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Near-Term Prospects for India

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NEAR-TERM PROSPECTS FOR INDIA

PRÉCIS

India is entering a period of growing political ferment.

- Mrs. Gandhi's prestige will continue to decline, and she will probably be forced to relinquish some of her unprecedented concentration of power, but she will remain the decisive factor in Indian politics.
- The next national elections, due by the spring of 1976, will almost certainly return the Congress Party to power but with a reduced majority.
- Public protests are likely to grow in size and frequency, and the government is likely to react more often with force.
- Yet we see little prospect either for serious instability or for better government performance during this period.

The government is unlikely to make the changes in policy necessary to exploit India's potential for more rapid economic growth or to meet the needs of its growing population.

- Agricultural performance will remain the key to India's economy and will continue to be vulnerable to the vagaries of the monsoons.

- India will continue to need substantial imports of foodgrain. These will average perhaps 5 million tons annually under normal conditions and rise to 10 million tons or more if severe drought occurs.
- While the government may adopt temporary expedients during periods of extreme economic hardships, it will continue to favor the public over the private sector and is unlikely to encourage the private investment needed to stimulate agricultural and industrial production.
- Economic mismanagement will continue, and economic growth will frequently be sacrificed for socialistic and political goals.

India will continue to be preeminent in South Asia but its international role will remain limited.

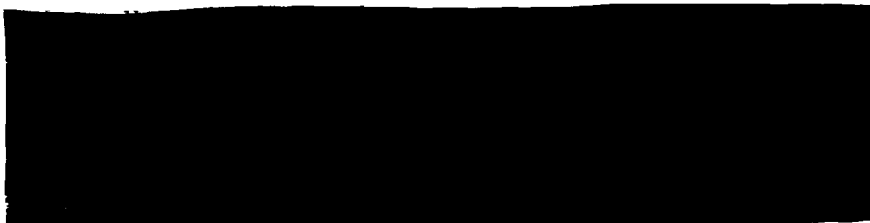
- We see little likelihood of major armed conflict in South Asia involving India in the next few years, and we believe that present trends favor stability in relations between India and Pakistan.
- India will be increasingly concerned with the growth of Iran's military power and the close Iranian-Pakistani relations.
- India and China may restore full diplomatic relations, but we see little motivation on either side for a resolution of fundamental differences, and they are likely to remain at odds over regional issues.
- Indo-Soviet relations are not likely to regain the closeness of 1971, in spite of continued extensive Soviet military assistance. India is unlikely to make major concessions to Moscow on the latter's Asian collective security proposals or on the use of Indian bases.
- Although Indo-US relations are likely to be more stable than in the past, they will probably remain shallow and subject to uncertainties.¹ Indian suspicions and domestic politics will continue to generate periods of anti-US invective.

¹ The Defense Intelligence Agency does not believe that increased stability in Indo-US relations is likely. Such problem areas as US activities in the Indian Ocean, arms sales to Pakistan, and Indian nuclear developments will inhibit movement toward stability. The Assistant Chief of Staff for Intelligence, Department of the Army, the Director of Naval Intelligence, Department of the Navy, and the Assistant Chief of Staff, Intelligence, Department of the Air Force concur in this view.

— We believe that limited US sales of weapons to Pakistan will not of themselves significantly influence Indian foreign policy.

India will continue to modernize its three military services, expand its Navy, and develop its nuclear potential.

— India will continue to rely on imports—primarily from the Soviet Union—for sophisticated systems and components.

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— We believe that India will not deliberately contribute to a nuclear explosive capability of a non-nuclear nation.

DISCUSSION

I. DOMESTIC POLITICAL TRENDS

1. India is entering a new political phase. The euphoria of 1971-1972—derived from resounding government election victories, the decisive conflict with Pakistan, and bumper grain harvests—has dissipated dramatically. In coming years the Indian Government will have to cope not only with greater economic and political challenges but also with a new national skepticism toward political leadership.

Central Government Strengths and Weaknesses

2. The inherent strengths of the Indian political system have provided stability and continuity for over a generation. These strengths include a belief in the legitimacy of the present political system on the part of virtually all politically functional sectors of Indian society, the vast array of executive and emergency powers vested in the central government, and the support of the large and still apolitical military and security forces. Moreover, no other party or coalition can yet hope to match the ruling Congress Party's broad base of support or to challenge its control over all but the fringes of the ideological spectrum. Even though serious economic and social problems remain unresolved, the key groups—business, labor, rural landlords, press, and the military, bureaucratic,

and academic establishments—continue to regard the Congress Party as the only available source of stable government. In addition, the combination of Prime Minister Gandhi's personal legitimacy, political skill, and control over both the government and the party has given her in recent years a position of unprecedented power and authority.

3. Despite these strengths, the Indian Government will continue to suffer from serious liabilities, some traditional and some relatively new. Because the fragmented opposition has not adequately represented various class, religious, and regional interests at the national level, dissidents both within and without the Congress will continue to find no recourse but protest and violence. Bureaucratic and political corruption has increased, gained wide publicity, and begun to erode the government's ability to pursue economic and social programs and to undermine public confidence in the existing political system.

4. The concentration of power in Mrs. Gandhi's hands has proved a liability as well as an asset. Because all but the most routine decisions rest with her, the normally inefficient and indecisive administration has become, at times, virtually paralyzed by lack of guidance. In the past, regional political barons, other senior Congress leaders, and the considerable responsibilities vested in state governments insulated the central government and

the Prime Minister from the repercussions of policy failures. Since 1969, however, Mrs. Gandhi has intimidated or eliminated most potential scapegoats and increasingly bypassed state governments to resolve local issues; she has thus left herself solely responsible for and exposed to the results of her actions.

5. Mrs. Gandhi's concentration of power has also weakened the Congress Party and reduced the strength and stability which the party has traditionally provided the government. The party is now less capable of mobilizing support for government policies and for Mrs. Gandhi personally.

The Challenges

6. The economic stringencies India is likely to face in the next several years will aggravate the already high political tensions. The government will probably be able to provide at least minimum food requirements to key urban areas to prevent serious disorders among the most politically sensitive portions of the population. To do so, however, the government may have to resort to unpopular emergency measures. Economic conditions are also likely both to raise the frequency of strikes in key national production and service sectors and to reduce the government's tolerance and flexibility in dealing with them.

7. All these considerations point to the likelihood of larger and more frequent demonstrations against central and state governments. Future protests will be directed more specifically against sitting governments and their policies rather than the more general protests of the past over prices, wages, and border disputes. Moreover, endemic communal violence is likely to increase. With future disorders of such nature and dimensions, the government will more often react with force.

8. Growing public dissatisfaction over the Congress Party's performance has led to the organization of a mass movement and political coalition around Jayaprakash Narayan, the 72 year-old veteran of India's independence struggle. By virtue of his stature, his moral and apolitical past, his adherence to Mahatma Gandhi's non-violent tactics,

and the support of most opposition parties, Narayan poses the most formidable challenge yet to the Congress Party and Mrs. Gandhi personally. He has articulated popular dissatisfaction and focused on the government's greatest vulnerabilities in a manner that no other political figure could hope to match.

9. At present, Narayan's support comes primarily from the urban middle class caste Hindus. He has yet to make inroads among the rural masses, the Muslims, and the scheduled castes which provide the crucial margins for Congress parliamentary majorities. Nor has he shown promise of being able to mediate the personal and ideological differences and resolve the competition over candidates on which previous opposition coalitions have foundered. In the unlikely event he were to accomplish both tasks, Narayan's movement would become the first national alternative to Congress rule. Given the overwhelming dominance of the Congress Party, however, the central political issue will remain one of that party's performance rather than whether it, or the present political system, should be replaced.

The Government's Response

10. Particularly sensitive to the personal nature of Narayan's attacks and concerned that accommodation of his demands in Bihar would lead to similar movements elsewhere, Mrs. Gandhi has confronted Narayan in a power struggle which she appears confident she will win. Her response to the 1974 railway strike also set a precedent for future government confrontations with labor in key national sectors. The spread or intensification of dissent is likely to reinforce her inclination to meet political challenges head-on. Yet because of the unique threat Narayan poses to her position and that of the Congress Party, she and other Congress leaders appear to be considering administrative, educational, and electoral changes—and they have begun to crack down on corruption.

Role of Military and Security Forces

11. The Prime Minister has had to rely increasingly on the police, the paramilitary forces, and

the intelligence apparatus to maintain civil order. She has increased the size and responsibilities of the police and paramilitary forces and expanded the scope of intelligence operations and surveillance of political figures and opposition parties. Mrs. Gandhi has also ordered the military, on several occasions, to help restore law and order.

12. The military, as well as the security forces, are reliable instruments of power. Morale is good and the officer corps is loyal to the constitutional system. While a few high level officers have complained about the use of the Army to maintain civil order, there is little doubt that the officer corps, a highly nationalistic group, will continue to support the government's attempts to suppress those who seek to disrupt the political process or to dislocate the economy. Indeed, the Army's concern over the impact of port and rail strikes on its defense posture has led it to create a substantial capability to operate essential transportation services. The chances that the military would take an independent stand on political issues are remote.

Prospects

13. Mrs. Gandhi's leadership will prove crucial. Sensitive to criticism, autocratic, authoritarian and aloof, she is a brilliant political tactician. Although given at times to doubt and vacillation, she is usually confident, decisive and determined, and possessed of a broad popular appeal. During the next few years she is likely to retain the ability to act quickly and decisively.

14. Mrs. Gandhi can be expected to continue her emphasis on executive power at the expense of the legislative and judicial branches and to adopt increasingly authoritarian measures to repress political opposition and disorders. But because she must prepare for national elections by the spring of 1976, some new political initiatives are probable, although they are likely to be superficial rather than basic changes.

15. We believe that India's next national elections will return the Congress Party to power, but without its present overwhelming majority—361 out of 523 seats in the lower house. Because of the un-

precedented role Mrs. Gandhi has played in government and party decisions, any significant election losses will be interpreted as a personal defeat for her. If the party, for example, were to lose 30-40 seats, Mrs. Gandhi would probably find it necessary to strengthen the party by giving more authority to regional and local leaders, thus limiting her own independence of action. Should Congress lose 70-80 seats, comparable to its losses in 1967, Mrs. Gandhi would probably be forced to share real power with regional and factional leaders. In such a weakened position, it is unlikely that she would be allowed to retain the emergency powers she has had. She would find it more difficult to manage divisions in the party, and defections at the state levels would probably lead to instability in many state governments. In the unlikely event that Congress were to lose its majority, a coalition government would probably be formed around the Congress core, but Mrs. Gandhi probably would not maintain the Prime Ministership for long.

16. In the event of Mrs. Gandhi's death, her political power would be suddenly and widely dispersed. She would probably be succeeded at least initially by a senior cabinet officer, perhaps Foreign Minister Y. B. Chavan, but the party would probably revert to collegial rule similar to that of the "syndicate" following Nehru's death. It might be at least several years before a new generation of leadership would emerge and party cohesion be restored. In the absence of strong central leadership, the states would renew pressure for greater control over their own political affairs. Should the Congress Party face elections in the absence of Mrs. Gandhi, severe losses, perhaps reducing the Congress seats to less than a majority, would be likely.

II. THE ECONOMY AND ITS PROSPECTS

17. With the world's second largest population and tenth largest economy, India is also one of the poorest of nations. About 80 percent of its people live in the countryside, mainly as subsistence farmers. India is caught in a neo-Malthusian box where increases in the production of food and other essentials are closely matched, and in some years exceeded, by increases in population. The mismatch

of its vast population and relatively small capital base will not be quickly overcome even with the best economic management.

18. The Indian economy has been mismanaged at the top, and economic growth has frequently been sacrificed for socialistic and political goals. India has not fully utilized its land, water, mineral, and human resources and has overemphasized industrial development at the expense of agriculture, which is still key to India's growth. Development has been hindered by a variety of social factors, by disordered government priorities, and by extensive controls on the private sector. One of India's most serious problems is its ponderous, pervasive bureaucracy, which limits rather than promotes growth.

Population

19. The population growth rate has increased over most of the past two decades as the death rate declined more rapidly than the birth rate, but apparently now has leveled off. New Delhi sees its population reaching 600 million in 1975 and about 650 million by 1980. Inhibited by cultural and sociological factors and attitudes, population control programs have had little impact and the government successively reduced family planning programs in recent years. No significant abatement of population growth is likely over the next half decade.

Agriculture

20. About three-fourths of India's population are farmers. Agriculture provides about half of India's gross national product and much of the raw material base for Indian industry. In recent years, agricultural products contributed directly or indirectly to about 70 percent of India's export earnings. Indian agriculture is critically dependent on the timing and intensity of the summer monsoon, which provides 75 percent of the annual rainfall.

21. India is a chronically grain-deficit nation. Following the record 1970/1971² grain harvest of

² Crop year, 1 July-30 June.

108 million tons—an achievement that brought premature complacency and a relaxation of the production drive—grain production has averaged 102 million tons annually and imports have climbed to meet the needs of the ever-growing population. In the crop year ending this June, grain production will total about 102 million tons. Imports will rise to about 8 million tons. With 4 million tons purchased from US in the year ending this June, India has become the leading foreign purchaser of US wheat.

22. Agricultural growth has been hindered by inconsistent central policies and the lack of sustained effort. Following an agricultural crisis, agriculture has generally been given priority, but after a few good harvests, resources have often been reduced, agricultural programs shunted aside, and long-term projects postponed. Moreover, government interference in grain marketing through trade restrictions and attempts at price controls have inhibited producer incentives.

23. Over the longer term, the potential exists for a considerable expansion of Indian agricultural output:

- India ranks among the world's lowest in fertilizer application;
- only 20 percent of India's cultivated land is irrigated; and
- only 20 percent of food grain area is under high yielding varieties (HYVs) of grain.

24. Some specific areas where concerted efforts would be productive are:

- expansion of irrigation and the provision of more energy for irrigation pumps;
- increased production of fertilizer and pesticides;
- increased production of HYV seeds and improved quality standards;
- improved agricultural extension services; and
- pricing policies aimed at providing incentives to farmers.

Industry

25. India's economic planners have given priority to the development of heavy industry, increased public ownership of industrial facilities, and the substitution of domestic production for imports. These objectives have been pursued through ubiquitous licensing of construction and imports of commodities, technology and services, widespread price regulation, and selective nationalization of individual firms and whole industries. In Indian terms much has been achieved, in the sense that imports have grown less rapidly than elsewhere, and government ownership of industry has increased. But industrial production, which grew at rates of 10 to 20 percent in other advanced developing countries, has increased only 1 to 2 percent in India over the past two years, and chronic shortages prevail.

26. The basic course of industrial development is likely to remain unchanged over the next several years. Industrial performance will probably improve somewhat, but serious problems will persist. Development of India's abundant mineral resources should be spurred by the increased cost of imports. The transport network is well-developed and technicians are in good supply. The government has loosened some industrial controls during the past year. Nonetheless, the policy of strict government control over industry, which has limited growth in the past, has not been abandoned. India will continue to be plagued by power shortages, transportation bottlenecks, import restrictions, and labor disputes.

Energy

27. Commercial fuels account for little more than half of Indian energy consumption despite their steadily increasing use. India is self-sufficient in coal, which accounts for 60 percent of commercial fuel consumption. Hydroelectric and nuclear power provide another 15 percent, and petroleum, the most rapidly growing source of energy—increasing by nearly 10 percent per year over the past decade—accounts for 25 percent.

28. With imports providing about two-thirds of petroleum consumed, the recent increases in Organization of Petroleum Exporting Countries (OPEC) oil prices severely strained India's finances. New Delhi was compelled to place a ceiling on FY 1974 petroleum imports, forcing a decline in volume despite a doubling of outlays.

PETROLEUM IMPORTS, FISCAL YEARS 1972-1974

FY	CRUDE	PRODUCTS	TOTAL	IMPORT COST
	(Million Metric Tons)			(Million US\$)
1972	12.3	3.2	15.5	265
1973	13.4	3.8	17.2	700
1974*	14.0	3.0	17.0	1,400

*Estimated.

29. The energy gap created by curtailment of petroleum imports cannot quickly be covered by conservation, changeovers to alternative energy sources, or increased domestic production. Eighty-five percent of petroleum use is in industry, which has long been plagued by energy shortages. Chronic power shortages and rationing have been major constraints on industrial growth. Although New Delhi has promoted industrial use of coal in preference to oil since early 1973, coal production continues to lag behind both production targets and demand. Recent offshore oil discoveries show considerable promise, but will not make a significant contribution to energy resources for several years. Hydroelectric and nuclear power can also be expanded, but their development will continue to be slow and costly. Despite a newly-launched drive to boost both coal and petroleum production, India will remain short of energy, and petroleum imports will have to increase about 30 percent by 1980 if the energy shortage is not to worsen.

International Trade and Payments

30. India was frustrated in its perennial attempt to narrow the gap between export earnings and import expenditures in FY 1974; a 29 percent growth in exports was dwarfed by a 45 percent advance in imports. New Delhi's firm control of import licensing limited the increase to its three

most essential imports, foodgrains, petroleum, and fertilizer; nevertheless, the foreign trade deficit was more than doubled:

	MILLION US \$		
	FY 1973	FY 1974*	INCREASE*
Balance of Trade	- 540	-1,300	- 760
Exports	3,110	4,200	1,090
Imports	3,650	5,500	1,850
Selected Items:			
Foodgrains	600	1,300	700
Petroleum	700	1,400	700
Fertilizers	280	670	390

*Estimated.

31. The deterioration in the trade balance caused a massive increase in foreign indebtedness. The same level of aid will be more difficult to obtain in FY 1975. New Delhi, therefore, will have to resort to some combination of the following measures: dipping into its foreign exchange reserves (\$1.4 billion at the end of March), increasing International Monetary Fund borrowings, pressing for debt rescheduling, and further curtailing imports. The last measure would entail the risk of further retarding economic growth. Improved production of foodgrains and energy will be critical to reduction of the trade deficit.

Outlook

32. In the near term at least, India's economic hopes continue to be tied to the weather. Agricultural recovery, even to the levels of four years ago, would stimulate an upturn throughout the economy. On the other hand, with grain stocks—both government and private—depleted by three years of disappointing agricultural performance, several successive good years would be needed to rebuild the stocks that are essential to economic stability and resiliency. Considering historic weather patterns, the odds against such a run of good fortune are formidable. New Delhi, therefore, is likely to continue needing substantial foodgrain imports during the next three to five years. Consecutive monsoon failures, as occurred in the mid-1960s, could push

annual grain imports to 10 million tons or more. Without a major reorientation of agricultural policies, moreover, periods of improved foodgrain production are likely to last only until the next poor monsoon.

33. To decrease the magnitude of annual fluctuations in agricultural production, a sustained program of increased agricultural investment, especially in irrigation, would be required. The government will probably be unwilling, however, to devote to agriculture the resources necessary for such a sustained program in view of competing priorities, especially energy requirements. Given the government's limited resources, a large increase in foreign and domestic private investment would be necessary to stimulate growth in both agriculture and industry.

34. India's leadership will continue to restrain the development of the private sector and will not abandon its preference for public enterprise. Although the recent acute economic dislocations have led to selective relaxation of controls on the private sector, past performance suggests that this relaxation will be only temporary. The Indian view is that the country is passing through one of its periods of adversity—and that this one is not as bad as some others were. While there may be more experimentation in economic policy than in the past, we believe that major changes are not to be expected. Consequently, India will continue to exist from one monsoon to the next and from one consortium meeting to another.

III. FOREIGN RELATIONS

35. In coming years, India's foreign relations are likely to be conditioned more by its search for food, fuel and foreign exchange and less by its traditional search for security and an international role. While India's resource requirements may make New Delhi more responsive to foreign opinion at certain times or on certain issues, they are not likely to reverse India's present assertiveness, particularly in South Asia, following its debut as a nuclear power and its establishment of regional predominance.

India and Its Neighbors

36. India's nuclear test and incorporation of Sikkim last year revived regional fears of Indian expansionism, particularly in Pakistan and Nepal. Although New Delhi will try to maintain cordial relations with its neighbors, it will on occasion resort to pressure tactics to achieve its objectives. As a result, there will continue to be uneasiness in the area over India's intentions.

37. India has no major bilateral disputes with Sri Lanka, Bhutan, and Afghanistan. In the case of Afghanistan, both New Delhi and Kabul will consider the other a potential asset in dealing with Islamabad. Indian technical and military assistance to Afghanistan may increase marginally, but the USSR will continue to be Afghanistan's major donor. We do not believe India would encourage a conflict between Afghanistan and Pakistan or would become involved in such a conflict.

38. Elsewhere, however, India's relations with its neighbors are likely to be correct at best, and there will be considerable potential for tensions. India will insist on remaining the dominant foreign influence in Nepal and will continue to be suspicious of Nepal's relations with other powers, especially China; yet should India be unwilling to continue past allotments of fuel and other commodities, it might force Nepal to seek stronger and more direct ties with outside powers. Moreover, Nepal remains apprehensive over the implications of India's incorporation of Sikkim. New Delhi may use its control over Nepal's economy and Nepalese dissidents in India to pressure Kathmandu; however, India is unlikely to support an effort to overthrow the monarchy.

39. India's relations with Bangladesh will continue to suffer from the big neighbor syndrome and the Bengalee propensity to blame their problems on their larger neighbor. These psychological antagonisms exacerbate the already difficult negotiations over such bilateral issues as the division of the Ganga waters and offshore boundaries affecting oil rights. India will continue its efforts to assuage Bengalee sensitivities and will try to accommodate Bangladesh's interests where possible.

but given its own domestic needs and expressions of Bengalee resentment, Indian flexibility will be limited. More important, an international crisis could erupt in the event of a political upheaval in Bangladesh. New Delhi will be prepared, if necessary and on request, to intervene militarily to restore the authority of the present government in Dacca. Should disorders in Bangladesh appear likely to produce a radical Bengalee leadership or spread instability to parts of India, New Delhi might reluctantly intervene on its own initiative. Any Indian intervention in Bangladesh would be a matter of serious concern to Pakistan and China. Nevertheless, neither would be likely to take military action.

40. Relations between India and Pakistan have evolved significantly in the past two years, largely because both countries have enjoyed civilian government under skillful and realistic political leadership. On both sides a new generation of government officials, less committed to the pursuit of traditional disputes, has begun to emerge. Although still tenuous, the Simla process (bilateral negotiations flowing from the 1972 Simla Agreement) has made considerable progress and could provide an important precedent for the resolution of future differences. Issues still outstanding under the Simla Agreement, such as restoration of diplomatic relations, might be postponed indefinitely, but they could be restored quickly if the general atmosphere improved.

41. Yet there are clear limits to further improvement in Indo-Pakistani relations for the foreseeable future: mutual distrust remains high; the disagreement over Kashmir appears intractable; and on all bilateral issues, India will generally insist on bilateral negotiations while Pakistan will seek outside mediation or influence when possible. Indo-Pakistani relations will continue to be influenced by relations of each with the major world powers. Future Indian nuclear tests will aggravate Pakistan's sense of insecurity. For its part, India will remain highly sensitive to Pakistan's arms purchases. The resumption of US arms sales in South Asia could complicate the Simla process, depend-

ing on the nature and quantity of US sales. Finally, should Pakistan return to military government or should widespread disorders occur in either country, Indo-Pakistani relations could again become highly unstable.

42. We see no prospects for a breakthrough which could alter fundamentally the Indo-Pakistani relationship of antagonism and competition which has prevailed since each country gained independence. We do not, however, foresee circumstances in which either India or Pakistan would provoke hostilities. On balance, we believe that present trends favor stability in relations between the two countries.

The Periphery

43. During the past few years, India's focus on the periphery of South Asia has shifted from South-east Asia to the Persian Gulf and the Indian Ocean. This shift is likely to become more pronounced as India's fuel requirements take growing precedence, and even should recent Indian offshore oil discoveries prove substantial, the massive foreign exchange accumulations of the Gulf states will be a magnet for India's attention. Oil considerations will also reinforce India's longstanding and multi-motivated support of the Arabs vis-a-vis Israel.

44. India and Iran both recognize the potential power and influence of the other, and they may over the long term become regional competitors. India will be increasingly concerned with the growth of Iran's military power and the close Iranian-Pakistani relations. For the present, however, each appears more interested in developing a symbiotic relationship. It seems likely that Iran will continue for the next several years to provide a major portion of India's fuel imports on terms which India can manage.

45. India will continue to play on its Arab ties and its ability to provide technical and military assistance to cultivate Iraq as another source of oil and investment. Similarly, India will seek greater influence in the smaller Gulf states and Saudi Arabia but will probably continue to be preempted

in these countries by Muslim Pakistan. Indian resentment and frustrations over recent oil price increases are likely to remain buried under India's interest in receiving Arab assistance as well as a commitment to the prevention of exploitation of raw material suppliers by the industrialized nations. Hence India would probably criticize but tacitly welcome consumer pressures—short of military intervention—to reduce prices.

46. India will continue its efforts to expand its presence and influence in the Indian Ocean area. It will increase and modernize its Navy as rapidly as resources permit. India will also pursue the Indian Ocean Zone of Peace proposal, criticizing the military presence of outside powers in the area and focusing on the US presence and the "base" on Diego Garcia. India is unlikely to be as vocal over the issue during the next few years as in the past because of concern for its relations with both the US and the Soviet Union.

China and the Soviet Union

47. We see little prospect for either a serious confrontation or a fundamental improvement in relations between India and China. The presently unresolved border dispute will not preclude a thaw in relations—indeed, the initiatives of both governments over the past two years may have paved the way for an early exchange of ambassadors. Yet while the interests of each country favor a relaxation of tensions, they provide little motivation for a resolution of fundamental differences.

48. New Delhi and Peking will continue to regard each other with suspicion and are likely to remain at odds over regional questions. Peking will not sacrifice its ties with Pakistan, New Delhi will not sacrifice its ties with Moscow, and China will remain hostile to Indian demonstrations of power. Even should the present leadership of either government be replaced, the successor regime would be unlikely to undertake new foreign policy initiatives for at least several years. In this case, Sino-Indian relations might deteriorate but could hardly improve.

49. As in the past, the USSR will pursue strong ties with India in an attempt to further Soviet

influence in South Asia and the Indian Ocean and to limit or reduce the influence of the US in these areas. The Indo-Soviet relationship, however, reached a peak during the special circumstances of 1971 which are unlikely to be equaled for the foreseeable future. For a variety of mutual political, economic, and security interests, relations between the two will remain close, but they will continue to suffer strains over the terms of debt repayments, trade balances, and arms deliveries and will be influenced by the relations between each and China. Relations will also continue to reflect a fundamental difference of national interests: Soviet interests in South Asia, the Indian Ocean, and the Third World encourage Moscow to appear close to New Delhi; Indian interests in the same areas, however, require New Delhi to maintain a visible distance from Moscow. There is evidence of continuing Soviet concern over a possible improvement in Sino-Indian relations; Moscow can be expected to encourage Sino-Indian suspicions.

50. The Soviets will continue where possible to be responsive to Indian requests for economic and military assistance. They will be unlikely to match the two million ton grain loan of 1973 in the near future, and they are likely to demand higher prices and press for foreign exchange payments. They may also try to link future assistance, especially in military equipment, to political concessions such as endorsement of the Brezhnev Asian collective security scheme or Soviet access to Indian naval facilities. India would be unlikely to grant such concessions; even the US resumption of arms sales to Pakistan will probably not of itself lead to a closer Indo-Soviet embrace unless US arms supplies appear to provide a potential challenge to Indian military dominance on the subcontinent.

The United States

51. New Delhi has clearly sought to reduce the imbalance in its relations with the United States and the Soviet Union and, more specifically, to establish a new and more realistic relationship with Washington. India's strategic interests have been enhanced by the removal of several key traditional irritants. The end of direct US involvement in Indochina has

removed India's compulsion to criticize publicly US actions. The severe reduction of US aid programs and the resolution of the US-owned rupee holdings issue has removed the resentment of the charity recipient and the need to demonstrate constantly India's political independence of its economic benefactor. Also, India has welcomed Washington's encouragement of bilateral negotiations with Pakistan under the Simla Agreement.

52. Although these positive trends are likely to result in more stable Indo-US relations than in the past, the relationship will probably remain a shallow one subject to uncertainties.³ There will be sporadic resumptions of anti-US invective, particularly during periods of domestic political difficulty. India will remain highly suspicious of US intentions and activities. Despite New Delhi's initially restrained reaction to the US resumption of lethal military equipment sales to South Asia, any significant US or third country arms sales to Pakistan will probably raise strong public and official Indian protest. During the coming election campaign, we can anticipate new allegations of CIA activities against India, and the enlargement of Diego Garcia's facilities will remain a sore point. The question of India's nuclear program will continue to pit US concerns over proliferation against Indian sensitivity over what it views as its sovereign rights.

53. Questions of aid, particularly food assistance, will remain vexing, although hardly to the degree of earlier years. The Indian Government appears ready to accept at face value the availability of, and Congressional constraints on, the amount of US food-grains it can hope to receive, but in years of severe shortages will continue to look to Washington for a miracle. Moreover, New Delhi will remain particularly sensitive to the nature and publicity of con-

³ The Defense Intelligence Agency does not believe that increased stability in Indo-US relations is likely. Such problem areas as US activities in the Indian Ocean, arms sales to Pakistan, and Indian nuclear developments will inhibit movement toward stability. The Assistant Chief of Staff for Intelligence, Department of the Army, the Director of Naval Intelligence, Department of the Navy, and the Assistant Chief of Staff, Intelligence, Department of the Air Force concur in this view.

cessional food sales. The Indians will probably expect future non-food aid programs to remain low, but will be particularly concerned over US responsiveness toward debt rescheduling; whatever Congressional attitudes may be on this issue, New Delhi will expect Washington to be at least as generous as other aid donors.

IV. MILITARY AND NUCLEAR PROSPECTS

54. India intends to maintain large, modern military forces with the capability to project significant air, land, and sea power throughout South Asia. Its Army, the third largest in the world, has maintained its personnel strength at a constant level for a decade, although in the same period the number of combat troops has more than doubled. Air Force, naval, and paramilitary forces have also greatly increased. Inventories of modern equipment have generally kept pace with unit and manpower increases. Continued modernization of all three services is expected; expansion of the Navy will probably receive special attention.

Military Capabilities

55. The 1971 war with Pakistan demonstrated India's preeminence as a military power in South Asia. Pakistan has made improvements in its military capabilities since then, but its forces are no match for India's. Although the two armies are generally comparable in terms of leadership, morale, organization, training, and the competence of the individual soldier, the Indian armed forces are much larger and are generally better equipped. Even though the normal deployment of 11 divisions along the Chinese border constitutes a constraint, the Indians could divert five to six of the divisions, as they did in 1971, and overcome Pakistani defenses within a period of weeks. Pakistan has increased its efforts to develop a domestic armaments industry and acquire sophisticated military equipment, primarily from the UK, France, China, and now the United States. Nevertheless, given India's existing lead and its relative size, industrial strength and resource base, the gap in military capabilities between the two countries will widen.

56. India's military strength has, in fact, evolved to the point where India could probably defend itself successfully against a conventional attack by China or a combined Chinese-Pakistani attack, although it would have to relinquish some territory to the Chinese. If the Chinese were to use nuclear weapons—a very unlikely possibility—the equation would be drastically altered.

Defense Production and Arms Imports

57. While India's arms industry fulfills most of its defense requirements, India still must import significant quantities of sophisticated equipment and some components and raw materials used in production processes. Since the mid-1960s, about 70 percent of India's military imports have come from the Soviet Union. Moscow's commitment to maintain Indian military dominance on the subcontinent was underscored by a new long-term military assistance agreement reached in February 1975 covering naval and ground forces equipment and reported to be the largest yet concluded between the two.

58. India is self-sufficient in the production of small arms, light artillery, ammunition, and general purpose vehicles. With extensive foreign assistance, India also produces such major items as tanks, jet aircraft, helicopters, and ASW escorts. Large-scale procurement of sophisticated foreign equipment will continue to be required to meet India's perceived military requirements. It is estimated that India will receive \$180 to \$260 million of such equipment—primarily from the Soviet Union and Eastern Europe—during 1975. Future deliveries will probably include medium tanks, armored personnel carriers, artillery, surface-to-air missiles, aircraft, and naval units. While the military would prefer arms from Western and even US sources—because of higher reliability and better follow-on support—India will continue to procure its major systems from the USSR because of the more favorable Soviet terms. Western sources will, however, continue to provide a steady flow of spare parts and components for India's domestic military production programs. India will probably seek to acquire carrier-based, ASW, and advanced tactical strike

aircraft. Cruisers, destroyers, guided missile patrol boats, and transport aircraft are also items of interest.

Nuclear Capabilities and Prospects



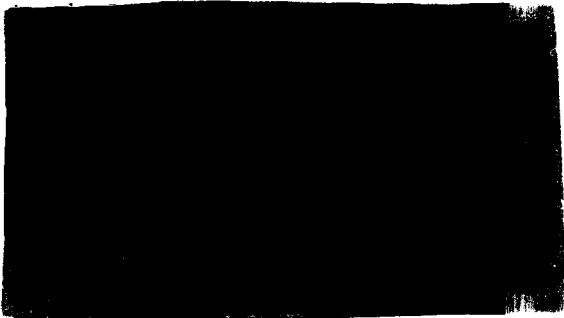
59. The Indians conducted an underground test of a nuclear device in the Rajasthan Desert in May 1974. [REDACTED]

[REDACTED] The announced purpose was a peaceful nuclear explosion experiment. Although there have been numerous rumors of plans for a second test, there is no hard evidence of preparations for such an event.⁴

60. Although several countries reacted strongly to the Indian test, only Canada has taken significant steps to stop the flow of materials and equipment to the Indian nuclear program. One of the two Canadian CANDU-type (natural uranium-fueled, heavy water moderated and cooled) power reactors at the Rajasthan Atomic Power Plant (RAPP II) is still under construction; Canada has refused to continue assistance in building this reactor pending the resolution of an agreement on future Indian actions. Canada is asking India for: a) assurance that India will not use the plutonium from the CANDU reactors being built by Canada (RAPP I and II) for the production of any nuclear explosive devices; b) assurance that India will assist in curbing the spread of nuclear explosive technology to other nations; and c) an agreement that plutonium from the 40 megawatt (thermal) Canadian-supplied CIRUS research reactor (near Bombay) will not be used in any future nuclear explosive devices. India has agreed to the first two conditions, but has not yet accepted the third.

[REDACTED]

⁴ Dr. H. N. Sethna, head of the Indian Atomic Energy Commission, stated that India had no program for further underground nuclear explosions but that another test might be required if the evaluation of the results of the 1974 experiment indicates a need for additional data.



63. The Indians are aware that they will continue for some time to need assistance in their nuclear program from foreign suppliers such as the United States and Canada. Slowdowns and cutbacks in the wake of the May 1974 test have already set back that program by two or three years. India's need for economic as well as nuclear assistance may have an impact on the timing and pace of Indian testing, although technical factors should not be ruled out. While India could conduct another test in the near future, these considerations appear likely to convince Indian leaders to delay another test for the time being. Nevertheless, we believe that India will conduct additional tests over the next few years.

65. India is not now in a position to export nuclear components and facilities. By the end of the decade, however, it probably will be able to export these items. Even today, India could export some services, particularly those that involve technical assistance and the management of nuclear facilities. New Delhi has no intention of forceclosing the option of becoming a major nuclear exporter. At this juncture we do not know what role India might be willing to play in cooperation with established nuclear states to limit proliferation. The Indian government has been unwilling to make a public commitment to restrict its exports of nuclear technology for peaceful purposes; it has given private assurances only to the extent that it will not assist any weapons program. We expect India to maintain this position regardless of foreign pressures for at least several years. When the question becomes real, India will review its position in light of the prevailing international situation. On balance, we do not foresee circumstances in which India would deliberately contribute to the development of a nuclear explosive capability on the part of a non-nuclear nation.