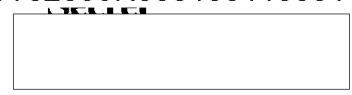




Director of
Central
Intelligence



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India in the Mid-1980s: Goals and Challenges

National Intelligence Estimate

THIRD WORLD FORCES DIVISION

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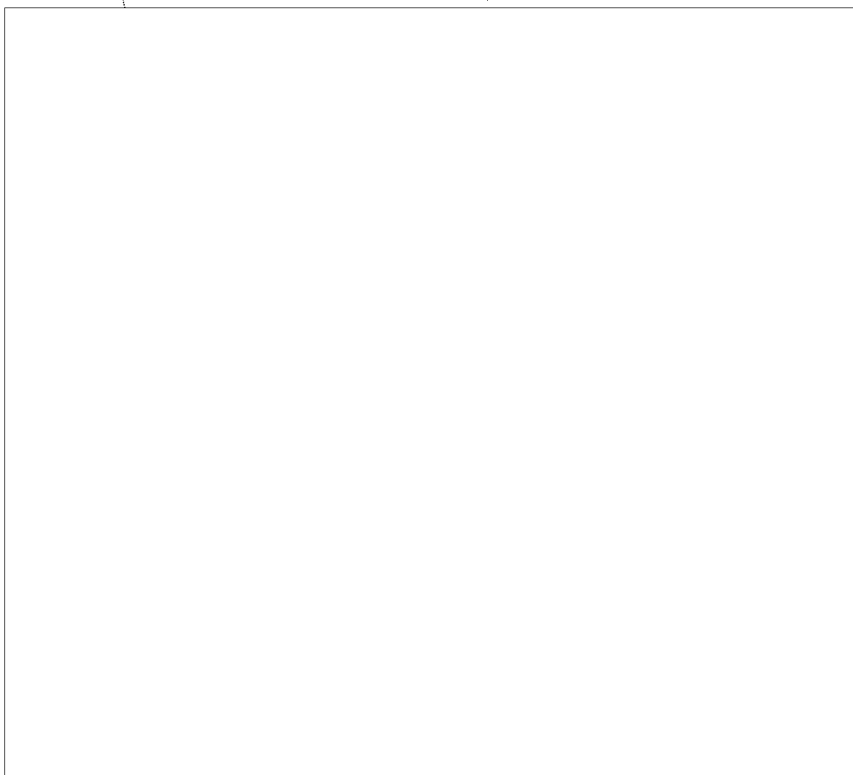
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**INDIA IN THE MID-1980S:
GOALS AND CHALLENGES**

Information available as of 5 January 1983 was
used in the preparation of this Estimate.

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THIS ESTIMATE IS ISSUED BY THE DIRECTOR OF CENTRAL INTELLIGENCE.

THE NATIONAL FOREIGN INTELLIGENCE BOARD CONCURS, EXCEPT AS NOTED IN THE TEXT.

The following intelligence organizations participated in the preparation of the Estimate:

The Central Intelligence Agency, the Defense Intelligence Agency, the National Security Agency, and the intelligence organizations of the Departments of State and the Treasury.

Also Participating:

The Assistant Chief of Staff for Intelligence, Department of the Army
The Director of Naval Intelligence, Department of the Navy
The Assistant Chief of Staff, Intelligence, Department of the Air Force
The Director of Intelligence, Headquarters, Marine Corps

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SCOPE NOTE

This National Intelligence Estimate addresses Indian efforts to speed up economic growth and to enhance its regional and international status, and investigates challenges that New Delhi might encounter in achieving these goals over the next three to five years. It also focuses on how trends in Indian policy might impact on US interests.

KEY JUDGMENTS

Prime Minister Indira Gandhi is cautiously reassessing longstanding Indian policies in an effort to promote faster economic growth and to enhance India's regional and international status. She has marginally reduced the bureaucratic stranglehold over business and now selectively welcomes sophisticated Western technology. She has also moved to expand India's ties with the West and to reduce somewhat the imbalance in India's relations with the superpowers. These initiatives do not presage a fundamental alteration in New Delhi's nonaligned foreign policy.

Over the next three to five years, Gandhi may encounter a number of external and internal factors which could slow or even reverse the direction of some policies.

- Military confrontation with Pakistan is unlikely over the next year but cannot be entirely ruled out within the time frame of this Estimate. As Pakistan's nuclear weapons program develops, India will become increasingly concerned and its response¹ could include initiation of a nuclear weapons program (to include testing)

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- India has only an even chance of avoiding a shortage of foreign exchange in the mid-1980s that is severe enough to force Gandhi to curb her economic liberalization and development efforts. Successful oil exploration efforts or sustained good

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weather and improved world markets, however, would ease international payment problems and provide India with another chance to exploit its potential for faster growth.

- Domestic tensions arising from competing demands for government action are certain to continue and could even grow more severe. This instability will not threaten the political system itself, but a major escalation in civil disorder could make Gandhi more cautious in taking policy risks.

Gandhi's distrust of the United States will diminish if India can avoid a confrontation with Pakistan and a severe economic downturn. She would then have less need for the support of the USSR and could continue her cautious efforts to expand commercial, technological, and military supply links with the West. An improvement in India's relations with Pakistan and China would give a major boost to US interests in the region. It would lessen India's felt need for a Soviet counterbalance to the threats it presently perceives from Pakistan and China.

Moscow will, however, retain a key role in Indian foreign policy and Gandhi will avoid taking any action that will cause an open breach in Indo-Soviet relations. As insurance against the possibility of external threats and to retain India's dominant position in South Asia, Gandhi will continue to emphasize the modernization of the Indian Armed Forces and to preserve the option of developing nuclear weapons.

Gandhi's hold on power remains relatively firm now, but she faces growing political problems arising from factionalism within state units of her Congress (I) Party and from the spread of civil disorder. Nonetheless, she should retain sufficient support to form the government after the general elections scheduled in 1985, though the Congress (I) is not likely to match the two-thirds parliamentary domination it now has. A slim majority or a coalition government would make Gandhi hesitant about pursuing policies that would arouse severe criticism among large segments of the population--a major expansion of her liberalization program, border agreements with China and Pakistan. In the event of her death, a weakened central government is likely to emerge and it would face similar policy constraints. In neither case, however, would there be a fundamental reorientation of Indian domestic or international policy.

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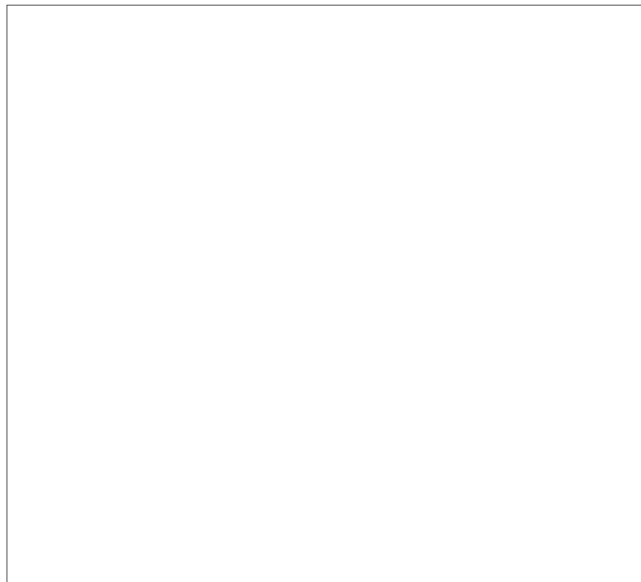
DISCUSSION

Domestic Politics

Gandhi's Present Political Position

1. Prime Minister Indira Gandhi's grip on the levers of power is now relatively secure. Her Congress (I)—(I) for Indira—Party has a solid parliamentary majority; no one within the ruling party is willing to challenge her leadership; and the national election is two years away.

2. The opposition parties, who together won more votes than the Congress (I) in the 1980 elections, have not succeeded in mounting a united challenge at the national level to the Congress (I) during the past three years. The successor parties of the unwieldy Janata coalition which held power in 1977-79 are still divided by the leadership conflicts that split the party in 1979 and drove it from power. They have also failed to make a significant electoral impact outside their limited regional power bases. The two Communist parties, while cooperating on a selective basis, are still far from reunion and have also failed to expand beyond regional pockets of strength. Broader opposition cooperation is limited by the deep ideological divisions that separate the Communists from most other parties.



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Gandhi with families of sons Sanjay (left) and Rajiv in 1980

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Table 1
Results of India's 1980 Parliamentary Election ^a

Party	Candidates	Elected	Percentage of Seats in Parliament	Percentage of Popular Vote
Congress (I)	491	352	66.79	42.68
Congress (U)	212	12	2.47	5.29
Janata Party	431	31	5.88	18.93
Janata Party (S)	293	41	7.78	9.42
Communist Party of India	48	11	2.09	2.59
Communist Party of India (Marxist)	63	36	6.83	6.16
Others	3,082	43	8.16	14.93
Totals	4,620	527	100	100

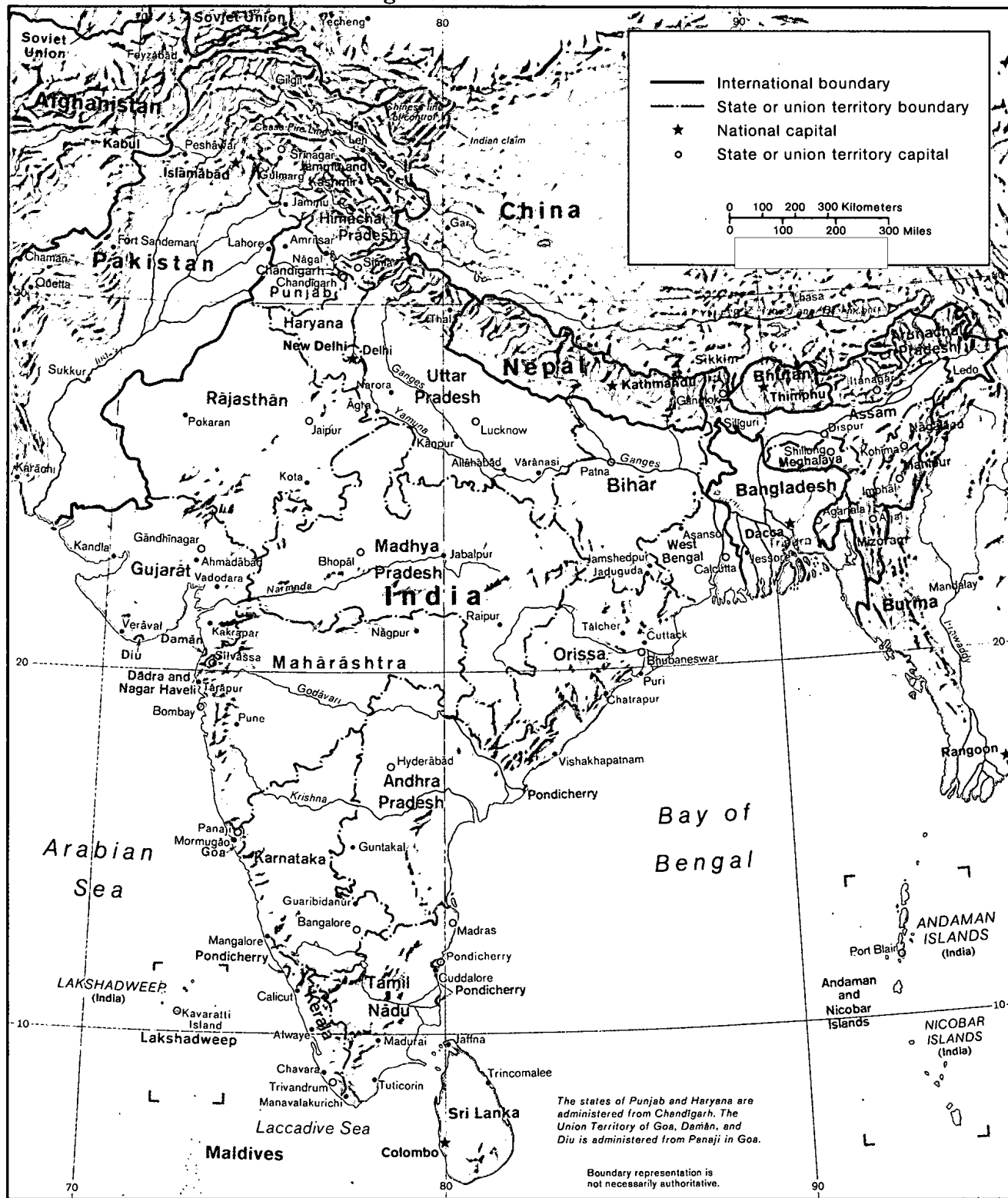
^a See annex D for present parliamentary status.

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Figure 1
India and Its Subcontinent Neighbors



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The states of Punjab and Haryana are administered from Chandigarh. The Union Territory of Goa, Daman, and Diu is administered from Panaji in Goa.

Boundary representation is not necessarily authoritative.

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Gandhi's Political Problems

3. **Factionalism.** The major political challenges confronting Gandhi arise from her own moves to achieve strong centralized control over the Congress (I) Party. To eliminate the chances of an internal party attack on her position, she has moved systematically to undermine party institutions. As a result, she now lacks an organization that can effectively transmit information about local problems to the central leadership, enforce discipline, and mobilize support during electoral campaigns.

4. Continued popular support for Gandhi's leadership, at least at the level achieved in the 1980 elections, will depend on her ability to convey an impression of competent administration. Rampant factional infighting and corruption within state units of her party, however, are undermining public confidence in her ability to administer the government. There is a growing popular impression that Congress (I) politicians are venal figures more concerned with the perquisites of office and maintaining power at any cost than with governing.

5. Factionalism has already cost Gandhi politically. Factionalism was a major cause for the Congress (I) Party's lackluster performance in four states (Haryana, Himachal Pradesh, West Bengal, and Kerala) that elected legislative assemblies in mid-1982. Many official candidates, particularly in Haryana and Himachal Pradesh, were successfully sabotaged by rival factions. The Congress (I) could form governments in Haryana and Himachal Pradesh only by luring back party rebels with promises of ministerial posts and patronage. The precedent dealt a further blow to party discipline since factional leaders perceived that they could bargain with state and central leaders from a position of strength by hinting at leaving the party or even by leaving it. Factional infighting was also a contributing factor to the defeat of the Congress (I) in the 5 January 1983 state assembly elections in the two large southern states of Andhra Pradesh and Karnataka. The loss of these two traditional Congress bastions has further weakened Gandhi's power to manipulate party factions.

6. **Civil Disorders and Government Response.** Over the next three to five years, the growing incidence of civil disorder is likely to place greater strains on the administration in New Delhi. The government

is increasingly hard pressed to come up with acceptable trade-offs among competitive groups seeking government action. The failure to manage such trade-offs often results in violence and a loss of political support to the party in power at the center. In rural India, traditional social linkages are breaking down under the impact of new wage labor relationships between the owners of land and those whom they hire. As a result, untouchables and other groups at the lower end of the Hindu social hierarchy are demanding the legal enforcement of minimum wages and tenancy rights, and respect. In urban areas, an emerging Muslim middle class seeking access to political power has heightened longstanding Hindu-Muslim communal tensions. Nativist "sons of the soil" movements want to reduce the competition for jobs, for access to educational institutions, and for political power by limiting the opportunities of "outsiders."

7. The performance and public image of state and local police have gradually eroded over the past several years, and responsibility for internal security has increasingly shifted to centrally controlled paramilitary forces. The army has occasionally had to intervene as a last resort to restore order. The use of centrally directed security units rather than state police reinforces the growing trend in India toward crisis resolution at the national rather than the state level. The visible role of Gandhi's government and its security forces in resolving civil conflicts has tended to focus criticism on her, at some political cost.

8. On balance, we do not believe that the rising incidence of civil disorder will lead to a level of instability that would threaten the political system itself over the period of this Estimate. New Delhi's direct involvement in quelling violence has proved effective despite the acknowledged political costs. Moreover, the stability of the Indian political system is reinforced by the complexity of Indian society. The wide variations among the different regions tend to compartmentalize a crisis. Seldom has an agitation in one region generated backing in another. The autonomy demand by the Sikh religious community in Punjab, for example, is virtually without support elsewhere in the country. In addition, dissatisfied groups in the different areas seldom coordinate their activities. The government usually has the resources to manage the individual crises as they present themselves.

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9. Gandhi is not likely in our view to impose a national emergency as she did in 1975 when she believed that civil disorder was threatening the political system. Her use of it then resulted in a political disaster. The opposition coalesced and overwhelmed her in the 1977 elections. Since returning to power, Gandhi has put together a legal package that gives the government the tools to handle widespread disorder without resorting to a measure as drastic as a national emergency.

Political Prospects

10. Gandhi will probably form the government after the national election scheduled in 1985. She is the only leader of a political party able to mobilize substantial support in all parts of the country. She is also a master at using the powers of office to keep the opposition off balance. The Congress (I), however, will probably not match its present two-thirds parliamentary majority. Indians tend to vote against bad government, and many will hold Gandhi responsible for the poor government, or at least the impression of incompetent leadership, in the states. Muslims and Hindu untouchables, two disadvantaged groups that have traditionally formed the core of Gandhi's support in northern India, may provide somewhat fewer votes for the Congress (I) as a result of dissatisfaction with government efforts to protect them from violence.

11. Several other factors would substantially reduce the margin of Gandhi's parliamentary victory. The poor showing in the January 1983 state elections in Andhra Pradesh and Karnataka, two traditional Congress bastions, have undermined her credibility as a votegetter. She will be perceived as more vulnerable to pressure tactics by Congress (I) factional leaders seeking to force her hand in local disputes. Miscalculations on the part of either Gandhi or the factional leaders could lead to a disintegration of the Congress (I) in some states. The opposition parties, more confident of making gains in the 1985 national election, have a greater incentive to cooperate against Gandhi. Severe economic problems and increasing civil disorder in the interim after the 1983 state elections might even reduce the Congress (I) to a plurality. In that event, we believe that Gandhi would be able to establish a coalition government by luring over to her side a number of independents and regional parties through

promises of patronage and concessions to the states. A slim Congress (I) parliamentary majority or a coalition government would make Gandhi reluctant to act on issues which arouse severe criticism among large segments of the population—a major expansion of her present efforts to loosen bureaucratic controls over the economy, or border agreements with Pakistan and China.

12. Gandhi's death would precipitate a crisis in the Congress (I) Party, particularly if it occurred before the national election. No other party figure possesses either her national stature or her ability to manipulate the party factions. Gandhi has not permitted any such figure to emerge. Even her son Rajiv Gandhi, whom she is grooming to succeed her, has failed to excite either the party or the public. But the party legislators will nonetheless rally around an interim successor to Gandhi while the various party factions work out a balance of power among themselves. The bargaining will probably include politicians who once belonged to the Congress Party.

13. There is little likelihood that anyone would emerge from the bargaining process with the power Gandhi now possesses. If the politicians can work out an acceptable balance of power among themselves, the trend would be toward a stronger party structure in which state units are more coherent and assertive. If they cannot, a prolonged period of political uncertainty at the center would force the politicians to rely increasingly on the advice of the civil service and the military to maintain order. A military seizure of power is highly unlikely. The officer corps, reflecting the same complexity as the larger Indian society and divided into jealous services, would find it extremely difficult to agree among themselves on an act as momentous as the seizure of political power. A fundamental alteration of the country's political institutions is also unlikely. Important elite groups, including the military, are committed to the democratic system which has protected their interests since India's independence in 1947. Groups at the lower end of the social ladder are also learning to manipulate the political system to their advantage.

Succession Possibilities

14. If Gandhi voluntarily stepped down, she would probably turn over the prime-ministership to Rajiv. She would wait until after the next general election

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and would retire only if the Congress (I) did well enough in the forthcoming general election to ensure political stability. She might then try to secure Rajiv's succession by assuming the presidency when the post becomes vacant in 1987.

15. In the event of Gandhi's sudden death, Rajiv Gandhi, working closely with President Zail Singh, would be one of the major figures involved in the selection of a successor. His own chances of being elevated to the office right now are uncertain, in part because of his political immaturity and because of his still junior status. Rajiv's prospects would probably improve the longer Indira Gandhi remained in office. However, even if he were to become prime minister, his hold on the reins of power could be short lived unless he unexpectedly emerges as a superb political strategist like his mother or develops a party organization. Other possible candidates which party factional leaders might consider are such cabinet-level statesmen-politicians as Defense Minister R. Venkataraman, Foreign Minister P. V. Narasimha Rao, Finance Minister Pranab Mukherjee, and Industry Minister Narain Dutt Tiwari.¹

**The Economy: Clouded Prospects
Despite Liberalized Policies**

16. Indians are reexamining the government's role in the economy. Sluggish growth and continuing poverty have gradually eroded confidence in vaguely socialist policies. Although Gandhi has no comprehensive plan for reform of the Indian economy, she is enthusiastic about Western technology and is now willing to see what the private sector can accomplish under relaxed controls. If the weather is satisfactory, more petroleum is found, and supplies of electricity and transportation improve, Gandhi would be able to expand her liberalization program and avoid foreign exchange shortages which now loom as a major problem for India in the mid-1980s. We estimate that the chances are about even that India will be lucky.

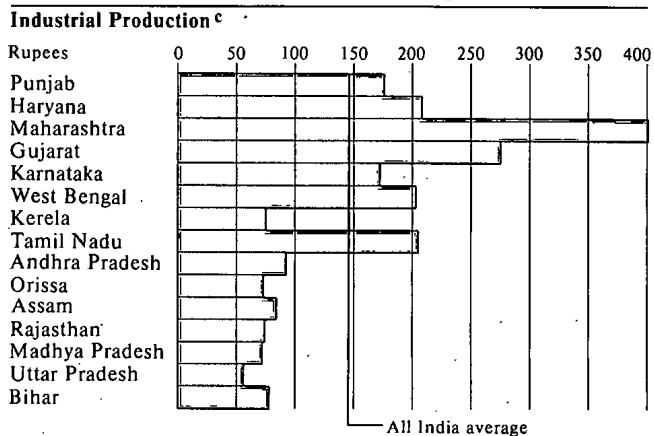
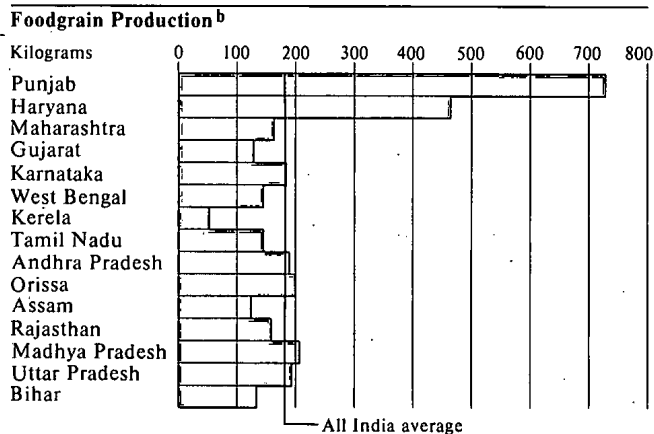
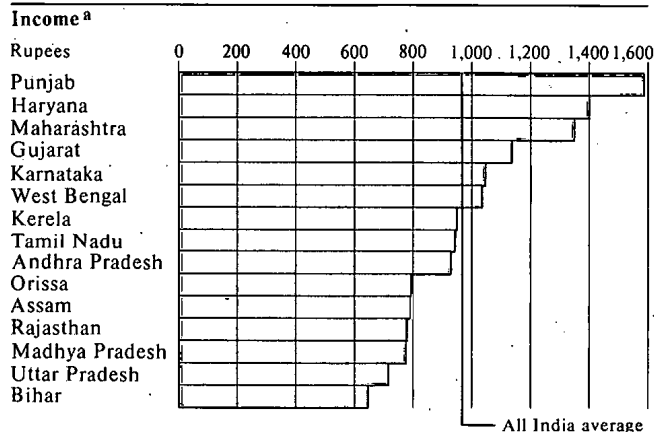
Economic Trends

India's economy has grown only 3.6 percent a year since 1950—typical of poor countries, though slower than China—but enough to permit visible gains in the

¹ For elaboration, see annex A.

**Figure 2
India: Per Capita State Position**

Note change in scales



^a Rupees per year. Average for 1973-74 through 1975-76
^b Kilograms per year. Average for 1979-80 through 1981-82.
^c Value added in 1978-79, in rupees. Includes electricity; excludes household production.



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countryside as well as in cities. Agricultural output has grown slightly faster than the population—a significant achievement that has reduced the fear of national famine and permitted New Delhi to avoid foodgrain imports when the weather is normal or better. Indian industry is now capable of producing all but the most technically advanced goods and ranks among the top 25 manufacturing nations. Life expectancy and literacy have also improved, albeit slowly.

India, nevertheless, remains one of the poorer countries in the world, with a per capita income of about \$205 last year. A third of the growing population still cannot afford an adequate diet. The burden of slow growth falls on marginal farmers or landless rural workers who are often also low caste or tribal. Regional disparities probably increased during the 1970s. Agricultural gains stimulated the growth of industry in already prosperous states, while poor states have been unable to parlay sometimes massive central government investment in resource-based industries into economic diversification and self-sustaining expansion. Urbanization has accelerated, especially in poor states, but remains slower than in most developing countries, and three out of four Indians still live in rural areas.

Economic Policies—New and Old Cures

17. A multitude of minor policy changes since Gandhi returned to office in 1980 have eased the stranglehold of bureaucratic controls and provided a more favorable climate for private investment. She has:

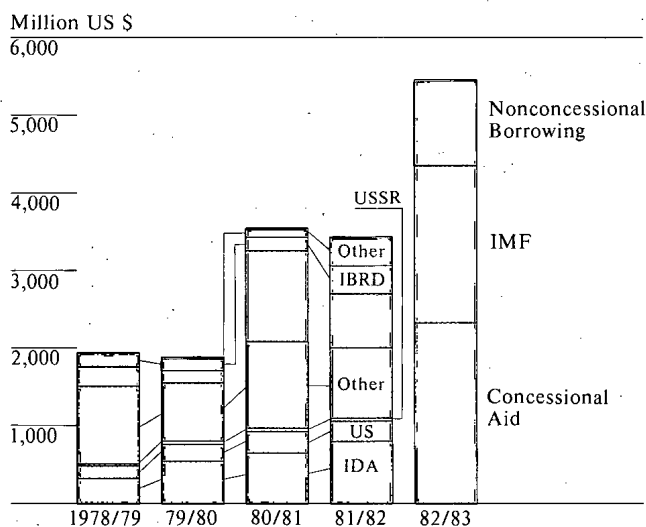
- Reduced legal impediments to the growth of production and investment, especially for export industries.
- Simplified import licensing procedures, especially those that impede exports, and recently has begun to tolerate very limited import competition for domestic manufacturers.
- Encouraged technical cooperation with Western business and offered a slightly greater welcome to equity investment.
- Increased use of foreign commercial loans.

Changes so far have been very cautious and the basic regulatory structure remains in place. Gandhi regards much of her liberalization program as an experiment—worth an extended trial but to be abandoned if output and exports fail to increase.

18. Gandhi's efforts to increase production are also evident in more traditional policies of government investment and import substitution. Her close interest has spurred improved management of some public enterprises. She has continued support for agriculture through price-support programs and investment in irrigation. New Delhi is proceeding with massive expansion plans for electricity-generating capacity, and is counting on petroleum exploration efforts to increase India's own crude oil production and reduce import costs.

19. India has sought increased support from international financial institutions. Despite initial US reservations, New Delhi obtained a \$5.7 billion Extended Fund Facility loan from the International Monetary Fund in November 1981. Indian officials solicit European support for Indian borrowing from the World Bank; they resent reduced US contributions to the International Development Association, efforts to reduce India's share of concessional loans, and opposition to loans for some energy projects. India has not previously borrowed from the Asian Development Bank. It hopes to obtain \$2 billion in project loans over a five-year period beginning in 1983, but may not be able to do so.

Figure 3
India: Selected Capital Receipts^a



^a Excludes short-term capital, suppliers credits, USSR military aid, and foreign investment. IMF receipts include SDR allocations and Trust Fund loans.

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Constraints on Economic Growth

20. India remains highly vulnerable to adverse developments beyond the control of economic policy. Despite increased irrigation, agricultural production still depends heavily on summer monsoon rains. India has not yet adjusted to the burden of higher import costs following the 1979/80 increases in international petroleum prices, and recession in developed countries now restricts Indian exports. Indian officials fear that a reduction in foreign aid commitments—large in absolute terms, but low per capita—will force New Delhi to change its economic policies. Disbursements from existing aid commitments will remain high for several years.

21. Economic progress is accompanied by increasing interdependence among regions and sectors, which creates new vulnerabilities. Political agitation in the northeastern state of Assam, for example, disrupted national supplies of petroleum and fertilizer in 1980, and a 12-month-old strike in Bombay textile mills is contributing to a recession in industries in other states. Interrelated shortages of electricity, coal, and rail services crippled industrial production and exports in 1980 and remain serious problems. Agricultural gains are increasingly vulnerable to shortages of energy, transportation, and fertilizer, while industries suffer when farmers receive priority allocation of electricity.

22. Industrial output has not responded in proportion to the increase in investment. Developed behind a wall of protection and impeded by bureaucratic controls, many businesses are inefficient. Many public-sector industries are plagued by overstaffing and management reluctance to make decisions. The leadership of India's large family-dominated industrial conglomerates is becoming increasingly professional, but a third of all manufacturing is still produced outside of factories.

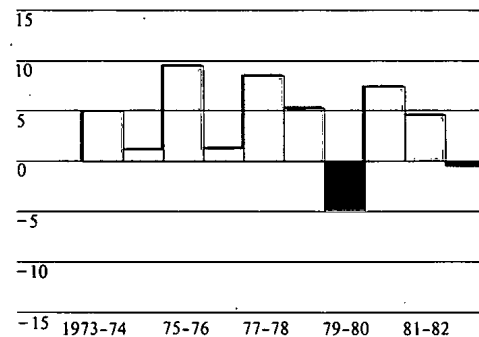
23. These continuing problems limit the potential benefits from Gandhi's policy changes. India will continue to make plodding progress over the long term, but is still unable to achieve a vigorous economic growth and will continue to experience periodic setbacks. Overall output will probably stagnate this year as a result of drought and labor disputes.² International financial reserves are decreasing.

² Some Indian officials estimate overall growth this year at 3 percent, based on zero growth in agriculture.

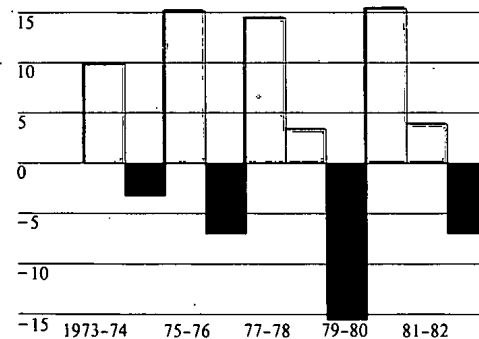
Figure 4
India: Annual Growth Rates

Percent change from previous year

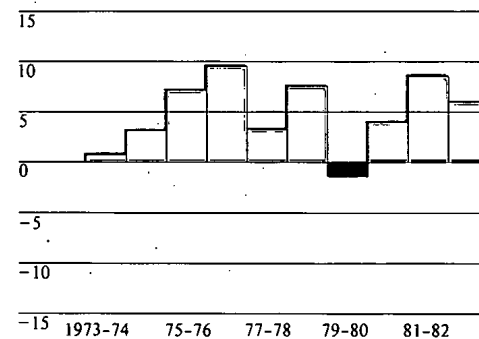
GNP



Agriculture



Industry



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International Payments—A Key Problem for the Mid-1980s

24. India has only a barely even chance of avoiding a shortage of foreign exchange after late 1985 or early 1986 that is severe enough to force Gandhi to modify economic policies:

— Disbursement of the Extended Fund Facility from the International Monetary Fund, which provides more than \$2 billion this year, will have been completed by then. Instead, India is obligated to repay the IMF more than \$750 million in 1985/86 and almost \$1 billion in 1986/87. Debt service payments on concessional aid, World Bank loans, and commercial borrowing are also mounting.

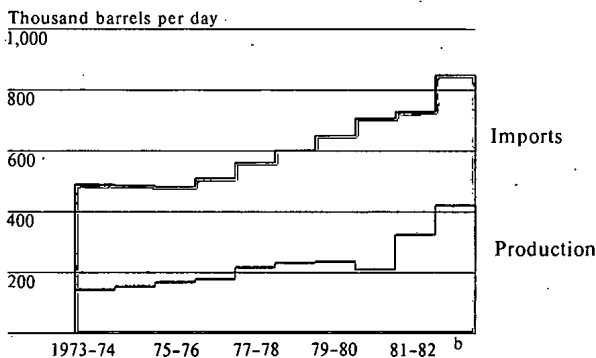
— Prospects for the mid-1980s are now less promising than they seemed only a year ago. New Delhi has not yet been able to confirm the commercial viability of preliminary discoveries of new crude oil deposits. India is drawing down its foreign exchange reserves to pay for grain imports following poor weather this summer, while export growth has been slower than anticipated. Some commercial bankers are increasingly reluctant to lend to India unless they can also profit from credit programs subsidized by European governments.

— Major uncertainties include future crop prospects, the stability of remittances from Indian workers in the Middle East, demand in developed countries, and India's own ability to minimize power and transport shortages or domestic agitations that constrain production of export goods.

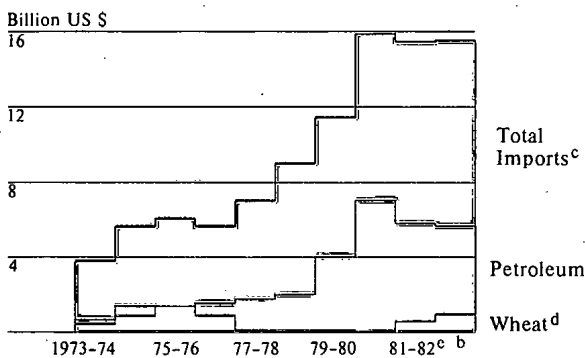
25. Gandhi cannot be confident of receiving more Western aid—with the possible exception of food aid—to help alleviate foreign exchange shortages. She may feel forced to slow the pace of her liberalization program and delay expensive petroleum development projects. The United States could easily be the scapegoat for the resulting economic downturn—some Indian officials would blame the troubles on lack of US support for Indian borrowing from multilateral lend-

Figure 5
India

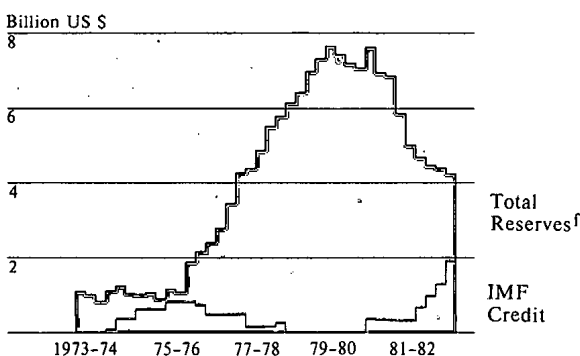
Petroleum^a



Imports



International Reserves



^a Domestic crude production and imports of crude and products.

^b Projected.

^c C.i.f., excluding military imports and merchant ships.

^d Including imports by private charities that are not available for government distributors.

^e Estimated.

^f End of quarter, excluding gold.

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ing institutions, and left and right opposition parties would blame Gandhi (inaccurately) for abandoning self-reliance at the behest of the United States.

26. Payment for military imports will increase India's financial burden in the mid-1980s despite generous credit terms offered by the Soviet Union and concessions wrung from Western suppliers. Payments and debt service to Moscow could become especially onerous; Indian officials are already considering plans to cope by purchasing hard currency goods for delivery to the USSR or by developing aircraft industries to cater to the Soviets or their clients. Military authorities are apparently confident of receiving adequate funds for modernization programs, but we believe there is a moderate chance that the economic policy adjustments Gandhi is willing to make would be unable to cope with the dual burden of commercial and military imports. New Delhi may have to approach the USSR for additional aid or appeal to Western donors for debt relief.

Table 2

India's Annual Payments for Military Imports
(By Supplier, Million US Dollars)

	USSR ^a	Other	Total
1970s	Less than 250	20-95	270-345
Current	200-420	200	400-620
Mid-1980s	500-1,100	400-500	900-1,600

^a Accounts with the Soviet Union are maintained in rupees and both countries have agreed to balance bilateral payments. India pays for military and commercial imports from the Soviet Union by exporting goods, some of which have few alternative markets. The Soviet Union is probably willing to import more Indian products. But in the future, India increasingly will have to offer goods that otherwise could have been sold in hard currency markets.

27. A more optimistic scenario is possible. A series of good monsoons would improve India's agricultural position substantially and give a strong stimulus to the domestic economy. Additionally, major oil discoveries and improved world markets would relieve pressure on India's balance of payments and permit Gandhi to continue her domestic liberalization efforts. The current IMF-supported program could then, as intended, produce substantially improved competitiveness of Indian products on the world market. The economy would have another chance to exploit its potential for much faster growth. Internal political strains from competition for government-allocated resources could be managed more easily. Gandhi would continue to

view the United States as an unreliable economic partner, but resentment of US policies toward multilateral lending institutions would have a diminished impact on bilateral political relations.

Foreign Policy

Search for Greater Foreign Policy Flexibility

28. Gandhi bristles at charges that India is pro-Soviet. In response to international criticism and in an effort to improve Indian security, she has attempted to expand India's ties with the West and to reduce somewhat the imbalance in New Delhi's relations with the superpowers. The pace of change, however, will be guided by India's desire to avoid an open breach in Indo-Soviet relations and by New Delhi's concerns about the threat posed by US military assistance to Pakistan.

29. Barring a renewed conflict between India and Pakistan, we expect the trend toward greater foreign policy flexibility to continue. A more balanced foreign policy is widely supported in India. Even Indian leftists value Western technology, and the rightists recognize the value of good Indo-Soviet relations. Economic stringencies, however, would limit India's ability to finance increased imports from the West, and political instability might also make a government more cautious in risking policy changes.

Relations With the Great Powers

30. *The USSR.* We believe Moscow will retain a central place in New Delhi's foreign policy strategy for the foreseeable future. The value to India of many of the benefits gained through friendship with the Soviet Union is not likely to diminish. India's preoccupation with the potential security threat from Pakistan, New Delhi's perception of the Soviets as reliable arms suppliers, and the uncertainty about alternative trade opportunities provide strong incentives to continued close ties. A core of shared interests is likely to endure as the continuing basis of the relationship regardless of the changing atmospherics of the relations.

31. Gandhi's efforts to acquire greater foreign policy flexibility nevertheless have contributed to strains in Indo-Soviet relations. We believe Moscow is apprehensive about the thaw in Indo-US relations, the modest diversification in India's arms acquisitions

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Gandhi with Soviet leaders in Moscow, September 1982

policy, New Delhi's increasing ties with Western Europe, and Gandhi's moves to normalize relations with Islamabad and Beijing. The Soviets have become increasingly critical of New Delhi's failure to be more supportive of Moscow's positions in international forums. For her part, Gandhi is dissatisfied with Moscow's refusal to consider Indian views on Afghanistan, and she has become increasingly irritated with Moscow's covert support of the Indian Communist parties, and with its failure to muzzle the Indian Communists' criticism of her. The present critical stance of the pro-Soviet Communist Party of India toward Gandhi is in marked contrast to its support of her during her first term in office (1966-77).

32. Despite the strains in Indo-Soviet relations, Moscow continues to commit substantial resources in order to advance its interests in the region. New Delhi and Moscow share interests in minimizing Chinese influence in South Asia, and in opposing cooperation among China, Pakistan, and the United States. Friendship with India provides the Soviets with entree and legitimacy in the Third World, especially important now that Gandhi is about to assume the presidency of the Nonaligned Movement (NAM), and a platform from which to voice Soviet criticism of US policies, particularly on the Indian Ocean. The USSR sends numerous high-level delegations to India, is increasing military support, and conducts an extensive propagan-

da campaign designed to strengthen public support in India for Indo-Soviet friendship.

33. The large Soviet investment in active measures designed to influence Indian society and politics has paid relatively meager dividends. Indian social and cultural institutions and Hindu religious traditions have proved a barrier to the spread of both Communist influence and other left-of-center ideologies. The relatively high rating the USSR receives in public opinion polls is due to the popular perception of the Soviet Union as a reliable friend and not support for Communism as such. Indian Communists have limited national influence and the strongest Indian Communist party is independent of Moscow. The Communists, divided into a number of competing parties, have not been able to expand beyond regional pockets. Gandhi and most other national leaders consider Communism an alien philosophy. At the moment, there are no known Communist sympathizers in the policymaking level of her government, her circle of personal advisers, or in the top echelons of the military. We do not anticipate any significant change in this situation within the time frame of this Estimate.

34. *The United States.* Gandhi will try to keep relations with the United States from deteriorating, and would like Indo-US relations to improve somewhat. She values trade, aid, and technology links with the United States. Indian policymakers resent US

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Gandhi with President Reagan, July 1982

policies toward international financial institutions, but a circle of Gandhi's closest advisers favor a continued dialogue with Washington. High-level discussions with Washington enhance India's status as a nonaligned leader. Purchase of selected US military equipment would contribute to Indian efforts to diversify their sources of arms. Better relations with Washington are also a signal to Moscow of India's independence of action.

35. US security assistance to Pakistan will remain the major irritant in Indo-US relations. New Delhi fears that Islamabad ultimately will use the weapons it acquires against India. The Indians argue that the number and sophistication of the weapons in the US package far exceed Pakistan's legitimate defense requirements and that US assistance will only speed up the arms race in the region.

36. We believe Gandhi will continue to avoid confrontation in her approach to the United States, but New Delhi's doubts about US intentions in the region and about US reliability virtually exclude the possibility of significant Indian concessions to US views or sharp increases in military ties. On issues such as Afghanistan, Kampuchea, or Poland, we believe Gandhi is unlikely to risk serious strains in Indo-Soviet ties by moving away from at least tacit acquiescence to the Soviet policy line, although, as president of the NAM between 1983-85, she will face pressure to take a position closer to the majority nonaligned view on these issues, particularly on Afghanistan. While the

opportunity for reestablishing Indo-US military ties has improved, we believe Gandhi is likely to proceed slowly in concluding new arms contracts with the United States. In discussions on weapons contracts, Indian officers have shown their dislike for Foreign Military Sales (FMS) restrictions. In addition, India generally requires that contracts for the purchase of new weapons contain a provision to produce them under license, an option more easily obtained from West European producers than from the United States.

37. Gandhi's long memory of frictions in trade and aid relations with the United States reinforces her view of Washington as unreliable. New disputes will strengthen that suspicion. Indian efforts to import computer technology, for example, are increasingly running up against US export control restrictions that are intended to prevent diversions to the Soviet Union.

38. *Western Europe.* Gandhi is likely to try to broaden the ties she has developed with Western Europe. These links provide India with an alternative to dependence on or close identification with either superpower. Her numerous meetings with European leaders have both offered an opportunity to escape from the choice between conflicting superpower positions and elicited a modest degree of support for Indian goals. New Delhi has achieved more diversification in its arms supplies by concluding contracts with the West Germans for submarines and with the French for Mirage 2000 fighters, as well as some other, smaller contracts. Economic links with West European countries and Japan provide the Indians with the advanced technology they are now seeking. Although Western Europe's share of India's foreign trade has fallen somewhat, it still accounts for more than a fourth of India's exports and imports. As a group, these countries now provide over 30 percent of India's concessional aid receipts. Because individual country contributions are relatively low, West European donors are seldom accused of using aid to influence Indian policy. Other financial links have increased because several major European countries are trying to revive their own industries by offering India quasi-commercial credits and associated Eurocurrency loans.

39. *China.* India's diplomatic dialogue with China will remain an important element in Gandhi's attempt to gain greater flexibility, but we do not expect a major breakthrough in Sino-Indian relations over the

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period of this Estimate. Significant progress toward a resolution of the longstanding border dispute might become possible following the national election in 1985 if Gandhi is returned to office with a heavy vote of confidence. Deep mutual suspicions are likely to persist, however, and military, strategic, or substantive science and technology cooperation is unlikely for the foreseeable future. The slow normalization that has been achieved is subject to abrupt reversal if, for example, China enhances significantly its military relationship with Pakistan and other South Asian countries on India's periphery. Progress in reaching new agreements for a modest expansion of trade and cultural exchange is likely to be balanced by remaining differences on Kampuchea, possibly on Afghanistan, and in international financial institutions as both compete for loans.

Regional Concerns

40. The probability of renewed conflict between India and Pakistan is low over the next year, but, beyond that, several potentially destabilizing factors pose a continuing threat of another war. The same tensions that have ignited conflict three times in 35 years—mutual distrust, the disputed territory of Kashmir, and New Delhi's perception of Pakistan as an unstable state that threatens India's borders and vital economic installations—still fester today. The threat of renewed conflict is heightened by Pakistan's nuclear program. Conflict mediation between the two states is impeded by Gandhi's rejection of the concept of equality as a guide to relations between India and Pakistan. Gandhi accepts the widely held Indian view that Pakistan's policies should reflect acknowledgment that in size, population, industrial base, and other respects India is the dominant power in the subcontinent.

41. Despite the numerous sources of tension in Indo-Pakistani relations, Gandhi has good reasons to pursue greater normalization of relations with Islamabad. Besides the heavy costs of another war, Indian action against Pakistan could prompt the Arab states and Iran to damage the Indian economy through such actions as imposing of a limitation on the flow of remittances from Indian workers in the Middle East. Such remittances have been an important source of foreign exchange for New Delhi since the mid-1970s.

In addition, India's relations with China would plummet, which would have a major adverse impact on India's present efforts to enhance its diplomatic flexibility.

42. We believe Gandhi will keep India's options open, waiting for unambiguous evidence that Pakistan has moved into sustained production of fissile material. Confronted with such evidence, she may be faced with a choice between launching an Indian nuclear weapons program (to include testing) or taking military action against key Pakistani nuclear facilities. The likely consequences of military action would be a wider conflict with Pakistan. In the absence of such evidence, Gandhi will probably pursue a course of slow rapprochement with Islamabad, although she is unlikely to make significant concessions. She would like to project an image of reasonableness to enhance India's credentials as a NAM and Third World leader. In addition, negotiations with Islamabad signal the Soviets that India will pursue its own interests regardless of Moscow's warnings that Zia's willingness to talk is only a ploy. New Delhi also wants to avoid the possibility that Pakistan could exploit civil unrest in key Indian border regions. India's cautious but favorable attitude toward greater normalization reflects a continuing strong Indian belief that, if an opening of borders and free flow of commerce and people can be achieved, then greater Indian influence over Pakistan can be realized.

43. The prospects for the evolution of a more stable state system through regional cooperation in South Asia are limited as long as Gandhi remains in power. The South Asian states have made tentative moves toward a regional organization similar to the Association of South East Asian Nations (ASEAN); discomfort with the superpower presence in the region may convince New Delhi of the need for greater cooperation among the subcontinental states. Gandhi, however, has long exhibited a lack of sensitivity to the concerns of the other states in the region. As the area's strongest military and economic power, India has presumed to be the final arbiter of regional interests, which it generally equates with its own. Disputes over sharing of river waters with Bangladesh are of growing economic importance to both countries and will remain a major source of political friction, although there are some tentative signs that India and Bangladesh may be willing to discuss seriously how to deal

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with the Ganges-Brahmaputra water issue. Serious instability in Nepal or Bangladesh, which might invite Soviet or Chinese intervention, would increase Gandhi's concern dramatically, but the possibility of either is remote.

44. Domestic political considerations influence Gandhi's policies toward India's South Asian neighbors because developments in those states sometimes touch on the interests of important groups within India. India's Bengali-speaking population is concerned about the well-being of the Hindu minority in Bangladesh in large part because communal tensions there could touch off a mass migration to West Bengal as occurred in 1971. Tamil-speakers in South India would also be concerned if there were a major deterioration in relations between the Tamil minority in Sri Lanka and its Sinhalese-speaking majority. Growing domestic demands for water resources in northern and eastern India, which involve Nepal and Bangladesh, influence government policies toward those two neighboring states. New Delhi's efforts to maintain good relations with Pakistan and with the Muslim states of West Asia are in part influenced by the government's desire to demonstrate to India's large Muslim minority that India is a secular state.

Nonalignment and Third World Issues

45. We expect India, soon to assume the presidency of the NAM, to continue to play a moderate role in Third World forums, taking a position between the pro-Soviet minority and the "truly nonaligned" majority in the NAM and avoiding acrimony with the industrialized countries on North-South issues. As a founding member of the NAM, India regards the organization as a means to act on the world stage as a moderating influence on superpower tensions. In its capacity as a NAM leader, India has also attempted to assert a role as conflict mediator in disputes such as the Iran-Iraq war. In addition, India is attempting to expand its exports to other developing countries and its interest in promoting cooperation among them.

46. Tensions between India and other Third World states are likely to persist where Indian and Soviet interests converge against the NAM consensus. Indian policy toward Afghanistan, for example, reflects New Delhi's dilemma of avoiding international criticism for condoning the Soviet presence while at the same time minimizing strains in Indo-Soviet ties and increasing

its long-run leverage with the government in Kabul. Gandhi has adopted an ambiguous formula—calling for an end to all forms of foreign intervention in Afghanistan. Similarly, New Delhi is likely to continue its diplomatic support for the Heng Samrin regime in Kampuchea and its opposition to the rival coalition headed by Prince Sihanouk, but may make minor diplomatic concessions to the ASEAN and UN positions in order to minimize the damage to its credentials as a Nonaligned leader.

The Military

47. Gandhi has undertaken a major commitment to modernize the armed forces because she believes that Pakistan—and in the long run China—poses serious threats to national security. She hopes to assure India of continuing regional supremacy and to extend Indian influence in South Asia and the Indian Ocean. The Indian armed forces are already the fourth largest in the world, capable of defending against conventional attacks by any neighbor. Modernization will increase general force levels only slightly over the next three to five years but will enhance India's combat capabilities. While India is turning increasingly to the West for high-technology arms purchases, the Soviet Union will remain its principal foreign supplier.

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repayment periods. With Soviet sales go Soviet technicians for the construction of facilities, the licensed production program, and equipment deliveries. The number of Soviet technical advisers in India is now in excess of 200.

56. New Delhi is turning to Europe for selected weapons systems in order to obtain sophisticated military hardware and to reduce its dependence on Moscow. However, the Europeans cannot match Soviet prices or credit terms. The Indian military is interested in US equipment, but the government is apprehensive that Washington would be an unreliable supplier. Indians are concerned that arrangements under Foreign Military Sales (FMS) contracts might not be fulfilled.

Cost of Military Program

57. New Delhi's defense effort is expensive. The defense budget for 1982-83 is \$5.3 billion, up from approximately \$5 billion in 1982 (an increase of roughly 6 percent). As in prior years this will comprise approximately 3 percent of the gross national product (GNP). India's defense expenditures rank 14th in the world in terms of absolute spending and 16th as a percentage of GNP.

Perceived Military Threats

58. India can defend itself against any regional threat. The Indian military has more personnel and more sophisticated equipment than Pakistan, and the disparity is likely to increase over the next several years. Nonetheless, New Delhi continues to worry about a military threat from Pakistan. Indians believe that US military assistance to Pakistan raises the potential for a Pakistani attack. India is even more concerned about Pakistan's nuclear weapons program. As the Pakistani program continues, Indian apprehensions about Pakistani intentions will increase, and New Delhi's response could range from renewed nuclear testing in support of a weapons program to direct military action against Pakistan. We believe that armed conflict with Pakistan is unlikely over the next 12 months, but beyond that a military conflict with Pakistan cannot be entirely ruled out.

59. China is seen as India's major long-term threat, though a Sino-Indian conflict is unlikely during the

Sources of Military Imports

55. The Soviet Union will remain India's principal supplier to all three services during the time period covered in this Estimate. It offers state-of-the-art weapons and cheap credit—low interest rates and long

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period of this Estimate. Relations have improved over the last few years, and the two sides are now engaged in efforts to establish more normal relations, though New Delhi remains deeply suspicious of China's intentions. New Delhi continues to fear that Beijing may again assert itself to challenge Indian interests in South Asia. Fears of a future combined Sino-Pakistani attack remain a concern of Indian defense planners.



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60. India presently considers its land borders as reasonably secure, but New Delhi is uneasy about the naval presence of US and, to a lesser extent, Soviet contingents in the Indian Ocean. In response to super-power activities and with a view toward enhancing India's recognition as a maritime power, the Indian Navy's blue water operations will increase. On the diplomatic front, New Delhi will strive to reduce foreign power naval activity in the Indian Ocean and will support the proposal for an Indian Ocean Zone of Peace.

Indian Views on Testing

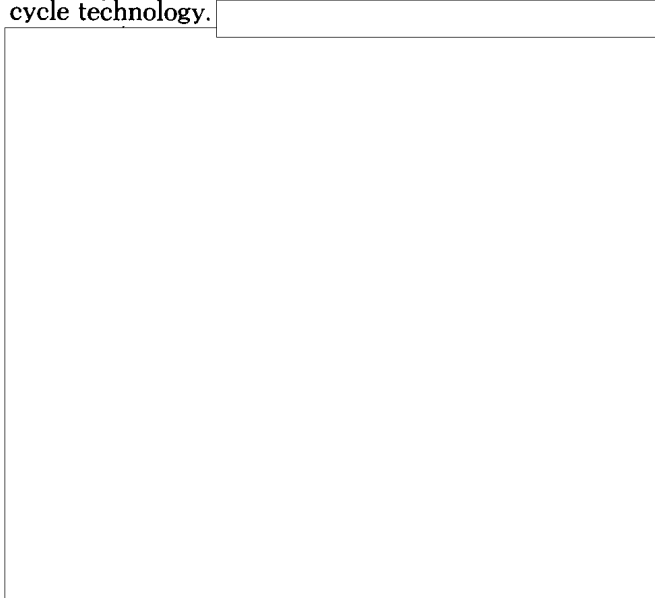
63. Since her return to power, Gandhi has made general policy statements, both public and private, affirming India's commitment to peaceful uses of nuclear energy. She has not, however, ruled out tests of nuclear explosives for peaceful purposes if tests are deemed to be in India's national interest. On the other hand, she has unequivocally stated her opposition, on moral grounds, to the development of nuclear weapons.

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Nuclear Program

Present Capabilities

61. The Indian nuclear program has two major goals: to increase energy production by nuclear power and to maintain an option of building nuclear weapons. India resents foreign interference in its nuclear policy and therefore avoids international safeguards whenever possible. India has the means to support its nuclear power program—trained scientific personnel, limited uranium reserves, and mastery over the fuel cycle technology.



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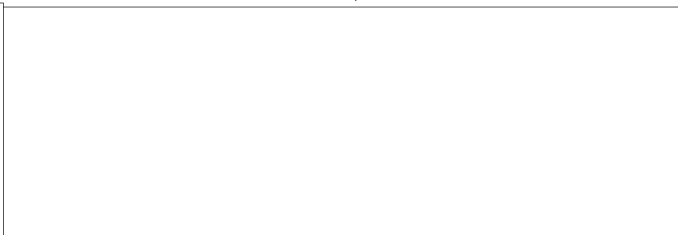
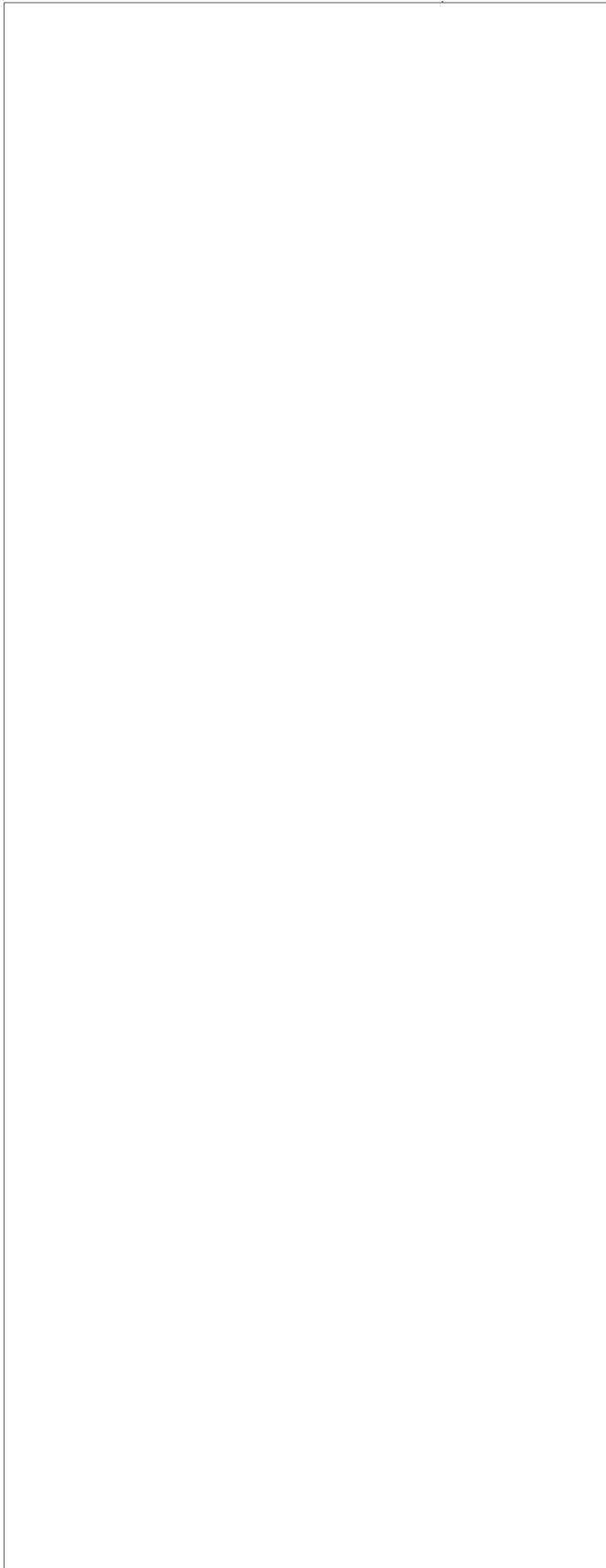
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Implications for the United States

70. India's size, large industrial base, military capabilities, and relative stability make it an important regional power and give India importance in any consideration of US security interests in the South Asian region. India is capable of taking action that could adversely affect those interests, particularly in Pakistan and Afghanistan. Changing circumstances within India and the region, however, are resulting in a reevaluation of some longstanding tenets of Indian foreign and economic policy which provides a basis for furthering a number of US interests.

71. The Soviet invasion of Afghanistan and the continued presence of Soviet troops on India's side of the Hindu Kush mountains in Afghanistan arouse fears in India of superpower confrontation on its own doorsteps. To reduce the chances of such confrontation, New Delhi has stepped up its efforts to improve relations with the United States, Pakistan, and China in the expectation that outside powers will be more mindful of Indian interests.

72. An improvement in India's relations with Pakistan and China would give a major boost to US interests in the region. It would lessen India's felt need for a Soviet counterbalance to the threats it presently perceives from Pakistan and China, and thus would probably reduce Indian sympathy to Soviet interests which such threats encourage. Better Indo-US relations would enhance this trend. New Delhi would be less apprehensive that Washington is teaming up with Islamabad and Beijing against it. This in turn would improve the atmosphere in which India pursues rapprochement with Pakistan and China.

73. The present Indian reevaluation of its economic policies has resulted in some modest initiatives that could further US objectives. The Indian Government, recognizing that India must export to pay its oil bill (currently 65 percent of India's annual foreign exchange earnings), is actively courting foreign companies to enter into "collaborations" with Indian firms.

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In doing so, it hopes for an influx of technology that will make Indian industry more competitive on world markets and efficient at home. New Delhi believes that it will continue to require assistance on concessional and partly subsidized terms over some indeterminate period. Gandhi's comments during her visit to Washington made clear that she closely associates improved relations with the United States with greater sympathy for India's economic needs as New Delhi perceives them. Both the will and the ability of the Indian Government to take US interests into greater consideration in its policies will be significantly influenced by Washington's policies toward international financial institutions. A strengthened Indian economy would in itself advance US interests because India could sustain its present effort to expand commercial and military supply links with the West. Indians recognize that the USSR is increasingly less capable of meeting their growing need for sophisticated technology and probably cannot increase the quantity of petroleum it now supplies. Over time, these trends may result in greater Indian moderation in multilateral political and economic forums on subjects of interest to the United States.

74. We do not anticipate domestic political changes that will in themselves cause the Indian Government to alter its present nonaligned posture over the time frame of this Estimate. There are no leftist ideologues close to Gandhi. Indeed, Indian leftists tend to be in the opposition. Her most likely successors, including Rajiv Gandhi, are less distrustful of the West than Gandhi. Should Gandhi's Congress (I) Party lose substantial support in the next general election, the parties most likely to make significant electoral advances are middle-of-the-road regional parties and not the Communists. The emergence of a new generation of politicians, entrepreneurs, and professionals is laying the foundation for a more pragmatic approach to India's domestic and international problems.

75. Even if there were a period of sustained political instability at the center, we do not expect a fundamental alteration in the country's political institutions. India has had almost 80 years' experience with representative institutions and an even longer experience with a national bureaucracy. Important elite groups are committed to the democratic system which has protected their interests since India's independence in 1947. Groups at the lower end of the social ladder are also learning to manipulate the political system to their advantage. In short, we expect India to remain a democratic and united country. A weakened central government, however, might be reluctant to make policy decisions that arouse severe criticism among important parts of the population.

76. Nonetheless, there are limitations on how far India and the United States will go in accommodating the interests of the other. New Delhi's desire to maintain good Indo-Soviet relations is one important constraint. The USSR will remain India's major arms supplier and will support New Delhi in possible future disputes with Pakistan and China inside multilateral forums. Consequently, Gandhi (or any successor) will try to avoid taking any action that will cause an open breach in Indo-Soviet relations. Neither for the sake of the United States nor anyone else will India abandon what it regards as its right and destiny to be the preeminent power in South Asia and the Indian Ocean basin and to be recognized as such. India will continue to oppose the military presence of both superpowers in the Indian Ocean. New Delhi will also avoid nuclear safeguards whenever possible and will preserve its option of developing nuclear weapons. As a major nonaligned nation and an outspoken representative of the so-called South, India is likely to continue to be on the opposite side of the United States on many multilateral issues. Finally, Indian suspicions of the United States will be kept alive by US international policies that India will not accept. Most significant will be the supply of US weapons to Pakistan and US policies toward international financial institutions.

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Annex D

Party Positions in Lok Sabha (Lower House of India's Parliament)

(As of 15 May 1982)

Name of State or Union Territory	Congress (I)	Communists ^a	Lok Dal	DMK	Other Parties	Independents	Total Elected	State Vacancies	Total
States									
Andhra Pradesh	41				1		42		42
Assam	2						2	12	14
Bihar	31	5	5		7	5	53	1	54
Gujarat	24				1		25	1	26
Haryana	5		3		2		10		10
Himachal Pradesh	4						4		4
Jammu and Kashmir	2				2	1	5	1	6
Karnataka	27				1		28		28
Kerala	4	8			4	4	20		20
Madhya Pradesh	33				5	1	39	1	40
Maharashtra	40	1			6		47	1	48
Manipur	1				1		2		2
Meghalaya	1						1	1	2
Nagaland	1						1		1
Orissa	20		1				21		21
Punjab	11					1	12		13
Rajasthan	16		2		5		23	2	25
Sikkim	1						1		1
Tamil Nadu	20			16	3		39		39
Tripura		2					2		2
Uttar Pradesh	47	1	22		13	1	84	1	85
West Bengal	4	30			7		41	1	42
Union Territories									
Andaman and Nicobar	1						1		1
Arunachal Pradesh	2						2		2
Chandigarh	1						1		1
Dadra and Nagar Haveli	1						1		1
Delhi	6				1		7		7
Goa, Daman, and Diu	2						2		2
Lakshadweep	1						1		1
Mizoram						1	1		1
Pondicherry	1						1		1
Nominated (Anglo-Indian)						2	2		2
Total	350	47	33	16	59	16	521	22	544

^a Includes 35 CPM and 12 CPI members of parliament.D-1
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