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INDIA'S LIKELY INTERNATIONAL
ROLE AND ITS IMPLICATIONS
FOR THE UNITED STATES

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INDIA'S LIKELY INTERNATIONAL ROLE AND ITS IMPLICATIONS FOR THE UNITED STATES

PRÉCIS

India perceives itself as a major international power, but is viewed by many as a hollow and feeble state. It must give weight to its needs, as well as to its aspirations, in making its principal policy decisions.

- India seeks security against the contingency of an attack by Pakistan, China, or both. It is concerned that these states might be aided by outside powers, particularly the US and Iran. India will ensure that it retains the strongest armed forces in the subcontinent, through domestic arms production and acquisition of outside—principally Soviet—sophisticated equipment. It has developed close ties with the USSR, and receives strong political support from it against China. India could also explode a nuclear device if it so chose.
- India seeks considerable material (principally financial) assistance to foster economic development. On occasion it needs additional large amounts of food aid to prevent famine. India looks to the major non-communist countries for economic aid, and especially to the US for food.

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India regards its political/military ties with the USSR as at least as important as economic ties with the Western nations. In any case it will seek to guard its independence of action with respect to any great power.

Despite a rising crescendo of domestic troubles, Mrs. Gandhi remains in firm control of the government and will continue to direct foreign policy, though it will often (if not most of the time) be a secondary consideration for her. She and any likely successor will pursue nationalist India-first goals.

With South Asian and Indian Ocean states, New Delhi will pursue varying approaches aimed at maintaining Indian preeminence in the region:

- It will not try directly to control the affairs of such small neighbors as Sri Lanka unless it comes to believe that its security interests would require active intervention.
- India's relations with Pakistan will remain taut and subject to further strains for an extended period, but major hostilities now seem unlikely.
- The danger of Indian rivalry with Iran (though probably not of open confrontation) will increase. Mutual suspicions between Teheran (looking to the US, supporting Pakistan and hostile to Iraq) and New Delhi (looking to Moscow and extending its ties with Iraq) have risen.

Sino-Indian tensions may ease, but basic disagreements will remain.

Ties between the USSR and India will remain quite close. The two are linked by a limited security commitment and a shared antagonism to China. But India will not become a Soviet client; nor will it permit operational Soviet military forces to be based on Indian territory save in times of extreme national peril.

Indo-US relations are emerging from a period of strain to one of relative calm, but a number of specific points of contention will inhibit close ties. This will be especially the case with respect to financial matters. The US, as India's former largest aid donor and currently

as its largest creditor, will figure prominently in New Delhi's negotiations with the principal Western countries:

- India now owes the US over \$3 billion in hard currency of which it is chronically short. At the same time bilateral US aid programs are declining sharply, though there is substantial US assistance to India through such multilateral bodies as the World Bank. The issue of Indian debt repayment to the US will remain outstanding and difficult.
- Among other matters which could be at issue between India and the US are: US relations with Pakistan, with China, and with Iran; the disposition of US holdings of \$900 million worth of rupees generated mostly by local sales of PL-480 commodities; Indian efforts to procure very large amounts of US food grains in the event of a monsoon failure; and the possible explosion of an Indian nuclear device, even as part of a peaceful uses program.

In the broadest terms, the basic interests of the US and India—e.g., area-wide stability, peace, amicable bilateral relations—are in fact compatible, but the definition of these general objectives and the means of achieving them will often be the source of friction. Relations will frequently be clouded by accumulated suspicions, differing attitudes or by conflicting perceptions of each others' interests. In short, the areas of friction in the relationship are likely, for some time to come, to predominate over those conducive to harmony.¹

¹The Director of Intelligence and Research, Department of State, believes that this paragraph overemphasizes the potential for frictions between India and the US and fails to give sufficient attention to the opportunities for cooperation. He believes, therefore, that a more accurate assessment would read as follows:

Relations between India and the US will often be clouded and there will be issues on which the interests of each will diverge. But the US and India share common interests on a wide assortment of fundamental issues and, while we will often find ourselves at odds over the means to achieve common objectives, there will be opportunities to reach common positions or at least to keep differences manageable.

DISCUSSION

INTRODUCTION

1. India's international role is an anomalous one and reflects that nation's peculiar strengths and weaknesses. On the one hand, India is the world's second largest country in terms of population; its armed forces are the fourth largest. Only nine other states have a gross national product greater. Its large and diversified industrial plant produces commodities as complex as jet aircraft; it could make nuclear explosives if it chose to. India is now the principal military power in the Indian Ocean area, adjacent to petroleum supply routes from the Persian Gulf to the Free World. Its leaders have traditionally been prominent among the major spokesmen of the Third World. An Asian power, it figures importantly in the strategic calculations of the USSR and China. A major disruption or radicalization of India could have unsettling effects far beyond its own borders or even the Asian continent.

2. On the other hand, India can also be viewed as a hollow and feeble state. Its huge and rapidly growing population mostly lives in extreme poverty—now as throughout modern history. Its industry and its govern-

ment are often characterized by inefficiency and ineptitude. It has been chronically dependent on foreign aid, not merely to generate economic development but also on occasion to avoid mass starvation. Its location gives it a kind of strategic isolation which can be argued to limit its importance to the US. Its role in international trade is not significant, and it exports no vital commodity like petroleum or copper.

3. Over the years, US policy has at times treated India as a force to be reckoned with and at others as one to be ignored. After a period of strain which developed during the Pakistani civil war of 1971 and persisted for some time afterward, US-Indian relations are entering a time of relative calm, with neither close involvement nor total alienation. Principal matters of bilateral concern will be economic—aid, debt repayments, food shipments and trade. Political and military issues will generally come in a broader multilateral context, e.g., Indian ties with the great powers, with the non-aligned countries, security problems in the Indian Ocean and Persian Gulf area, and relations with Pakistan and China.

4. The basic objectives of Indian foreign policies have long been matters of emotional dispute to many outsiders. For years, Indian espousal of non-violence and non-alignment between the contesting powers in the Cold War were taken at face value by many outside observers—particularly Americans and Europeans. When it appeared to Westerners that New Delhi was behaving differently, the Indians were accused by many of being hypocrites. Self-righteous denunciations by both sides became frequent. The invective has clouded India's relations with a number of Western countries. The Indians are in fact neither more noble nor more cynical than the peoples of most states. They will continue to advance what they believe to be their nation's interests with a calculating and un-sentimental realism. They will also often continue to demonstrate a moralistic style that antagonizes many foreigners.

I. MRS. GANDHI AND DOMESTIC CONSIDERATIONS

5. Prime Minister Gandhi remains in control of the central government. She will face domestic problems of so serious a nature that foreign affairs will often (if not most of the time) necessarily be a secondary consideration for her. Her popularity and domestic political strength have been eroding since reaching a peak in 1971 and early 1972. In the short term, she must cope with quite serious internal difficulties, including food shortages, inflation, a conspicuous failure to show progress in her program to "abolish poverty," serious bickering in her own Congress Party, and widespread popular dissatisfaction. Disruptive political tensions have been manifested in major rioting, a police revolt in one state, and the collapse of several state Congress governments.

6. But Mrs. Gandhi's administration will probably continue to handle these problems without itself being seriously disrupted. While

her position is weaker than it was two years ago, she has no serious rivals. Her control of the Congress Party remains effective. She retains a large and working Parliamentary majority and is likely to keep it until the next scheduled national elections in 1976.

7. Mrs. Gandhi tends to view with suspicion those capitalist nations whom she thinks impoverished and degraded such underdeveloped colonies as India. Like many Third World leaders she fears that independence did not end all colonial or "neocolonial" exploitation, and is concerned that the old imperial powers continue both to meddle in India's political affairs and to use their great economic power to enrich themselves at her country's expense. In this context, Mrs. Gandhi is particularly wary of the US, and tends to view Soviet positions as more congenial.

8. Though these biases do play some role in India's decision-making it is important not to exaggerate their impact. Mrs. Gandhi's personal views are important, but Indian foreign policy would be essentially unchanged were another leader of the dominant Indian Congress Party serving as Prime Minister. Indian leaders are strong nationalists with residual suspicions of all foreigners. Respect for the USSR has not eliminated suspicions of its motives nor prevented countless frictions in the relationship, which has led to considerable Soviet annoyance with Indian ingratitude and petulance. And wariness with the capitalist US and the West has not prevented numerous amicable and cooperative relationships in military, political, and economic fields.

9. In sum, Mrs. Gandhi and any likely successors are India-firsters, generally acting on and making decisions in accord with calculations of India's national interests. Roughly, India's foreign policy seeks military security against a threat from Pakistan, China, or both; to this end, it has developed close ties with the USSR—even at some cost to its relations

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with the US and other states—and has worked for amicable relations with most of its immediate neighbors. It has also developed the largest and best-equipped armed forces in South Asia.

10. India's international relationships are determined by more than a quest for military security. It tries to expand its world influence by supporting measures which strengthen the role of Third World countries in international affairs. India also continues to seek—on acceptable if not favorable terms—as much material assistance from the developed powers as it can get. In this search, the US figures large, and the establishment of a cordial climate in dealing with Washington on these matters continues to be important to most Indian policy makers. But national security comes first.

II. SOUTH ASIA

11. The 1971 Indo-Pakistani war conclusively demonstrated Indian military superiority on the subcontinent, a situation which is unlikely to change. Although India has long aspired to a position of preeminence in South Asia, it does not see its role as assuming direct political control over its independent neighbors. But it is far from indifferent to what goes on in these states; India has intervened actively in their internal affairs in the past and is prepared to do so again to protect what it considers its security interests. In 1949, in order to defend a strategic area in the Himalayas, it occupied Sikkim. In 1950 New Delhi executed a treaty giving it complete control over that state's defense and foreign affairs. In the 1950s and early 1960s India did intervene in Nepal; following the 1962 war with China, New Delhi adopted its still existent policy of friendship and non-intervention in Nepali affairs in exchange for Kathmandu's rigid neutrality in the Sino-India confrontation.

12. New Delhi's stance towards these mountain kingdoms serves as a rough model of its likely policies with respect to the other states of the subcontinent (except, of course, Pakistan). So long as New Delhi believes that small neighboring countries are relatively stable, troubled by no serious internal or external threat, and are not pursuing hostile policies, then it will leave them alone. On the other hand, if it felt its security interests threatened, it would feel compelled to take steps—supporting or opposing existing governments even by active military moves—to rectify the situation.

13. Within this context, New Delhi's relations with each of these states will vary considerably. The survival of Bangladesh—impoverished, troubled, and of considerable strategic value to India—will remain of great importance. So too will the continued rule of the popular Prime Minister, Sheikh Mujib. To this end, India will continue to give him political support and to advance some economic assistance. Relations with Nepal and Sri Lanka will remain considerably more distant in both the political and economic field. Barring what the Indians consider a dangerous or provocative development (for example, a Chinese-supported insurgency), they will also be generally amicable, despite quarrels over such issues as trade and repatriation of Indian nationals.

14. Pakistan is an entirely different matter. Indo-Pakistani antagonisms are so deeply rooted that the best the two can hope for is an uneasy modus vivendi. They will themselves remain prisoners of mutual hatreds and fears; they will exaggerate both the strengths and the hostile intentions of the other—often well beyond the limits of rationality. Islamabad sees the threat of India's overwhelming might being directed to the destruction of Pakistan—something that the Indians certainly do not now in fact seek. New Delhi does not see Pakistan's refusal to acknowledge Indian pre-

eminence in the region as a harmless, quixotic act. Rather it views Islamabad's quest for close ties with and support (especially military aid) from strong outside powers—particularly the US, Iran, and China—as posing a direct and dangerous threat to India itself. This concern is a principal determinant in India's foreign policy.

15. Ideally India would like Pakistan to be concerned principally with the stability of its own domestic affairs and not to try to challenge India on the regional or world scene. Thus Pakistan would reduce the strength of its armed forces, leave in abeyance (if not renounce) its Kashmiri claims, and forego political-military ties with the US, China, and Iran. In this situation India would refrain from interference in Pakistan's domestic affairs, show an interest only in preserving the status quo, and cooperate in matters—principally economic—of mutual benefit.

16. This Indian ideal solution to the endemic South Asian tangle is neither unreasonable nor far-fetched. Its achievement, however, will be time consuming and fraught with difficulties and may remain an impossible goal. Whether innate concerns on both sides can ever be subordinated to the quest of common aims and the desire to be good neighbors will remain problematical. Deep-seated fears and suspicions on both sides of the border will continue for many years to militate against the climate of mutual trust needed for such a relationship. Indeed, even when all immediate problems created by the 1971 war—e.g., the restoration of diplomatic and economic relations—are settled, relations will remain taut and subject to further strains for an extended period.

17. India and Pakistan fought major wars in 1965 and 1971; the latent antagonisms between the two countries continue to exist, and could in certain unpredictable circumstances bring on another Indo-Pakistani war. Some

unforeseen event, e.g., an uprising in the Vale of Kashmir, could again lead the two disputing powers to or over the brink. As in the past emotional miscalculation and self-deception by the leaders of one or both countries could play a major role.

18. Another contingency, a long dormant dispute in the region, could also lead to heightened Indo-Pakistani tensions if not open conflict. The July 1973 coup in Afghanistan returned Muhammed Daud to power there. Until his removal in 1963, Daud had led the Afghans in a hard line policy of confrontation with Pakistan. Demanding the creation of an autonomous or sovereign state of Pushtunistan out of large chunks of Pakistani territory bordering Afghanistan, Daud's actions led to a rupture of Afghan-Pakistan relations, to some border skirmishing, and to fears of an international conflict. It is too early to say whether Daud will revive the Pushtunistan dispute or whether India will involve itself in it (as it did not in the early 1960s). However, Daud's initial comments on this issue, and India's very rapid recognition of his takeover have aroused apprehensions in Islamabad.

19. Beyond this, India might in certain cases feel compelled to intervene directly in internal Pakistani affairs. This will be highly unlikely so long as Pakistan remains free of serious domestic strife and its government is in firm control. But were that country to suffer sustained civil turmoil, Indian policy could well change. Thus if Pakistan were to erupt into a civil war on class or regional lines, and were this to continue for an extended and indecisive period, New Delhi could reluctantly come to feel that it would have to intervene to preserve regional peace and stability.

III. THE INDIAN OCEAN AND THE PERSIAN GULF

20. While expanding its own naval forces in the South Asian region, India is actively trying to discourage a great power naval

buildup in the Indian Ocean. It has pushed for an "Indian Ocean Peace Zone" and would like to limit deployments by both the US and the USSR—or any other outside power. Barring that, it would prefer that no other country—particularly the US but also the USSR—achieve a position of measurable naval superiority in the region. India has already decried the establishment by the US of communications facilities on Diego Garcia, though it has not so far been very noisy about the matter. Were Diego Garcia to be built up substantially as a naval operating base India would react with angry protests, but would probably limit its opposition to these denunciations.

21. Iran, which in the past was a country of peripheral importance in Indian foreign policy, has become a more central concern. Although the two nations have some important mutual interests including shared ownership of India's largest oil refinery at Madras, problems have dominated the relationship in recent months. The Iranians are concerned that India wishes to dismember or dominate Pakistan and bring Indian power to Iran's border. They are particularly concerned in the context of the Indo-Soviet treaty which Iran views as present or potential collusion against Iranian interests. The Indians worry that the massive increase in Iranian armaments and military power might be used to bolster Pakistan in a military confrontation with India.

22. The two countries' interests and concerns are beginning to overlap in a new and unfamiliar fashion. Both are extending their power and potential for influence. They probably will continue to gauge their relationship primarily by observing the actions of the other in third countries. Pakistan will be the principal area of contention. India will be hostile to any large-scale Iranian arming of Pakistan

or any formal bilateral security agreement. It is concerned with the construction of a large new Iranian military base at Chah Bahar on the Indian Ocean and near the Pakistani border. Iran will be hostile to any Indian intervention, political or otherwise, which would impinge on Pakistan's sovereignty, or lead to the breakup of that country. Indeed the Shah publicly insists on his commitment to maintain Pakistan's territorial integrity.

23. Iraq is a second arena: Iran is worried that the similar Indian and Iraqi treaties with the Soviets may form the embryo of an Indo-Iraqi-Soviet alliance against Iranian interests. These fears are aggravated by the presence of a small Indian air force training mission in Iraq. India argues that its training mission has been in Iraq since 1960 and has never before caused complaints. Further, India's recent interest in Iraq has been primarily economic; in particular it is seeking, throughout the Persian Gulf, sources of oil of which it is critically short. Afghanistan is a third arena: Iran is worried that the Indians (and Soviets) may encourage Daud to heat up the Pushtunistan issue as a means of weakening Pakistan. India on the other hand will be concerned that Iran and Pakistan do not use their worry about intentions as an excuse either to cripple Afghanistan's economy or to intervene directly in its affairs.

24. Though there is some potential for danger in this Indian-Iranian rivalry, the prospects for a direct confrontation between the two alone are remote. Neither is innately hostile to the other; both will try to resolve peacefully any differences which may arise. The armed forces of both countries are large and impressively equipped, but neither can mount sustained operations very far from its own territory. The Indian Navy (including its one aircraft carrier) would find it impossible to conduct sustained activity in the Persian Gulf area. Nor could Iranian forces extend their

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power to India in any meaningful way. But the two countries could find themselves in conflict in the contingencies of renewed Indo-Pakistani hostilities (say arising from Afghan-Pak fighting) or of civil turmoil in Pakistan. Both Iran and India would be strongly inclined to intervene in Pakistan itself were the other to do so.

25. The fact of Indian and Iranian extensions of their reach in overlapping areas could, however, more imminently be the source of sharpened rivalry involving several countries. India and Iraq—and possibly Afghanistan—supported by the USSR could come to view themselves as irreconcilable opponents of the area's alleged US proteges, Iran and Pakistan. Such a perception would risk rivalry heightening toward hostility, and could stimulate each side to seek enhanced great power support. To some extent this has already happened and depending on the reaction of the great powers, could intensify—bringing on one more bone of contention between the US and India and providing the latter with a further sense of solidarity with the USSR.

IV. INDIA'S RELATIONS WITH THE USSR AND CHINA ²

26. From both countries' point of view, Indo-Soviet relations are in a special category. To Moscow, India is the largest and undoubtedly the most important friend outside the communist world. India's role as a counterweight to China is a major if not the most important factor cementing the relationship. And New Delhi sees political and possible military support from the USSR as integral to its security. No other major power offers the same combination of political sympathy

²A detailed treatment of Soviet policies toward India and South Asia is given in NIE 11-10-73, "Soviet Military Posture and Policies in the Third World," dated 2 August 1973, SECRET.

for Indian objectives, shared antagonisms for some of India's adversaries, willingness to undertake a limited security commitment, and extensive military and (to a lesser degree) economic aid. The two are formally linked by the 1971 Treaty of Friendship. Even though it restricts the commitment to consultation and the pledge not to commit unfriendly acts against the other, the Treaty is of considerable symbolic importance as indicating the special nature of the relationship.

27. Since the 1950s, economic ties between the two countries have grown substantially. Total Soviet economic aid commitments over the years amount to about \$1.6 billion (in contrast to over \$9 billion from the US).³ Nearly all has or is being spent on major public sector industrial endeavors such as steel mills. With declining Indian desire or need for more projects of this type, new aid extensions have halted, though old ones are still being drawn down. Trade between the USSR and India grew sharply in the last decade, but it may have stabilized and could even decline somewhat. In 1972, some 15 percent of India's exports and 8 percent of imports were to and from the USSR (when India's trade with other East European Communist countries is added the figures are 22 and 11 percent). Issues with respect to future Indo-Soviet economic arrangements will probably not have much impact on overall political relations. However much New Delhi would like more Soviet economic assistance, it values the relationship principally for its political and security aspects.

28. Soviet military assistances to India has been substantial. From 1962 to the present over \$1.3 billion has been committed—usually on concessional terms—and mostly delivered. Indian dependence on the USSR in this field

³The other Communist East European states provided an additional \$367 million.

is likely to continue for the foreseeable future. The dependence is not complete; India still buys some weapons from the UK and France, and makes some of its own. Most Soviet military hardware delivered has been complex, sophisticated equipment like SAM missiles, submarines, jet fighters, and tanks. The Indians, who already produce most or all of their simpler military items, e.g., small arms, light artillery, and ammunition, hope eventually to manufacture their own sophisticated ones as well. They already have factories producing such items as tanks and aircraft. These still rely on key imported components, however, and are for the most part assembly plants. An Indian capability completely to manufacture its own complex weapon systems is probably many years away.

29. Despite this tangible dependence on the USSR for weapons, India is by no means a Soviet client. The Indians do feel the need for Soviet military assistance and for political support against China. But as in their refusal to sign the Nuclear Non-Proliferation Treaty (NPT) or to provide Soviet-controlled shore facilities for Russian naval forces, they resist Soviet urgings when they feel that acquiescence would not be in their interests. Save in time of extreme peril to the Indian nation, New Delhi would not permit operational Soviet military forces to be based on its territory.

30. China is the most important determinant of Indian-Soviet relations. The worse the relations are between India and China the more need India feels for close Soviet backing. A return to the Sino-Indian intimacy of the 1950s now appears as a most unlikely prospect. India will still suspect a Chinese/Pakistani axis (supported openly or secretly by the US) directed against it, and it will continue to look to Moscow for, and get, support against Peking.

31. China is concerned that the political and military relationship between India and the USSR represents an enlarged Soviet threat to China. Peking has committed itself to the durability of the Bhutto government and has strongly supported Islamabad's strategy regarding the pace of recognition of Bangladesh. But within the limits of these mutual suspicions there will be some scope for shifts in Indian and Chinese policies with respect to each other. Thus Peking and New Delhi were, prior to the 1971 Indo-Pakistani crisis, moving towards some easing of tensions. They will probably do so again, particularly if the current India/Pakistan/Bangladesh impasse is finally resolved. Even if some appearance of outward Sino-Indian cordiality is achieved, New Delhi and Peking will remain basically wary of each other politically and will increasingly find themselves competing for markets and products of the industrialized countries.

32. In these circumstances, the relation between India and the USSR will persist as something less than an alliance but more than a normal friendship. Soviet dissatisfaction with India's economic performance, with its insistence on non-alignment, Indian xenophobia, complaints about the quality of Russian military equipment, and opposition to any substantial growth in Soviet naval strength in the Indian Ocean will serve, among others, as continuing points of friction. India and the USSR will continue to share so broad an area of interest that they will generally wish to cooperate with one another. But where their interests diverge, India will continue to take positions different from those of the Soviets.

V. UNITED STATES-INDIAN RELATIONS: PRINCIPAL ISSUES

33. India's cultural, social, and economic ties with the major non-communist countries (West European countries, Japan and the

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US) are close. The bulk of the economic aid India now receives comes from them. Most of its trade (both imports and exports) is with them. Ties with the UK are especially good. English remains the lingua franca of the political and economic elite, and India remains firmly in the Commonwealth. The British tradition of democracy and rule by law has struck deep and impressive roots. With some exceptions India's political relations with most of these countries reflect economic and cultural realities. Acrimonious disputes are not common; dealings are business-like; there is neither intimacy nor hostility; disputes only occasionally take on political or emotional overtones.

34. Indo-American relations are a conspicuous exception. Over the past 25 years, there have been wide swings from a close working relationship through a state of mutual indifference to considerable tension. At the present time, India and the US are emerging from a period of strain into one of relative calm. But mutual cordiality is hardly the order of the day. Indeed there are major obstacles to the development of close relations between India and the US.

35. A number of specific points of contention emerge when US-Indian relations are considered. Whatever the current stated policies, many Indians continue to fear or suspect that the US is, in some manner, supporting Pakistan at India's expense. The US-Chinese détente and the Iranian arms buildup have excited Indian apprehensions and made them concerned to retain good ties with the Soviets. Certain disagreements derive from opposing basic views. For example, India, as one of the most important components of the underdeveloped world, presses for measures favoring the less developed countries at the expense of the richer ones, especially the US.

36. In addition, a brittle emotional climate remains in India itself with respect to dealing with Washington. Some Indian leaders have innate suspicions that the US in an aggressive capitalist neocolonialist power basically hostile to India. While high-level accusations of anti-India CIA conspiracies are no longer condoned by Mrs. Gandhi, American officials, scholars, and businessmen in India still find, on occasion, difficulties and obstacles placed in their way. The Indian Government continues to criticize (though in more muted terms) US activities in Southeast Asia and the US stand in the Arab-Israeli dispute.

Financial Issues

37. The US has proposed several economic topics for discussion with the Indians: the disposition of US rupee holdings, aid and repayments, bilateral trade, and investment matters. The outcome of each of these discussions will determine the atmosphere for succeeding ones.

United States Rupee Holdings

38. Negotiations have begun on the disposition of the \$4.5 billion equivalent rupee claims of the US in India. Of these, some \$900 million equivalent is on deposit, unspent, in a US account in an Indian bank. These rupees have resulted from agreements with India providing for Indian repayments in rupees rather than hard currency of US loans and PL-480 agricultural sales to India. Except for operating costs of the US Embassy these rupees generally cannot be spent without New Delhi's approval; nevertheless, the US could continue to use rupees for its own operation in India indefinitely. New Delhi, however, has viewed with concern the potential for US influence over the Indian economy which it sees these rupees providing. India was therefore, pleased at a US initiative to negotiate a large reduction in these holdings.

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39. The US has proposed that India repay the \$2.4 billion in principal due on outstanding debts with the US retaining \$1 billion equivalent and granting the remainder to India. If the Indians choose to accept the US proposal, a rupee settlement could come very soon. Otherwise, the pace of the entire economic dialogue will be much slower.

Aid and Aid Repayments

40. India has been receiving aid from non-communist and communist countries for well over a decade, mostly in the form of loans. As of April 1971 India had a total external debt of some \$8.5 billion; these obligations have grown; so have scheduled debt repayments and net foreign aid to India has fallen sharply. Thus in 1972-1973, foreign aid disbursements from all sources to India totaled \$895 million but debt repayments of \$682 million gave India a net aid transfer of \$213 million.⁴

41. There are important potential points of Indo-US friction in international financial issues. The US has been the principal donor of aid to India in the past. It no longer is, and future US aid programs to India are very much open to question. But it remains far and away India's principal international creditor, being owed, in hard currency, well over \$3 billion. Most, though not all, US assistance has been as a member of the Aid to India Consortium.⁵ Since the mid- to late-1960s,

⁴ The details of India's international financial positions are discussed in the Annex.

⁵ The Consortium includes Austria, Belgium, Canada, Denmark, France, Germany, Italy, Japan, The Netherlands, Norway, Sweden, UK, US, the World Bank, and the International Development Association (IDA). The Consortium is neither a supernational body whose decisions are binding on its members nor an institution engaging in aid programs of its own. Rather, it provides such expert economic services as analyses and recommendations, and a forum for mutual consultation and coordination of the aid donors on the one hand and the Indians on the other.

the Consortium has been providing between \$1-\$1.5 billion annually in financial assistance to India; at that time the US contribution was roughly 50 percent. By the end of 1971, US assistance had declined to \$200-\$300 million a year. It was then suspended; \$88 million in uncommitted funds were frozen. In the spring of 1973 the \$88 million was released for Indian use, but no new pledges have been made. Major domestic uncertainties, including public and Congressional dissatisfaction with aid, hang over future US assistance programs of any magnitude.

42. India's heavy debt obligations to the US remain, however. Without new increments of US assistance or debt rescheduling, the bilateral US AID program to India will continue to entail a net bilateral transfer of resources from the recipient to the donor as occurred in 1972-1973. In the spring of 1974, India will request long-term debt relief of perhaps \$1.5 billion from Western aid donors. The US response will of course be of major importance to the future course of Indo-American relations. Declines in the levels of bilateral US aid to India in the past two years have been roughly compensated for by increases in commitments by the World Bank and the IDA, multinational organizations in the Consortium, much of whose funds come originally from the US—thus making the US in fact a net donor of aid to India. This reflects in part a shift of disbursement of US aid from bilateral to multi-lateral channels. In the period April 1971-March 1973 the World Bank and the IDA made new aid commitments to India totaling about \$780 million. In IDA's case this was 40 percent of its total loans to the underdeveloped countries. Some aid donors including the US have questioned whether India should retain its large share of IDA loans.

43. It is in these and other multinational bodies that many US-Indian negotiations on financial issues are likely to take place in the

future. The questions of new increments of Consortium assistance, of debt relief, and of the allocation of new Special Drawing Rights (SDRs—or their replacement) issued by the International Monetary Fund will be the principal ones. There is ample room for disagreement. India wants to maintain present levels of World Bank and IDA assistance, to get debt relief from the Consortium states and to have all new SDRs allocated to the underdeveloped countries of which it is so prominent a member. Most Consortium members take a more favorable stand to India's claims and have agreed to more aid. The US, to a greater or lesser degree, has been in opposition to the Indians in these matters. These differences could be continuing sources of difficulty, especially if an extreme balance of payments stringency—say resulting from a severe drought or major international dislocations—should force India to seek a debt moratorium.

The Issue of Emergency Food Needs

44. India, with its huge and growing population, has had periodic food shortages at least since independence.⁶ Despite the well-publicized—and very real—achievements of the Green Revolution (i.e., the expansion of grain output by use of improved seeds, controlled irrigation, fertilizers and pesticides), Indian agriculture remains critically dependent on the weather. And the monsoon rains remain unpredictable and variable. Major failures do occur every few years and bring on food shortages. Two consecutive monsoon failures, as occurred in 1966-1967, can bring on a near disaster, with the threat of severe famine which can be averted only by heavy imports. (In 1967 alone, India received 8 million tons of US PL-480 food grains.)

⁶ A detailed treatment of the extremely complex problem of Indian agriculture—including alternative interpretation and projects of future growth will be found in NIE 31/32-70, "Long Term Prospects in India and Pakistan," dated 20 October 1970, SECRET.

45. The contingency of New Delhi's seeking a new form of concessional sales or grants of US food in future years of crop failures is a very real one. Indian officials now talk of buying more than 3 million additional tons for delivery in 1973, and are seeking concessional terms for much of this amount. But were there a series of monsoon failures, India's future food import needs would skyrocket. Most of the enormous amount needed, if it were available at all and could be shipped, could only come from the US. India could not afford to pay for such huge quantities of food on commercial terms even by wiping out its reserves of hard currency.

The Issue of Indian Nuclear Weapons

46. India has the technology and know-how to set off a nuclear explosion. It could do so soon after a decision to go ahead. Depending on how far preliminary work had gone, India could explode a device anywhere from a very short time to as much as a year after the order is given. India could then fairly quickly, if it chose to, make a dozen or so additional nuclear devices using existing stocks of plutonium. Were India to conduct a test (almost certainly underground) in the next several years, it would label it only a part of a peaceful uses program. At the same time, India would derive the political benefit of being known as a nuclear power; neighboring states would have to be concerned that New Delhi might have other devices—which could, in fact, be used as weapons.

47. At least during the 1970s, however, India would be unlikely to opt for the development of a credible advanced nuclear weapons and delivery system. Such a program would show few results for several years, would be very expensive, and would arouse domestic political criticism. If adverse domestic opinion seemed to moderate, and if Indian capabilities with respect to nuclear and missile technology

developed considerably further, this course, say by 1980 or 1985, might appear more attractive to New Delhi.

48. The pros and cons with respect to conducting a test labeled as a peaceful nuclear explosion would be much more closely balanced. The chances are roughly even that New Delhi will carry out such a test during the next several years, the pros and cons varying with events at any specific time. In any case, it will hold the option open. India would view entry into the nuclear club as a means of achieving a more influential role internationally. Achieving this would enhance the Indians' own sense of self-esteem and would be popular at home.

49. At the same time Mrs. Gandhi would have to reckon with some adverse domestic and foreign reactions to such a move. Criticism from various elements in India that all nuclear explosions are evil, and that a test would only lead to more costly weapons programs could probably be contained by official assurances as to the limited, peaceful nature of the program. The same cannot be said of reactions from foreign countries. Neither Pakistan nor Iran, for example, would be easily prone to accept such assurances, and both would turn to the US for additional support. New Delhi is aware that even a peaceful test would bring forth adverse reactions from most if not all the principal world powers from whom India receives political, military, technical, and economic assistance.

India and South Asia

50. US/Pakistan relations will continue to be matters of concern to India, and will vitally affect its image of Washington's policy with respect to the entire subcontinent. Islamabad will continue to seek US support; it will almost certainly renew its efforts to get addi-

tional military aid. This in itself will inspire suspicion in New Delhi; any large new shipments of US military supplies to Pakistan, either directly or, say, via Iran, is likely to place very severe strains on Indo-US relations. Another Indo-Pakistani war, or Indian intervention in a Pakistani civil war would trigger an international crisis of serious dimensions perhaps involving Iran, China, and other outside powers including the US and the USSR.

51. Possible direct Indian military intervention in certain of its other neighbors would not necessarily be a source of friction with the US, and depending on the circumstances might well reflect compatible policies. For example, Indian support for the Sri Lanka Government during the extremist 1971 insurrection there and its preparations for major involvement if required caused no problems. Nor would a military move into a troubled Nepal or Bangladesh be likely in most cases to create serious difficulties for the US.

VI. INDIA AND THE UNITED STATES: PROSPECTS

52. Developments in India itself could affect its ties with the US and other countries. India's weaknesses, its great poverty, severe caste and class barriers, regional antagonism, and widespread public unrest are manifest. Though Mrs. Gandhi's position seems secure until Parliamentary elections (now scheduled for early 1976), her sudden death could bring on an era of acute difficulty, and even turmoil. So could her defeat, without the selection of any viable successor in 1976. Even Mrs. Gandhi might find India's domestic difficulties too great to cope with and become gravely weakened. In any of these contingencies, the resulting governmental instability could lead to strains in India's international relations.

And in the unlikely event that this huge country were weakened to the point that it became an object of concern or temptations to its neighbors and the great powers, the international community, the US included, would have a serious crisis on its hands.

53. In the broadest terms, the basic interests of the US and of India—e.g., area-wide stability, peace, amicable bilateral relations—are in fact compatible, but the definition of these general objectives and the means of achieving them will often be the source of friction. Relations will frequently be clouded by accumulated suspicions, differing attitudes, or by conflicting perceptions of each others' interests. For example, while both are seeking to improve bilateral relations, the settlement of India's accumulated debts to the US may prove difficult to resolve. Heavy US support of Iran in the strategic, oil-rich Persian Gulf area will also periodically arouse the suspicions of an India gravely concerned about the already close ties between Iran and Pakistan. In short, the areas of friction in the re-

lationship are likely, for some time to come, to predominate over those conducive to harmony.⁷

⁷The Director of Intelligence and Research, Department of State, believes that this paragraph overemphasizes the potential for frictions between India and the US and fails to give sufficient attention to the opportunities for cooperation. He believes, therefore, that a more accurate assessment would read as follows:

53. Relations between India and the US will often be clouded by accumulating suspicions, differing attitudes and conflicting perceptions of each others interests. Moreover, on issues (such as the NPT and debt rescheduling) which divide developed, world powers and the developing regional powers, US and Indian interests will continue to diverge. But the US and India share common interests on a wide assortment of issues ranging from the most fundamental (e.g., the development of stable, independent, and democratic governments in Asia and elsewhere) to more day-to-day concerns (e.g., narcotics, terrorism and hijacking). Not least of these shared interests is a resolution of the South Asian problems remaining from the 1971 conflict toward which India has made significant contributions. The US and India will, as in the past, often be at odds over the means to achieve common objectives but there will also be opportunities to reach common positions or at least to keep differences manageable.

ANNEX

1. In the past 25 years, India has amassed an external debt of roughly \$9 billion. The total amount of foreign aid received by India has, of course, been higher. It has gotten some aid in the form of outright grants or of loans repayable in rupees. It has also repaid some loans received. Of the present \$9 billion debt, the US is owed over \$3 billion and the USSR over \$1 billion.

2. Though the total has since increased, the following debt data are indicative. As of March 1973, total US aid disbursements to India (and Indian repayments) were as follows:

CATEGORY	HARD CURRENCY	RUPEES	TOTAL (Billions \$)
Grants	1.4	0.5*	1.9
Loans	3.8	3.6	7.4
Repaid	(-) 0.5	(-) 0.3	(-) 0.8
TOTAL	4.7	3.8	8.5

*Rupee equivalent granted to India from US PL-480 rupee holdings held in India.

3. Nearly all debts to the Soviet Union are not repayable in hard currency. Rather the USSR (and East European states) maintain special rupee accounts in India into which repayments are made. These rupees are used to purchase Indian goods—both raw materials and manufactured goods—for export to the Communist countries. Though these commodities are not supposed to be then reexported to Western countries for hard currency, such does happen on occasion.

4. To a considerable extent, India has been able to repay its debts to the non-communist,

Consortium countries through the receipt of new increments of assistance from them. At the present time, there is substantial Consortium (and some US) aid still in the pipeline, i.e., money pledged and available but not yet spent by the Indians. The figures are instructive. On 1 April 1973, the total Consortium pipeline had about \$1.6 billion in it. The US component of this, including the recently released \$88 million, was roughly \$124 million. In the period April 1973-March 1974, India is scheduled to repay all Consortium members \$573 million and annual repayments will continue to rise. In 1973-1974, India will owe the US \$129 million, and annual repayments are scheduled to rise through most of the 1970s. Without new increments of US assistance or debt rescheduling, the US AID program to India will continue a net bilateral transfer of resources from the recipient to the donor.

5. This actually happened the previous year; in the period April 1972-March 1973 (during which time funds were frozen) there was a net transfer of \$47.4 million from India to the US. This was also true in the same year of the World Bank and several other countries including Austria, Belgium, Italy, Japan, and The Netherlands. Their overall total of net transfers was slightly higher than that of the US. But as noted in the text, declines in the levels of bilateral US aid to India have so far been roughly compensated for by increases in commitments by the World Bank and the IDA.