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LONG-TERM PROSPECTS IN INDIA AND PAKISTAN

SUMMARY

A. Despite vigorous official efforts by India and Pakistan to reduce the rate of growth, their population of 700 million is increasing at an annual rate of between 2.5 and 3 percent. The present population will grow to about 900 million by 1980 and will double within 30 years. This population growth will absorb much of the economic advance in both countries.

B. The "green revolution" has brought about an impressive rise in wheat production in West Pakistan and in northwestern India. But the output of rice has increased only slowly, and the outlook for a breakthrough in rice production—especially important to East Pakistan and India—is uncertain.

C. Whether foodgrain production in India will in fact be increased to a point approaching self-sufficiency in the course of the next decade is a matter of debate among economic analysts. The State Department assessment puts the chances of doing so higher than the CIA analysis. The differences regarding agricultural prospects and the consequent differences for overall economic growth in India are discussed in paragraphs 9-12 and 43.

D. Pakistan as a whole is likely to enjoy a somewhat higher rate of economic growth than India. But this reflects the comparative prosperity of West Pakistan, which shows impressive rates of advance, offsetting the poverty and stagnation of East Pakistan.

E. The growth and level of operation of the modern industrial sectors of India and Pakistan have been dependent on continuing fairly high levels of foreign aid. But future aid levels are uncertain, and neither country will be able to resolve its shortage of foreign exchange solely by increased exports. In these circumstances, India and Pakistan

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may seek negotiated debt relief and will press for concessional trade terms. Unilateral defaults, however, appear unlikely over the next few years. In any event, neither country is likely to have the foreign currency or external assistance it feels necessary for economic development at planned rates.

F. Rising population pressure on the land will continue to force large numbers of people to move to the already crowded, restless cities. Volatile urban masses led by disaffected groups of the educated unemployed will be a growing threat to the existing political order in both countries.

G. Pakistan's domestic political prospects are clouded. A Constituent Assembly to be chosen in December 1970 may lead to a new, elected government. But such a regime's life expectancy is open to question. Over time, East and West Pakistan seem more likely than not to become separate nations. Partition would hurt both economies, but the west wing would soon recover, while the east would stagnate.

H. India too is in an era of political transition. New parliamentary elections must be held by early 1972 and may come sooner. Their results cannot be forecast, but the chances are at least even that no single party, including Mrs. Gandhi's wing of the Congress, will win a majority. This might lead to the first national coalition government in Indian history.

I. The odds are that India will hold together. But the Indian military might find itself forced to play a more direct role in part or even all of the country in a period of stress or emergency.

J. Both India and Pakistan will probably be too immersed in their domestic problems to play much of a role in international affairs. No basic Indo-Pakistani rapprochement is in sight. While neither now wishes another round of hostilities, neither is willing to compromise enough on basic issues to establish an atmosphere of mutual trust.

K. Indian and Pakistani foreign policies are fairly static. What shifts do occur are likely to come about either as a result of drastic domestic changes, such as a breakup of a united Pakistan, or as the result of developments outside the area, such as a post-Mao government in China modifying Chinese hostility towards India, or a Sino-Soviet détente which led the Soviets to reduce their support and military assistance to India.

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L. India and Pakistan will take leading roles in demands on the developed world, particularly the US, for a more equitable share of the world's wealth. However, they are likely to find the developed world less interested than before in competing for political gains in India and Pakistan through extensive economic assistance.

DISCUSSION

I. INTRODUCTION

1. Pakistan and India have been pursuing highly publicized programs of economic development for over 20 years. Despite numerous disappointments, they have built up substantial infrastructures and some large industrial establishments. Though each has several large and often turbulent cities, they remain predominantly agricultural countries; per capita income in both is among the lowest in the world. The two countries contain approximately 700 million people¹—about equal in number to the total inhabitants of the 60 or so states of the Middle East, Africa, and South America put together. Given these huge numbers, it is not surprising that both India and Pakistan display sharp caste, class, linguistic, regional, and other disparities.

2. The two nations have had their ups and downs since independence. Under Nehru's leadership in the 1950s and early 1960s, India enjoyed periods of relative political tranquility, some economic advance, and an enhanced international stature. Pakistan floundered politically and stagnated economically during much of this period, but it made dramatic economic progress and enjoyed considerable political stability after Ayub's takeover in 1958. Since the departure of these two leaders (Nehru in 1964, Ayub in 1969) the two countries have experienced a considerable degree of political and economic uncertainty; both are now in a transitional era as they seek new solutions to their problems.

3. In these circumstances, the governments in Islamabad and New Delhi will face a host of challenges in the next decade. The principal ones are:

- a. To increase food production while instituting checks on population growth.
- b. To provide employment for a large and growing labor force.
- c. To rectify serious foreign exchange shortages.
- d. To stimulate industrial expansion and economic growth.
- e. To mitigate or at least contain strong regional and class antagonisms and respond adequately to a wide range of public wants.
- f. To maintain tolerable relations with each other, with their other neighbors, and with the great powers.

¹ At present Pakistan claims a population of 130 million, India 550 million. Many knowledgeable observers believe the number in both countries is substantially higher. It should be noted that Indian and Pakistani statistics on population and economic performance are none too reliable and should be used only as rough guides.

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These objectives, however, are not all complementary, and in some cases they will involve conflict and compromise. The following estimate explores these problems.

II. THE ECONOMIC AND SOCIAL CHALLENGES

A. Food and Population Problems

4. Some 80 percent of the residents of India and Pakistan live in the countryside; the great bulk of these are subsistence farmers—owners of minuscule plots, tenants, sharecroppers, and landless laborers. Agriculture, which provides nearly 50 percent of the gross national product (GNP) of the subcontinent, thus remains the most important single aspect of these nations' social and economic systems; it will continue to do so for many decades. At best, industrial expansion will be unable to absorb more than an additional fraction even of the present unemployed, to say nothing of future increases in population.

5. The food-population problem on the subcontinent has been, with the possible exception of Communist China, the most serious in the world. In spite of considerable and increasing efforts to deal with various elements of this problem, it still raises serious concerns for the future. While there have been some dramatic recent achievements in agricultural production, it is still true that the area as a whole is not self-sufficient in food and has not been since independence. Since that time, the long-term upward trend in food production has done little more than keep pace with population growth, and dietary levels are still substandard. The specter of famine, which appeared quite threatening in the mid-1960s, has been averted for the time being by the breakthrough in wheat production and by several drought-free years. But with a rapidly growing population, the food-population problem will remain a matter of serious concern.

6. The population of the subcontinent is increasing by at least 2.5 percent (the officially claimed rate) and probably closer to 3 percent per year. This growth rate will continue well into the 1970s and is unlikely to be reduced significantly even by 1980. A continuation of the present population growth—even at the 2.5 percent rate—would lead to a doubling of the population by the turn of the century.

7. The major forces contributing to the high growth rate are similar to those observed in other developing countries of the world. Health and sanitation programs have greatly reduced the death rate, particularly among children and childbearing women. This had led to a rapid increase in the proportion of the population in childbearing ages. But fertility patterns have not changed. Traditional cultural preferences for many births to offset anticipated deaths continue to prevail, and birth rates continue to exceed death rates by a considerable margin.

8. Both countries have greatly expanded their population control programs, but only a small percentage of the people appear to have been affected in terms of fertility behavior. Overall, growth rates have not dropped and indeed may

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have increased. However, this is due to the changing demographic structure (e.g., changing age structure, lower infant mortality, etc.) and growth rates would be still higher if it were not for these programs. We cannot rule out the effects of scientific breakthroughs in the birth control field, and experimental work is indeed going on. Even if successful, however, this is not likely to have much impact on growth rates in the next 10 years.

9. In recent years, both India and Pakistan have been intensifying efforts to increase food output. The rapid expansion in the use of new high-yielding varieties (HYV) of grain, chemical fertilizers, irrigation, and related technical innovations have increased land productivity considerably in West Pakistan and in northwest India. Most of the gains have been in wheat, however, and the rate of growth of that crop will likely slow down. Experience with the new rice varieties has been far less spectacular; those currently being used are not fully adapted to the conditions existing in much of the rice growing areas of South Asia, and they are sensitive to water depth, thus requiring sophisticated water control devices and techniques which are lacking in much of the monsoonal flooded areas. However, newer varieties such as IR-20 and others only now being introduced appear to be promising for areas where water depth control is a problem. Nevertheless, increases in rice production, even with important technological advances, are apt to be less dramatic than the recent one in wheat.

10. It is hazardous to estimate the likely average annual growth of food output in India and Pakistan over the next decade. Uncertainties of weather, plant disease, and whether there will be a breakthrough in rice comparable to that in wheat all make it difficult to project single figures with confidence. Nevertheless, past experience and current programs can give us some rough guides. Within certain limits, government policy with respect to agricultural support policies can do much to determine how much food is produced, although the responsiveness of private farmers is also critical. The highest projections of India's potential—even without a rice breakthrough—are that annual increases of five percent or more could be achieved, but these are based on a series of specific assumptions including:

- a. Greater fertilizer consumption, particularly a continuing, substantial increase in the average fertilizer application rate on HYV acreage.
- b. Pest control measures.
- c. Expanded and improved education on new agronomic practices.
- d. Access by farmers to the right kinds and amounts of inputs (fertilizers, seeds, pesticides, water, and the like) and of credit to purchase them.
- e. Normal weather.

11. Though there is little dispute over the potential for Indian agriculture, there are substantial differences of opinion amongst experts as to what is in actuality likely to be accomplished over the next 10 years. Some see an annual average rate of growth of 3 percent or close to it. Others believe a higher rate is more likely—even in optimum circumstances 5 percent or more. The implica-

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tions of one judgment as opposed to the other are substantial. An average growth rate of 5 percent over a decade would make India self-sufficient in foodgrains, allow it to build up enough stockpiles of grain to tide the country over during a monsoon failure, and permit a rise in food consumption levels. In addition, with agriculture comprising roughly half of GNP, this higher rate would give a major boost to overall development programs. At a lower growth rate, particularly one of 3 percent, India would have to continue to import substantial amounts of foodgrains regularly, and even a single crop failure would impose additional requirements. Concurrently, the pace of economic development would lag.

12. It is CIA's view that the average annual rate of growth of Indian food-grain production in the 1970s is likely to be between 3 and 4 percent, with the lower figure, or one close to it, the more probable one. The Department of State on the other hand believes that India will see a growth rate of roughly 4 percent, and under certain optimum conditions, 5. The difference between the two estimates rests in large part on differing judgments of the Indian Government's willingness and ability to sustain programs and policies which would realize India's agricultural potential.

The Department of State Position

The State estimate of 4 to 5 percent agricultural growth rests on an assumed continuity of a range of government policies now supporting more rapid growth in that sector: incentive price supports, government procurement, allocation of foreign exchange for fertilizer imports, expansion of the banking system to rural areas, and public sector expenditures on research, extension, irrigation, and so on. Achievement of at least 4 percent growth seems assured through continuation of these policies as well as a steady increase in small-scale irrigation and other responses by private investors. A rice breakthrough, and/or major long-term irrigation and drainage projects, could well raise growth closer to 5 percent.

There are several factors which will maintain pressure on the Indian Government to give agriculture a continuing high priority, including the political importance of farm policies and of the price of foodgrains and the government's public commitment to an early end of concessional foodgrain imports. The commitment since 1965 to policies favorable to agricultural growth promises to remain in effect notwithstanding fluctuations in fiscal policy. Furthermore, Indian Government direct agricultural expenditures are augmented by state government budgets, private resources, and foreign assistance for agriculture, all of which have been increasing.

Increased development plan allocations to agriculture during the 1960s demonstrate the government's current commitment to agricultural growth. The share of public sector outlays devoted to agriculture and irrigation has grown from 20.5 percent actually spent in the Third Five Year Plan period

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(fiscal 1961-1965)² to 24 percent planned in the most recently revised version of the current Fourth Five Year Plan (fiscal 1969-1973). After a 6 percent reduction in agricultural expenditures in fiscal 1969 resulting from fiscal and inflationary pressures, the government increased the agricultural allocation for fiscal 1970 by 17 percent, even though a record harvest had been achieved the year before. Moreover, when it increased Fourth Five Year Plan outlays by 10 percent in March 1970, the allocations to agriculture were raised by 20 percent, thus substantially raising the share of that sector. Although the government's tax on fertilizer may have retarded the rate of growth of fertilizer usage, it is judged that the actual rate of increase has nevertheless exceeded that necessary to achieve planned goals; moreover, the tax has also provided the only politically feasible means of tapping increased agricultural income for development purposes. Increased government programs have led cultivators, themselves, to accelerate their expansion of tubewells (up from 49,000 in 1961 to 200,000 in 1968) and to adopt more rapidly the new high-yielding seed varieties.

The CIA Position

Government programs in agriculture are likely to fluctuate, much as they have in the past, and will probably continue to be subordinated to programs for industrialization. For example, in the Indian fiscal year 1969 when total government spending fell, industrial outlays increased, while agricultural expenditures were reduced and the government imposed a tax on fertilizer which contributed to a slowdown in the growth of fertilizer consumption. These shifts were consistent with past practices and reflected political and economic pressures on the government in sectors other than agriculture. The increase in expenditures planned for fiscal 1970 is illustrative of India's ambivalence toward agriculture and is not judged to be conclusive evidence of a reversal of India's long-term policies. In fact, the increased allocations to agriculture under the latest revision of the Fourth Plan only provide it with roughly the same share of funds that agriculture actually received during fiscal 1968-1969.

In addition, there are major technological barriers to successful government exploitation of a rice breakthrough. Such exploitation entails not merely developing new seeds, but also effecting major expensive and long-term changes in irrigation projects and water control practices in many rice growing areas. That the Indian Government can overcome these formidable technological obstacles remains in doubt. Success in such efforts would lead to a growth rate of foodgrain output approaching 4 percent, but a laggard performance—which is more likely—would lead to one closer to 3 percent. Moreover, a sustained growth rate of even 3 percent throughout the 1970s would represent a marked improvement over the average of about two and a quarter percent attained in the 1960s.

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² Indian fiscal years beginning 1 April of year stated.

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13. Whatever the case may be, throughout the 1970s India's food import requirements will vary, perhaps considerably, from year to year. With a 5 percent rate of increase, the nation might even become a net exporter of foodgrains. On the other hand, with a rate of increase in food production in the range of 3 or 4 percent, import requirements would probably remain at about the current level of 4 million tons or so a year. At the higher rate of increase, consumption would probably rise by roughly an equivalent amount. At the lower rate, demand would grow more slowly and present consumption levels would be maintained. In years of monsoon failure, which must be expected from time to time, import needs would rise sharply, as they would if there were a widespread epidemic of some plant disease. How high they would go would depend on the extent, severity, and duration of the crisis, and on the size of domestic stockpiles of food. For example, were India to suffer, as it did in the 1960s, from two widespread and consecutive monsoon failures, annual import needs could rise to 10 million tons or more.

14. West Pakistan's foodgrain output has grown 60 percent since 1966 and the area—formerly a food deficit one—has become a net exporter of food.² It should remain so for the next decade. The region has well developed water resources, no present population pressure on the land, and grows mainly wheat. East Pakistan is a different matter. There, some 70 million or so people are packed into an area about the size of Florida. Its rice eating population has not seen the green revolution and is unlikely to benefit on the scale of the wheat revolution during this decade. It continues to rely on the monsoons and is periodically afflicted both by drought and flooding. At best, East Pakistan can hope to see foodgrain production increase at the rate of 3 percent or so (less in bad years) and must continue to rely on large imports of foodgrain both from the west wing and elsewhere. Pakistan as a whole will probably see an average rate of agricultural growth of 4 to 5 percent a year.

15. Though India's regional disparities are not so conspicuous, it too breaks down into a number of relatively prosperous areas side by side with poverty stricken ones. The Indian state of West Bengal shares many of the problems of neighboring Bengali-speaking East Pakistan and has, as well, a sizable, impoverished, and militant industrial labor force susceptible to extremist political influences. The heavily overpopulated state of Kerala in southwest India suffers from the potentially explosive combination of great economic backwardness and a relatively high level of literacy and general education. The great "Hindi heartland" or Gangetic plain presents a mixed picture: the states of Bihar and Madhya Pradesh and the eastern portion of Uttar Pradesh are stagnating regions, conspicuous for poverty, low yields of food, static living standards, and resistance of the residents to change from traditional ways of life; in some regions of the latter two states, however, cultivators are responding to incentives for use of

² It should be noted that neither West Pakistan nor the prospering wheat growing areas of India can feel with any certainty that their problems are solved for good. The disease resistance of their "miracle seeds" is far from established, and their output in any given year could be sharply cut by an attack of, say, wheat rust.

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water, fertilizer, and high-yielding grain varieties, and traditional approaches are slowly changing. These backward or slowly changing regions stand in marked contrast to such areas as Punjab, Gujarat, western Maharashtra, and Tamil Nadu, where relative prosperity and advance are evident. While both India and Pakistan are pursuing various policies designed to moderate these regional disparities, they are not likely to abate significantly during the coming decade.

16. In the past it was always the impoverished areas of India and Pakistan that suffered most critically from natural calamities. At times of monsoon failure, foodgrain surplus areas have been reluctant to help their less fortunate neighbors on a sustained basis. In India, foodgrain surplus states, in time of scarcity, held back on shipment of food outside their borders to maintain low local urban prices, while individual farmers managed to sell across borders through the black market.

17. During the droughts of the mid-1960s, the Indian Government attempted with mixed success to force the surplus states to deliver grain to it for distribution to deficit areas at controlled prices. Procurement for government stocks in India has been facilitated by the establishment in 1964 of the Food Corporation of India which has helped accumulate some five million tons of foodgrains, as compared to about one million tons held in the 1960s. But domestic procurement still remains less than that needed for public distribution—the shortfalls being made up by imports—and would not be enough to meet emergency grain distribution needs in times of drought. In Pakistan, the government is now shipping foodgrains from the west wing to alleviate shortages in the east and will remain under pressure to continue this policy.

18. Some parts of the subcontinent are likely to suffer serious food shortages from time to time over the next decade. Under circumstances like those in the Indian state of Bihar in 1966-1967, the US and other food exporters would again be pressed for emergency relief supplies. As was demonstrated in the Bihar crisis, the Indian Government has developed considerable skill in dealing with food distribution under conditions of scarcity if imported food is available. Moreover the Pakistani Government, because of its compelling political interest in providing for the welfare of backward areas (principally East Pakistan) would probably also devote considerable energies to this task. Although famine conditions could occur, the two governments are in certain respects better equipped to cope with them than in the past.

E. Providing Employment Opportunities

19. "Unemployment" as the term is used in Western economies is practically non-existent in South Asia except in the relatively small modern sectors. There is extensive underutilization of labor and sharing of jobs. There is no unemployment compensation, no dole, and very little in the way of charitable enterprises. In many parts of the area the number of hours and days in which villagers and farmers actively pursue their labors is relatively small and always has been, but this situation has been observed to change very quickly in some parts of South

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Asia where effective economic incentives were provided. Overstaffing, slow pace, and general inefficiency of employees in government and many industries are readily observable.

20. On the other hand, there are some government agencies and some state governments which are well run and dynamic, and many industrial firms in both countries are up to world standards. Typically, ministries in India and Pakistan are run by a cadre of competent, hard-working officials at the top, but the quality of much of the lower ranking staff is poorer. Labor productivity will improve only slowly over time, although the new agricultural technology has opened up prospects for relatively rapid increases in agricultural productivity in areas able to adopt the new seeds and practices.

21. Economic distress will continue to have an impact on social and political life in various ways. On the one hand, overcrowding and depressed conditions in much of the countryside are causing many villagers to move to the already large cities. This trend is going to continue even if the green revolution results in a decrease in this movement. Only a few find positions in industrial enterprises—which remain relatively small in proportion to the number of job seekers; most go into service trades. At least initially, they may find their lot somewhat improved, but removed from the traditional village social or political restraints, and confronted for the first time with urban affluence, growing numbers of them are becoming responsive to calls for radical change.

22. These calls generally come from a smaller but quite disruptive group: the educated unemployed or underemployed, drawn in large measure from an increasingly alienated middle class. Both India and Pakistan have given a high priority to education, but with mixed results. The two countries have produced a host of university graduates, poorly educated or trained in skills not relevant to employment opportunities and development needs and unable to find posts commensurate with what they feel their training and status entitle them to. Forced to accept menial or low paying jobs, bitterly resentful of the "haves", the "almost haves" have already provided the stimulus and leadership for outbursts in most of the area's big cities.

23. They share no single ideology beyond a growing resentment of the status quo and an inclination to strike out at those interests which they feel have wronged them. Thus in Pakistan, the west wing saw its cities wracked for months in late 1968 and early 1969 by mobs of students and laborers, led or inspired by discontented lawyers, clerks, and intellectuals protesting the uneven distribution of benefits under the oligarchic and conservative rule of President Ayub. East wingers were, at the same time, protesting against West Pakistani dominance and exploitation. In India, West Bengal and Kerala have seen a militant communist party (the Communist Party Marxist) emerge as one of the strongest forces, as well as a small underground terrorist movement (the Naxalites); Calcutta is chronically plagued by terrorism, mob violence and crippling strikes. Bombay, on the other hand, has seen the emergence of a xenophobic, proto-Fascist group (the Shiv Sena) demanding, and occasionally forcibly trying to effect, the

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expulsion of Indians from other states, to make their jobs available to local inhabitants.

24. There is no resolution of this problem in sight. Indeed, it is likely to get worse as both the cities and the class of "almost haves" continue to grow rapidly. Competition for urban employment will become more intense. Violence in the major cities will pose serious challenges to the local and state governments in power and will probably require more central intervention.

C. Economic Growth, Industrialization, and Foreign Exchange Shortages

25. India and Pakistan have both made economic development a matter of high priority, but they started from different positions and have taken different routes. India had a fairly substantial manufacturing sector at the time of independence and has since expanded it considerably. Industrial production now accounts for about 17 percent of India's national income and has been growing at a rate of 5 to 6 percent since 1950. India is now a large industrial power, tenth in the world in steel production (5 to 7 million tons annually). It plans to expand that capacity substantially over the next several years. It has large capital goods industries, and it is active in the manufacture of chemicals, fertilizers, aluminum, synthetic rubber, and comparable basic items. It has a highly sophisticated nuclear energy program, so far directed only to peaceful uses. India also manufactures or assembles a wide variety of finished goods including aircraft, railway equipment, motor vehicles, and virtually all the consumer items used by the Indian public. Pakistan started with almost no industrial base but has developed a fairly large consumer goods industrial complex of its own. Though it has been active in the manufacture of such products as fertilizers and light engineering goods, it has not as yet acquired a heavy industrial complex or begun the manufacture of capital goods. Despite its achievement, Pakistan has yet to reach the stage of development that characterized India 20 years ago, at least in the realm of heavy industry. Industrial production accounts for about 10 percent of Pakistan's national income.

INDIA AND PAKISTAN
ESTIMATED NATIONAL INCOME
BY SECTOR OF ORIGIN: 1950 and 1960
(in percent)

Sector	1950		1960	
	INDIA	PAKISTAN	INDIA	PAKISTAN
Agriculture and Allied Activities	57	60	44	45
Mining	neg.	neg.	1	neg.
Large-Scale Manufacturing	5	1	10	8
Small-Scale Manufacturing	6	4	6	3
Other	31	34	38	43

26. Both countries have long accepted the principle of state economic planning, but overall official policies have been quite different. India accepted Nehru's

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goals of creating a major heavy industrial plant, much of it owned and operated by the government, and of establishing rigorous state control over the private sector. The ultimate aim was to attain a high degree of industrial output, full and productive employment, a more equitable distribution of income, and the creation of a society both democratic and socialist. Pakistan's approach was quite different, especially after Ayub's 1958 takeover. The government generally preferred to stay out of direct ownership and operation of industries and gave wide freedom of activity to the nation's private entrepreneurs. A few of the latter (the so-called "twenty families") were quite successful, and acquired considerable wealth, influence, and notoriety, though they did help move industrial development forward.

27. Both India and Pakistan have shown economic spurts and lags. India's first two Five Year Plans (1951-1955,⁴ 1956-1960) were moderately successful; GNP grew by about 4 percent a year in that period. But the economy began to slow down in the early 1960s, and the extremely ambitious 1961-1965 Third Five Year Plan failed by wide margins to achieve its aims; at most GNP growth averaged 3 percent during the 1960s. This was the result of a number of factors: a pervasive central bureaucratic control of the economy, political uncertainties, depressed agricultural output, increased military spending, and a tight foreign exchange situation.⁵

28. Pakistan's first decade, generally a period of political uncertainty, saw a growth rate of perhaps less than 3 percent a year, despite some industrial development. Since 1958, however, thanks to heavy investments in major dams, irrigation projects, and other inputs (nearly all in the west wing), agricultural output has risen dramatically. At the same time, industry grew rapidly. Overall the economy grew at a rate of some 5.5 percent a year in the 1960s but most of the benefits accrued to West Pakistan. Per capita income in the latter area has increased by some 50 percent since 1950, while it has remained virtually unchanged in the east wing.

29. Since independence, neither India nor Pakistan has proved attractive to foreign private investors. Considerable interest in investment possibilities has been evident from time to time, but prospective investors have been deterred, partly by such unsettling conditions as political unrest, tax uncertainties, recent droughts and threats of famine, and the 1965 India-Pakistan War, but even more by government policies and "red-tape". The Indian Government, acting from ideological and internal political considerations, has adopted policies and procedures which have discouraged many potential foreign investors by putting many delays and obstacles in their way. The Pakistani Government has pre-

⁴ Indian fiscal years beginning 1 April of the year cited.

⁵ The caveats noted earlier respecting aggregate food and population problems apply also to those of economic development. The Karachi district and West Punjab in Pakistan and a number of Indian states, e.g., Gujarat, Maharashtra, Punjab, and Tamil Nadu, have made impressive strides in expanding both their industrial and agricultural sectors. The statistics given should be read with the understanding that they paint a picture that is too gloomy for some regions of South Asia, too bright for others.

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sented fewer such obstacles, but lower echelon bureaucratic difficulties and the political uncertainties before and since Ayub have kept foreign private investment at low levels.

30. The international economic relations of India and Pakistan have been characterized by chronic trade deficits and a heavy dependence on official foreign aid to help finance imports needed for economic development and to meet food requirements. As a result both India and Pakistan have incurred very heavy foreign indebtedness. Except for foodgrain imports, which have sharply declined since the drought years, virtually all civilian imports* have been fertilizers and items including petroleum, machinery, non-ferrous metals, and other materials needed not only for investment in both nations' agricultural and industrial sectors but to keep them operating at present levels. The ability to increase imports is thus a matter of particular importance to both countries in their efforts to operate and expand their large-scale modern industrial sectors.⁷ Since both debts and import demands will increase, India and Pakistan must face the problem of how to obtain their future foreign exchange requirements.

INDIA: FOREIGN AID BY COUNTRY*
1951 - SEPTEMBER 30, 1969
(billion US dollars)

	AUTHORIZED	DRAWINGS
Free World Consortium		
US		
PL 480	4.32	4.06
Other US	4.30	3.79
Other Consortium	6.36	5.33
Total Consortium	14.98	13.18
Other Free World15	.13
USSR and Eastern Europe	1.97	1.00
Total	17.10	14.31
BY TYPE OF AID*		
Loans	11.72	9.24
Grants	1.06	1.01
PL 480	4.32	4.06
Total	17.10	14.31

* Military aid excluded.

⁶ India spends abroad about \$250 million for military purposes each year; \$60 million of this is repayment on military credits from the USSR in the form of Indian exports of goods and services. Pakistan spends abroad some \$100 million for military purposes. There is little prospect for reductions in these expenditures in the next several years.

⁷ From fiscal 1967 to fiscal 1969, India's trade deficit dropped from \$1.2 billion to about \$300 million. This reduction of the trade gap resulted from increased exports (from \$1.6 billion in fiscal 1967 to \$1.9 billion in fiscal 1969) and from a dramatic fall in imports (from \$2.8 billion to \$2.5 billion in the same period). The decline in imports was due partly to reduced food import needs and partly to government efforts to limit development spending to avoid inflation and to conserve foreign exchange. Increased development spending in fiscal 1970 is expected to cause industrial imports to rise, however.

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PAKISTAN: FOREIGN AID BY COUNTRY*
1948-1969
(billion US dollars)

	<u>AUTHORIZED</u>	<u>DRAWINGS</u>
Free World Consortium ^b		
US		
PL 480	1.36	1.36
Other US	2.54	2.11
Other Consortium	2.46	1.90
Total Consortium	6.36	5.37
Other Free World28	.23
USSR and Eastern Europe33	.06
Communist China11	.04
Total	7.08	5.72

* Military aid excluded.

^b In addition, Free World countries also provided about \$700 million in foreign exchange for the Indus Basin Scheme in West Pakistan.

INDIA: FOREIGN AID DRAWINGS AND DEBT REPAYMENT*
1961-1969
(million US dollars)

FISCAL YEAR ^b	FOREIGN AID DRAWINGS	OF WHICH FOOD AID ^c	DEBT REPAYMENT	NET AID	Net
					NON-FOOD AID
1961	718	181	224	494	313
1962	847	255	235	712	457
1963	1,191	352	281	930	578
1964	1,473	482	322	1,151	609
1965	1,597	526	368	1,199	673
1966	1,507	480	387	1,120	640
1967	1,499	391	473	1,026	635
1968	1,135	210	491	644	434
1969	1,301	300	549	752	533

* From all sources; military aid excluded. India now has about \$3 billion either in exchange reserves or pledged sums in the aid pipeline. About \$800 million of the latter are pledges of Soviet aid. New authorizations of foreign assistance are declining at rates considerably faster than drawdown. Thus in 1969 the Western Aid-to-India Consortium pledged some \$600-\$700 million in new non-food aid, the USSR nothing.

^b Fiscal year begins 1 April of stated year.

^c Some 80 percent to 85 percent of which are PL 480 imports from the US.

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PAKISTAN: FOREIGN AID DRAWINGS AND DEBT REPAYMENT*
1961-1969
(million US dollars)

FISCAL YEAR ^b	FOREIGN AID DRAWINGS	OF WHICH FOOD AID ^c	DEBT REPAYMENT	NET AID	NET NON-FOOD AID
1961	314	106	21	293	187
1962	329	68	25	304	238
1963	501	145	39	462	317
1964	652	174	51	601	427
1965	660	158	73	587	429
1966	602	120	88	516	396
1967	674	100	108	566	466
1968	705	165	126	579	414
1969	656	70	141	515	445

* From all sources; military aid excluded. Pakistan now has about \$1 billion either in exchange reserves or pledged sums now in the aid pipeline. About \$100 million of the latter are pledges of Soviet aid. New pledges of foreign assistance are declining.

^b Fiscal year ends 1 July of stated year.

^c PL 480.

31. For both countries, but particularly for India, with its extensive industrial base, import substitution supported by import restrictions has reduced import requirements over what they otherwise would have been. In India the import content of industrial production and of investment declined by about half in the decade of the 1960s; however, much of this import substitution has been at high cost. In recent years, imports have also been held down by lagging demand, due partly to cautious Indian Government economic policies. India clearly places high priority on avoiding another foreign exchange crisis and is prepared to pay the price (in growth) of holding imports down to foreign exchange availabilities. But slow growth raises other risks—in the short run for the continued political success of the party in power, and in the long run for basic political stability.

32. India and Pakistan have five principal means, employable separately or in concert, of coping with future foreign exchange problems: (a) to keep—or even increase—the levels of foreign aid now being received, (b) to get substantial boosts in foreign private investment, (c) to increase exports, (d) to renegotiate repayments of earlier debts, (e) to default, at least de facto, on debt repayments.

33. At present, the outlook for the volume of economic assistance is particularly uncertain. Levels of US assistance, which formerly provided about 40 percent of the Consortium's funds to India and Pakistan, have gone down. Aid from the other Consortium members has risen somewhat, but this has been due almost entirely to debt relief. Proposals for increased replenishment of the International Development Association (IDA) could materially increase assistance levels if sums provided under bilateral programs remain stable. But if the developed

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countries—including the US—should reduce bilateral aid as a consequence of increasing support to IDA, levels of aid might diminish or stay about the same.

34. On the other hand, India and Pakistan may be able to use aid more effectively as a result of current moves to untie aid. Dropping the requirement that aid be spent for goods of the donor country would permit both countries to spend the aid received for imports from the cheapest eligible source. The same change of arrangements may also make it possible for India to increase its sales of capital goods to other aid-receiving countries.

35. In any case, it will remain critically important for India and Pakistan to boost export earnings substantially if they are to ameliorate their foreign exchange problems. Prospects for doing this are uncertain. Most export growth will continue to come from agriculture and manufacturing in the short run, although India has major mineral export possibilities yet to be more fully exploited. Barring a major rice breakthrough, East Pakistan and many Indian states are likely to be too deficient in agricultural performance in relation to domestic demand to enable either country to become an important food exporter (beyond the food items now exported in some quantity, e.g., Basmati rice). Earnings from the two nations' "traditional" exports—tea, raw and processed jute, cotton, and cotton textiles which up to now have accounted for the bulk of their export income—are likely to increase only slowly, because of increased competition from other countries, slowly rising world demand, and substitution by synthetics. "Non-traditional" exports have not done badly, however, and these now provide India with roughly 30 percent of its export earnings.

36. Both countries have adopted measures to boost industrial exports and have enjoyed some successes, but they face formidable obstacles in the future. Belated efforts have been made in recent years by India to increase exports by providing exporters preferential treatment, lowering export duties, relaxing restrictions on industrial licensing, import controls and monopolies controls, and by raising subsidies somewhat. These incentives aim at offsetting the specific cost disadvantages of each industry and are essentially an extension of the country's import substitution policy with producers, particularly in the new manufacturing sector, encouraged to do their share of exporting. But the subsidized export of a fraction of small-scale, high-cost production, although it may be necessary to gain entry into a new market, is not a sound basis for substantial, continuing export growth.

37. The Indian policy of giving manufacturers a monopoly on the large home market has removed many incentives for increased productivity, lower costs, and quality control. The situation has been made more difficult by the high costs, poor management, and inefficient operation of the important large public sector projects, notably the capital goods and steel industries. As a result, the products of many domestic manufacturers are simply not competitive on the world market. Pakistan suffers from similar problems in its import substitution industries, even though the government has done more to encourage exports—with some success—than has India. Probably the best that can be achieved, at

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least for the next few years, is a continuation of recent annual increases in export earnings—about 7 percent for Pakistan and 4 to 5 percent for India.⁶ In sum, we believe that neither country will be able to resolve its exchange difficulties solely by exporting.

38. Both India and Pakistan are concerned about the current decline in net aid as service on past debt, particularly from countries whose assistance has been on harder terms, grows. New Delhi has been discouraged by the recent three-year debt-relief granted by the Consortium to India, which for the most part substituted for gross aid which India would otherwise have received. While there may be future debt-relief arrangements, they are unlikely to involve significant amounts of additional assistance. While a negotiated or de facto moratorium on at least some repayments cannot be ruled out entirely over the long term, both countries are concerned about the economic and political consequences of a default of payments and have sufficient availabilities from exchange reserves, export earnings, and aid in the pipeline to make such a default unlikely in the next few years.

39. In sum, while both India and Pakistan appear to recognize the limited prospects for official foreign aid in the coming years, these states will still be pressing Western countries—particularly the US—for the best possible aid quantities and terms and for other facilities to ease their foreign exchange squeeze. In particular, demands for concessional treatment for their products in West European and North American markets will be made with increasing frequency and persistence by the Indians and Pakistanis.

40. There is no formula to determine what levels of foreign aid, from whatever source, would assure sustained economic growth in any underdeveloped country. Aid is but one of many factors which determine how well such nations' economies will operate. Minor changes, up or down, from present availabilities would probably not make much difference. Abrupt, major cuts in foreign aid would cause painful dislocations in the two countries' modern sectors. In any case, neither India nor Pakistan is likely to have available—from any combination of sources—the foreign currency or other external assistance each feels is necessary for the rate of economic advance being planned.

D. Overall Economic Prospects

41. The modest economic growth of India and Pakistan over the past two decades reflects not only the constraints imposed by limited resources but also those implicit in each nation's development strategy. Progress during the 1970s will be limited by a number of factors, including (a) conflicts between certain economic growth and social and welfare goals pursued by the respective governments, (b) the continuing predominance of the agricultural sector, in which production will grow more slowly than the industrial sector, (c) limited investment funds for industrial development, (d) limited markets for traditional exports and hence a shortage of foreign exchange with which to finance needed

⁶ These figures assume a continued increase in non-traditional exports.

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imports, (e) overall political trends and decisions. Except where noted, the following judgments are predicated on the two countries being able to maintain some reasonable degree of order and cohesion. They also assume no drastic change in arms expenditures. These assumptions cannot of course be taken for granted; indeed a breakup of the Pakistani union could occur sometime during the next decade, and India will probably experience serious political strains. Thus these judgments will remain subject to revision in the light of new developments.

42. Within certain limits, government policy will largely determine the extent of economic progress. The Indian agricultural sector, accounting for one-half of GNP, will require major government investments in irrigation projects, research for future growth, and public policies favoring private farmers seeking to increase output. The Indian Government is not likely to exacerbate urban unemployment by abandoning its policies of promoting small-scale, labor-intensive industries and of tolerating labor redundancies in its publicly-owned plants. Outside agriculture, where little room exists for choices between labor-intensive or capital-intensive technologies, there may often be conflicts between employment and efficiency.

43. The Indian Government is not likely to attract much private foreign investment or to relax its control over private industry sufficiently to accelerate industrial growth. It will be up to the government to provide increased funds for economic development, and taxes are already high. Domestic savings are not adequate for the job; public enterprises, which control a still small but growing part of the modern industrial sector, more often than not lose money, and farm savings fluctuate widely from year to year. On balance, in view of the limits imposed by domestic resources and government policy, our best estimate is that the modern manufacturing sector will continue to grow at its recent rate of from 6 to 8 percent. If the agricultural sector grows at from 3 to 4 percent, the overall rate of growth of the Indian economy would be from 3.5 to 4.5 percent. If the agricultural sector grows at 4 to 5 percent, the overall rate would average out between 4.5 percent and 5.5 percent annually during the 1970s.

44. Development policies in Pakistan are also subject to conflicting needs which will affect the course and speed of economic progress. Continuing increases in government spending for infrastructure in the east wing, for example, which may be politically necessary would nonetheless divert resources that might otherwise be used for industrial expansion in the west, which could provide a more immediate return. Similarly, the government's announced intention to increase spending on social service measures will necessarily slow the growth of investment save in those instances such as rural public works where they aid development. Pakistan's domestic consumer goods industry, whose buildup has been a major stimulant of industrial expansion, will not grow as rapidly as in the past, and the rate of industrial growth is likely to decline somewhat.

45. Further industrial expansion in Pakistan will depend heavily on capital goods industries with their more sophisticated input requirements and on export-oriented industries with their more demanding markets. Although rapid agricul-

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tural growth is likely to continue in West Pakistan, the east wing cannot—without huge water-control efforts—accelerate its productivity. In these circumstances Pakistan's aggregate economic growth appears likely to average about 5 percent over the next decade. This is predicated on an annual increase in agricultural production of 4 to 5 percent and in industrial growth of about 7 percent. In the event the two wings should separate, West Pakistan would be likely to recover fairly quickly. By contrast, even massive amounts of development aid would only begin to increase East Pakistan's productive capacity in the period of this estimate.

III. DOMESTIC POLITICAL ISSUES

46. The political implications of economic trends in the subcontinent are difficult to assess. Experience has shown that there is no consistent correlation between political and economic developments there. Economic factors work in conjunction with many others; e.g., linguistic, historical, and religious ones, and often are not the most important of many interacting factors in determining political events. But this is not to say that they are without effect. The conspicuous economic disparity between East and West Pakistan has contributed to the political tension between them. The widespread urban unrest in India was directly abetted by the food shortages and price increase of the mid- and late 1960s. Growing violence and public unrest in India's West Bengal (particularly in Calcutta) have led a number of industries and businesses to move to other parts of the country, leaving behind worsening economic conditions—and more political disruption. But in general one cannot assume a direct relationship between economic progress or stagnation on the one hand, and political stability or turmoil on the other.

47. Both India and Pakistan are in transitional political eras; in neither case can we precisely estimate political development over any extended period, though some general trends appear discernible. Pakistan, ruled by General (now President) Yahya Khan's martial law regime, is scheduled to elect a Constituent Assembly in December 1970. The Assembly's job is to write a constitution, a task it must complete within 120 days or be dissolved. If such a document is produced, it must be approved by President Yahya. The writing of a constitution acceptable to both wings will be a formidable task. A majority of the Assembly will be from East Pakistan; most of these Bengalis will probably be members of the Awami League (AL) led by Sheikh Mujibur Rahman. The AL has demanded virtual autonomy within a weak central federation, and even reparations for past grievances. While the AL's demands as now formulated are probably greater than most West Pakistanis will be willing to accept, the Bengalis may make concessions in the interests of gaining a share of power in a new governmental system.

48. Even if a constitution is promulgated, the maintenance over the long run of a stable government acceptable to both the Bengalis and the West Pakistanis will be extremely difficult and perhaps impossible. The economic and political interests of East and West Pakistan will remain hard to reconcile over the next

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decade. The West Pakistani troops in the east wing could not hold the lid on indefinitely against concerted resistance. Separation seems more likely than not in the next decade, even though the time and manner of such a breakup cannot be forecast. It might come because of Bengali resentment against what they feel to be economic neglect or political repression, or it might come because of West Pakistani refusal to pay unacceptably high costs for the maintenance of the union.

49. In the event of a separation, both parties would suffer, at least initially, from the disruption of the free flow of goods, services, and capital. The economically viable West, however, would soon recover. The Pakistani Army, made up chiefly of West Pakistanis, could maintain law and security there and would continue to be an important force whatever form of government is ultimately adopted. The east wing would face a highly uncertain future. While much would depend on how the break came, an independent East Pakistan would be one of the principal pockets of poverty in the world, and—sooner or later—one of the most troubled politically.

50. In India the death of Nehru in 1964, the sharp Congress Party losses in the state and national elections of 1967, and the split—which appears likely to last at least through the next elections—of the Congress Party in 1969 have greatly changed the political scene. The breakup of the Congress appears to have been brought on more by personal enmities than clear-cut ideological disputes. Nevertheless, Mrs. Gandhi's supporters come much more from the left than from the right, and she has had some success in putting over the image of a populist reformer battling entrenched privilege. Her position seems secure, at least for the moment, as several smaller leftist parties and most independent members refuse to join in any effort to bring her down.

51. National parliamentary elections must be held by early 1972 and may come sooner. Their results are presently unpredictable, but there is at least an even chance that no party, including Mrs. Gandhi's wing of the Congress, will win a majority of parliamentary seats. The old united Congress always refused to enter into coalitions with rival parties, either in electoral alliances or in coalition governments. Both Congress groups have now abandoned this policy, and the nature of the electoral alliances they can work out will be a principal factor in determining the composition of the next parliament. Mrs. Gandhi might well win enough seats to form a minority government like that she now heads. If she does not, the next government will be a coalition—the first in India's history. The record of Indian states with coalition regimes gives us few clues as to what might be expected of it. Some state coalitions have been stable and relatively effective, most have not.

52. In any case, future regimes in New Delhi will face difficult challenges. Regional antagonisms will be exacerbated by a number of state governments ruled by parties antagonistic to those in charge at the center. Most state political leaders will seek to enhance their powers and may succeed in weakening the center. The northeastern area of India is likely to remain troubled. Such rebellions as those by the Nagas and the Mizos will flare up periodically in the tribal areas. In West Bengal, parties of the extreme and irresponsible left will remain

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powerful and will encourage mass disorders in Calcutta and in the countryside. But West Bengal will be only one of many worries. The major cities of India will remain uneasy. Extremist movements, both of the left and the right, are likely to grow. A small but potentially significant Maoist terrorist movement will continue to foment unrest. Communal antagonisms will also remain major problems with explosive potential. Parts of India will also face food shortages, lag-gard growth rates, and inadequate employment opportunities.

53. If overall conditions do worsen, the future of India's political system and of the union itself are likely to be increasingly questioned. The breakup of India cannot be ruled out, but we believe it highly unlikely over the next decade. The country's great bulk, inertia, and the growing economic interdependence of its several regions will militate against such drastic change. Despite continuing regionalism, a sense of common nationality has developed, with effective institutions to maintain it, e.g., the military and civil services. Indeed, the Indian Army may, in the 1970s, come to play an increasingly important role. Thus were India threatened with a widespread breakdown of public order, the armed forces would probably be able to contain it. Similarly it would be able to suppress, as it has in the case of the Naga and Mizo rebels, a secessionist attempt by any dissident Indian group.

54. The future of India's present political system over any extended period of time is more difficult to estimate. It appears to have struck fairly deep roots and is but little threatened at present. But it will face serious challenges. These will come, not merely from the various Communist and leftist insurrectionary groups, but from forces of the right as well. These could become quite serious if widespread dissatisfaction and polarization develops in Indian society. In such circumstances, the central government would be forced to rely heavily on the civil and military services to maintain itself against extremist opponents. The leaders of the armed forces are not themselves likely to challenge civilian rule, unless conditions become considerably more serious than we think likely.

IV. SOUTH ASIA AND OUTSIDE POWERS

A. The Current Scene

55. The principal features of India's and Pakistan's international relationships appear, at the present time, to be well established and not subject to precipitous change. These include intense suspicion and hostility towards each other—rooted in age-old Hindu-Muslim antagonisms and recent armed conflicts. Neither now wishes a renewal of hostilities. Yet, except for some recent progress toward sharing of the Ganges waters, neither shows itself willing to compromise its basic position on major outstanding issues enough to establish an atmosphere of mutual trust. Prospects for increased cooperation might improve if Bengalis came to enjoy a greater voice in the government of Pakistan.

56. India remains fearful of and hostile toward China. The latter's developing nuclear capability, its occupation of territory claimed by India, and the possibility that China might combine with Pakistan in an assault on India are matters

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of extremely serious concern in New Delhi. The present Pakistani rulers, by contrast, see China as a valuable source of arms and of political (and perhaps military) support against a future Indian threat.

57. Both India and Pakistan have cultivated increasingly good relations with the USSR politically and in terms of trade and aid. The USSR shows a great interest in the subcontinent, less for ideological reasons, we believe, than because of such Soviet state interests as the desire for harmonious relations with its near neighbors in the south, the concern to counter China, and the servicing of a gradually expanding naval presence in the Indian Ocean. Since the 1950s, the Soviets have granted substantial economic assistance to India, and beginning in the 1960s large amounts of military supplies. In the last two or three years they have cultivated Pakistan,^{*} trying to reduce Chinese influence there and to enhance Soviet leverage. Since at least 1965, Moscow has actively sought to reduce Indo-Pakistani tensions, chiefly to prevent crises which Peking could exploit.

58. Moscow has had some success in its efforts. This is particularly true in the case of India, which now regards its ties with Russia as vital to its defense against China and considers its relationship with the USSR as a special one. At the same time, New Delhi has always insisted on retaining its independence and freedom of action. Thus it has publicly denounced the increasing presence of "foreign"—including Soviet—navies in the Indian Ocean, and has also opposed granting base rights to anyone. Pakistan has similarly shown itself unwilling to act as the Russians wish; while accepting Soviet military and economic assistance, it has not drawn back from its good relations with China.

59. Both India and Pakistan display considerable interest in the Afro-Asian world—India as a prominent nation among the non-aligned and Pakistan as the largest of the Muslim countries. Neither country has, however, substantial bilateral relations with the states of the Afro-Asian world except with such immediate neighbors as Iran, Afghanistan, Nepal, and Ceylon. Despite India's renewed efforts to take a more active part in foreign affairs, it—like Pakistan—is too constrained by limited financial resources and domestic preoccupations to play more than a marginal role in most disputes and issues pertaining to the Afro-Asian world. These limitations are unlikely to be overcome in the near future. In the event of a settlement in Southeast Asia which involved some international peace keeping system, India would expect to participate. Any larger role for India in Southeast Asia would probably require the support of the US and the Soviet Union. Pakistan has little or no interest in Southeast Asia; rather, its concerns within the Afro-Asian world lie westward.

60. India and Pakistan no longer have any special military or political relationships with any of the major non-Communist powers. Pakistan's ties with SEATO and CENTO are, in effect, dead, and India continues its non-aligned posture.

^{*} Soviet military assistance to India (1961-present) amounts to over \$700 million; to Pakistan (1968-present) to some \$50 million.

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On the other hand the two South Asian powers of course see Western Europe, Japan, and the US as near essential sources of economic assistance for development via continued foreign aid, debt relief, expanded export markets, and large supplies of foodgrains. Beyond this, India and Pakistan still see the US as one of the world's superpowers and value it as a counter to the influence of the USSR and China in the subcontinent. These considerations, of course, have not assured any great degree of political harmony in US relations with India and Pakistan.

B. Prospects for Change

61. The overall foreign relationships of India and Pakistan are at present in a static condition. Neither seeks any major changes in its relations with the great powers or with its immediate neighbors. And there are no readily discernible outside forces or trends which promise to alter this situation, but over the long run there is enough potential for change in both countries to make an enduring static situation unlikely.

62. Thus in Pakistan the emergence of an independent East Bengal would alter relations throughout the area. The effects of an independent East Bengal would depend in large part on how it became independent, the nature of its leadership, and the postures of the great powers toward it. The possibility of an extremist regime emerging there cannot be ruled out; the Indian Government has already shown apprehension that it would become a radical country under Chinese influence. If such a development appeared to be in the offing, New Delhi would move vigorously to counter it and might even use military force. On the other hand, a more moderate East Bengali regime would probably welcome closer ties with India, particularly in the economic field, than would be likely under a united Pakistan dominated by west wingers.

63. Developments in India, too, could bring on major changes. Were the present Congress government to be succeeded by one in which right wing elements were influential, India would adopt a more intransigent attitude towards Indian Muslims and towards Pakistan. Tensions with China would also increase and the Indians would view all major foreign powers, including the US and the USSR, with greater wariness and suspicion than now. Over time, such a government would work to end its dependence on the Soviets for military supplies by building up the country's already substantial armaments industry; it would also seek to reduce or even to end its reliance on Western financial assistance—though in all these cases such actions would be tempered by its recognition of India's need for continued external assistance.

64. A right wing Indian government would also be more inclined to manufacture nuclear weapons than would the present one. So far, the Indian Government has rejected this option, though its nuclear program does keep the option open. India now has enough plutonium to manufacture a few low-yield nuclear weapons, and it could probably test a device within a year of a decision to do so. With the completion of a large unsafeguarded reactor in the mid-1970s, the

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added output of plutonium would make it possible to produce a good many more. But if India were seeking a deterrent against China, it would have to produce nuclear warheads and missiles to deliver them. Given the country's still fairly limited technical capabilities, it would take India at least 10 years from the time of decision to begin producing an effective advanced weapons system. There is considerable support in India for following such a course. One major inhibition against doing so would be the cost, which would impose a very heavy burden on the economy. Thus, if any Indian government should decide to pursue this course it would have to be at the considerable sacrifice of welfare and development expenditures.

65. Relations of both South Asian states with China could be altered rather quickly. On the one hand, the current cold war standoff between India and China could heat up, say if the buffer states of Nepal or Bhutan experienced revolutionary or chaotic conditions and India, China, or both felt compelled to intervene militarily. On the other, a post-Mao government in Peking might go far in dropping its militant hostility to India. But if such a government also entered into friendlier relations with the Soviets, India would fear a reduction in Soviet support and Soviet military assistance to the Indian Armed Forces. Even if a Sino-Soviet détente appeared in prospect, India would of course seek to retain its ties with Moscow while at the same time trying to take out insurance in the form of further aid and support from the US and other Western states. India also will remain sensitive to any indications of an improvement in US-Chinese relations, fearing that it would lead to a lessening of US support for India.

66. Political and military ties with the West—particularly Pakistan's but also India's—have been loosened and there is little prospect of a resumption of the relationships which existed in the 1960s. Western economic aid has been dropping. But South Asian economic needs and expectations are not likely to decline; both countries will thus continue to take leading roles in organizing pressures on the developed world, particularly the US, for a more equitable share of the world's wealth. At the same time, they are likely to find the developed world less interested than before in competing for political gains in India and Pakistan through extensive economic assistance.