of the economy, the **Economic Survey 1970-71** claims, was reflected in a deterioration in foreign trade and payments.

Pakistan's export receipts during the year 1969-70 amounted to Rs. 325.11 crores (revised figure is Rs. 327 crores) as compared to Rs. 322.59 crores in 1968-69, showing a growth rate of 0.7

per cent as compared to 9.35 per cent a year earlier. While export receipts from various varieties of jute manufactures, jute raw, cotton yarn, cotton cloth, shrimps and prawns and carpets and rugs recorded marked improvements, those from cotton raw, synthetic textile, rice and wool raw declined considerably during the year. Jute manufactures and jute raw, primarily East Bengali products, were the two highest foreign exchange earners with Rs. 76.78 crores and Rs. 76.58 crores respectively accounting for about 47 per cent of the total exports.

Pakistan's foreign exchange earnings from exports to sterling area aggregated to Rs. 106.16 crores or 32.65 per cent during 1969-70 as compared to Rs. 126.30 crores or 39.15 per cent in 1968-69. Thus there was a decline of Rs. 20.14 crores over the year. Export receipts from non-sterling area amounted to Rs. 218.96 crores or 67.35 per cent of the total receipts as against Rs. 196.29 crores or 60.85 per cent in 1968-69. Thus exports to non-sterling area showed a marked improvement of Rs. 22.67 crores and its relative share in Pakistan's total export trade increased by 6.50 per cent.

Pakistan's exports under commodity exchange agreements aggregated Rs. 42.20 crores or 12.98 per cent of the total export earnings during the year 1969-70 as compared to Rs. 39.57 crores or 12.27 per cent during 1968-69. Thus exports under this head recorded an improvement of Rs. 2.6 crores over the year. The principal trading partners under commodity exchange agreements were Poland (Rs. 10.89 crores), USSR (Rs. 8.92 crores), Romania (Rs. 5.35 crores), Bulgaria

(Rs. 5.31 crores), Czechoslovakia (Rs. 4.05 crores), Yugoslavia (Rs. 2.44 crores), Hungary (Rs. 2.18 crores), and China (Rs. 1.61 crores) during 1969-70.

Despite the fact that Pakistan had been making vigorous efforts to step up exports through bilateral contacts results were not very satisfactory. In 1969-70, the increase in exports was less than 1 per cent; in 1970-71, though the target of growth rate of export earnings was set at 9.8 per cent, due to civil war the export earnings registered a slight decline.

The volume of trade between Pakistan and USSR trebled in the last five years. The targets and provisions of the first two bilateral trade agreements reached in 1965 and 1968 were, however, not fulfilled. (Page 170 of Annual Review 1969-70). However, in pursuance of the Pakistan-USSR joint communique of 26 June 1970, issued at the end of President Yahya Khan's visit to USSR, a new five year (1970-75) commodity exchange agreement for a substantial increase in trade (no amount specified) was signed between Pakistan and USSR on 5 December 1970. Soviet officials said the Soviet Union had occasional difficulties in absorbing Pakistani manufactures while Pakistan had not been able to use all the machinery supplied by Russia. Some difficulties had been ironed out by consultation but even then the 1968-70 agreement providing for each way trade worth Rs 30 crores (\$ 60 mn) might fall short of the target by as much as 30 per cent. It is expected that as a result of the Soviet Union-Afghanistan agreement signed on 26 January 1971 whereby both the Soviet Union and Pakistan will be able to send their

exports through Afghanistan may facilitate transport but its effects on the volume of trade remain to be seen.

Trade between China and Pakistan in 1968-69 for which full figure is available was claimed to have amounted to Rs. 25 crores as compared to Rs 23.7 crores in 1967-68. Pakistan and China signed the third general barter trade protocol in Peking on 5 May 1970. The protocol provided for the exchange of goods worth Rs 11.6 crores both ways on a self-balancing basis. The last barter trade protocol between the two countries which was signed on 27 April 1968 had provided for the exchange of goods worth Rs 11 crores. A border trade agreement was signed in Islamabad on 21 May 1970 between a 4-member Chinese trade delegation and Pakistani trade representatives. The agreement provided for an increase in trade between Gilgit, Baltistan and Sinkiang during 1970-71 through the Silk-Road. It was reported during the year that Chinese trade parties had visited Gilgit with merchandise. Under barter deals, China supplied Pakistan 50,000 metric tons of rice worth Rs 2.3 crores and 5 mn pounds of Chinese tea.

Other Socialist countries with which commodity exchange agreements were renewed or signed include Romania, Bulgaria, Czechoslovakia and Hungary. Some of these agreements envisaged an increased turnover.

Pakistan-Japan trade may improve further when Japan starts importing natural gas from Pakistan. The Japanese Foreign Minister during his visit to Pakistan in August 1970 said in a TV interview that Japan would help

that country in the exploitation of natural gas and other natural resources. He added Japan was in need of natural gas and by importing it from Pakistan Japan could help removing the present imbalance in trade between the two countries. Pakistan has been running serious adverse balance of trade with Japan for the last several years. During the last 8 years while imports from Japan rose from Rs. 7.8 crores in 1958-59 to Rs. 42.1 crores in 1967-68, Pakistan's exports was Rs. 11.9 crores in 1966-67 but in 1967-68 it rose to Rs. 25.2 crores, in 1968-69 it came down to Rs. 17.6 crores.

There was a persistent demand from both East Bengal traders and politicians for the resumption of trade between India and Pakistan. The President of the Dacca Chamber of Commerce and Industry, Motiur Rehman (now a Member of the National Assembly) voiced the demand for resumption of trade with India and pointed out that the ban on trade with India had drained Pakistan's foreign exchange resources by forcing it to buy essential commodities from other countries up to three times the price. He cited that Pakistan had enjoyed a favourable balance of trade with India from 1948 to 1965, to the extent of Rs. 133 crores.

Foreign Economic Aid

Foreign economic aid constituted the single major contributing factor which kept the Pakistan economy going. According to Pakistani Press "among the different contributory factors, short-fall in the receipt of foreign aid is considered to be the most important element on the slow rate of growth." Similar view was earlier

expressed by the Harvard Economist, Edward Mason, who was during the second plan period an adviser to Pakistan's Planning Commission.

Of late, most of the foreign aid had been coming in the form of loans and credits. Outright grants which USA at one time used to provide to its military alliance partner are now on the decline. Mounting foreign loans have presented Pakistan with a debt servicing problem. Since 1961-62 external debt servicing needs have risen sharply from the equivalent of 3.6 per cent of the foreign-exchange earnings to 19.2 per cent in 1969-70. Many of the donors now recover as much in annual repayments as they are pledging in new aid. West Germany, for example, allocated \$ 38 mn in new aid in 1969, but was to receive repayment of \$ 34 mn. In 1970-71, estimated debt servicing liability was of the order of \$ 216.3 mn (Rs. 108 crores) which is 25.9 per cent of the foreign exchange earnings of the country. In 1969-70, according to *The Pakistan Observer*, the debt liability of the country stood around Rs. 3,500 crores; of this Rs. 1,900 crores (\$ 3,800 mn) was hard liability of the country and the rest were commodity loan and loans in some other forms.

As a proportion of GNP, the gross flow of foreign assistance, including PL-480 imports and Indus Basin assistance, increased from 3 per cent in 1959-60 to 6.4 per cent in 1964-65 and was expected to drop to 4.3 per cent in 1969-70.

According to the State Bank of Pakistan annual report, in response to Pakistan's request to the Consortium

countries for a fresh pledge of \$ 500 mn of foreign assistance during 1969-70 they pledged \$ 436.1 mn through the Consortium. In addition, an amount of \$ 108.2 mn was pledged outside the Consortium. Pledges from the non-Consortium countries/agencies amounted to \$ 59.7 mn. The total aid pledges thus amounted to \$ 604 mn during 1969-70. Actual disbursements of foreign assistance during 1969-70 amounted to \$ 550 mn as against \$ 517 mn during 1968-69.

During 1970-71 the first year of the Fourth Five-Year Plan the total contribution of foreign assistance by the Consortium countries, according to a Government Press note, initially amounted to \$ 500 mn against Pakistan's total demand for \$ 570 mn.

Aid-to-Pakistan Consortium meeting, held in Paris on 23 and 24 July 1970, had pledged or indicated an amount of \$ 380 mn as the members' contribution during 1970-71. Besides this amount for project and non-project assistance, additional assistance in the form of food to the extent of \$ 120 mn was also pledged by the Consortium countries. Major contributions under this food aid have come from USA under PL-480 (\$ 75 mn), Japan (\$ 26 mn) and other Consortium members (\$ 15 mn) under the food aid convention. Though these pledges were made actual commitments were less since in the light of the climate of public opinion in various countries the aid giving Governments found it difficult to sign specific agreements after Pakistani military action on 25 March 1971 which resulted in a civil war in East Bengal.

The aid commitments for the year 1971-72 by the Consortium countries

had been postponed in the context of the civil war in East Bengal. All the aid givers in the Consortium except USA, have decided to withhold any commitment till a settlement is reached over the East Bengal issue in accordance with the advice given by the World Bank team which visited East Bengal in June. USA, however, proposed to sanction \$ 148 mn aid to Pakistan unilaterally but the aid bill had been held up by the Congress in the absence of a political solution to the East Bengal issue.

Pledges of assistance from non-Consortium countries include \$ 200 mn Soviet aid for the proposed steel mill and \$ 200 mn Chinese aid which is termed as their first instalment of aid to the Fourth Plan. An aid agreement was signed with China on 14 November 1970. Pakistan has submitted to China a list of seven projects to be financed from this loan. The loan is interest-free.

Bulgaria another non-Consortium country, has agreed to provide \$ 8 mn credit during the Fourth Plan period for development projects.

Planning

The Third Plan which was a part of 20-year Perspective Plan (1965-85) ended on 30 June 1970. The following statistics of the Third Plan performance have been officially published :

“There was a shortfall of \$ 1,709.4 mn or 27 per cent in the public sector outlay of \$ 6,300 mn. External resources fell short by \$ 735 mn. The shortfall in domestic resources amounted to \$ 965 mn,

“In the private sector the shortfall was relatively small – only \$ 42 mn against the target of \$ 4,620 mn.

“GNP increased by 32 per cent or 5.7 per cent per annum against the Plan target of 37 per cent or 6.5 per cent per annum. A growth rate of 9 per cent was obtained in large-scale manufactures against the target of 13 per cent. Exports rose at an annual rate of 7 per cent against the target of 9.5 per cent.

“The country provided about 76 per cent of the development expenditure from its own resources against the anticipated dependence of 32 per cent.

“The overall food grain production increased to 22,489,000 tons against the plan's original target of 21,465,000 tons. The target for rice was nearly achieved whereas wheat production last year (1969) jumped to 7,500,000 tons against the Plan's original target of 5,464,000 tons. Similarly, the production of sugarcane exceeded by 2,200 tons the plan target of 28,300,000 tons.”

During the Plan period the rate of investment has been estimated between 14 and 15 per cent compared to 18.3 per cent in 1964-65.

The following factors were said to be responsible for the shortfalls : (i) increased expenditure on defence as a result of 1965 war, (ii) drastic cuts in foreign aid alongwith hardening of terms of loans, (iii) droughts and floods in 1966 and 1967, and (iv) socio-political unrest in 1968-69.

Although the Third Plan was aimed at "reducing inter-regional and intra-regional disparity by a faster growth in East Pakistan", disparity in per capita income between East Bengal and West Pakistan widened by 30 per cent during the Third Plan period. The level of disparity increased from 46 per cent in 1964-65 to 60 per cent in 1969-70. Three reasons were given for this widening gap: (1) a much higher per capita public revenue and development expenditure in West Pakistan, (ii) a much higher level of private investment in West Pakistan, and (iii) set back in agricultural production in East Bengal.

During the Plan period, in East Bengal, actual development expenditure in the public sector was tentatively estimated at 71 per cent of the Plan allocation and in the private sector it would be only 48 per cent.

According to a survey conducted by the American Technical Assistance Corporation, the shortfall in the private investment in manufacturing sector during the Third Five Year Plan was estimated at 60 per cent in East Bengal. The shortfall was attributed to: (a) limited rupee loans, (b) restrictions in getting institutional loans because headquarters of the decision-making bodies were located in West Pakistan, (c) The reduced share of total disbursement of East Bengal by government sponsored agencies like PICIC and IDBP, and (d) lack of acceptable projects.

The Fourth Five-Year Plan (1970-75) was officially launched on 1 July 1970. The size of the total development expenditure during the Plan was fixed at Rs. 7,500 crores of which Rs. 4,900

crores would be in the public sector and Rs. 2,600 crores in the private sector. The flood control programme in East Bengal and the Indus Basin works programme in West Pakistan would be kept outside the Fourth Plan allocations. Tentatively Rs. 450 crores was earmarked for these two special programmes.

Of the total development expenditure of Rs. 7,500 crores, East Bengal was allocated Rs. 3,940 crores and West Pakistan Rs. 3,560 crores. In the public sector development programme of Rs. 4,900 crores, East Bengal's share would be Rs. 2,940 crores, or 60 per cent, and West Pakistan's share Rs. 1,960 crores or 40 per cent. In the private sector an investment of Rs. 1000 crores was expected in East Bengal and Rs. 1600 crores in West Pakistan.

The Fourth Plan, according to the government communique, would provide a sharp acceleration in the development expenditure of the Eastern Wing and a decisive effort to reduce per capita income disparities during the Plan period.

These allocations were expected to lead to a growth rate of 7.5 per cent in East Pakistan and 5.5 per cent in West Pakistan which in turn, the government expected, would result in a substantial reduction in inter-regional disparity in per capita income during the Fourth Plan period.

According to a report in *The Pakistan Observer*; the Plan would require foreign assistance of the order of Rs. 2,300 crores—Rs. 1,800 crores in aids and credits and Rs. 500 crores as foreign private investment. President

Yahya Khan met two World Bank officials and discussed the prospects of assistance for the Fourth Plan which the officials estimated at \$ 4,600 mn.

While launching the Fourth Plan Planning Commission officials announced that the first year of new five-year development plan already had a built in shortfall of \$ 144 mn, nearly 10 per cent of the development programme. According to *Dawn* the outline of the Fourth Plan was still not out of the woods —with the Finance Ministry continuing to have serious reservations about the country's capacity to build up additional domestic resources envisaged in the outline, and the international aid climate not holding out any firm promise with some of the Aid-to-Pakistan Consortium countries insisting on serious policy changes, including devaluation of Pakistani rupee.

Targets fixed for the 20-year perspective plan (1965-85) would shortly be revised because of shortfall in the Third Five-Year Plan targets and the low targets fixed for the Fourth Five-Year Plan, according to official sources. GNP according to the targets fixed for the current Fourth Plan, would increase by 6.5 per cent annually which was less than the growth rate of 7.2 per cent envisaged in the Perspective Plan.

Budget for 1971-72

The Central Budget for 1971-72 was presented by the President's Economic Adviser, M.M. Ahmad, at a press conference in Islamabad on 26 June. While presenting the budget, Ahmad said that this was "a budget prepared under circumstances of exceptional adversity" and "the Keynote of the new

strategy has to be maximum austerity and self-reliance in development".

The overall gross size of the budget, that is revenue expenditure plus capital disbursements, was originally placed at Rs. 1,268.78 crores for 1970-71. According to the revised estimates this turned out to be lower at Rs. 1,187.45 crores. While there was an increase of Rs. 46.83 crores in the revenue expenditure there was a sharp fall of Rs. 128.15 crores in the capital disbursements.

The size of the budget for 1971-72 is expected to be of the order of Rs. 1,252.71 crores. The increase will be both in revenue and capital budgets: they will be higher by 5 per cent and 7 per cent respectively.

The total revenue receipts (net of Provincial share) for 1970-71 registered a decline of Rs. 86.71 crores or 12 per cent and was estimated at Rs. 646.13 crores as against the budget estimate of Rs. 732.83 crores. Both tax and non-tax receipts turned out to be lower but the main shortfall was in tax receipts. Gross tax receipts at Rs. 605.04 crores have been lower by 11 per cent. The net tax receipts at Rs. 469.87 crores were lower by Rs. 63 crores or by 12 per cent. Lower tax receipts, despite mid-year new taxes, reflect mainly the impact of disturbed conditions in East Bengal and other factors. Non-tax receipts at Rs. 182.26 crores had a shortfall of Rs. 23.70 crores or 12 per cent.

During 1971-72, revenue receipts (net of Provincial share) are expected to increase by Rs. 68.90 crores or 10 per cent to Rs. 714.03 crores. Both tax and non-tax receipts are expected

to show improvement but it will be mainly in tax receipts which are expected to go up by Rs. 40.09 crores or by 9 per cent to Rs. 506.96 crores.

The budget proposal for 1971-72 places the total revenue expenditure at Rs. 627.52 crores against Rs. 600.25 crores in the revised budget and Rs. 553.43 crores in the budget estimates for 1970-71. The revenue expenditure in 1971-72 is expected to increase by Rs. 27.25 crores over the revised estimate and Rs. 74.09 crores over the budgeted expenditure for 1970-71. Revenue assignments to Provinces are placed at Rs. 163.31 crores during 1971-72 and Rs. 141.17 crores and Rs. 154.68 crores in the revised and budgeted estimates for 1970-71. Revenue surplus will amount to Rs. 86.51 crores in 1971-72 and Rs. 45.87 crores in the revised and Rs. 179.41 crores in the budgeted estimates for 1970-71.

Defence expenditure heads the list of expenditure with 55.7 per cent at Rs. 340 crores of the revenue expenditure against Rs. 320 crores in the revised estimate and Rs. 300 crores in the budget estimates for 1970-71. It is followed by interest payment at 20 per cent, Rs. 128.96 crores against Rs. 111.46 crores and Rs. 113.02 crores in the revised and budget estimates for 1970-71 and civil administration Rs. 80.56 crores compared to Rs. 81.43 crores and Rs. 72.34 crores in the revised and budget estimates for 1970-71.

In addition to the above expenditure on Defence Services, the demand for grants on Civil Aviation for 1970-71 shows under the heading "Grants for Aviation Purposes" an increase of Rs. 7.11 crores in the revised estimate which according to the 'Explanatory

Memorandum' is due to payment of more subsidy to the Pakistan International Airlines on account of air traffic between the East and West Wings of Pakistan. This extra amount was needed for the movement of troops by air to East Bengal as well as extra expenditure involved in the PIA flights via Ceylon since February 1971. In the 1971-72 budget, for 12 months, the total allocation is Rs. 10.99 crores against Rs. 5.56 crores in the pre-February 1971 budget estimate. In the budget estimate for 1971-72 a new heading "Subsidy to Ship Building" under the demand for grants on "Other Expenditure of Ministry of Defence" has been introduced and an amount of Rs. 1.81 crores has been allocated. According to the 'Explanatory Memorandum', Karachi Shipyard and Engineering Works, Ltd. during 1971-72, has a programme to construct or start construction or entering into contract for 4 ships for which the amount at the prescribed rate of subsidy works out to Rs. 1.81 crores. Both Civil Aviation and Shipping form part of the Ministry of Defence in Pakistan.

In the demand for "Contingency Item," an amount of Rs. 29 crores has been allocated in 1971-72 for unspecified purposes against Rs. 3 crores in the revised estimate and Rs. 20 crores in the budget estimate for 1970-71.

The capital disbursement during 1971-72 is estimated at Rs. 625.19 crores against the revised estimate of Rs. 587.20 crores and budget estimate of Rs. 715.35 crores for 1970-71. In the capital budget for 1970-71 there is a shortfall of Rs. 128.15 crores. Foreign loans and grants will constitute more than 45 per cent at Rs. 282.52 crores of the total capital budget for 1971-72.

BUDGET SUMMARY

	(Rs in crores)		
	1970-71 Budget	1970-71 Revised	1971-72 Budget
Revenue Receipts			
Tax Receipts	681.56	605.04	670.27
Less-Provincial Share	(-) 154.68	(-) 141.17	(-) 163.31
Net Tax Receipts	526.87	463.87	506.96
Non-Tax Receipts	205.96	182.26	207.07
Total :	732.83	646.13	714.03
Revenue Expenditure	553.43	600.25	627.52
Revenue Surplus	179.41	45.88	86.51
Principal Heads of Expenditure			
Defence Services	300.00	320.00	340.00
Debt Services	113.02	111.46	128.96
Civil Administration	72.34	81.43	80.56
Capital Disbursements	715.35	587.20	625.19

Communications

The Third Plan paid a greater attention to this sector of the economy by more than doubling the outlay to Rs. 671 crores compared to the actual expenditure of Rs. 307 crores during the Second Plan.

But financial and physical achievement in this sector during the first four years of the Third Plan fell short of the Plan targets mainly due to diversion of funds during and after the 1965 war with India and reduction in the flow of foreign economic assistance. The estimated public sector development expenditure during the first four years of the Third Plan amounted to Rs. 326.2 crores compared to the target of Rs. 671 crores. Physical progress in

most of the sub-sectors has been below expectations, particularly in roads, railways and inland water transport. (There are about 5,000 miles of river routes in the Eastern Bengal through which 75 per cent of the traffic of this region passes).

Relatively better implementation was recorded in the case of Pakistan Western Railways, road programme in West Pakistan and civil aviation. The Pakistan Eastern Railways completed the construction of the new railway line Narsingdi-Madanganj section and conversion of Rupsa-East Bagherhat from narrow gauge to broad gauge. Both these lines were opened to traffic. The construction of a super highway of 90 miles between Karachi and Hyderabad was completed. All the five major river

ports of Dacca, Narayanganj, Chandpur, Barisal, and Khulna in East Bengal have been modernised. The strength of the merchant fleet during this period went up to 70 ships with 7.5 lakh DWT as compared to 55 ships with 5.3 lakh DWT at the end of the Second Plan. Marked progress is claimed to have been made in the development of the three main ports—Karachi, Chittagong and Chalna (anchorage). Their cargo handling capacity increased to 9 million tons, 4.3 million tons and 2 million tons respectively. A new port called Mangla is being built on the mouth of the river Pussur near Chalna. During the Third Plan period, the Pakistan International Airlines, the only airline in the country, added 18 international stations and about an equal number of domestic stations. By the end of the Plan, PIA was operating on 27 international and 29 domestic stations.

The Karakoram Road

In July 1970, the Pakistan army was reported to have completed a wide road fit for heavy vehicular traffic between Gilgit and Hunza replacing an existing jeepable road. A new bridge over the river Gilgit had also been constructed by the army engineers who were engaged together with the Chinese army engineers in building the Karakoram Highway. This all-weather Karakoram road starts from Thakot in Hazara District and connects the outlying tribal area across the Indus gorge with the rest of West Pakistan. On 19 February 1971 the part of the Karakoram Highway—the road linking Khunjerab Pass and Helleh Gush (Chinese name)—built by the Chinese

army engineers was officially handed over to Pakistan by a Chinese delegation headed by the Chinese Communication Minister, Yang Chieh. According to Yang the construction of this highway started in 1968. General Abdul Hamid Khan, the Chief of Pakistan Army Staff, who inaugurated the road link said it was undertaken simultaneously from Khunjerab, on the Pakistan-China border and Thakot (Hazara District) in Pakistan. According to the Karachi Daily *Dawn*, the present section of the Karakoram Highway connects Gilgit to the Chinese border, through Hunza and passes through the Pamir ranges. This is linked to the bridge that has been simultaneously built to connect Gilgit to Hunza valley and Skardu. Together with the road link between Gilgit and Hunza which starts from Thakot, this road has, *Dawn* says, given Kashghar in China a direct link with Islamabad. *Dawn* stresses that the highway will strengthen China's support to "The Government and people of Pakistan in their just struggle to safeguard national independence and oppose foreign aggression and interference."

Pakistan has decided to buy 97 ships during the Fourth Plan period. The construction of a workshop and a slipway project were undertaken in the Chittagong port with Yugoslav credit. It was to make the port self-sufficient in repair and maintenance facilities for their own floating craft. A ship repair complex was scheduled to start functioning at the port in 1971. A 20-year Master Plan was drawn up for the port's development. A Swiss firm was to conduct a feasibility study for setting

up a modern repair workshop and docking facilities at Chalna.

The East Pakistan Inland Water Transport Authority was planning to set up a big river port at Ullapara on the river Karotoa in Serajganj subdivision of Pabna district. The scheme known as Shahzadpur River Port plan would cost Rs. 26 crores and cater to the needs of North Bengal's development. An American firm assisted in the surveying work of the port.

A UK team was to have conducted a major survey of the future transport problems of East Bengal. The British Government was to provide £ 326,000 for the project.

A record dividend of 12.5 per cent was declared by PIA for the year ended on 30 June 1970. During the year the revenue increased by 15 per cent from Rs. 42.49 crores in 1968-69 to Rs. 49 crores in 1969-70. PIA's current operating fleet includes 8 Boeing 707 and one more on order, 3 Boeing 720-B, 10 Fokker F-27 and 2 more on order. There were 6 Canadian Twin Otter STOL aircraft on order, of which 5 have been delivered.

Consequent on the suspension of overflight across India following the blowing up of the hijacked Indian plane at Lahore airport on 2 February 1971, PIA had to re-route its services to East Bengal, via Ceylon which is estimated to cost PIA Rs. 230,000 daily as additional expenditure. The airline is now receiving subsidy from the Government to offset the extra cost. PIA has also put up its fares between Karachi and Dacca.

PIA on 3 January 1971 introduced the short-take-off and landing (STOL) services on various routes in East Bengal. The STOL services replace helicopter services suspended in December 1966. The Canadian (20 seater) Twin Otter aircraft is being used for the services. PIA will also link offshore islands of East Bengal, such as, Cox's Bazar, Hatiya and Sandwip. The construction work on 6 STOL air strips at Khulna, Bhola, Hatiya, Sandwip, Chandpur and Begumganj was taken in hand on a priority basis. Each airport was to have 3,600 feet long and 300 feet wide brick-paved runway.

A new airport was to be built at Chittagong on the other side of the Karnafuli River with French assistance. The present airport is on the same side of the River Karnafuli as the town.

Pakistan signed air agreements during the year with Afghanistan, Malaysia, Jordan, Albania and Poland. PIA's service to Albania started in June 1970 is reportedly subsidised by China. The Ariana Afghan Airlines, according to an agreement with Pakistan, for the first time since 1965 Indo-Pakistan war linked Lahore with Delhi and Amritsar in July 1970.

An earth station for satellite communication between West Pakistan and East Bengal, a distance of about 2,091 km was commissioned on 28 June 1970 at a place 56 km north-west of Karachi

Radio Pakistan's two 1000-kw medium wave transmitters—one in Islamabad and another in Dacca—are scheduled to go into service during the

Fourth Plan period. The Dacca transmitter is expected to start operation in 1973. Both the transmitters are being supplied under credit by USSR and Pakistani radio engineers will be trained in USSR. Besides the 1000-kw transmitter, Islamabad will have four more shortwave transmitters—two 250-kw and two 100-kw. In addition new medium wave transmitters to be set up are a 150-kw at Quetta, a 100-kw at Peshawar, one 130-kw each at Multan and Hyderabad (Sind). Khulna radio station in East Bengal went on the air in July 1970.

Two new Industrial units in the field of tele-communications, one in each wing, are to be set up with financial and technical assistance from West Germany. The Telephone Industries Corporation, the first telephone plant in East Bengal, set up with West German aid at Dacca was inaugurated on 25 September 1970.

Radio Pakistan, Dacca, in September 1970, started a 30-minute daily programme for listeners in Nepal. This was the first external service from East Bengal.

POLITICAL DEVELOPMENTS

For the sake of convenience the period under review may be divided into three : (i) Pre-elections (ii) post-elections and (iii) the military action and the birth of a new nation—Bangladesh.

Pre-election period (Till 7 December 1970)

In pursuance of his promise (broadcast on 29 November 1969) to

hold the country's first ever general elections on 5 October 1970 on the basis of one-man-one-vote (the major demand of the Eastern Wing) and adult franchise and subsequently to hand over power to the elected representatives, General Yahya Khan, in his broadcast on 28 March 1970 announced that there would be a federal form of Government with maximum autonomy for the provinces in financial, legislative and administrative matters. The National Assembly would have 313 seats including 13 women. West Pakistan would be split into 4 provinces—Punjab, Sind including Karachi, NWFP and Baluchistan on 1 July, and the elections would be held in October (the date was, however, shifted to December as there were devastating floods in the Eastern Wing in August). Earlier, the political parties were allowed to resume their normal functioning from 1 January 1970.

General Yahya Khan issued the Legal Framework Order on 30 March providing for a National Assembly for framing the Constitution of the country and a Provincial Assembly for each province. The seats were distributed on the basis of the population figures of the 1961 Census. In the National Assembly, the Eastern Wing would have 169 seats including 7 women, the Punjab 85 seats including 3 women, Sind 28 with 1 woman, Baluchistan 5 with 1 woman, NWFP 8 and Centrally Administered Tribal Areas 7; one seat reserved for woman was allocated jointly to NWFP and Tribal Areas. The number of seats for the Provincial Assemblies were also specified. The lower limit of voting age was laid down as 25. The seats reserved for women were to be filled in through indirect elections by the Assembly members.

The Order laid down the following important principles : (a) the Constitution shall reaffirm faith in the Holy Quran and *Sunnah* and the minorities shall be enabled to profess and practise their religions freely and to enjoy all rights, privileges and protections due to them as citizens of Pakistan ; (b) Pakistan shall be a federal republic ; and (c) the Head of the State shall be a Muslim.

The Order also laid down that the Constitution Bill as passed by the National Assembly shall be presented to the President for authentication. The National Assembly shall stand dissolved in case authentication is refused. The Framework could be amended by the President alone and not by the National Assembly. The work of the Constitution making had to be completed within 120 days from the date on which the Constituent Assembly first met.

There were widespread protests especially from the Awami League, the National Awami Party (Wali group) and the Pakistan People's Party over the clause requiring President's authentication of the Constitution passed by the elected Constituent Assembly. They argued that the Constituent Assembly must be a completely sovereign body. Even Fazlul Quader Chowdhury, the President of a Muslim League faction sought an amendment to LFO to make the Constituent Assembly a sovereign body. Maulana Bhashani, the NAP leader, demanded labour and peasants rule before the poll and threatened to plunge the country into guerrilla war to realise this objective and announced his plan of long march on Mao's line. He could not and did not carry out his threat.

The President on 10 April 1970 defended his Legal Framework Order and claimed that the vast majority of the people had hailed the Order and that a few others "who are worried about one or two things" had also accepted 99 per cent of it. The President accepted that there were one or two instances of misgivings relating to the clause on authentication. He pointed out that the provision of a Bill or Constitution being authenticated by the President or the Head of State was not a new thing introduced by him. It was prevalent throughout the world. He felt that if the Constitution was made according to the broad principles laid down in the Framework then there was no reason why he should not authenticate it. On the limit of 120 days he said that most of the work was already there, it was just a question of the few points which the leaders should discuss and settle. He was also quoted as saying he was as much a judge of the Constitution as the National Assembly was.

General Yahya Khan ordered earlier on 1 April the dissolution of the One Unit, the major demand of the Pathans, Sindhis and Baluchis, and restoration of the four provinces that existed in the Western Wing originally. The provinces which came into existence on 1 July were Sind including Karachi, Baluchistan including Lasbela, North-West Frontier and West Punjab including the erstwhile state of Bahawalpur. The demand for a separate province for Bahawalpur was rejected. The four provinces were put under four army lieutenant generals as governors. Islamabad and the tribal areas remained under the Central rule.

Preparations for holding elections went ahead with the issue of an Ordi-

nance on 22 June fixing the dates of elections. President General Yahya Khan in a nation-wide broadcast on 28 July expressed satisfaction that the government had been able to keep upto its planning schedule for general elections. Expressing his firm resolve to hold free and fair elections the General said that all necessary forces would be placed at the disposal of the government to ensure that there was no violence, coercion and other malpractices during the elections. The General sounded a note of warning against the parochial forces that might rise consequent upon the dissolution of the One Unit in the Western Wing. He promised strict action against all cases of unlawful behaviour and directed the Governors and Martial Law Administrator to make law and order their first and foremost concern.

The President on 15 August, as a result of a heavy flood in the Eastern Wing, put off the dates of elections to 7 December for National Assembly and not later than 19 of the same month for Provincial Assemblies. The President in August had also set up a three-member Election Commission headed by the Chief Election Commissioner to deal with election matters.

Contrary to earlier indications, all the major political parties fought the elections individually on their own and no line up or even loose understanding among them was in evidence. A few minor religious factions did group themselves but failed to impress the electorate. Intensive electioneering campaigns took place between August and December. There were a few violent incidents but the campaign generally passed off peacefully. In the elec-

tioning campaign apart from his party's election platform on Islamic Socialism the Pakistan People's Party leader, Z.A. Bhutto, as also a few others made the utmost to whip up anti-Indian sentiment. It was felt that Bhutto's anti-Indian stand paid him some dividends in the poll in the Punjab especially in those districts bordering Kashmir, Haryana and Punjab (India). The *Dawn* of Karachi quoted Bhutto as telling a public meeting that he was "ready to own the charge that he engineered the 1965 war against India". He went on further to imply that Jinnah started the first war in Kashmir in 1947 when he said: "If Quaid-i-Azam was wrong in starting the first war against India, then I am equally wrong".

Some other leaders competed with Bhutto in claiming credit for having triggered off the war in 1965. *The Pakistan Times*, Lahore, quoted ex-Air Marshal Nur Khan (Air C-in-C in 1965) as saying at a press conference in Lahore that Bhutto was misleading the people about his role in the 1965 Indo-Pakistan war. He said, "Mr. Bhutto is wrong when he says he wanted war with India. It is we (military leaders) who wanted the war". Earlier, he also charged Bhutto of "imbecility and gross negligence of duty" during the 1965 war.

There were exchanges among Bhutto, ex-Air Marshals Asghar Khan and Nur Khan about their respective roles in canvassing China's support during 1965 war. A Pakistani journalist presumably at the instance of Asghar Khan wrote a book to highlight how Asghar Khan and Ayub made secret visits to China to secure that

country's support. Bhutto after his election victory claimed that his party had been given a clear mandate to follow an independent foreign policy with confrontation with India.

The major parties that fought elections were the Awami League, headed by Sheikh Mujibur Rahman, Pakistan People's Party of Zulfikar Ali Bhutto, National Awami Party (Wali group) headed by Khan Abdul Wali Khan, the three factions of Muslim League—PML (Qayyum group) presided over by Khan Abdul Qayyum Khan, the Council Muslim League presided over by Mian Mumtaz Mohammad Khan Daultana, PML (Convention) headed by Fazlul Qader Chowdhury, two groups of Jamiat-ul-Ulema, Markazi and Hazarvi, Jamaat-i-Islami of Maudoodi and Pakistan Democratic Party headed by Nurul Amin.

The National Awami Party presided over by Maulana Bhashani and the Pakistan National League of Ataur Rahman Khan withdrew at the last moment from the contest and launched a movement on 4 December 1970 for autonomous and sovereign East Bengal as spelled out in the Lahore Resolution of 1940. Maulana Bhashani later demanded a referendum on sovereign East Bengal.

Maulana Bhashani's NAP suffered a split when in May 1970, his general secretary Mohammad Toaha and in June the secretary of the party's peasant wing (Krishak Samity), Abdul Haq, left the party. It was later reported that Toaha and Haq were behind the formation of the clandestine Communist Party (ML) of Pakistan.

The Awami League's election manifesto was based on the six-point prog-

ramme of regional autonomy which its leader Sheikh Mujibur Rahman had been advocating since 12 February, 1966. The six points are : (1) Federal Constitution on the basis of the Lahore Resolution, 1940, (2) the Federal Government shall deal with only two subjects—defence and foreign affairs—with all residuary subjects vested in the federating States, (3) two currencies or one currency with safeguards against interwing flight of capital, (4) taxation and collection of revenues vested in the federating units, Federal Government receiving a share, (5) economic disparities between the two wings to disappear through series of measures, and (6) a local militia or para-military force for local defence. On foreign policy Sheikh Mujibur Rahman in his broadcast on 28 October 1970 pleaded for avoiding involvement in global power conflicts, pursuing a truly independent non-aligned foreign policy including immediate withdrawal from SEATO and CENTO and all the military pacts, and normalisation of relations with neighbours.

Z.A. Bhutto brought out a 53-page election manifesto which, in sum, proposed to bring about radical change in the social, economic and political structure of the country. The party felt that the existing electoral system had been one of the principal causes of the political failures since the beginning of Pakistan. The electoral system would be reformed to give primacy to political programmes. On defence, the party pleaded for Pakistan developing its nuclear capability to prepare for all eventualities. The right of bearing arms by every citizen would be established, a *People's Army* would be created in all regions. Speaking on his party's

foreign policy Bhutto said in his broadcast on 18 November 1970 that his party would "pursue a genuinely independent foreign policy fashioned to serve the vital national interests". Effective support would be given to the people of Kashmir in their "freedom struggle" and the solution of the Farakka dispute would be sought, he added.

The National Awami Party (Wali Khan Group) in its election manifesto demanded among other things, a federal parliamentary system for Pakistan ensuring popular sovereignty and provincial autonomy with the centre retaining only defence, currency and foreign affairs. The manifesto sought special protection in the proposed constitution against policies being forced on a particular province by other provinces on a simple majority basis. In his broadcast on 6 November 1970 the President of the Party, Khan Abdul Wali Khan, said that the verdict of the future Constituent Assembly which would frame the country's first democratic constitution, should be supreme. On foreign policy, he said, his party stood for friendly relations with all countries including India.

The manifesto of the Pakistan Muslim League (Qayyum Group) announced on 20 August 1970 stood more or less for *status quo* because it envisaged defence, foreign affairs including trade, finance and communications excluding railways as Central subjects. The President of the party, Khan Abdul Qayyum Khan, had in his election meetings stressed the need for a strong centre to safeguard integrity and solidarity of the country. In his election broadcast on 13 November 1970, he said, his

party would follow a non-aligned foreign policy designed to promote the interest of Pakistan and safeguard its integrity and solidarity. "Relations with India are of special interest to us in Pakistan", but, he added, India must vacate "its unlawful occupation of Jammu and Kashmir".

The West Pakistan Council Muslim League (its counterpart in the Eastern Wing had alliance with others) in its election manifesto on 2 October 1970 envisaged, among other things, a constitution based on the tenets of the Quran and *Sunnah*, introduction of Bengali and Urdu as national languages, a parliamentary form of government with autonomy to the federating units, elimination of monopolies and cartels, nationalisation or public control of key industries, banking and insurance and ensuring full employment by 1975. Speaking on the Kashmir policy of his party over the Radio Pakistan on 12 November 1970, Daultana said that without the "freedom of Kashmir" the concept of Pakistan was incomplete and without the full settlement of Kashmir and Farakka there could be no fruitful dialogue between Pakistan and India.

The President of the Pakistan Muslim League (Convention) (a residual group of General Ayub Khan's Pakistan Muslim League), Fazlul Qader Chowdhury, an East Bengali, announced his party's election manifesto on 27 July 1970 in Rawalpindi. The party according to the manifesto, stood for a federal system of government where the legislature would be supreme and sovereign, defence, currency, foreign affairs including foreign trade, central taxation, and inter-wing communication

should remain with the centre. The party wanted effective clauses in the Constitution to do away with regional disparity and eliminate cartels and monopolies. Later on 2 October 1970 the official manifesto of the party demanded that both the wings should be made self-sufficient in the matter of defence and the Naval Headquarters and the Headquarters of Dy. Cs-in-C of Ground and Air Forces should be shifted to the Eastern Wing. The party also stood for a separate province for the northern part of the Eastern Wing. In his broadcast on 17 November 1970 Qader said that Constitution based on Islamic conception of life alone could guarantee the well-being of the people of Pakistan and keep the two wings of the country together. He assured the people of Jammu and Kashmir that the people of Pakistan would "do their best to help secure their right of self-determination".

The President of the Pakistan Democratic Party (PDP), Nurul Amin, an East Bengali, speaking over Radio Pakistan on 10 November 1970, said his party stood for a federal parliamentary form of government with maximum provincial autonomy and social justice and equality in accordance with the Holy Quran and *Sumah*. He said unity between the two wings formed the basis of Pakistan. Amin demanded that it should be a constitutional obligation on the Central Government to ensure equal representation in every defence service for the people from both wings.

The two groups of Jamiat-ul-Ullema as also Jamaat-i-Islami stood for Islamic order and integrity and solidarity of the country. In the Eastern Wing Jamaat-i-Islami, Council Muslim

League, PDP and Nizam-e-Islam reached an electoral understanding among themselves. Eight minor parties and organisations in West Pakistan, claiming to be Islam-loving and patriotic group, formed a United Islamic Front for fighting the general elections.

Four days before the elections General Yahya Khan told the nation on 3 December over the Radio and Television network: "For the first time in our national existence you have a chance to vote for the security of the country". He added: "...they (the elected representatives) should appreciate that when elected their first task would be to make a Constitution for this country". "The election was only the first phase of our plan. The next phase will be the framing of the Constitution and the final phase would be the transfer of power to the elected representatives. Sovereignty would pass to the National Assembly on conclusion of this last phase and on lifting of Martial Law", he declared.

General elections were held in Pakistan on 7 December for the National Assembly and on 17 December 1970 for the five Provincial Assemblies. This was the first time in the 23 years of Pakistan's existence that the people of the country had exercised their voting rights on the basis of direct adult franchise. On 13 November 1970 a cyclone swept over the nine districts of East Bengal and consequently, elections in 9 National Assembly and 18 Provincial Assembly Constituencies in the southern areas of East Bengal had to be put off to 17 January 1971.

The Awami League of Sheikh Mujibur Rahman swept the poll in

East Bengal and the Pakistan People's Party of Zulfikar Ali Bhutto achieved a major victory in West Pakistan.

The Awami League secured absolute majority in the National Assembly by winning 151 seats, all in East Bengal, (out of 153 for which elections were held in the Eastern Wing) in a House of 300. The Awami League also later added all the 9 seats for which elections were held on 17 January 1971 bringing its total strength of the elected seats to 160. The party only conceded two seats in East Bengal—one to the PDP Chief, Nurul Amin, and the other to an independent from the Chittagong hill tracts, Raja Tridib Roy, who subsequently supported the Awami League.

The Pakistan People's Party of Bhutto won a landslide victory in West Pakistan by securing 81 seats out of 138. Pakistan Muslim League (Qayyum Group) came second with 9 seats, two groups — Markazi and Hazarvi — of Jamiat-ul-Ullemah and Council Muslim League scored 7 each, National Awami Party (Wali group) won 6, Jamaat-i-Islami 4, Muslim League (Convention) 2 and 15 seats went to independents. Two of the independents subsequently joined PPP.

Of the women seats which were elected through indirect elections among the National Assembly Members, all the 7 seats in East Bengal were won by Awami League nominees, four out of six in West Pakistan went to PPP, one to Muslim League (Qayyum group) and one in Baluchistan to NAP (Wali Group).

Elections for five Provincial Assemblies to elect 579 members out of a total

of 600 were held on 17 December 1970. Elections for 21 constituencies (18 in cyclone-hit areas and 3 due to death of candidates) in East Bengal had to be put off to 17 January 1971. A total of 4,554 candidates contested for 579 seats. In addition to the 600 general seats there were 21 reserved seats for women in the five Provincial Assemblies to be elected through indirect elections—East Bengal-10, Punjab-6, Sind-2, NWFP-2 and Baluchistan-1.

This was the second direct Provincial Assembly elections in Pakistan. The first direct elections were held in 1951 in West Pakistan and in 1954 in East Bengal. It may be recalled that in 1954 election, in East Bengal the Muslim League, which claimed to be the architect of Pakistan, was completely routed by the United Front of which the Awami League was the dominant partner

In East Bengal, the Awami League secured a total of 266 seats out of 279 for which elections were held on 17 December 1970. The Awami League also added 20 seats out of 21 for which elections were held on 17 January 1971. The party conceded in total 12 seats in the East Bengal Provincial Assembly—7 to independents, 2 to PDP, 1 each to Jamaat-i-Islami, Nizam-e-Islami, NAP (Wali group). The final party position in the East Bengal Provincial Assembly was : Awami League-288, PDP-2, Jamaat-i-Islami, Nizam-e-Islami and NAP (Wali group)—1 each and independents—7.

In West Pakistan, Bhutto's Pakistan People's Party secured absolute majority in the Punjab (113 out of 180) and in

Sind (34 out of 60). The National Awami Party of Wali Khan emerged as the single largest party in the North West Frontier Province (13 out of 40) as also in Baluchistan (8 out of 20).

The following table gives the final party positions in the National Assembly and in the Provincial Assemblies in respect of the seats filled in by direct elections :

Post-election period (December 1970-25 March 1971)

Following his party's success in the National Assembly elections in West Pakistan, Bhutto started emphasising that Punjab and Sind were bastions of power in Pakistan (this statement was vehemently criticised by the Awami League leaders) and since Pakistan People's Party had emerged with a

	Total Seats in National Assembly	Total Seats in Provincial Assemblies	East Bengal	Punjab	Sind	NWFP	Baluchistan
Total general seats	300	600	300	180	60	40	20
Awami League	160	288	288	—	—	—	—
People's Party	81 + 2(b)	148	—	113	32 (a)	3	—
Independents	16 (14)	56	7	28	10	6	5
PML (Qayyum)	9	24	—	6	5	10	3
NAP (Wali)	6	22	1	—	—	13	8
CML	7	20	—	15	4	1	—
Jamiat (Markazi or Ahle Sunnat)	7	11	—	4	7	—	—
Jamiat (Hazarvi)	7	8	—	2	—	4	2
PML (Convention)	2	8	—	6	—	2	—
PDP	1	6	2	4	—	—	—
Jamaat-i-Islami	4	4	1	1	1	1	—
Nizam-i-Islam	—	1	1	—	—	—	—
Jamiat (Ahle Hadith)	—	1	—	1	—	—	—
NAP (Pakhtoonkhawa)	—	1	—	—	—	—	1
Baluchistan United Front	—	1	—	—	—	—	1
Sind MPPM Mahaz	—	1	—	—	1	—	—

Notes : (a) Including four independents backed by the party.

(b) Two independents have since joined PPP.

sweeping majority from these provinces, his party's cooperation was essential for any Central Government. At one stage he envisaged a 'grand coalition' between his party and the Awami League. He proposed that President Yahya Khan, Sheikh Mujibur Rahman and he should sit together and decide the issue of autonomy which was the major task before the newly-elected Pakistan Assembly. Alternatively he suggested he would meet Rahman to seek a solution on the regional problem acceptable to both sides. He offered whole hearted support to the idea of a genuine federation in Pakistan with all the provinces having equal power.

The Awami League Chief Mujibur Rahman said he would try to secure a Constitution with full regional autonomy on the basis of the Six-Point Programme. He stressed that he would ensure through a Constitution based on Six-Point Programme that exploitation of Bengalis would be impossible. In reply to General Yahya's congratulatory telegram on his success, Mujib said that the people of Bangla Desh in an unprecedented demonstration of unity had given overwhelming verdict in favour of his party's six-point Constitutional formula. The Awami League Chief assured the General that a Constitution based on the six-point formula could ensure "justice for all and justice between region and region, and man and man".

Meanwhile, both Sheikh Mujibur Rahman and Bhutto appointed Constitution-drafting bodies for their respective parties. *The Pakistan Times*, Lahore, wrote on the Awami League's draft Constitution on 10 December 1970: "The Awami League leaders are

understood to have engaged themselves in the task of formulating a draft constitution reflecting in the main the broad consensus of national aspiration but with preponderance of the party's six-point programme... They (political observers) were of the view that the Sheikh would now like to frame the Constitution within the overall framework of one Pakistan". On 30 December Radio Pakistan announced that the first session of the Pakistan National Assembly would be held in Dacca.

General Yahya Khan paid a three-day visit to Dacca commencing 11 January 1971 and held discussions with the Awami League leaders. Speaking to the newsmen in Dacca before his departure for Karachi, Yahya Khan described Sheikh Mujibur Rahman as the country's future Prime Minister and said the Government of the country would soon be passing into the hands of the Awami League Chief. He said he had taken the opportunity of his short stay in Dacca to have useful discussions with the Awami League Chief and he was satisfied with the discussions he had with Sheikh Mujibur Rahman. Earlier, on 13 January Sheikh Mujibur Rahman expressed his satisfaction with the discussion he held with General Yahya Khan in Dacca; this statement was confirmed by the General who declared whatever Sheikh Mujibur Rahman had said about his discussions with him was absolutely correct. Before Yahya Khan visited Dacca, Bhutto called on him on 28 December 1970 and was reported to have discussed some of the concrete and vital problems that faced the nation.

General Yahya Khan flew to Larkana direct from Dacca to meet

Bhutto. General Yahya Khan and Bhutto held long discussion for the second time since the elections on 17 January at Bhutto's residence. Most of the time they talked exclusively between themselves. For sometime, Chief Staff Officer, to the President, Lt. Gen S.G.M. Peerzada and the army Chief of Staff Gen Abdul Hamid were present. Lt. Gen. Peerzada was also present during Yahya's talks with Mujibur Rahman.

After meeting Bhutto, General Yahya Khan in his talks with the pressmen clarified his earlier remarks about the future Prime Minister of the country. He said he had not named Sheikh Mujibur Rahman as the future Prime Minister of Pakistan. The actual position was that Sheikh Mujibur Rahman was the leader of the majority party and in a parliamentary system the leader of the majority party would become the Prime Minister. If, however, Sheikh Mujib might not like to become the Prime Minister he could not force him, he explained.

Towards the end of January Bhutto together with a few of his partymen met Sheikh Mujibur Rahman in Dacca. On 30 January Bhutto confirmed that he had differences with the Awami League Chief, Sheikh Mujibur Rahman on four of the League's six-points, which Rahman insisted, should form the basis of a Constitution. The four points were: (1) the federal government to deal with defence and foreign affairs only, (2) two currencies or safeguards against inter-wing flight of capital, (3) the units to have powers of taxation and revenue collection, the federal government receiving a share, and (4) economic disparities between the two wings should be reduced by constitutional measures.

On 13 February it was announced that the National Assembly would meet in Dacca on 3 March for framing a Constitution for Pakistan. Sheikh Mujibur Rahman addressed a joint session of the Members of the National and Provincial Assemblies and members of the Working Committee of the All Pakistan and East Pakistan Awami League in Dacca on 15 February to affirm that there would be no deviation from basic principles because it was the verdict of the majority of the people of the country. Following this Bhutto threatened at a press conference in Peshawar that his party would not attend the National Assembly session on 3 March in Dacca unless it was made clear to him that there would be some amount of reciprocity from the majority party. He said: "We cannot go there only to endorse the Constitution already prepared by a party and to return humiliated". He then elaborated that he could neither accept a two-subjects centre nor the point relating to currency. "I am not without hope about foreign trade and taxation", he added. On 17 February in Karachi he repeated that they could not go to Dacca for signing what he called a dictated constitution. The threat of boycotting the Constituent Assembly was followed by a proposal for separate Prime Ministers for the geographically divided country. The official Pakistani news agency source said that Bhutto was working on a proposal that he and Sheikh Mujibur Rahman became Prime Ministers of their respective parts of the country and that President Yahya Khan remained the President.

Bhutto met General Yahya Khan on 19 February. After his meeting

with the General he said that his party was willing to cooperate with the Awami League in the framing of the Constitution if the Awami League would agree to substantial adjustments on its position relating to currency, foreign trade and taxation. He said further that he could enter into some settlement on the currency issue and would try to settle the taxation issue. On 21 February Bhutto's party decided to extend cooperation to the Awami League provided it was ensured that the Constitution would be framed on the basis of consensus. Bhutto came up for severe criticism from some politicians and newspapers of both the wings for his stand on the Constitution issue.

The other leaders' attitudes were reasonable; all of them with the exception of Khan Abdul Qayyum Khan agreed to attend the National Assembly session. Nawab Akbar Khan Bugti of Baluchistan said people at large in his province were in favour of a Constitution based on Awami League's six-point formula.

The President, General Yahya Khan, on 22 February dissolved his Council of Ministers in view of the political situation obtaining in the country according to a communique issued by the Government. Within hours of the dissolution of the Cabinet Yahya Khan conferred with the senior officers of the army including the Governors and Martial Law Administrators of the five provinces, Lt. Gen. Peerzada and General Abdul Hamid, on the political crisis facing the country.

On 27 February Bhutto sought the postponement of the National

Assembly session which, he said, was necessary to hold negotiations between the Awami League and his party. He also wanted the time-limit of 120 days to be extended as a pre-condition for his party attending the National Assembly without delay.

President Yahya Khan announced on 1 March an indefinite postponement of the inaugural session of the National Assembly.

While General Yahya Khan postponed the convening of the National Assembly, citing the political confrontation between the leaders of East and West Pakistan as the justification, he did not consult the leader of the majority party, Sheikh Mujibur Rahman about the postponement. Consequently, as a response to the partisan behaviour of General Yahya Khan, Mujibur Rahman, called for a general strike. In a statement issued on 2 March 1971, he said, "In this critical hour, it is sacred duty of each and every Bengali in every walk of life, including the government employees, not to cooperate with anti-people forces and instead do everything in their power to foil the conspiracy against Bangla Desh."

The White Paper issued by the government of Pakistan on 5 August 1971 admitted that the Awami League's strike call paralysed normal life throughout East Pakistan. According to Tajuddin Ahmed, Prime Minister of the Provisional Government of Bangla Desh :

"The reaction to the postponement in Bangla Desh was inevitable and spontaneous and throughout the land, people took to the streets to record

their protest at this arbitrary act. People now felt sure that Yahya never really intended to transfer power, and was making a mockery of parliamentary politics. The popular mood felt that the rights of Bangla Desh could never be realised within the framework of Pakistan, where Yahya Khan could so blatantly frustrate the summoning of an assembly proclaimed by his own writ and urged that Sheikh Mujibur Rahman must go for full independence."

"Sheikh Mujibur Rahman, however, continued in calling for a programme of confrontation against the army of occupation as an attempt to bring them to their senses. This was in itself a major gesture in the face of the cold-blooded firing on unarmed demonstrators on 2 and 8 March which had already led to over a thousand casualties".

On 3 March, Yahya Khan invited 12 elected members of the parliamentary groups in the National Assembly to meet at Dacca on 10 March in an effort to solve the constitutional crisis.

Mujibur Rahman turned down Yahya Khan's invitation to a conference. Presumably in this he was influenced by the events in Dacca on 2 March which resulted in large scale casualties in the firing by the West Pakistan security forces, and the subsequent 11-hour curfew imposed on the city. There was a 24 hour curfew on Rangpur and 23½ hour curfew in Sylhet. He called for a civil disobedience movement and urged that administration should be handed over to the people's representatives. He also served notice that a no-tax campaign would follow if the government did not respond by 7 March to

the demand for the restoration of the fundamental democratic rights of the people.

Meanwhile, on 3, 4, 5 and 6 March, there were widespread clashes between Pakistani security forces and the demonstrators in a number of towns in East Bengal. Among the towns affected were Dacca, Islampur, Jessore, Comilla, Sylhet, Chittagong, Khulna, Rangpur, Nawabpur, Habiganj, Beani Bazar, Bhairab and Laksham. The radio and TV in Dacca started broadcasting the instructions of the Awami League and playing *Amar Sonar Bangla* as anthem. On 6 March Yahya Khan made a provocative broadcast in which he held Mujibur Rahman solely responsible for what was happening. He fixed 25 March as the new date for the inaugural session of the National Assembly, but did not mention the venue. He declared that the armed forces, of which he was the Commander-in-Chief, would ensure that Pakistan's complete and absolute integrity was maintained.

Earlier, the Governor of East Pakistan and the Deputy Chief Martial Law Administrator, Vice Admiral S.M. Ahsan was removed. In his place, Lt. Gen. Shahebzada Yaqub Khan, the Commander of the Eastern Command was appointed the Deputy Chief Martial Law Administrator of East Bengal. On 6 March, the appointment of Lt. Gen. Tikka Khan as Governor of East Pakistan was announced. However, when it was found on 8 March that no Judge of the East Pakistan High Court was willing to swear in Tikka Khan as Governor, Tikka Khan was designated the Martial Law Administrator of East Bengal. On 7 March, it was reported

by the *Working People's Daily* of Rangoon, datelined 5 March, that reinforcements, both by air and by sea, were pouring into East Bengal.

On 7 March, addressing a public meeting in Dacca, Sheikh Mujibur Rahman put forward a four point demand to be accepted before the Awami League would consider the question of attending the National Assembly session scheduled for 25 March. These four points were (1) the withdrawal of Martial Law, (2) sending of troops back to barracks, (3) enquiry into the large scale killings by the security forces, and (4) transfer of power to the elected representatives of the people. On the same day, the Working Committee of the Awami League issued a statement in which the charge that the party obstructed the transfer of power, was repudiated, and it was pointed out that the majority party would not gain by obstruction. Mujibur Rahman warned that if democracy was the ultimate casualty, or if the proposed transfer of power was aborted, the responsibility would lie with the minority party and those who colluded with it. He suggested a seven point programme for the transfer of power to the people.

Meanwhile it was noticed that the tanks, which had been on borders with India, were brought into Dacca. The families of the army personnel were being sent off to West Pakistan on a priority basis along with the families of the West Pakistani business men in East Bengal. More armed forces were flown in by PIA commercial flights via Ceylon and C-130s, carrying provisions for the garrisons, were continuously flown into Dacca. The airport was put under strict control and heavily

guarded with artillery and machine gun units.

Meanwhile, the non-cooperation campaign was total. The entire civilian administration, including the civil services of Pakistan refused to attend office. The people stopped supply of food to the army. The civilian employees of the defence establishments joined the boycott. The police also pledged their support to Sheikh Mujibur Rahman and put themselves under his orders.

On 14 March, Bhutto declared if the power was to be transferred to the people's representatives before any constitutional settlement, it should be given to the Awami League in East Bengal and his own People's Party in the Western Wing. On 15 March he stated that the rule of the majority did not apply to Pakistan and his party could not be ignored in the country's governance. On the same day, Yahya Khan flew into Dacca and began parleys with Mujibur Raman on the next day.

Mujibur Rahman declared on 15 March that he was taking over the administration of East Pakistan, as he was the elected majority party leader. He also issued a 35 point directive covering most activities of civilian life and for the smooth functioning of the people's movement against the martial law administration and the military regime.

According to Tajuddin Ahmed, Yahya Khan, in the talks beginning on 16 March, expressed regrets for what had happened and a sincere desire for a political settlement. He also indicated that there was no serious objection to

the Awami League's four-point proposal and that an interim constitution could be worked out by the advisers on both sides embodying the four points.

From 17 March onwards, an Awami League team and aides of Yahya Khan started working on a draft martial law regulation, provided for setting up of a council of ministers selected from among the elected representatives of the people to aid and advise the Governor of the province in the performance of his functions. The draft also provided for allowing martial law to recede into the background. The talks continued through 19 March.

According to Tajuddin Ahmed, agreement was reached on the following four points :

1. Lifting of martial law and transfer of power to a civilian government by a presidential proclamation.
2. Transfer of power in the provinces to the majority parties.
3. Yahya to remain as President and in control of the Central Government.
4. Separate sittings of the National Assembly members from East and West Pakistan preparatory to a joint session of the house to finalise the constitution.

This agreement has also been confirmed by the White Paper issued by the Pakistan Government.

On 21 March, there was a further meeting between Mujibur Rahman and Yahya Khan. The White Paper alleged that it was at this meeting that Mujibur Rahman stated that he no longer

wanted the setting up of the central cabinet. According to Tajuddin Ahmed, the proposal for two separate sittings of the assembly for East and West Pakistan was put forward by Yahya Khan to accommodate Bhutto. In view of the earlier statements of Bhutto that the principle of majority would not apply to Pakistan and Yahya Khan's own action in conceding Bhutto's demand for postponement of national assembly session, without consulting the majority party, Tajuddin Ahmed's version appears to be more credible. According to him, Yahya Khan appeared to have argued that while the six-points provided a viable blueprint to regulate relations between East Pakistan and the Central Government, its application would raise serious difficulties in the West Wing. For this reason, the West wing MNAs must be permitted to get together to work out a new pattern of relationship in the context of a six-point constitution and the dissolution of one unit.

This version of Tajuddin Ahmed is confirmed by the White Paper, which states that on 20 March one of the points agreed to for further discussion between the President's aides and Mujibur Rahman's team, related to more provincial autonomy for East Bengal compared to other provinces, in view of the geographic position of East Bengal. It would, therefore, appear that the version that Mujibur Rahman suggested that the National Assembly members of the two wings should meet in separate sessions, seems to be a deliberate attempt to ascribe to Mujibur Rahman the proposal which was most probably made by Yahya Khan and Bhutto.

On 21 March, Bhutto arrived in Dacca. The next day, in spite of his

earlier reluctance, Mujibur Rahman met Bhutto for discussions. According to the White Paper, that evening, during his meeting with Yahya Khan, Bhutto came forward with seven objections to the draft proclamation which was under discussion between Mujibur Rahman and Yahya Khan's aides. These objections included the provision that the draft proclamation should either be endorsed by the National Assembly or should be announced but given effect to after ratification by the National Assembly. But the proclamation itself should provide that no law or constitution should be presented in the National Assembly unless approved by a majority of the members of each wing. It is now obvious who was keen on splitting the National Assembly. In other words, Bhutto had demanded a veto over the majority party.

On 23 March, discussions continued on the Awami League draft. On 24 March, according to the White Paper, Bhutto met Yahya Khan to discuss the propriety and legality of the proclamation whereby the Martial Law would be lifted and Yahya Khan would assume the powers and functions of the President.

According to Tajuddin Ahmed, on 24 March, M.M. Ahmed, the Economic Adviser to the President joined the discussions. "In his talks with the Awami League advisers he made it clear that provided the political agreement had been reached, there were no insuperable problems to working out of some version of six points in the interim period. The final list of three amendments to the Awami League draft which he presented as suggestions, indicated that the gap between the Government

and Awami League position was no longer one of principle, but remained merely over the precise phrasing of the proposals. The Awami League in its sitting of 24 March had accepted the amendments with certain minor changes of language and there was nothing to prevent the holding of a final drafting session between the advisers of Yahya and Mujib when the interim constitution would be finalised."

According to the White Paper, Tajuddin Ahmed stated that so far as the Awami League was concerned, they had placed all their points of views in the meeting and, therefore, from their side, there was no need of further meetings. However, according to Tajuddin Ahmed, at that stage there was no break-down of talks nor any indication from Yahya Khan or his aides that they had a final position which could not be abandoned.

In the press conference given by Bhutto on 25th morning, an impression was sought to be conveyed that an agreement was still under negotiation. While the Awami League waited for a call from Gen. Peerzada for a final drafting session on 25 March, it was learnt that M.M. Ahmed had left Dacca on that morning. No meeting took place on 25 March.

In his broadcast on 26 March, Yahya Khan said: "It became quite evident the intention of Sheikh Mujib and his advisers was not to come to an understanding on the basis of one Pakistan but was somehow to extract from me a proclamation which would in effect divide the National Assembly into two separate Constituent Assemblies, gave birth to a confederation rather than a

federation and, by the removal of the authority of Martial Law, create complete chaos in the country. Through this plan they expected to establish a separate State of Bangla Desh. That, needless to say, would have been the end of Pakistan as created by the Father of the Nation."

It is, however, significant that in the various press reports up to that date, there was no mention of a confederation or a proposal from the Awami League regarding two separate Constituent Assemblies excepting, a vague mention by Bhutto on 25 March that Awami League's demand was more than provincial autonomy.

The White Paper stated that in the meantime reports had become available of Awami League's plans to launch an armed rebellion in the early hours of 26 March. However, Yahya Khan in his broadcast on 26 March did not make any mention of such a planned rebellion. If information regarding such plans constituted the reasons behind Pakistan army's crack down on the 25th night, it was strange that in his broadcast of 26th Yahya Khan should have made no mention of these facts.

All available evidence would show that deliberate preparations for armed action against the Awami League were taken on hand from the last week of February and the negotiations during 16 to 24 March were used as a cover to build up the armed forces in East Bengal and to finalise the operational plans before the final action was launched. It would also appear that Bhutto was made use of as a pliable instrument by the Army in their plans

to build up a confrontation with the Awami League.

Military action in Bangla Desh and the freedom struggle

The military action by Pakistan army began on the night of 25 March. At 11 P.M. the troops began to take up positions in the city of Dacca. As the news of the troops moving in from the cantonment into the city spread, people reacted spontaneously by erecting barricades in the roads.

The initial action by the Pakistan army was against the armed police lines and the East Pakistan Rifle Centre, in an attempt at disarming these para-military organisations, who were suspected of owing allegiance to Mujibur Rahman. Simultaneously the troops also occupied Dacca University campus. In all these areas, there was resistance from those whom the troops tried to disarm and round up. The Pakistani army appears to have used armour in smashing through the barricades, machine guns and artillery, against the University campus and EPR and Police lines. Mujibur Rahman was taken into custody in one of the first operations.

Simultaneously in Chittagong, the Pakistan army moved against East Bengal Regiment and similar action was taken in other major towns like Comilla, Jessore, Sylhet and Khulna. All this was done without any proclamation of Martial Law or imposition of curfew.

On 26 March, nearly 21 hours after army started its operations, General Yahya Khan, in a 20-minute broadcast, outlawed the Awami League. He characterised the non-violent non-

cooperation movement started on 3 March by Mujibur Rahman, as an act of "treason", and called him and his Awami League party colleagues as "enemies" of Pakistan. He accused them of having attacked the solidarity and integrity of the country and promised that this "crime" would not go "unpunished". General Yahya Khan said that he would not allow "power hungry" and "unpatriotic" people to destroy and play with the destiny of 120 million people. He had ordered the armed forces to do their job and fully restore the authority of the Government.

At 2.05 P.M. on 26 March, the Chittagong station of Radio Pakistan interrupted its news relay and Abdul Hannan, the Secretary of the Chittagong District Awami League, made the first public declaration of independent Bangla Desh in the name of Mujibur Rahman. He appealed to every able-bodied man and woman to be ready to face the Pakistan occupation army. It would appear that this declaration was a part of a contingency plan on the part of the Awami League leadership. On 28 March, Major Jia Khan announced the formation of a Provisional Bangla Desh Government in the name of Mujibur Rahman.

In the first few days, the information coming out of Bangla Desh was very confused: There were claims of towns and areas having been liberated. It would appear that during this period the Pakistan army, which had around three divisions of forces in Bangla Desh, concentrated on re-establishing its control over the major towns like Dacca, Chittagong, Comilla, Jessore, Khulna, Sylhet and Rangpur. In the initial stage, when the army tried to send troops in small groups to re-occupy some of

the towns, they were overwhelmed by the local resistance offered by the *Sangram Parishads* and the elements of EPR and EBR, who escaped the massacre and joined the ranks of the freedom fighters.

The military action triggered off a spontaneous mass mobilisation of the people of East Bengal and the resistance to Pakistani occupation forces though largely unarmed was nearly total. The Pakistani Army reacted to this resistance with a combination of thoroughness and brutality. In the initial period an attempt was made to eliminate the elite classes which provided leadership to the nationalist upsurge and consequently Awami League cadres, university and college teachers, doctors, lawyers and other professionals, higher cadres of the provincial administration were sought to be liquidated. This in turn led to the professionals fleeing across the border into Indian territory for sanctuary and this was facilitated because of the disintegration of East Pakistan Rifles which was manning border check posts and patrolling the border.

Meanwhile there were also clashes between the majority Bengali population and minority emigre population of non-Bengali muslims who had moved into East Bengal at the time of partition of the Sub-continent in 1947. This minority never got absorbed into the majority and never even attempted it. They made common cause with the Pakistani military junta and since most of them were urdu speaking emigres from Bihar, it became easy and natural for them to identify themselves with the ruling junta.

On 26 March the foreign press correspondents in Dacca were flown out

en masse and strict censorship was imposed. It is difficult to estimate the damage and destruction to property and loss of lives consequent on the military action. Various estimates put it at two hundred thousand and upwards. But the destruction to property and the impact of military action on the population of Bangla Desh have been described by a number of independent foreign journalists who were allowed to visit East Bengal. This has also been attested by an economist of the World Bank, Van Der Heijden, in his field report which has not been published by the Bank but a copy of which has been published by the Bangla Desh authorities under the title "Thousand My Lais".

During this period the air force units stationed in Dacca were used in support of the Pakistani ground forces and the naval units were used in Chittagong. By the middle of April, the Pakistani military authorities appeared to have reached an assessment that there was no risk in reinforcing their forces in East Bengal, by depleting their forces in the West. They might have been encouraged in this, to some extent, by the communication received from Premier Chou En-lai on 12 April. Thereafter, very rapidly the forces in East Bengal were reinforced and by the end of April, they had nearly 4½ divisions. With the arrival of these reinforcements, Pakistani forces were able to move in strength into outlying district towns and re-establish their control in all of them.

While carrying out this operation, Pakistan also decided to implement a deliberate programme of terrorising the minority population, the Hindus in East Bengal, and forcing them to flee East

Bengal into the adjoining areas of India. In carrying out this task, sections of non-Bengali Muslim minority collaborated with Pakistani military authorities. The ideas behind the campaign of terrorism appear to be the following:

1. The Pakistani military authorities were convinced that the Hindu minority, as a block, voted for Awami League during the elections. Therefore, by driving them out, the supporters of the Awami League were being reduced.
2. The Pakistani military authorities were completing the task undertaken under the 'two-nation theory' in 1947. The East Bengalis obtained joint electorates in 1956, which in the eyes of the Pakistani ruling junta, was against the concept of Pakistan. By ridding East Bengal of the Hindus, the issue of joint electorates will be made irrelevant.
3. By forcing the minority to leave East Bengal and redistributing their property among the non-Bengali Muslim population, a vested interest was being created in support of the Pakistani military regime against the return of the Hindus.
4. The Pakistanis were clearly convinced that in East Bengal, the Hindu cultural influence was very strong and one way of attenuating this was to force the Hindu population to leave East Bengal.

5. It added to the burden of India and by doing so, Pakistan could achieve a major victory over India without a war.
6. Pakistan was also trying to adjust the population imbalance between the two wings.

Beginning from the second half of April, refugees started pouring into India in tens of thousands every day. So far (up to the middle of September 1971) over 8 million refugees have crossed into India. In 1961, according to Pakistan's census, the population of East Bengal had 18 per cent Hindus. This would mean in 1971 the province should have approximately 13 millions Hindus. Already more than 60 per cent of this minority population has been expelled.

On 12 April a new Bangla Desh government was formed under the Presidentship of Sheikh Mujibur Rahman. Syed Nazrul Islam was appointed the Vice-President and the Acting President in the absence of Mujibur Rahman. The other appointments were: Tajuddin Ahmed, Prime Minister; A.H. Kamaruzzaman, Home Minister; Khondakar Mushtaq Ahmed, Foreign Minister; Col. A.G. Osmani, Defence Minister, and Captain Mansur Ali. On 16 April, at Mujibnagar, originally Baidyanathnata in Meherpur sub-division of Kushtia district, the sovereign democratic republic of Bangla Desh was formally proclaimed.

By early May, Pakistani forces completed the reoccupation of East Bengal and started replacing the senior officials in the administration. In addition, policemen and middle level

officials were also inducted from West Pakistan into East Bengal in large numbers.

Consequently the freedom fighters of Bangla Desh, changed their tactics and resorted to partisan war operations. The remnants of East Bengal Regiment, East Pakistan Rifles and East Pakistan Armed Reserve Police, who formed the core of *Mukti Fauj* (the liberation army, later known as *Mukti Bahini*). The Bangla Desh leaders started recruitment of young men from the refugees and training them in areas which were relatively inaccessible to the Pakistani armed forces. Most of these camps were set up within Bangla Desh in areas free from the control of Pakistan army. If they were hard-pressed by any Pakistan army columns, it was always possible for them to seek temporary sanctuary in India. It was not possible for Pakistan army to patrol the border effectively with the forces they had in East Bengal, and especially when they were not in a position to send troops in small strengths on patrol duties.

The *Mukti Fauj* started stepping-up its activities from May onwards. Most of the communication system was successfully disrupted and continued to remain disrupted. The rail and road systems were working only to a small fraction of their capacity. Only the inland water transport was functioning with some efficiency. The attendance in various Government offices was less than normal and even where the staff was functioning, it was obvious that no effective work was being transacted. In schools and colleges, there was only nominal attendance.

The Pakistan army authorities formed "peace committees" consisting

mostly of Bengali elements which were opposed to Awami League and non-Bengali elements, to mobilise support for the regime among the population. The *Mukti Fauj* made the members of the "peace committees" their special targets. The *Mukti Fauj* has also been laying ambushes on Pakistan army columns and consequently, in most of the areas, the Pakistani armed forces were confined to barracks during night. The *Mukti Fauj* has been able to extend its operations into towns like Dacca, where the power supply was interrupted from time to time. Recently, they were also able to sink some of the coasters and barges. It has been estimated that the Pakistan army was suffering casualties at the rate of about 150 to 200 per week.

A number of observers fear that the disruption in communication caused by military action and freedom struggle and the damage caused by the floods this year and the decreased production as a result of disturbances, will lead to scarcity pockets developing and consequently there will be further large scale influx of refugees into India after the monsoon subsides. The campaign of terror by the Pakistan military authorities on the whole does not appear to have cowed down the population of East Bengal. Most of the foreign observers have testified to the spirit of resistance of the population of East Bengal.

On 28 June, General Yahya Khan announced his new proposals regarding the Constitution of Pakistan. He proposed to disqualify the members of the National and Provincial Assemblies, who, according to him, had taken part in anti-social activities. The

Constitution making was entrusted to a nominated experts Committee. The draft Constitution, when ready, will be referred to the National Assembly for discussion or suggesting any amendment thereto but no amendment will be allowed to be carried out without the President's assent. The seats of the disqualified members would be filled up through bye-elections. He also announced that the Martial Law would continue even after the National and Provincial Governments were established with popular participation.

In pursuance of these proposals, 79 out of 167 members of the National Assembly from East Bengal and 194 out of 288 members of the Provincial assembly have been disqualified and their seats declared vacant. General Yahya Khan's broadcast, thus put an end to speculations that he might still attempt a political settlement with the leaders of the Awami League.

INTERNATIONAL RELATIONS

The pay off of Pakistan's diplomatic efforts since the early '50s came when the country's integrity was threatened by the action of the ruling military junta. In spite of the tremendous revulsion it provoked in many parts of the world, Pakistan was able to obtain firm commitment of the United States to its territorial integrity and vital economic and military support in the teeth of fierce opposition from the US Congress. Pakistan also secured such support from China so as to create serious uncertainties in the minds of the Indian decision-makers regarding the possibility of Chinese intervention in an Indo-Pak conflict likely to come about as a result of escalation of Pakistani military action in Bangla Desh.

The Arab states, whose cause has been consistently championed by India, preferred to remain silent on the Bangla Desh issue, and even to black out the news from their own people, though it should have been obvious that since the Bangla Desh issue had very many similarities with the problem of Palestine refugees, this attitude on the part of the Arab countries in the long run would have an adverse impact on their own interests.

The behaviour of the RCD countries, the partners of Pakistan in CENTO also created an impression of likely military support to Pakistan in the event of a conflict between India and Pakistan.

Most of the non-aligned nations of the world were truly non-aligned between Pakistan government's militarism and the freedom struggle of the majority of the people of that country and its international impact.

On the whole, the government of Pakistan has reasons to be satisfied that at a time when their behaviour had alienated the majority of the popular opinion of the world, the hard-headed establishments of the majority of the foreign offices of the world were prepared to stand in mute support to them and refrain from condemning them.

General Yahya Khan had, by and large, followed the footsteps of his predecessor, who termed his foreign policy as 'bilateralism'. He explained this in a seminar on 18 August 1970: "This (policy) simply means that we seek to develop friendly relations with all countries on the basis of mutuality of interests. Our friendship with one

country is not at the cost of our friendly relations with another country." On 3 December 1970, on the eve of the elections, in a broadcast he summed up the year's achievement in his country's international relations in the following terms :

"We are continually endeavouring to develop and extend bonds of friendship and cooperation with all countries. Our relations with the Great Powers are friendly and on an even keel. Our contacts with our neighbours, with the sole exception of India, are being expanded to our mutual advantage.

"At New York I addressed the special session of the General Assembly commemorating the 25th anniversary of the United Nations. In my address I touched upon important international issues and explained the disputes relating to Kashmir and the Farakka Barrage to the world leaders. I offered to hold discussions with India for a mutual withdrawal of forces from Kashmir so that its people are enabled to decide their future without any constraint or coercion from outside.

"This was generally appreciated as a constructive proposal. Unfortunately, the Indian response has been as usual negative and illogical. On the one hand India continues to mislead and confuse public opinion abroad by offering to discuss all issues with Pakistan, on the other hand, it categorically rules out any possibility of a settlement through discussions by claiming that Kashmir is an integral part of India and, therefore, not open to any negotiations. They have also put forward the absurd theory that the only matter for discussion is the return of 'Azad Kashmir' to India."

The General also spoke of useful exchange he had with world leaders. He referred to a successful visit to China and Nepal and thanked China for its offer of generous aid for Pakistan's Fourth Five-Year Plan.

In retrospect it is obvious that this broadcast was a deliberate attempt to influence the voting against the Awami League, which, more than any other party in Pakistan, stood for improving relations with India.

Soviet Union

During the year 1970 President Yahya Khan visited Moscow, Washington and Peking. His visit to Moscow in the last week of June 1970 did not appear to have resulted in any new gains to Pakistan. The Soviet Union, however, confirmed the aid offer for the construction of a steel mill. It was also agreed that the Soviet Union would study the list of other projects on which the Government of Pakistan would like to get economic and technical assistance from the Soviet Union during Pakistan's fourth plan.

The Soviet Union had extended nearly \$265 millions worth of economic aid to Pakistan upto to that time. The total number of projects to which Soviet assistance had been extended stood at 31.

From the subsequent reports it would appear that perhaps by this time the Soviet leaders informed Pakistan that they were not in a position to supply further arms to Pakistan.

In December 1970, Pakistan and the Soviet Union concluded a five-year

commodity trade agreement. Though no value of trade over this period was stipulated, there was expectation that there would be a considerable increase over the present level of Rs (P) 245 millions both ways. The Soviet Union got linked up with Pakistan by a modern road completed in July 1970 running through Afghanistan and Quetta.

The Pak-Soviet relationship came under severe strain when on 3 April 1971 President Podgorny sent a message to President Yahya Khan expressing concern at the arrest and persecution of Sheikh Mujibur Rahman and other politicians, who had received such convincing support from the overwhelming majority of the population of East Bengal. He appealed on behalf of the Presidium of USSR for the adoption of "most urgent measures to stop the bloodshed and repression against the population of East Pakistan," and "methods of peaceful political settlement."

President Yahya Khan, in his reply to the Soviet President said, "For any power to support or condone interference in the internal affairs of another country would be a negation of the U.N. charter." He asked President Podgorny to use his "undeniable influence with India to prevent her from meddling with Pakistan's internal affairs." There was report of a further communication between the Soviet Prime Minister, Kosygin, and General Yahya Khan in the second half of April the contents of which were not disclosed.

The Moscow radio in its broadcasts, however, continued to refer to the

Soviet policy of friendship towards Pakistan. Pakistanis claimed that in June 1971, during his meeting with Pakistani ambassador to Moscow, Premier Kosygin had assured Pakistan that the present situation and developments in Pakistan were an internal matter. However, at the conclusion of the talks with the visiting Indian External Affairs Minister in June 1971, the joint communique called for immediate measures in East Bengal to ensure stoppage of the influx of refugees into India and to ensure peace and security and safe return of the refugees to their homes.

In August 1971 came the Indo-Soviet treaty of peace, cooperation and friendship, which was widely interpreted in India as designed to deter Pakistani adventurism. The Pakistan Foreign Secretary visited Moscow early in September and had discussions with the Soviet leaders on various issues, presumably including the Indo-Soviet treaty. On his return he claimed that the Soviet leaders had reaffirmed their support to the integrity of Pakistan.

United States

In October 1970 the U.S. Administration announced that they planned to supply 18 F-104 Starfighters, 7 B-57 bombers, 4 Maritime reconnaissance aircraft and 300 armoured personnel carriers. This was described as a "one-time exception" to the existing policy, and it would appear, in retrospect, as an attempt to reinsure their influence with the Pakistan army in a situation of uncertainty before the elections. Perhaps it was also a payment exacted by Pakistan for its services to act as a channel of communication between USA and China.

Yahya Khan visited the United States in October 1970 and met President Nixon on 25 October. It was stated that during the course of discussions the U.S. authorities expressed understanding of Pakistan's independent foreign policy. It is now known that this occasion was utilised by U.S. administration to entrust a message to Yahya Khan to be delivered to the Chinese leaders during his visit to Peking in November 1970. Other bilateral aspects such as flood control projects and debt servicing were also discussed between Yahya Khan and U.S. officials.

In February 1971, Nixon in his message to Congress noted that Pakistan had gradually moved from its position of close association with the United States to a complex triangular relationship balancing its contacts with China, USSR and USA.

On the Bangla Desh issue the US administration came out in favour of Pakistan, and US Assistant Secretary of State, Joseph Sisco, took the stand before the Congressional Foreign Affairs Committee that no issue was regarded as more *intimately internal than the one* obtaining in Pakistan. The Secretary of State, Rogers, attempted to arrange for a hearing before the Senate Foreign Relations Committee for M.M. Ahmed, Economic Adviser to General Yahya Khan, and Senator Fulbright, the Chairman of the Committee, turned down the request.

Christopher Van Hollen, Deputy Assistant Secretary of State, affirmed before the Senate Sub-committee on Refugees in June 1971 that US would continue to supply such arms and

ammunition to Pakistan as had been contracted before 25 March 1971.

It became public through the efforts of a vigilant US Press that between 1967 when the embargo on arms sales to Pakistan was lifted and 30 April 1970, the US air force sales commitments alone had reached \$47,944,761.76. Out of this equipment worth \$25,799,654.10 had already been delivered. The balance was due to be delivered. Subsequently, Senator Frank Church disclosed that according to his information \$35 millions worth of US arms to Pakistan was still in the pipeline. The observers in Washington believed that this particular policy of the United States of continuing arms deliveries to Pakistan was decided by President Nixon himself.

It was also disclosed that the US Secretary of State, William Rogers, had made a special plea for assistance to Pakistan to the extent of \$70 mn and this was turned down by the Senate Foreign Relations Committee. In their public stance the US administration officials took the line that they were not quite clear of the extent and the nature of the use of US arms by the Pakistani army in Bangla Desh.

Meanwhile the US House of Representatives' Foreign Affairs Committee on 15 July voted to cut off both economic and military aid to Pakistan government until the situation in East Bengal returned to normalcy. By a 17 to 6 vote the Committee rejected the administration's request for a \$180 mn economic and military aid to Pakistan during the financial year 1972. The House subsequently suspended all military, economic and other assistance

to Pakistan while approving the Foreign Aid bill for fiscal year 1972. The administration was compelled to release a report from two of its officials in East Bengal on the food and transportation situation there consequent on the release of the summary of the report to the press by Senator Kennedy. The report painted a very grim picture of the situation and warned of the impending prospect of famine.

China

General Yahya Khan visited China during 10 to 14 November, 1970. His 30-man entourage included the Communications Minister, G.W. Chaudhury, economic adviser, M.M. Ahmed, three army generals and a navy commodore. General Yahya Khan had a meeting with Chairman Mao Tse-tung and two rounds of talks with Premier Chou En-lai. Among those who took part in the latter talks was the PLA Chief of General Staff, Huang Yung-sheng. The joint communique issued in Peking at the end of the visit supported China in its call for a world summit to discuss a total ban of nuclear weapons. The Chinese leaders stressed their support for the right of self-determination for the people of Kashmir and appreciated Pakistan's stand on the distribution of Ganga waters. They expressed the hope that the Indo-Pakistan disputes would be solved in a peaceful way. The Chinese side noted with interest the offer made by Pakistan on the withdrawal of troops with a view to enabling the people of Jammu and Kashmir to exercise freely their right to self-determination and considered it worthy of the support of the people of various countries. The Chinese leaders also pledged their support for the safeguard-

ing of Pakistan's territorial integrity and national sovereignty. Pakistan reiterated its support to the government of the People's Republic of China as the sole legal government of the Chinese people and to their stand that Taiwan was an inalienable part of the territory of the People's Republic. Pakistan also expressed its firm conviction that without the participation of the People's Republic of China, the important problems that confront the world today could not be resolved.

During the course of the visit an agreement was signed for an interest-free loan of 500 mn Yuans for Pakistan's Fourth Five-Year Plan. Under the agreement Pakistan will repay the loan in 20 years, including a grace period of 10 years. Pakistan had asked for Chinese assistance in the following seven projects :

1. A bridge over Brahmaputra
2. The Ranipur hard rock mining project in Rangpur
3. Jaipurhat Limestone and cement project
4. Two pre-fabricated low cost housing projects ; one in each wing.
5. The pig iron project at Chaghai in Baluchistan.
6. The requirements of components and spares for the heavy mechanical complex at Taxila.

China also indicated that further assistance for the Pakistani fourth plan would be forthcoming, if necessary.

Beyond reporting the results of the elections, China did not offer any com-

ments on the political developments in Pakistan following the general elections there. On 6 April 1971 China made its first comment on the developments in East Bengal with reference to a demonstration in front of the Chinese embassy in New Delhi. On 11 April the *People's Daily* attacked the United States, the Soviet Union and India for allegedly interfering in the internal affairs of Pakistan. It promised that the Chinese government would resolutely support the Pakistan government against foreign aggression and interference. The article was signed by Commentator, who was believed to be a high Chinese official. It referred to the "relevant measures" taken by President Yahya Khan in connection with the present situation in Pakistan and termed them as an internal affair of Pakistan. On 12 April, according to Pakistani sources, Chou En-lai was reported to have sent a message to President Yahya Khan in which he referred to the useful work done by Gen Yahya Khan and leaders of various quarters of Pakistan to uphold the unification of Pakistan and to prevent it from moving towards a split. He expressed his belief that through the wise consultations and efforts of Yahya Khan and other leaders, the situation in Pakistan would certainly be restored to normal. In Chinese opinion the unification of Pakistan and the unity of the people of East and West Pakistan were the basic guarantees for Pakistan to attain prosperity and strength. The Chinese took note that of late the Indian government had been carrying out gross intervention in the internal affairs of Pakistan by exploiting the internal problems of that country and the Soviet Union and the United States were also doing the same. The Chinese held that

what was happening in Pakistan was purely an internal affair of Pakistan which could only be settled by the Pakistani people themselves and which brooked no foreign interference whatsoever. Chou En-lai ended up his message by assuring Pakistan that : "Should the Indian expansionists dare to launch aggression against Pakistan, the Chinese government and people will, as always, firmly support the Pakistani government and people in their just struggle to safeguard its sovereignty and national independence."

On 28 April, a Peking Radio commentary again attacked India for unbridled and blatant interference in the internal affairs of Pakistan and also roped in the Soviet Union and strangely enough the United States in the charge of interference in the internal affairs of Pakistan.

On 21 May the Chinese Vice Foreign Minister, speaking at a banquet given by the Chinese foreign ministry to celebrate the 20th anniversary of the establishment of diplomatic relations between the two countries, again reiterated firm support to the Pakistan government and people in their just struggle to safeguard the state sovereignty and national independence and oppose foreign aggression and interference and to the people of Kashmir in their just struggle for the right to self-determination.

However, since May there have been no public pronouncements by China in support of Pakistan.

The first ordnance factory in East Pakistan built with Chinese aid and cooperation was opened for production

in April 1970 by General Yahya Khan. A Chinese delegation led by Fang Yi, the Minister for Economic Relations with Foreign Countries, participated in the opening ceremony. The same delegation also visited the Wah ordnance factory in West Pakistan.

RCD Countries

Pakistan attempted to develop very close relations with its two RCD partners, Iran and Turkey, during this period and they together succeeded in projecting an image of very intimate relations among themselves. In April 1970 there was a nine-day joint air exercises between the air forces of Pakistan and Iran near Sargoda. In their meeting at Izmir in Turkey, one of the tripartite projects discussed was the creation of a common armament industry. In August 1970 the Chief of Staff of the Pakistani army, General Abdul Hamid Khan, paid a ten-day visit to Iran. This was followed by a visit of the Air Chief, Air Marshal Abdul Rahim Khan to Iran in September 1970. In January 1971 a joint Irano-Pakistan maritime exercise was held near Karachi. The Chief of Turkish General Staff paid a five-day visit to Pakistan in February 1971 and General Motizad of the Iranian army, accompanied by six other officers also visited Pakistan during February 1971. In March, both Turkish air and naval chiefs visited Pakistan and in April General Faredum Djam, Chief of Supreme Commanders' Staff of the Imperial Iranian Armed Forces paid an eight-day visit to Pakistan.

The Foreign Minister of Iran, Ardeshir Zahedi, visited Islamabad in June 1971. This was his third visit in less than ten months. He is reported

to have assured Pakistan of Iran's wholehearted support in the present crisis. There have also been reports in the Indian press of the Iranian assistance to Pakistan by way of ammunition and spares and lease of C130 aircraft to transport troops and material to Bangla Desh.

The RCD meetings held from time to time were used by Pakistan to project an image of support from the other two Islamic countries for its policies vis-a-vis India. The joint communique issued at the conclusion of the summit meeting of the RCD Heads of States at Izmir in May 1970, referred to the Kashmir dispute and said that it should be settled in accordance with the UN resolutions. About Farakka, the communique stated the problem of sharing Ganga waters between India and Pakistan be resolved at an early date on equitable basis through negotiations safeguarding Pakistan's rights.

In the ministerial meeting held in April-May 1971 at Ankara, the Pakistan Ambassador to Turkey, who represented Pakistan, informed the conference of the open interference of India in Pakistan's internal affairs. According to the Indian press reports, the Indian Foreign Secretary, T.N. Kaul, went to Tehran in May 1971 to urge Iran to take note that its growing economic interests in India would be adversely affected if it continued to give Pakistan direct military assistance.

The economic cooperation among the RCD countries also made further gains during this period. Iran offered the Fereidum offshore oil field in the Persian Gulf for joint exploration by a Irano-Pak company. In return,

Iran was to get the right to supply oil for the whole of Pakistani market for a period of 30 years. RCD also considered the possibility of establishing a joint airline and a free port near Bandar Abbas to be used by all the three countries. A customs union was also one of the issues that came up for consideration. Similarly a joint reinsurance company was also considered.

Four new RCD ventures were planned to be established in 1971. Of these two projects, an optical bleech plant and a reactive dyes plant, are to be located in Pakistan. The RCD highway programme also made further progress and Pakistan was proposing to spend Rs. 1 crore on its section of the highway connecting up Karachi to Kazdar, Kalat to Quetta.

RCD had a series of meetings for 10 days in January 1971 in Dacca, in which problems of technical cooperation, transportation and communication, expansion and liberalisation of trade and foreign policy were discussed. One of the items considered was the establishment of a common market.

Despite close collaboration, the Foreign Ministers of Turkey and Iran made it clear in January 1971 that the joint defence of the RCD member countries was beyond the scope of RCD. The Turkish Foreign Minister, Caglayangil, said that RCD was basically a forum for the development of economic, cultural and social ties and it was not a political forum.

Other Islamic countries

Pakistan also attempted to maintain cordial relations with all other Muslim

countries, though this task was not found to be an easy one.

Pakistan absented itself along with India from the Jakarta meeting on Cambodia in May 1970. The Pakistan Indonesian Cultural and Economic Co-operation Organisation held its 5th annual meeting in July 1970 and identified further projects for joint ventures. Pakistan agreed to reschedule the repayment of the \$10 million loan which Pakistan granted to Indonesia in the period 1965-66.

A ten-member Pakistani delegation led by Dr. A.M. Malik, then Health Minister, visited Malaysia in August 1970 and discussed prospects of expanding the trade between the two countries.

A three-day conference of Islamic Foreign Ministers was held in Karachi in December 1970. The conference concentrated mainly on the setting up of an Islamic Secretariat in Jeddah to promote economic and cultural links between the Muslim countries. There was certain amount of disappointment in Pakistan when the Islamic conference could not be persuaded to discuss Kashmir as a specific item on the agenda.

The Pakistani military action in Bangla Desh came up for mixed reaction in the Muslim countries. The Sudanese daily *El Shafa* criticised the Pakistani military action. *Akbar Al Kuwait* stated that the bloodshed and the killing of innocent people in both Jordan and Pakistan was a matter of great anguish and pain. The *Djakarta Times* asked when Muslims killed Muslims in hundreds and thousands, could Islam be alive? There were demonstrations in Jakarta by

the students of the University of Indonesia against the Pakistani atrocities in Bangla Desh.

While *Al Akbar*, an Egyptian daily, was critical of Pakistani action, *Al Aharam*, the semi-official daily, generally adopted a neutral attitude. Subsequently, *Al Aharam's* editor, Haikal, came out with an editorial in July, in which he asked "If we say that the Asian people is of no concern to us, then Asia will have the right to say that the Arab people is of no concern to it." However, in June the Secretariat of the 22-nation Islamic conference at Jeddah supported Pakistani military regime's efforts to safeguard Pakistan's national unity and integrity. Similarly, the Government of Jordan, President Suharto of Indonesia, Tun Abdul Razak of Malaysia and President Boummedienne of Algeria chose to adopt the line that the happenings in East Bengal were an internal matter of Pakistan. The other Muslim countries maintained a loud silence on the issue.

Nepal

In April 1970 the first consignment of Nepalese goods went to Pakistan by land when a small consignment of goods was sent through the Radhikapur rail head. Nepal, however, refused to sponsor Pakistan's membership for the Lusaka non-aligned conference. On 25 May 1970 a cultural agreement was signed between the two countries providing for establishment of information centres, libraries, and for the exchange of scholars and cultural delegations.

In September 1970 Gen. Yahya Khan paid a three-day visit to Nepal and in a joint communique issued at the end of

the visit, King Mahendra highlighted the urgency of signing and ratifying the 1965 convention of trade and transit of landlocked countries to help these states to expand their trade and quicken the pace of development. The two leaders agreed on further exploration of the possibility of cooperation in the fields of trade and economic development. General Yahya Khan offered to provide adequate transit facilities to Nepalese cargo through Pakistan. He also offered additional facilities to Nepalese scholars in Pakistan. King Mahendra expressed the hope that Kashmir and Farakka barrage issues would be solved in a peaceful way between India and Pakistan.

While the Nepalese press and the people were generally sympathetic to the Bangla Desh freedom struggle, the government of Nepal has been maintaining silence on the issue.

India

During the year 1970, Pakistan chose to adopt a low profile posture vis-a-vis India. There were customary references to India's unwillingness to enter into a meaningful dialogue with Pakistan for the settlement of Kashmir and Farakka barrage disputes, in General Yahya Khan's broadcast of March 1970 and in his address to the UN General Assembly in October and also in his speech just before the general elections in Pakistan on 3 December.

The fifth round of talks between India and Pakistan on the Farakka barrage concluded in July 1970. The joint communique issued stated that the two countries had agreed to constitute a joint body to ensure delivery of agreed

supplies of water at Farakka and that the next round of talks were to be resumed within the next 3-6 months. The Indian delegation impressed upon the Pakistani delegation the dependence of India on the Ganga and that no structure should be built in Pakistan which should have an adverse effect on the Indian territory. While India maintained that Pakistan should first reformulate its Ganga project on a realistic basis, the Pakistani delegation argued that they could not reformulate their scheme unless India had specified in advance the quantum of water she was prepared to release from Farakka.

In the early months of 1970 an exodus of refugees started from East Bengal into India caused partly by the failure of rains and economic distress in areas like Khulna and Jessore and partly because of a sense of insecurity of the minority community created by the propaganda of at least one party standing for an Islamic state. About 79,000 refugees were estimated to have crossed over to India by June 1970. On 14 July Sheikh Mujibur Rahman appealed to the Hindus not to migrate to India. He declared that the Hindus had equal rights in Pakistan.

On 3 December Yahya Khan in an apparent effort to influence the electorate in favour of anti-India parties, referred to the issues of Kashmir and Farakka in his election eve broadcast. He charged India of continuing to mislead and confuse public opinion abroad and that the Indian response to his efforts at dialogue was as usual negative and illogical.

On 30 January 1971, two members of a Kashmir insurgent organisation,

Al Burq, believed to be supported by Pakistan, hijacked an Indian Airlines Fokker Friendship aircraft on flight from Srinagar to Jammu. The plane landed at Lahore and was blown up later by the two hijackers in the full view of the Pakistani security forces and the blowing up was televised. The two hijackers were promptly given political asylum in Pakistan. India demanded that the two hijackers should be handed over to the Indian authorities for trial and suitable compensation should be paid for the baggage loss. In the light of negative response from Pakistan, and its prompt grant of political asylum to the two hijackers, the Indian government banned the overflight of Pakistani aircraft over the Indian territory.

Sheikh Mujibur Rahman felt that prompt and effective steps could have been taken by authorities to prevent the blowing up. He demanded an enquiry into this matter and also effective measures to prevent interested quarters from exploiting the situation for their nefarious end. He added that at this critical juncture of the nation's life, the creation of abnormal conditions would only serve the ends of saboteurs and conspirators against the people.

Z.A. Bhutto, on the other hand, met the two hijackers and had discussions with them at Lahore airport. He instructed his partymen to assist the two "brave" hijackers in every possible way.

On 27 February President Yahya Khan postponed the National Assembly session and announcing his decision he referred to the state of relationship with India as one of the reasons which justi-

fied his action. Subsequently on 28 March the Radio Pakistan alleged that India had set up a clandestine radio which called itself the "Voice of Bangla Desh." In his broadcast of 26 March, General Yahya Khan did not refer to any conspiracy between Sheikh Mujibur Rahman and India to bring about the separation of Bangla Desh from Pakistan. This was a subsequent invention when Pakistani authorities decided to issue a white paper on the subject.

Once a decision was taken to launch a large scale military action against the people of Bangla Desh, Pakistan has been attempting to convert the Bangla Desh issue into an Indo-Pak issue. Having found India reluctant to react to it as an Indo-Pak issue, Pakistan retained the initiative and escalated the confrontation by systematically pushing out 9 million refugees into the Indian territory, by sending in saboteurs into India to blow up trains and railway lines and also by firing across the border into Indian territory resulting in a number of casualties on the Indian side. A Pakistani Judicial Commission subsequently declared that the hijacking of the Indian aircraft was organised by Indian Secret Services; but did not explain why the hijackers were so readily given political asylum and felicitated.

ARMED FORCES

During the year 1970-71, Pakistan started with a limited programme of expansion of its armed forces and following the events in Bangla Desh has launched on a major programme of expansion. According to the **Military Balance** of the International Institute for Strategic Studies, London, the

Pakistan armed forces during 1971-72 were estimated as follows :

Army : 365,000 (including 25,000 'Azad Kashmir' troops)

2 armoured divisions.

12 infantry divisions (2 more being raised).

1 independent armoured brigade.

1 air defence brigade.

100 M-47, 100 M-48, 100 T-54, 50 T-55 and 225 T-59 med tanks ; 200 M-24, 75 M-41 and 20 PT-76 lt tanks ; 300 M-113 APC ; about 900 25-pounder guns, 105 mm and 155 mm howitzers ; 200 130 mm guns ; *Cobra* ATGW ; 20 H-13 helicopters.

Navy : 10,000

4 submarines.

1 light cruiser/training ship.

2 destroyers.

3 destroyer escorts.

2 fast frigates.

4 patrol boats.

8 coastal minesweepers.

2 small patrol boats (less than 100 tons)

2 UH-19 air-sea rescue helicopters.

Air Force : 17,000 ; 285 combat aircraft.

1 light bomber squadron with Il-28.

2 light bomber squadrons with B-57B.

2 fighter-bomber squadrons with Mirage IIIE.

8 fighter-bomber/interceptor squadrons with F-86.

4 interceptor squadrons with MiG-19.

1 interceptor squadron with 6 F-104A.

1 recce squadron with 4 RT-33A and 2 RB-57.

(With the exceptions noted, combat squadrons have 16 aircraft).

Transports include 8 C-130B and 1 F-27.

40-*Sioux*, *Huskie*, *Alouette* III and Mi-8 helicopters.

Para-Military Forces : 280,000.

30,000 frontier corps ; 250,000 militia. A new force is being raised—the East Pakistan Civil Armed Force.

However, the number of M-47/M-48 tanks are likely to be more than the figure indicated above. Since Pakistan had two armoured divisions in 1965 consisting of M-47/M-48 tanks, after allowing for the casualties in the 1965 operations, there are reasons to believe that M-47/M-48 strength should be higher than the 200 indicated above.

In the Indian press there have been detailed discussions about Midget submarines of Italian origin in the Pakistani navy. It is believed that they may be having around 12 vessels of this type. There has also been a report of a ship by name *Madadgar* having been acquired from France. The name would indicate that this could be a submarine depot ship.

Compulsory Military Training

Pakistan introduced compulsory military training as a national service

scheme for all educated able-bodied young men in the age group of 18-20. The first batches reported at training camps in Lahore and Dacca on 15 January 1971. Two pilot projects one in each wing were set up for training selected young men in this scheme. The prescribed minimum educational qualification was completion of secondary school course, and the persons selected for national service would have to serve for a period of one year and may be assigned to one of the three Services. He will then be kept on national reserve service till the age of 35 and he will be liable to be called for refresher training every year and for service from time to time.

It would appear that with the provision for recruitment of educated young people, the training period could be cut down to a minimum and the trainees could be inducted into the Services within a very short period.

When the Pakistani military regime decided to take military action in Bangla Desh, one of the first steps taken was to disarm the East Bengal Regiment and the East Pakistan Rifles. The Bengali elements in the army, navy and the air force were also disarmed. While in the case of army the percentage of Bengali elements was as low as around 7-10 per cent, in the case of navy and air force, they were of a significant order - between 20 and 30 per cent. Consequently, the replacement of the Bengali elements in the latter two services has become a matter of priority and the educated conscripts of the national service scheme may normally be expected to be utilised for filling in these vacancies.

Consequent on the use of a large military force on a continuous basis in Bangla Desh, it has also become necessary for Pakistan to raise additional forces. Two divisions are known to be under raising and it is likely that the expansion may not stop there. In order to carry out this expansion as quickly as possible, Pakistan may be relying on the educated national service recruits.

Arms Acquisition by Pakistan

The continuous deployment of $4\frac{1}{2}$ divisions in Bangla Desh and the need for raising additional forces, are likely to result in demand for increased quantities of arms. At the same time, a number of countries like the Soviet Union, France, Canada, Sweden and West Germany have indicated that they would not be supplying arms, ammunition and spares for military equipment to Pakistan during the course of the present military action by Pakistan in Bangla Desh.

This has compelled Pakistan to rely increasingly on the United States and China as primary sources of equipment to raise the new divisions, and also to replace the wastages incurred in the Bangla Desh struggle. There are reasons to believe that Pakistan is using Iran, Turkey and Saudi Arabia as intermediaries to purchase equipment in Europe and pass them on to the Pakistan armed forces to circumvent the restrictions placed by the European countries in the supply of arms to Pakistan in the present circumstances.

In India, there have been speculations about the source of finance for such purchases. Observers believe that

these operations are financed by some of the oil-rich Arab countries, including Iran.

In these circumstances, continued supply of US arms is of great significance in prolonging the war in Bangla Desh and in contributing to the casualties there.

Defence Budget

In 1971-72 Pakistan has budgeted for Rs. 340 crores against the revised estimates of Rs. 320 crores for 1970-71 and Rs. 300 crores of Budget estimates for 1970-71. Pakistan does not disclose details of the defence expenditure. It is quite likely that the above expenditure does not include acquisition cost of equipment obtained on a deferred payment basis. There are also reasons to believe that the full expenditure is not disclosed since Pakistan has ceased to publish details of capital account on defence projects since 1964-65.

SCIENCE AND TECHNOLOGY

Pakistani politicians as also the press have been attempting to create a new consciousness among the people of Pakistan about the need to develop nuclear technology in the country. A number of politicians have demanded atom bomb for the country, and their main argument was India would soon have it. Officially inspired sources claim that if India explodes a nuclear device—even though it may be for peaceful purposes —“Pakistan will not lag behind”. *The Pakistan Times*, Lahore, quotes Canadian scientists to say that Pakistan could make 9 atom bombs a year and that by 1973 it could have 23 such bombs.

Zulfiqar Ali Bhutto, a former Foreign Minister, whose Pakistan People's Party won a landslide victory in West Pakistan in the December 1970 general elections, told the press in Lahore on 28 July 1970, Pakistan had the requisite potential to become a nuclear power and it should go nuclear without further loss of time. Talking of India's alleged programme to make atom bombs, he said, India was doing so to blackmail Pakistan on Kashmir and Farakka issues and dictate terms to Pakistan. He also claimed for himself the credit for getting Karachi Nuclear Power Project approved “in the teeth of opposition”.

In its endeavour to develop nuclear technology, Pakistan has been able to obtain substantial assistance from Canada, Belgium, USA, UK and the Soviet Union.

The Canadian aided 137-MW Karachi Nuclear Power Project (KANUPP), the first nuclear power plant in the country, is in the final stage of completion. The power reactor became ‘critical’ on 1 August 1971 marking Pakistan's entry into the sophisticated world of nuclear technology.

Based on natural uranium and heavy water, KANUPP will initially produce 125 MW of electric power. It is claimed that this is one of the few nuclear power plants in the world equipped with computers.

Work was scheduled to start sometime in 1971 on Pakistan's second 200-MW nuclear power plant to be set up at Rooppur in East Bengal with financial and technical assistance from Belgium. The cost of the plant, initially estimated at \$ 68 mn, may go up to \$ 90 mn.

Pakistan Atomic Energy Commission had arranged a loan from a Consortium of Belgian Banks to enable it to purchase Belgium-made reactor at a cost of \$ 68.30 mn for the proposed project. The agreement with the Consortium was signed in Brussels in January 1971. An official of PAEC said on 12 December 1970 that the Belgium Government had already agreed to subsidise the 7.5 per cent rate of interest by 2.5 (or 2.75) per cent. The proposed financing will be for a period of 15 years which will start after the construction of the plant.

According to earlier indications the power plant was to be built by Ateliers de Construction Electriques de Charleroi (ACEC), Belgium's leading electrical company now controlled by Westinghouse. On 8 October 1970, PAEC was reported to have signed a protocol with two Belgian firms for the supply of equipment for the project.

The reactor will use enriched uranium fuel, which will be supplied by USA. Pakistan is negotiating an agreement with US AEC for cooperation between Pakistan and USA in the peaceful uses of nuclear energy. Under this agreement, when signed, USA will supply enriched uranium to Pakistan for 30 years (the estimated life of the reactor) at a price applicable to its internal users. In the wake of the civil war, it is doubtful whether this project will now go through.

The British Atomic Energy Commission has agreed to assist Pakistan in setting up by 1978 a 600 MW nuclear power station with a desalination plant attached to it in Karachi or in its

hinterland. About 4 or 5 scientists and engineers will be sent to England every year for training in this field.

Dr. I.H. Usmani, Chairman, Pakistan Atomic Energy Commission, has reiterated his earlier claims that very promising deposits of uranium have been found in West Pakistan by Pakistani geologists. He has also said that extensive deposits of such heavy minerals as zirconium and titanium have been discovered along the Cox's Bazar beaches in East Bengal.

Dr. Usmani has disclosed that the UN Development Programme has allocated a sum of \$ 400,000 to Pakistan for proving the extent of the uranium deposits found in Dera Ghazi Khan. PAEC proposes to start a pilot scheme for recovering uranium from Dera Ghazi Khan area. A pilot plant capable of processing about 1,000 pounds of ore per day is to be set up soon. A pilot refining plant has already been developed at the AEC centre, Lahore, and has started trial production.

More investment on the expansion of scientific research is being asked for. Dr. Usmani who is also the Chairman of the National Science Council has recently indicated that Pakistan's expenditure on scientific research (13% of GNP) could not go beyond the current level—one-eighth of what UNESCO Conference on Science (CASTASIA) recommended (*i.e.*, 1% of GNP). He has made a strong appeal to "spare one paisa for science as *Zakat*" per head per day.

During the Fourth Five-Year Plan (1970-71) the Government proposes to increase the allocations on scientific

research by 100 per cent (roughly from $\frac{1}{2}\%$ to 1% of the national budget) over the expenditure during the Third Plan period from Rs. 38 crores to Rs. 75.2 crores.

The National Science Council has as part of expansion plan recommended to the Government setting up of four new Research Councils—Basic Science Research Council, Environmental Research Council, Transport and Communications Research Council and Engineering Research Council—to accelerate the pace of scientific research in the country. This will bring the total number of research organisations in Pakistan to ten. The other six research organisations already in operation are: Pakistan Atomic Energy Commission, Pakistan Council of Scientific and Industrial Research, Pakistan Medical Research Council, Agricultural Research Council, and Irrigation, Drainage and Flood Control Research Council.

According to Dr. Usmani about 1,500 group leaders at the Ph. D. level will be required to be trained during the Fourth Plan period. Earlier, he said Pakistan was short of technically trained manpower at all levels, particularly at the level of Directors of Research and group leaders. According to his estimate there were in all about 5000 to 6000 scientists working in Pakistan and quite a number had migrated to other countries.

In order to create more facilities for scientific research Pakistan on 5 June 1970 signed a 5-year agreement with France under which France would provide experts, equipment and training facilities in the fields of education and scientific research.

In the field of nuclear cooperation, Pakistan on 10 May 1970 entered into a 10-year agreement with the Soviet Union. The agreement provides for scientific and technical cooperation in different fields of the peaceful uses of atomic energy, including technology in nuclear power reactors and materials, the use of radio isotopes and nuclear radiation, use of atomic energy for desalination of sea water and exchange of scientific and technological information.

USSR will also assist Pakistan in purchasing machinery, spare parts and nuclear instruments and materials required for the peaceful uses of atomic energy.

Pakistan Atomic Energy Commission is working on a long-term programme of collaboration with Kuwait in the peaceful uses of atomic energy. Dr. Usmani paid a 3-day visit to Kuwait in May 1970 to explore the possibility of mutual cooperation in the field of desalination of sea water with the help of atomic energy.

6. AFGHANISTAN

ECONOMY

State of Economy

The Government of Afghanistan is in search of new sources of revenue to meet its development outlays increasingly out of indigenous revenues. Receipts from customs duties, monopolies and a variety of small taxes cover roughly the Government's ordinary expenditure, but leave very little over for development. According to a despatch in *The Times* (London) in December 1970, on the state of economy of Afghanistan, the Government is preparing a land survey which would form the basis of a tax proposal to form a new source of revenue. But the Government's efforts at introducing progressive taxation measures on land which would bring in additional revenue have been opposed by the conservative landowners who dominate the parliament and who would be most affected.

The Finance Minister of Afghanistan, Dr. Mohammad Amman, while presenting the budget for the Afghan year 1350 (1971-72) to the Senate on 7 April 1971, said that the Government of Afghanistan aimed at developing the economy and improving chances for employment. "Towards the end of the year 1348 (1969-70), and till the end of the Afghan year 1349 (1970-71), the Government adopted some measures aimed at promoting exports... Foreign exchange earnings are rising"

"The Government adopted certain measures to promote private capital investment the result of which we see today. The volume of the private capital investment which has been made during the period and which are being made is Afs 3,000 mn", he added.

Dr. Amman said the Government had to tackle new sources of income to meet the cost of development. Also the budgets have to be deficit budgets

Afghanistan—Statistics

Area	... 657,500 sq. km
Population	... 16.52 mn
GDP (1969) (at 1966 prices)	... Afs 58,237 mn
Army	... 75,000—80,000
Air Force	... 6,000
Currency	... Afghanis 45 = \$1.

as is the case with all the developing countries.

"It is with these considerations and consideration of the social justice that the Government has presented draft of laws on land taxes and cattle taxes to the Parliament. We hope the Parliament with full understanding of the reality will take a positive decision".

"The budget we have proposed totals Afs 8,175 mn...Out of this, domestic and foreign borrowings are Afs 1,905 mn, out of which (again) Afs 790 mn are domestic borrowing (from the Bank of Afghanistan)". About 20 per cent of the revenue is absorbed in debt servicing.

The Finance Ministry on 17 May 1971 released the figures of public expenditure for 1348 (actuals) and 1349 (final). The statement shows the following comparative position of revenue collections :

(Afs in mn)	1348 (Actual)	1349 (Final)	Increase /Decrease (-)
Revenues	5,082	5,795	713
Deficit met from loans, grants and foreign aid	1,650	1,167	- 483
Total expenditure	6,732	6,962	230

Planning

Currently, the country is in the last year of the Third Five-Year Plan (1967-

72). The third plan envisaged an expenditure of Afs 33,000 mn, compared with actual expenditure of Afs 25,000 mn during the second plan. Broadly speaking Afs 23,200 mn would come from foreign sources—Afs 19,000 mn as project aid and Afs 4,200 mn as commodity aid. Sector-wise allocations are :

(in mn Afs)	
Mines, industries and power	10,740
Agriculture and irrigation	9,630
Social services	5,520
Transport and communications	4,110
Reserves	3,000

Foreign economic aid

Afghanistan, partly due to its non-aligned stance and partly due to its strategic position, did not find much difficulty in securing necessary economic aid. The useful infrastructure which

the country has built over the two first five-year plans practically from scratch is all due to foreign aid it has received from all over the world.

The American aid has tapered off to \$6 mn a year but it has been compensated for by other donors, particularly West Germany, France, China and International Institutions. Asian Development Bank has for the first time entered into the club of aid donors to Afghanistan, The Soviet Union is, however, maintaining its position as the leading aid giver furnishing 60 per cent of the total aid given to Afghanistan. In 1969, Soviet aid amounted to \$ 50 mn.

*"The Russians have a strong hold on Afghanistan", says *The Times*, London. "But their policy at the moment seems to be to give first priority to friendly links with the Government and not to make any move that would jeopardise Afghanistan's independence seriously, provided that China and the United States act with restraint".*

*"China is the most powerful new comer to the scene and certainly the most efficient donor", says *The Times*, London. By and large Chinese aid at about \$6 mn is on a par with aid given by USA and West Germany.*

*The Afghans say, according to *The Times*, London, "that the Chinese are eager for good relations at Government level, but no doubt the Chinese are not displeased by the growth of Maoist influence at the University".*

Afghanistan signed on 14 November 1970 an agreement with China for a £1 mn loan to buy Chinese consumer goods. The goods will be sold in Afghanistan and the money used for the completion of Chinese-aided projects in the country. The loan has been

extended to Afghanistan under Afghanistan-China technical and economic co-operation agreement of March 1965.

New aid commitments to Afghanistan include : West German credit of \$4 mn for electricity distribution at Kabul, \$10 mn Czech credit, project not yet decided, \$2 mn credit by Japan for buying equipment for water net work system, \$1,266,000 UNDP aid for water supplies and \$14 mn French loan for agricultural and industrial projects.

Industry and minerals

Industry contributes only 11 per cent to the gross national product, out of this about 8 per cent is from handicrafts. Among the 50 industrial enterprises are cotton textile mills, sugar mills and cement factories. Efforts are now being made to set up a number of processing industries which will process indigenous raw materials mainly meant for exports.

In October 1970 the Ministry of Commerce, Mines and Industries issued licences to four new projects for making rayon thread, plastic pipes and bags, plastic shoes and machinery for metal works. In the development budget for 1970 provision was made for chemical fertiliser plants. A new coke smelting furnace with a capacity of 3 tons per hour was added in March 1971 to Jangalak factories, set up 10 years ago with Soviet assistance, to enable the works to increase the production of spare parts for the Soviet-made trucks and cars, textile machinery, tools and implements.

Afghanistan is rich in minerals but the efforts at exploitation and exploration are of comparatively recent origin.

The President of the Mines and Geology Department in the Mines and Industries Ministry told the Exports Promotion Seminar on 4 April 1971 that new mineral reserves had been found in different parts of the country as a result of a recent geological survey. The reserves of the iron ore in Hajigak in Central Afghanistan were estimated at about 2,000 mn tons. It was earlier reported that the UN Development Organisation had been approached for assistance in exploiting these ores. The MGD President said, Afghanistan could now export 10 tons of lapis lazuli, 100 tons of mica, 30,000 to 40,000 tons of chromite and between 5,000 and 10,000 tons of talc annually. Eleven chromite reserves, estimated to be about 480,000 tons, were discovered in the Logar Province, and lapis lazuli reserves estimated to be about 13,000 tons in Badakhshan Province. There were 37 areas of mineral reserves which had been discovered by survey work. The southern parts of the country were considered suitable for prospecting oil and natural gas. The Darai Souf area was believed to have huge coal reserves, the President of the Mines and Geology Department disclosed.

Under an agreement signed in Moscow in August 1970 the Soviet Union will assist Afghanistan in prospecting for non-ferrous metals. In September 1970, Pakistan and Afghanistan initiated negotiations on exporting Afghan iron ore to Pakistan. Some Japanese companies were planning to form a joint venture to produce 25 per cent concentrates from the copper and zinc ore deposits at Kandalam and to send them for smelting in Japan.

On 6 January 1971 the Minister of Mines and Industries inaugurated a new

deep drilling operation in Laifa Desert, northwest of Shibergan city in northern Afghanistan. The King of Afghanistan inaugurated the study of the first exploratory well in a new natural gas field, 30 km from Shibergan on 11 April 1971.

According to Tass, contracts were signed in Kabul on 14 December 1970 for construction of an overpass across the river Amu for a gas pipeline from Afghanistan to USSR and a gas pipeline on the Afghan side. Under another agreement signed earlier on 10 December 1970, USSR would help the construction of an oil and gas technical college in Afghanistan in 1971.

The Ministry of Mines and Industries released the following figures of natural gas exports from Afghanistan to USSR :

<i>Year</i>	<i>mn cubic metres</i>
1967	207
1968	1,500
1969	2,030
1970	2,591
1971	2,500 (expected)

Under a contract signed in March 1970, Afghanistan is to buy 90,000 tons of oil from Iran in three years. During 1970-71, Afghanistan also was to import 12,000 tons of diesel oil from Iran. On 31 December 1970, Afghanistan signed a contract for the purchase of 81,340 tons of petroleum from the Soviet Union.

Power and Irrigation

The Minister for Agriculture and Irrigation, Abdul Hakim, told a Near

East and South Asia Irrigation Seminar held in Kabul on 19 September 1970 that out of the total area of 162 mn acres of land in Afghanistan, about 25.5 mn acres were arable land. About 12 mn acres were cultivated in any given year while half of the arable land was left fallow due to lack of water and inadequate irrigation system. He sought the help of the seminar for a solution to the problem.

In the development budget for 1970, 30.5 per cent of the total expenditure was earmarked for the agricultural and irrigation sector. Emphasis was laid on large irrigation projects, such as, Sardeh, Parwan, Nangarhar, Helmand and Pakthia.

The Parwan Irrigation Project is progressing according to plan and it is expected to be completed by March 1972. The project when completed will irrigate 75,000 acres, (part of which is already irrigable but there is shortage of water in that area) and run a 2,000 Kw hydroelectric plant.

Radio Afghanistan announced on 2 January 1971 that an agreement was signed in Kabul between the representatives of Afghanistan and China under which 33 Chinese engineers would be employed for setting up and operating the hydroelectric plant and pumping station of the irrigation project in the Parwan Province.

The Asian Development Bank has approved its first concessional loan of \$ 5.15 mn to Afghanistan combined with a technical assistance grant of \$ 370,000 for an agricultural development project in two provinces of Baghlan and Kumduz, in north-eastern Afghanistan.

The Ghareb-Ghorband irrigation-cum-micro hydel project, to be completed by 1972 and capable of generating 200 Kw of electricity is under construction with Indian assistance. Kabul is seeking Indian assistance to build 10 more such microhydel projects in the country.

Food and Agriculture

Afghanistan suffered a major drought last year. As a result thereof, wheat crop was badly affected. The wheat production amounted to 2.45 mn tons against the country's requirement of 2.60 mn tons, falling short of requirements by 150,000 tons only. Afghanistan had a plan to make the country self-sufficient in food production by the end of the Afghan year 1350 (1971-72). Recent rainfall in different parts of Afghanistan has raised hope of a better crop during the current year. Weather permitting, the current year should mark the beginning of a new era of food self-sufficiency.

In order to make up the deficit, Afghanistan has procured 50,000 tons of wheat from USA under PL-480 (the third purchase since 1967), another 75,000 (50,000 + 25,000) tons from the Soviet Union, 9,000 tons from Canada, and 2,189 tons from Japan (at a cost of \$ 300,000). Afghanistan has also purchased 10,000 tons of sugar from USSR.

Cotton, Afghanistan's main cash crop, is expected to exceed 100,000 tons in 1971. It will be 15,000 tons more than the record figure of 85,000 tons achieved in 1970.

Trade and balance of payments

The year 1970-71 started with an uncertain note. According to the reports of the Bank of Afghanistan, the gold and foreign exchange position remained precarious. At the end of March 1970 (Afghan year starts on 22 March) total reserves, excluding the Special Drawing Rights (SDRs), amounted to \$ 40.39 mn, as compared to \$ 41.17 mn at the end of December 1969, and \$ 46.54 mn at the end of March 1969. Afghan Government preferred to use SDRs rather than devalue the Afghani. In April 1970, they used \$ 1.50 mn worth of SDRs to meet immediate foreign exchange commitments. This temporary measure, however, failed to maintain the value of the Afghani. By the end of June 1970 the free selling rate of the currency had fallen to Afs 81.50 to the US \$, against the official exchange rate of Afs 45 to the US \$.

However, as the year was closing, Afghanistan's trade balance showed a favourable surplus of US \$ 1.52 mn. Its exports of \$ 81.9 mn for the first time exceeded its imports of \$ 71.4 mn.

The export items which were primarily responsible for this surplus were fresh and dried fruits, Karakul pelts, skins and hides, furs, carpets and rugs, oilseeds, raw wool, cotton, medicinal herbs and natural gas. The biggest earners were dried fruits and nuts (\$ 19.5 mn) followed by Karakul pelts (\$ 13.1 mn) and natural gas (\$ 12.1 mn). The one export item, that shows a lot of promise is natural gas which registered a \$ 5 mn increase over the previous year. The Soviet Union is the largest buyer of natural gas which is

pipled to Doshanbek, Samarkand, Bokhara and Tashkent. The increased earning from natural gas will, however, be used to pay the interest and instalment due on Russian loan (\$ 1 bn) received since 1955.

The country's major imports are wheat, sugar, tea, canned food, tobacco, petrol and petroleum products, textiles, clothes, shoes, medicines and chemicals, metals, machinery, automobiles, tractors and bulldozers, cosmetics, and electrical appliances.

The imports came mainly from Japan (\$ 14.6 mn) followed by the Soviet Union (\$ 12.5 mn) and India (\$ 11.26 mn).

Afghan officials feel that the trade surpluses can be improved much more if the country could process certain items. It could wash or die its raw wool, tan or pickle its hides, process its fruits, modernise its rugs and carpets and develop the quality of its cotton. One worry, however, is that exports like Karakul pelts and dried fruits have shown very little expansion.

New trade agreements were signed during the year with China, Poland and Czechoslovakia.

India and Afghanistan have agreed to diversify trade between the two countries and to cooperate in preventing the diversion of goods imported from each other to third countries. They also agreed to postpone introducing any modifications in the new trade arrangements to come into force from 31 August 1971. Accordingly, both countries have agreed to continue with the existing procedures evolved under the 1968 trade arrangement due to

expire on 31 July 1971. These were stated in a joint communique issued simultaneously in New Delhi and Kabul on 15 November 1970.

An agreement was signed in Kabul in January 1971 providing for trade and transit facilities between Pakistan and the Soviet Union through Afghanistan during the current year. A transit trade agreement for 1971 between the Soviet Union and Afghanistan was also signed in Kabul in January 1971. The agreement based on the protocol of 1955, provides for the carriage of Afghan exports via Sher Khan port on agreed routes to European destinations including American ports. Afghan imports can also be transported through the Soviet Union on similar terms.

Tourist traffic in Afghanistan is increasing at a fast rate. This year the country earned \$ 7 mn from the tourist trade, about 20 per cent increase over the last year's. 100,233 foreign tourists visited the country while 10 years ago, the number was only 400.

COMMUNICATIONS

In the development budget for 1970, 30.5 per cent of the total expenditure was earmarked for the transportation and communications sector. In this sector larger appropriations of funds were made for the implementation of projects, such as, Pule Khumri-Mazari Sharif—Shiberghan road, Kabul-Gardez Khost road, the Hairatan road, the Kunar road and the construction of a series of bridges and maintenance of roads etc.

Work on laying the bed of the 260 Km Pule Khumri-Sheberghan highway

started in March 1971. Altogether 846 small and big bridges and culverts have been built on the highway. Local Development Departments in February 1971 completed a feasibility survey for over 300 small and medium size bridges, 68 gullies, 8 big bridges and about 75 km feeder roads in the Deh Subz, Bagrami, Mir Bachakot and Shekar Dara districts in Kabul Province. The Nader Shah Maina Bridge over the Kabul river on Kabul-Jalalabad highway in Yakalut area was opened to traffic on 17 March 1971.

Asian Development Bank has reportedly promised financial support for a joint Indian-Afghan project to build a new highway in south-west Afghanistan which will ultimately open up landlocked Afghanistan to Iranian port of Bandar Abbas via Zahidan. Under an agreement signed in March 1970, India and Afghanistan agreed on Indian financial aid for the road as well as survey and engineering assistance. Four Indian engineers have already visited Afghanistan and held talks with their Afghan counterparts.

The Government of Afghanistan plans to have the country's first railway system. They sought international assistance for studying and surveying the possibility of extending railway lines from Mashhad in Iran to Harat in Afghanistan and another railway line from Chaman to Kandahar in the south. Japan expressed its interests in the projects which would involve 230 Km railway lines in Afghanistan. A team of two Japanese railway experts together with an ECAFE expert arrived in Kabul on 27 January 1971 to conduct the study.

The Ariana Afghan Airlines, according to an agreement signed between Afghanistan and Pakistan, for the first time since 1965 Indo-Pakistan war, linked Lahore with Delhi and Amritsar in July 1970.

The Afghan Air Authority plans to build an international airport at Logar south of Kabul because the present Kabul airfield is not suitable for bigger aircraft as it is surrounded by hills.

The Bakhtiar Airlines, the country's domestic airlines, which started operations in 1968, has made considerable progress. From the five airfields it operated in 1968, the network has now been extended to 17. The company plans to buy six Canadian STOL aircraft to supplement its existing fleet of two.

Afghanistan and USSR signed an agreement in Moscow on 2 September 1970 for setting up special radio stations in both the countries, capable of communicating through the troposphere. India and Pakistan were also invited to set up ultra short-wave radio links so that Asia could have dependable multi-channel communications with Europe across the Soviet territory.

POLITICAL DEVELOPMENTS

No decision has yet been made on the bill allowing the formation of political parties. The King is yet to make up his mind about the future prospect and scope of functioning of political parties which are to come up in the wake of the passing of the bill. There were rumours that the King wanted to organise a Royalist political party and hence the delay.

Nur Ahmed Etemadi, the Prime Minister of Afghanistan, resigned on 16 May 1971 following a procedural dispute between the executive and the legislature. Etemadi in his resignation letter to King Zahir Shah said he resigned in the hope that there would be better cooperation between Parliament and Government in future. Etemadi had been the Prime Minister since 1967.

The King accepted his resignation and later on 9 June 1971 appointed Dr. Abdul Zahir, the then Afghan Ambassador in Italy as the new Prime Minister and entrusted him with the formation of a new Government. After having selected his Cabinet colleagues, according to section 89 of the Afghan Constitution, he introduced the members of his Cabinet to the Parliament for a vote of confidence. After a 19-day debate, the new Premier, Dr. Abdul Zahir, was confirmed on 26 July when the House of the People ratified the appointment of the new Ministry by 181 votes to 13. According to section 91 of the Constitution, the outgoing Prime Minister continued in office till the new Government took over.

There was widespread students unrest in different parts of Afghanistan. Strikes and demonstrations, whether politically motivated or in support of student grievances, had almost daily disrupted classes in one faculty or another. Most of these agitations were organised by Maoist, Marxist or extreme radical groups. But there was no repetition of violent clashes with the police of the type of 1969 which led the Government to close the university for six months.

The students have, as of now, become the most active political force in the country where the conservative traditions of the tribes and religion are still strong and literacy low.

But the continuing left-inspired student agitation provoked in May 1970 a potentially dangerous backlash from the conservative religious leaders partially supported by the tribes. The occasion was the Lenin anniversary when the Communist newspaper *Parcham* published a poem in which Lenin was referred to by a term of reverence normally reserved for *Allah* and the Prophet Mohammad. Agitation spread to several areas south of the Hindu Kush including Herat and Ghazni, and at Achin in the south-east the Government had to bring out the army and tanks to bring under control the unruly members of the Shinwari tribe. One of the consequences is the formation at the university of a religious faction who react against anything they consider unislamic.

INTERNATIONAL RELATIONS

The most significant development during the year under review was Afghanistan's permission to the United States to set up a satellite tracking system in an area bordering China and the Soviet Union. Official explanation was that the work was designed to provide more accurate maps.

A team from New Mexico State University had been operating quietly for six months in a mobile tracking station in the south-eastern suburbs of Kabul (1,800 metre). The team was supported by the US Agency for International Development. A US Air Force

C-141 flew the mobile station and its equipment to Kabul, after the 20-hour visit in January 1970 of the US Vice-President, Spiro Agnew. The Station began functioning about four months after USA closed its Peshawar base in November 1969 breaking a worldwide US communications chain.

"The operation is not classified" a US Embassy Official said. "It is under the direction of the Afghan Cartographic Institute and, as such, the material is probably available to the Russians". An Afghan Foreign Office official said he did not believe the project would compromise the Afghan policy of neutrality between USA and the Soviet Union. The Foreign Office Officials claimed that the tracking would help Afghanistan to set up an observatory in the hills around Kabul.

Afghanistan observed in February 1971 the 50-year anniversary of Afghan-Soviet Friendship Treaty of 1921 (28 February). On this occasion messages were exchanged between the Premiers of the two countries and between King Zahir Shah and President Podgorny expressing satisfaction at the various events of mutual cooperation and friendship.

Earlier in September 1970, King Zahir Shah and the Queen of Afghanistan visited Moscow on their return journey from Czechoslovakia. At a luncheon held in honour of the King and Queen of Afghanistan, President Podgorny said that the development of friendship was beneficial not only for the peoples of both countries but it also served as a major factor in consolidating peace in the Middle East and international security as a whole.

King Zahir Shah condemned Israel for its unwillingness to cooperate in establishing peace in the Middle East.

In a commentary on the 21st anniversary of the establishment of the People's Republic of China, an Afghan Radio broadcast on 2 October 1970 said that Afghan-Chinese cooperation in recent years had expanded markedly. China was assisting Afghanistan in the implementation of a number of projects including fisheries, textile industry, lapis cutting and polishing and production of silk. Some of the projects had already been commissioned while others were being completed.

Earlier on the occasion of the 10th anniversary of the signing of the Treaty of Friendship and Mutual Non-Aggression between China and Afghanistan, the then Afghan Premier, Nur Ahmed Etemadi, sent a congratulatory message to Premier Chou En-lai. Afghan newspapers praised the friendly relations between the two countries.

Pak-Afghan relations registered some gains. Pakistan made some concessions to Afghanistan, namely, restoration of Delhi-Lahore and Amritsar-Lahore airflights by Afghan airlines which remained suspended since September 1965.

The former Afghan Prime Minister, Nur Ahmed Etemadi, in August 1970 visited East European Countries viz. Yugoslavia, Poland and Bulgaria. Etemadi also attended in September 1970 the non-aligned Lusaka meet and addressed the Conference.

King Feisal of Saudi Arabia paid a three-day visit to Afghanistan in June

1970 at the invitation of King Zahir Shah. Another distinguished visitor to Afghanistan was Prince Akihito of Japan in June 1971. During the Prince's visit a comprehensive trade and economic cooperation agreement was worked out for signature by both the countries at a later convenient date.

Afghanistan played host to the ECAFE meeting on Asian Economic Cooperation in December (16-19) 1970. The Council of Ministers for Asian Economic Cooperation on 19 December unanimously adopted the "Kabul Declaration" calling for a series of actions in trade, monetary and related development sectors. The Declaration authorised interested countries to go ahead with the negotiations for the establishment of an Asian clearing union which will use the "Asian clearing dollar" as the unit of account for settling trade deals among member countries. The proposal was opposed by Japan, Australia and Indonesia but developing countries led by Afghanistan and India succeeded in getting the proposal through the drafting Committee. A preparatory Committee would work out details of the Union. In addition, the Council also decided that the trade expansion programme should be examined by an inter-governmental committee.

The Kabul document included another important provision namely disputes between two countries of the region should not affect adversely the interests of a third country. Two other significant points included were: (i) according of specially favourable treatment to the imports from the least developed among the developing countries in respect of tariff and non-tariff barriers

and (ii) rendering of every possible assistance to land locked countries of the region to enjoy the right of free access to the sea and to provide port and transport facilities, minimum and simple custom formalities, and reasonable transport charges in transit by air and overland routes.

ARMED FORCES

The peace strength of the Army is 75,000-80,000. It is organised in 3 corps (Kabul, Kandahar and Gardez) and three other divisions. Initial training is imparted in Afghanistan's own military training establishments.

The Russians, together with their East European allies, have provided almost all the equipment for Afghanistan's armed forces and much of the training as well. Probably most officers below the rank of full colonel are trained by Russia or its allies.* Selected officers receive training in Turkey, U.S.A. and UK also.

Equipment include Russian T-54 Tanks and surface-to-air missiles. An

Ordnance factory in Afghanistan manufactures small arms and ammunition, boots and clothing for the armed forces.

The Air Force, which is fully Russian equipped, has about 250 aircraft and 6,000 officers and men. There are 2 squadrons of MiG-21 fighters (about 30 aircraft), 4 or 5 squadrons of MiG-17s (about 70 aircraft), 3 bomber squadrons each with about 15 twin-jet Il-28s, a transport wing with Il-14s (about 25 aircraft), 20 Mi-4 helicopters, and 1 or 2 turbo-prop Il-18s and Yak-11, Yak-18 and MiG-15 UTI trainers. The main fighter station is Bagram, with facilities for largest jet airliners and bombers; a Russian-built bomber station exists at Shindand also. There is an air academy at Sherpur with 400 cadets and training station at Mazar-i-Sharif. *Guideline* surface-to-air missiles have been supplied to Afghanistan.

The gendarmerie, about 21,000, is administered by the Ministry of Internal Affairs.

*The Times, London, 24 November, 1970

7. IRAN

ECONOMY

Economic growth

The oil agreement of 14 February 1971 raising petroleum prices brought in an economic boom for Iran. The economy is already buoyant and the expected increased oil revenues will further accelerate the economic growth of the country.

The Prime Minister of Iran, Amir Abbas Hoveyda, while presenting his country's national budget for the Iranian year 1350 (1971-72) to the Iranian Parliament on 23 February 1971, said "the year 1349 (1970-71) brought great success to the country both at

home and abroad. On the domestic scene, although the year has not yet come to end, on the basis of surveys carried out, I can say that the rate of growth for the economy will amount to 10 per cent at constant prices—a growth rate overtaking the target set in the Fourth Plan. Meanwhile, the tempo of price increase will not even reach half the figure for 1348 (1969-70).

"In this way, the significant achievement of the Iranian economy—that of rapid development combined with price stability—will continue. I might add that if the rise in the level of prices in Iran estimated to be 1.4 per cent for 1349, is compared with the inflationary trends in most parts of the world, it

Iran—Statistics

Area	... 1,645,000 sq. km
Population (end 1970-71)	... 29,282,000
GNP (1969-70) (at constant prices)	... Over \$8.9 bn
Defence budget 1971-72	... Rials 77.5 bn (\$1.03 bn)
Armed Forces	... 161,000
Army	... 135,000
Navy	... 9,000
Air Force	... 17,000
Currency	... Rials 75 = \$1

will give us a justified sense of pride especially when this price stability is seen in the context of the rapid economic growth here."

"Over the past year, several major industrial projects came to fruition including the great gas pipeline which is now being utilised, a number of petroleum establishments in the South which were inaugurated and the steel mill complex for which the necessary preliminaries for inauguration have already been completed. The giant Shahpur petrochemical complex and the important Haft Tappeh paper mill have begun operation."

"Meanwhile, in infra-structural projects, major investments have borne fruit, including the Shah Abbas Kabir Dam and the national electrical network. This latter project has expanded the power supply by 35 per cent. Although the heavy volume of expenditure on these projects did not leave the necessary degree of opportunity for sufficient extension of some of the social project, they did, however, bring long standing national aspirations to realisation while paving the way for the country's future industrial take off."

"Another significant development during the year was the instruction for drawing up of a detailed report on the 5th Development Plan under the leadership of His Imperial Majesty."

"In the arena of international politics the year 1349 (1970-71) must be regarded as a turning point not only in the history of Iran but in the developing nations of the world. It was in this year that a glittering success was achieved in oil negotiations. As

some profound thinkers have mentioned, this success has revolutionised the relationship between the industrialised countries and the developing nations of the world. While the protracted discussions between the two groups in the UNCTAD had yielded no results, the successful negotiations in Tehran laid down a firm basis for establishment of a sound relationship between the prices of raw materials exported by the Third World and the prices of finished goods imported by them from the developed countries. In other words, the success of the Tehran negotiations put an end to the unjust terms of trade which the powerful industrialised countries had imposed on the non-industrialised countries and brought about the foundation for a just and wise order".

The Prime Minister hoped that "the historic oil victory and other increases in the public revenues will permit us to expand the ordinary budget by 23 per cent and the development budget by 30 per cent. (Total increase may amount to \$1 bn). Consequently, in a relatively shorter span of time, we will be able to realise projects of much greater dimensions than in the past". In his scheme of things defence got top priority. He argued "in the case of the ordinary budget, top priority definitely must go to the country's defence programmes. In today's tumultuous world, by strengthening our defence forces, we not only can guard the country's independence and territorial integrity but also can create a safe and secure environment conducive to the continued growth and development of the economy, culture and society".

According to the annual report* of the Iran Industrial and Mining

**Kayhan International*, Tehran, 20 June 1971.

Development Bank issued on 19 June 1971, Iran's economic growth achieved a rate of more than 11 per cent (at constant prices) in the Iranian year 1349 (1970-71).

For the Iranian year 1350 (1971-72) a growth rate of 14.15 per cent has been projected according to authoritative Central Bank sources. The main factor behind the new projection is the increase in oil revenues resulting from the Tehran agreement of February 1971. Taking into account the rise in output, revenues should increase by over \$450 mn. During the period total investment reached Rials 160 bn (over \$2.1 bn), an increase of 10 per cent over the previous year. The private sector contributed 55 per cent mainly in new industrial undertakings.

During the year the Government was able to make up its huge budget deficit, the report says, by allowing the banking system to allocate funds for the major part of the credit increase to the public sector. In 1349 the banking system extended credit to the government amounting to Rials 9.1 bn (over \$1.2 bn).

Budget for 1350 (1971-72)

The 1350 (1971-72) budget is expected to amount to Rials 481 bn (approximately \$6.3 bn) representing an 18.3 per cent increase over the budget for 1349 (1970-71) of Rials 406.7 bn. The ordinary budget will receive Rials 158 bn against Rials 132.8 bn last year, while the allocations to the development budget (this is the fourth year of the current fourth development plan) will amount to Rials 197

bn as compared to Rials 139 bn in 1349 (1970-71). In the development budget substantial increase has been made in the outlay on rural reconstruction (143%), regional development (73%), education (64%) and health (59%). The allocation for the repayment of debts and loans and other miscellaneous expenditure is Rials 58 bn—an increase of Rials 19 bn over 1970-71.

The Prime Minister declared that a rigid distinction would be maintained between the ordinary and development budgets and that 80 per cent of oil revenues will be channelled to the plan organisation, the rest being made available to the treasury on ordinary account.

It is estimated that Government revenues on account of the oil sector would amount to Rials 132.4 bn, an increase of Rials 29.2 bn over 1970-71, while other major sources of revenues would be direct taxes at Rials 30.5 bn and indirect taxes at Rials 55.4 bn.

According to Iran Industrial and Mining Development Bank report, the national treasury's share of oil revenues in 1349(1970-71) reached Rials 21.2 bn (\$280 mn), which is an increase of 32 per cent over the year. A total of Rials 7 bn (\$ 93 mn) was received from the sale of national and defence bonds. In comparison with 1348 (1969-70), this is a decrease of 30 per cent.

The **Defence Budget** is the largest single item of expenditure for which an amount of Rials 77.5 bn (\$ 1.03 bn) has been allocated. It shows an increase of about 30 per cent (Rials 19 bn) over the 1970-71 defence budget. Out of this

amount Rials 51.2 bn will be spent by the War Ministry alone. Commenting on the defence budget, the Prime Minister said that Iran could expect to become "a formidable military power" within the next few years. He added: "By carrying out our vast and well worked-out plan for increasing our defence capacity over the next five years, we shall not only be able to ensure the defence of the country but will come to play an important role in ensuring the peace of our region while having an important world role". Justifying the increased defence expenditure he stated that Iran was still spending far less in this field than many other countries.

This increase in defence expenditure is indicative of Iran's desire to build-up its armed forces to play a dominant role in the area.

The new budget does not indicate any major change in policy. As already mentioned in the Prime Minister's speech, the growth rate will be sustained at 10 per cent and efforts will be made to restrain the domestic price inflation which caused concern over the past two to three years.

Planning

The current plan, the Fourth Development Plan, (1968-73), envisages an expenditure of Rials 610 bn of which Rials 480 bn is to be allocated to individual projects. Out of this amount, agriculture is to receive 13 per cent, mining and industry 20 per cent, water and power 19 per cent, communications 16 per cent, tele-communications 4 per cent and education 8 per cent.

The plan, however, got slowed down as a result of some earlier miscalcula-

tions. Basic projects in the industrial sector have cost much more than the original plan estimates. The gas pipeline is now reported to have absorbed \$ 760 mn against the estimated \$380 mn, and the Shahpur petro-chemical plant \$ 232 mn against \$ 172 mn, a major part of this increase in foreign exchange.

Agriculture

About 45 per cent of Iran's area of 1.6 mn sq. km is cultivable but on only 7 mn hectares of this cultivable land dry and irrigated farming is carried on. Another 10 mn hectares are left untouched because of lack of water.

The feudal system also barred progress and disputes between landlords and peasants over water, land tenure and share of produce were perennial. The Government, however, had a proposal to complete its land reform at all levels by 23 September 1971 when all Iranian farmers would have been granted absolute ownership rights to the land they cultivate, excluding those areas outside the terms of the reform such as mechanised farms, orchards and tea estates.

During the year, according to the annual report of the Iran Industrial and Mining Development Bank, the agricultural growth was disappointing and the goals set by the Government for 1349 could not be attained. Consequently, price of cereals continued to rise. In order to check the rise in prices, the cereals organisations had authorised the doubling of the level of cereal imports to 300,000 tons for the year ending 21 March 1971. A general meat shortage, accompanied by rapidly

rising prices, was to be met by the import of \$ 2 mn worth of sheep from Turkey and a further purchase of \$2 mn worth from Bulgaria and Australia.

Water and Power

Since agricultural development in Iran has always been hindered by the shortage of water, investment in water resources by the Government has been stepped up from Rials 1.4 bn in the First Development Plan to Rials 48 bn in the current Fourth Plan. In the Fifth Plan, which is under preparation, the outlay in this sector is likely to go up to Rials 125 bn, with a total of nearly Rials 2,000 bn being allocated over the 25-year period.

Investment in water resources so far has created 7 large and 21 diversion dams, increasing the power generated in Iran by 797,000 kw. It has brought an area equal to 516,700 hectares under cultivation. Another 8 dams which will help cultivate a further 570,000 hectares and generate an additional 1,292,760 kw of power are planned.

The following dams which are under construction will go into operation towards the end of this year: the Voshmgir on the Gorgan River, Darius Kabir on the Kor River, the Aras on the Aras River (a Soviet-aided project, was inaugurated in June 1971), Shahpur I in Mehabad and Darius the Great over the Zarineh River. The Shah Abbas Kabir dam on the Zaiandeh River was inaugurated by the Shah in October 1970. The Reza Shah the Great Dam is being built on the Karun River and will be completed in 1974.

The general objectives of the Fourth

Plan in respect of power generation are as follows:

- (i) Installation and operation of thermal power generating stations—1.2 mn Kw.
- (ii) Installation and operation of hydraulic power units—307,000 Kw.
- (iii) Installation of power lines and operation of high-tension lines—2,840 Km.

Iran has currently taken up a \$ 1 bn plan to expand and strengthen Tehran's electricity network. The plan will not only reduce power breakdowns but also meet the power needs in the next 20 years. About \$ 65 mn will be borrowed from the World Bank for the purpose.

The Trans-Iranian electricity network was inaugurated in October 1970 when the final link was completed in the 1,381-Km high-tension line. The full network will feed most of Iran's major cities, including Shiraz, Abadan, Isfahan, Tehran, Rasht, and Gorgan and will link the major thermal and hydroelectric stations within one grid, including the the Mohammad Reza Shah, Karaj and Safid Rud dams.

Industry

The overall industrial growth in 1349 registered a 13 per cent rise. The main growth industries were automobiles, petro-chemicals, electrical appliances and radio and television sets.

Industrial policy of Iran attaches priority to various heavy industries, such as, steel mills, petrochemical complexes and aluminium plants which

will support other medium and light industries. The contract for the supply of natural gas to the Soviet union in return for the building of the Isfahan steel mill was the most important step* in this direction.

The following are the major industries in which progress has been reported in 1349 :

- (i) The Shahpur petro-chemical plant, a joint Iran-US venture, commissioned in November 1970 ;
- (ii) A firm line of agreement has been reached with USSR for the expansion upto 4 mn tons of Isfahan steel mill ;
- (iii) Iran's agreement with Rumania on the setting up of a tractor assembly-cum-manufacturing plant has been revised to cater for further expansion ;
- (iv) A 500-ton-a day fertiliser plant with a £ 4 mn British loan has been mooted by the Tehran Municipality ;
- (v) Haft Tappeh paper mill with a capacity of 35,000 ton per year has been commissioned ;
- (vi) The 300-ton per day Kerman cement plant has started production ; and
- (vii) Iran's first aluminium plant (\$ 50 mn) at Arak, a 45,000-ton-a-year joint Venture under RCD of Iran and Pakistan in patnership with the Reynolds Aluminium Corporation of USA, will go into operation by the end of 1971. (Turkey, a

partner of RCD, is not participating). Some of the construction costs are being met by West Germany.

Mining

Iran has substantial mineral deposits relatively undeveloped. The important minerals are : coal, copper, iron ore, lead, chromite and salt.

The Iranian and Soviet geologists have discovered 20 new coalfields in the Kerman region. A coal washing unit will be built in the Zarand area of Kerman. The Kerman coal mines will supply 2 mn tons of coal to the Isfahan steel mill every year. Private Iranian mining interests discovered two rich iron ore deposits in the Saug-e-Zagh and Goli Gohar areas of Kerman. The deposits are estimated at over 300 mn tons of ore with high quality iron content.

The Iranian Industrial Renovation Organisation signed agreements with 6 foreign companies, English, West German, French and American, for the exploration and extraction of copper in Kerman and sulphur in Bandar Abbas. The American TENECO Oil Company will, jointly with Iran, explore and exploit sulphur in Bandar Abbas, Bandar Lengeh and Qeshm island. Iran has also announced its plan to exploit in collaboration with foreign companies the Sarcheshmey copper deposits in Kerman. The known deposits in this area are estimated at 400 mn tons, yielding 1.2 or 2 per cent copper on an average. West German, French, British and Yugoslav firms are cooperating with the Iranian Government in copper

*The Iran Today, 1971

mining. The Government has also allocated Rials 130 mn for the exploitation of copper mines in the Ahar region of East Azarbaijan.

A Government spokesman claimed in February 1971 that surveys in the Kerman, Khorassan and Isfahan regions had indicated the presence of rich deposits of uranium.

Oil

Early in February 1971, various oil companies were given an ultimatum to accept by 15 February the terms of a settlement proposed by Iran, Iraq and Saudi Arabia acting as a committee under OPEC (Organisation of Petroleum Exporting Countries) auspices. They were also warned that should the companies fail to agree with the OPEC committee, then the six oil producing countries of the Gulf would legislate to achieve their ends and enforce their views through imposition of an oil embargo.

An agreement was finally reached and signed on 14 February in Tehran. The communique issued by the oil companies stipulated that the agreement would establish "security of supply and stability in financial arrangements for the five-year period 1971-75". In effect, the settlement will stabilise the tax rate for Gulf exports of crude at 55 per cent and increase postings at Gulf terminals by 35 cents per barrel, a figure that includes 2 cents in settlement of freight disparities between loading points in the Gulf. All prices were to be increased on 1 June 1971, and on 1 January of each of the years 1973-75 by 2.5 per cent as an allowance for inflation.

Iran could expect an additional \$ 3.6 bn in revenue over the next five-years as a result of the oil agreement signed in Tehran on 14 February. Total additional revenues to the six Persian Gulf OPEC states—Iran, Iraq, Kuwait, Saudi Arabia, Qatar and Abu Dhabi—were expected to exceed \$ 10 bn. Iran is expected to get \$ 415 mn in additional revenues in 1971-72.

The Oil Consortium in September 1970 agreed to meet Iran's demand for increased production of crude oil by 200,000 barrels per day for the quarter September-December 1970. In October the Oil Consortium also had to agree to meet another new demand of the National Iranian Oil Company for an increased payment of nearly \$ 120 mn. Earlier in April 1970 NIOC refused to reduce the price of Darius crude which India was to buy from Iran to the world market price level which was lower than \$ 1.35 charged by Iran. Further negotiation is continuing in the light of the OPEC oil agreement of 14 February 1971.

During the course of 1970 Iran overtook Venezuela as the world's third largest producer of crude oil. Total output by the Consortium during 1970 rose to 3.51 mn barrels per day, an increase of 13 per cent over the 3.1 mn barrels per day in 1969.

The Shah of Iran officially opened IMINOCO (NIOC/Phillips/AGIP/Indian ONGC) installations on Lavan Island in early November 1970. Current production from the IMINOCO is around 100,000 barrels a day. With the completion of development work on the Rakhsh field it is expected that output from the Rostam and Rakhsh

fields will amount to 150,000 barrels a day by the end of 1971.

In April 1971 the Shah of Iran announced that he had proposed a joint Irano-Japanese company to exploit, refine and transport oil to Japan. Both sides would participate in all stages of operations.

The Trans-Iranian gas pipeline, built jointly by USSR and Iran, was commissioned on 28 October 1970. The Soviet President, Nikolai Podgorny, and the Shah of Iran attended the ceremony which was held on the Iranian side of the Soviet-Iranian frontier. Podgorny described the pipeline as a concrete act in the mutually profitable cooperation between the two countries. The present rate of flow of gas into the Soviet Republics of Azarbaijan, Georgia and Armenia will be 600 mn cubic feet a day, but this will be gradually increased to 1 bn cubic feet.

The second stage of the gas pipeline to USSR was also put into operation on 31 March 1971.

Trade

Iran's imports exceed the non-oil exports as a result of heavy import of machinery for developmental purposes. Iran is, however, meeting its imports bill comfortably from the income accrued from crude oil and petroleum by-products exports, and according to Iran's declared policy it wants to spend 80 per cent of the oil income on development.

In order to restrict the entry of the foreign-made goods and earn extra revenue to offset a part of the higher imports bill, an additional 5 per cent

duty has been levied retrospectively to cover the whole of 1970-71 on items of machinery from automobile engines to excavating tools.

Iranian exports during the year ended March 1971, excluding oil products, totalled Rials 21,129 mn, an increase of about 14 per cent over 1969-70 while total imports during the same period amounted to Rials 122,113 mn. Compared with imports during the year ended March 1969, there was a decrease of 6 per cent.

Iran has purchased electrical equipment worth \$400,000 from Israel for its new communications system which will be dedicated as part of the country's celebrations of the monarchy's 2500 anniversary. The first consignment was received by Iran on 24 May 1971. (*Bagdad Observer*, 25 May, 1971).

Among the important trade agreements concluded during the year, Iran-USSR 5-year trade agreement (1971-75) signed in Moscow on 30 July 1970 is significant. The amount of trade (\$1 bn) will be doubled as compared with previous five-years. Iran will supply goods worth \$720 mn and Soviet Union \$318 mn, the difference being accounted for against Iran's repayment of loans and for services already rendered. The Soviet Union will supply machines, equipment, ferrous metals, cement, chemical goods, timber and other goods for the development of Iranian economy.

Economic co-operation and aid

In addition to the above trade agreement, Iran and the Soviet Union are drawing up a comprehensive plan

of cooperation for the next 12 to 15 years. According to the plan, the Soviet Union would cooperate with and assist Iran in the second construction stage of the Isfahan Steel Plant to raise its annual production to 4 mn tons. The two countries also agreed to increase the level of cooperation and decided to establish industrial and agricultural units in Iran for the purpose of cultivating cotton, rice and oil seeds. On 25 February 1971, an agreement was signed between Iran and the Soviet Union for increased technical and scientific cooperation. The Soviet Deputy Premier and Chairman of the State Committee on Science and Technology, Vladimir A. Kirilin, also visited Iran in February 1971. A delegation of experts headed by the Soviet Deputy Minister for Railways took part in February 1971 in the joint Irano-Soviet Transportation and Transit Committee Meeting.

According to an economic and trade cooperation agreement signed in October 1970 between Iran and Poland, the former will import 3 complete industrial plants from the latter. During the same month an economic and technical cooperation protocol was signed between Iran and Rumania.

On 30 December 1970 an agreement was reached between Iran and India on mutual cooperation in several major industrial ventures including railway wagon manufacturing and machine tools. The protocol provided mainly for export of Iranian chemical products and intermediates to India against imports of capital goods including agricultural machineries. The two countries also agreed to initiate studies on joint ventures in industries.

Iran and Pakistan were to establish close cooperation in the field of agricultural research through exchange of exports, training and technical assistance. In February 1971 Iran and Pakistan signed a memorandum of understanding towards establishing a joint Iran and Pakistan Corporation for oil exploration and exploitation in Iran.

A protocol has been signed recently between Iran and Belgium which calls for large-scale trade and industrial cooperation between the two countries on completion of a formal agreement currently under negotiation.

Iran during the year received the following important loans:

The Consortium in 1970-71 made available to Iran a loan of \$100 mn. The loan will be repaid in oil. Two important loans each amounting to \$15.4 mn have been negotiated with the US Exim Bank and the Chase Manhattan Bank, and \$3.4 mn from other sources. During the current Iranian year (1971-72) it is forecast that the plan organisation will draw upto Rials 61.6 bn in foreign loans. The Central Bank of Iran has also received a total of \$160 mn credits from commercial banks in London and in Western Europe.

There were reports of World Bank sanctioning in 1970-71 a total loan of \$115 mn in three separate allocations. In addition, the World Bank committed another loan of \$42 mn to finance road-building programme. West Germany agreed to give 41 mn DM credits to Iran.

A British loan of £47 mn has been made available to support the purchase of military hardware.

Communications

On 12 August 1970 Iran served one year's notice of termination of its air agreements with America, West Germany, France, Switzerland, Sweden, Norway, Britain and Denmark. Iran wanted new agreements to be entered into which would ensure equal rights for its national airline, Air Iran. Negotiations meanwhile were in progress in Tehran with Australia, USSR, Pakistan, Italy, Japan, Afghanistan, the Netherlands and Belgium for new agreements on fresh terms.

Iran has signed a contract for the purchase of 14 Fokker Friendship aircraft during 1971. Air Iran is also to purchase 3 Boeing-737 aircraft for delivery by mid-1971 at a cost of \$18.5 mn.

The airport modernisation plan continues to make good progress and it is expected that Hamadan and Sanandaj airports will soon become operational. Mehrabad airport will be obsolete by 1977 as sufficient land is not available adjacent to the present site for adequate expansion project for which \$6 mn has been sanctioned by the plan organisation. While current expansion programme will continue, a plan for a second airport in Tehran is to be pursued in the near future. An American team has already been appointed to prepare a plan for the second airport in Tehran.

An Iranian Airways airliner with 44 passengers on board was hijacked to Baghdad in October 1970 by three young students between 17 and 21 years who threatened to blow up the plane unless Iran released 21 political prisoners. Baghdad, however,

arrested the hijackers and returned the Iranian plane. Iranian Majlis passed in November an Act declaring hijacking a criminal act.

Iran acquired its first passenger ship (16,000-ton) in September 1970 from USSR. It will maintain regular service between Khorramshahr and various ports on the Arab Coast of the Persian Gulf. In January 1971 Iranian Arya Shipping Lines bought a 16,700-ton oceangoing vessel from Belgium. The shipping line will have six vessels from Belgium. A number of tugs have also been purchased by Iran from the Oil Consortium.

Iran has built a new seaboard terminal known as Mah-Shahr-Moon City to speed up the export of petroleum products from the Abadan refinery. The \$50 mn project built directly on the Persian Gulf, 67 miles from Abadan, enables Iran to by-pass the disputed Shatt-al-Arab waterways.

A new port is to be built at Farahabad (near Shahi). The site has been selected on the advice of the Soviet experts. A RCD plan for the establishment of a free port adjacent to Bandar Abbas has been under study. A regular hydrofoil service is to be developed in the Gulf. The hydrofoils will be imported from USSR.

The US Export-Import Bank has granted a loan of \$15.2 mn to Iran for railway modernisation. In September 1970 the trans-Iranian railway line was extended to Yazd connecting it to Tehran via Kashan. The 751-KM railway line will be further extended southward to Kerman and Bandar Abbas, a distance of about 500 KM. In April

1971 it was announced that Zarand-Yazd railway had been completed. The line connected Zarand through Yazd to Bafq and the main railway network enabling the shipment of coal and other raw materials to the Isfahan steel plant. Work on 70-KM Kerman-Zarand rail link will be completed by March 1972.

It is proposed to construct a freeway linking Turkey, Iran and Pakistan over a route of some 5,200 KM. The proposal may mean construction of a second carriageway to the existing road rather than the laying of an entirely new road. Talks are being held on the feasibility of the construction of an Afghan-Iran transit road leading from Kandahar to Bandar Abbas. The World Bank will make available a loan of \$ 42 mn to meet the foreign exchange cost of \$ 85 mn 550-KM highway project in Iran. Four important roads—Na'in-Yazd, Saghez-Miandoab, Miandoab-Rezayeh and Rezayeh-Khoy-Evoglu—will be completed under the project. The Ministry of Roads proposes to spend Rials 3 bn to build nearly 1,700 KM of secondary roads throughout the country in 1971-72.

Iranian cargos are now being routed to the East and West European countries through the Soviet Union. According to Iranian Press, the transit routes via USSR will reduce by half the time of delivery of goods to Iran from European countries. Most of these goods are being handled through the Iranian port of Pahlevi which is being enlarged and modernised with Soviet assistance. Iran exports about 20,000 tons of goods to Eastern and Western Europe through the Soviet Union, a route that could be used by the Persian Gulf States also. Calculation is reported to have shown

that even if the Suez Canal was re-opened it would still be more economical for Persian Gulf businessmen to use the Soviet transit route than the Canal.

Iran and Japan concluded a contract on 16 August 1970 for establishing a communication research centre in Amirabad near Tehran. The centre will estimate Iran's requirements for communications equipment.

Iran and Rumania concluded a shipping agreement in November 1970. Under this agreement Iranian goods will reach European markets via the Turkish port of Trabizon 15 days earlier than the current time taken by the Persian Gulf-Europe route.

The Government plans to establish a Communication Company of Iran which would take charge of all the country's telephone and tele-communications facilities. Iran received a \$ 14.7 mn loan in October 1970 from the US Export-Import Bank to finance foreign exchange requirements of the nationwide high-capacity microwave links under an ultra-modern tele-communications system. This is the second loan the Bank has granted to Iran's tele-communications system. The first in 1969 was for financing Iran's earth satellite communications system near Hamadan.

POLITICAL DEVELOPMENTS

The Shah of Iran was quoted in late September 1970 as saying that the aim of his reforms, which have covered almost all aspects of Iranian life, was to lead to the establishment of true democracy in the country. Some liberalisation of political life has taken

sabotage ring had been executed for sabotage, murder, armed robbery and forging government documents. A spokesman said 50 others were arrested in Tehran and the forests of northern provinces in December 1970. Two members of the ring were killed in a gun battle. The ring had planned guerrilla warfare receiving orders, guidance, funds, arms and ammunitions from outside. They were allegedly in close contact with Communist organisations and staged demonstrations and initiated provocation and unrest in towns and universities.

INTERNATIONAL RELATIONS

Among the long outstanding issues, dispute over Bahrain was resolved by a reference to UN, and Bahrain chose to remain independent. Strained relations with Iraq seem to be normalising as Iran has agreed to abide by international norms in settling the Shatt-al-Arab dispute and both the countries have also agreed to stop propaganda war against each other. But the dispute over the claim to offshore islands of Abu Musa and Tumbs remains. Iran is determined to get these three islands, if necessary, by force, to enable it to have command over the entrance to the Persian Gulf. This appears to be the main purpose behind Iran's naval expansion. Kuwait has criticised Iranian claims. Its objective is to maintain Arabism of the islands. Iran, however, concluded an agreement with Kuwait on the demarcation of territorial limits in the Persian Gulf Continental Shelf. Iraq on 27 June 1971 has again questioned Iran's claim over the three islands.

Iran has, of late, stepped up its contacts with the Gulf States. Relations

with Qatar have improved following the formal exchange of documents on the offshore shelf agreement. The Ruler of Qatar visited Iran in April 1970 and the visit helped to promote closer ties especially in trade. The Ruler of Abu Dhabi visited Iran in May 1970, when in addition to negotiations on delimitation of the Continental Shelf boundary, talks were also held on the means of extending commercial and cultural relations. A high-level delegation from Dubai visited Tehran in October 1970 to open negotiations on delimitation of the Continental Shelf. Bank Melli Iran has opened a branch in Sharjah (a party in the dispute on the three islands) to supplement its operations in Dubai and Bahrain.

Iran has also been making efforts to mend its fences with other Arab States. Foreign Minister Zahedi has been able to persuade both Saudi Arabia and Kuwait to adopt the idea of a coordinated approach to Gulf security after 1971 which will ensure a rapid British withdrawal. Relations with Syria have taken a turn for the better since the seizure of power by General Assad in Damascus. Lebanon is thinking of re-establishing diplomatic ties with Iran which were severed two years ago. Iran on 23 August 1970 resumed diplomatic ties with UAR after a break of 10 years.

On the Palestinian issue Iran has adopted an independent stand. Zahedi said in an interview at the UN headquarters "the existence of Palestine is a reality and we should accept this reality. But Israel also is a reality".

The British Government announced in the Parliament in early March 1971

that British military and political control of the Gulf area would be relinquished by the end of 1971. Britain now retains a token force of 7,000 soldiers in the area and the establishment includes one battalion of troops, two jet squadrons and a flotilla of six coastal mine sweepers and a frigate. The defeat of the Labour Government in the June 1970 elections gave rise to the apprehension that Britain might revise its 1968 decision. Ever since the Labour Government in 1968 announced its intentions to withdraw from the Gulf area, Iran has been fostering an expectation among its population that traditional Iranian claims to political leadership in the area were about to be fulfilled. Iran in the meantime is stepping up its legal battle with the British foreign office acting on behalf of Gulf Emirates of Sharjah and Ras-al-Khaimah, over its claims on the Gulf islands.

No significant event in Iran-US relations was noticeable, other than the oil agreement of 14 February in which a number of US Oil Companies were involved. Iran, however, forcefully denied a US disclosure of US aid being given for military training in Iran.

The strong trade and economic ties developed with the Soviet Union since 1965 have been growing further. This year Iran and the Soviet Union observed the 50th anniversary of the Irano-Soviet Friendship Treaty and an addendum signed on 26 February 1921. An Iranian Parliamentary delegation paid an eleven-day visit to USSR and Iranian Premier had a 90-minute talk with Kosygin in Cairo when they attended Nasser's funeral. The Soviet Deputy Premier and Chairman of the State Committee on Science and

Technology and a Soviet delegation of Railway experts visited Iran during this period.

A French Weekly reported on 3 January 1971 that Shah of Iran was thinking of recognising Peking as this might stop China encouraging revolutionary movement in the Persian Gulf States. In April the Shah was quoted as saying that Iran was studying the question of recognising China. In April 1971 Princess Ashraf and in May Princess Fatemeh, the two sisters of the Shah, visited China as Peking Government's guests.

Iran has also decided to establish diplomatic relations with Albania, Mongolia, Senegal and Guinean Republic. There were reports that Albania would serve as go between between Iran and China.

Iran and South Africa have agreed to establish diplomatic relations. Nepal sent its first Ambassador to Iran in May 1970.

Iran extended its support to Pakistan's military action in Bangladesh and Iran appealed to other countries not to interfere in what it called Pakistan's internal affairs. There were reports of other aid being given to Pakistan by Iran for Bangladesh operations. Iranian Army Chief of Staff visited Pakistan in April 1971 when the operation was in full swing. The Iranian Foreign Minister, Zahedi, visited Pakistan in June 1971 and delivered to General Yahya Khan a message from the Shah of Iran. This apparently had a boosting effect on the morale of the military regime.

The Shah paid a State visit to Finland and private visits to Holland, Switzerland and Belgium. In Brussels

he met the British Foreign Secretary, Alec Douglas Home; they probably discussed the problem of the Gulf.

Other foreign dignitaries who visited Iran include: Tun Abdul Razak of Ma'aysia in May 1970, Sheikh Khalifa bin Salman al Khalifa, the head of Bahrain's State Council, in June, the Italian Foreign Minister who signed agreements on scientific and technical cooperation in September, the Deputy Foreign Minister of West Germany in November and the Iraqi Petroleum Minister for negotiation with oil cartels in January 1971.

Regional Cooperation for Development (RCD) and Central Treaty Organisation (CENTO)

The RCD heads of State held a summit conference in Ankara in May 1970. Among other issues they discussed major disputes affecting member countries and the third parties, such as, Iran-Iraqi confrontation, the Indo-Pakistan conflict and Cyprus problem. In a joint communique issued at the end of the meeting, the Shah of Iran endorsed the Pakistani stand on Kashmir and Farakka barrage issues.

The RCD Council of Ministers meeting at Bursa in Turkey in July 1970 mainly dealt with economic matters. In addition to the 13 joint projects already implemented, a further 4 projects, a jute mill, an ultra-marine blue, a ball-bearing and a shock-absorber plants, were approved for establishment. It was recognised that trade among the RCD partners was not expanding fast enough.

The November 1970 meeting discussed, among other things, laying of the

RCD crude oil pipe line between Iran and Turkish port of Eskanderan. The work may begin this year.

CENTO continued to function as a forum for discussion between USA, UK and the regional members. In addition to Midlink annual maritime exercises in the area of Gulf of Oman, Strait of Hormuz and the Persian Gulf, CENTO discussed the possibility of an expanded programme of cooperation in science and technology.

In the two-day CENTO Foreign Ministers Council meeting in Washington on 16 May 1970 Iran, Turkey and Pakistan raised their bilateral disputes with their respective neighbours. This time India lodged a protest on 21 May with the US State Department over the reference in the CENTO meeting communique to Pakistan's disputes with India.

ARMED FORCES

The IISS, London, estimate of Iran's armed forces as included in **The Military Balance 1971-72** places the total strength at 181,000, a reduction of 40,000 from the last two years' strength of 221,000, while the defence budget shot up from \$779 millions to \$1,023 millions. A spokesman for the Supreme Commander's Staff announced on 7 January 1971 that steps had been taken to reduce the size of the Army while increasing its mobility and efficiency. In the last two years, while there is an increase of 3000 to 9000 in the strength of the Navy and 7000 to 22,000 in the Air force, there is a net decrease of 50,000 to 150,000 in the strength of the Army.

According to the same estimate, the Army has now 3 infantry divisions, 4 independent armoured brigades in place of 7 infantry divisions two years ago, 3 armoured divisions, (in place of 1 independent armoured division and 1 independent armoured brigade two years ago) equipped with M-24, M-47 and M-60A1 tanks, M-8 and M-20 armoured cars, M-113 and BTR-152 APCs. The Army has Soviet 57 mm and 85 mm anti-aircraft guns, 1 battalion with Hawk surface-to-air missiles, and an aviation battalion with 17 Huskie helicopters. (More helicopters were to be delivered).

There is an all-round expansion of the Navy. It is reported that the strength of the Navy will be doubled over the next two years to re-inforce the Iranian bid to dominate the Gulf. It has now 1 destroyer and 5 frigates (4 with *Seacat* surface-to-air missiles) (in place of 2 escort destroyers), 4 corvettes, 4 patrol boats, 4 coastal minesweepers, 2 inshore minesweepers, 8 SRN-6 Hovercraft (there was none before), and 4 landing craft.

The Air Force has now 140 combat aircraft, including 2 squadrons (32 aircraft) of F-4D all-weather fighter-bombers with *Sidewinder* and *Sparrow* air-to-air missiles, 5 squadrons of F-5 tactical fighter-bombers, 20 F-86 all-weather interceptors (being phased out), and 9 RT-33 tactical reconnaissance aircraft (being replaced by 2 squadrons of RF-5). The transport squadrons include 10 C-47s, 26 C130Es and 5 *Beavers*; 30 C130H are being delivered. The helicopter fleet includes Huskies, Whirlwinds and 45 AB-205s and 16 Super-Frelons. Further helicopters are being delivered. The Air Force has also got *Tigercat* surface-to-air missiles.

Para-military forces of Gendarmerie have been increased to 40,000 from 25,000 and are equipped with 30 AB-206 helicopters.

Arms acquisition

The following acquisitions have been reported during the year :

- (a) **The Military Balance** 1970-71 identified two agreements having been entered into by Iran—one with Italy for the purchase of 22 CH-47K Chinook helicopters, the other with Britain for unspecified number of *Rapier* surface-to-air missiles and ancillary systems (costing \$ 112.8 mn).
- (b) The destroyer *Artemis*, Iran's largest and most modern warship, has joined the Iranian fleet in July 1970. The vessel was built in UK and launched in March 1970.
- (c) It has been announced that orders have been placed for 30 C-130 Lockheed Hercules aircraft at a cost of \$120 mn for the Air Force.
- (d) It was announced in January 1971 that Iran had placed an order for 700-800 Chieftain Tanks at a cost of \$168-192 mn on Britain.
- (e) The Iranian Army placed an order worth £1.4 mn on Britain for a mobile hospital and 10 desalination units each capable of producing 10 tons of pure water a day.

Iran wants to become, as its Prime Minister's declaration* indicates, a major military power in the Middle East. In order to increase its mobility and efficiency Iranian Armed Forces have launched a re-organisation programme. The command headquarters of the three armies will be scrapped and replaced with two corps-size headquarters. Duties of the Imperial Inspectorate will also be transferred to the Supreme Commander's staff headquarters. At the same time, a certain amount of authority wielded by the staff headquarters will be divided among the Army, the Navy and the Air Force. The work of intelligence coordination will be transferred to the

Chief of the Supreme Commander's Staff.

Iran has revised its conscription bill in May 1971. Under the new law, male Iranians on completion of 18 years are eligible for military service. All eligible persons must do two years of military service regardless of their educational qualifications.

A joint Iran-Pakistan air exercise named IRPAK, was held in the Lahore sector from 24 to 27 April 1971. It was reported that the Iranian F-5s and Pakistani F-86 aircraft took part. In January 1971, a joint naval exercise with Pakistan was held near Karachi.

*QER, EIU, Iran No-1, 1971, p. 6.