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INDIA OVER THE NEXT FIVE YEARS

Submitted by the

DIRECTOR OF CENTRAL INTELLIGENCE

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Concurred in by the

INTELLIGENCE ADVISORY COMMITTEE

on 8 May 1956. Concurring were the Special Assistant, Intelligence, Department of State; the Assistant Chief of Staff, Intelligence, Department of the Army; the Director of Naval Intelligence; the Director of Intelligence, USAF; and the Deputy Director for Intelligence, The Joint Staff. The Atomic Energy Commission Representative to the IAC, and the Assistant Director, Federal Bureau of Investigation, abstained, the subject being outside of their jurisdiction.

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INDIA OVER THE NEXT FIVE YEARS

THE PROBLEM

To assess India's probable strength, stability, and international position through 1960.

CONCLUSIONS

1. On the basis of present information, we believe that the Congress Party will probably win the 1957 parliamentary elections by a margin sufficient to retain firm control of the central government. Nevertheless, the Congress Party will probably face difficulties in retaining popular support, especially if it has to resort to unpopular austerity measures in connection with its economic development program. These difficulties would be greatly increased in the event of Nehru's death or retirement. (*Paras. 25-28, 31*)

2. The Communist Party of India, with an active membership of 50,000-60,000 and a parliamentary strength of 23 (out of 499), is unlikely to present a serious threat to the government during the period of this estimate. However, it will probably be one of the chief beneficiaries of any loss of Congress Party strength, and in any event will continue to have considerable capabilities for exploiting popular unrest and for sabotage. (*Paras. 19, 29*)

3. Indian leaders have placed great emphasis on reinvigorating and developing

the economy in order: (a) to meet the demands placed on it by the steady growth of population and related problems of unemployment; (b) to create a powerful modern state; and (c) to satisfy the growing popular demand for economic improvement. They have made a considerable start in raising agricultural output under the first Five Year Plan and are now launching an ambitious second plan — more than double the size of the previous plan — in which emphasis is placed on development of India's industrial base. This plan calls for total public and private expenditures of about \$15 billion, more than twice those of the first plan. (*Paras. 37-42, 44*)

4. India will have difficulty in financing a plan of this magnitude. It will be difficult to raise the domestic resources required without risking potentially disruptive inflation. The plan assumes that India will be able to obtain \$1.68 billion in foreign aid, more than twice that received during the previous plan period. There is an additional gap of \$840 million, potential sources of which are as yet undetermined. (*Paras. 43, 48-49*)

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5. If India is successful in obtaining at the appropriate time the large amounts of foreign aid called for by its plan, it should make considerable progress in laying the foundations of a modern economy and should achieve a rate of economic growth that would put the Indian government in a favorable position to undertake the further development efforts necessary to cope with its basic, long-run problems. Even if the plan is successfully carried out, however, living standards would still be extremely low and the proportion of developed resources small at the end of the plan period. (*Para. 53*)

6. Should India fall significantly short of the projected expansion during the crucial next five years and lose the momentum it has gained under Nehru's leadership, it is unlikely to regain this momentum during the foreseeable future. A period of economic and political decline would almost certainly set in, popular support for the Congress Party would diminish, dissension would grow both inside and outside the Congress Party, unrest would ensue, and the government might adopt repressive authoritarian measures which would still further enhance its unpopularity. (*Para. 57*)

7. India will almost certainly retain its basic foreign policy of noninvolvement during the period of this estimate. India will almost certainly continue to avoid definite political and military commitments to either the Western Powers or the Soviet Bloc. It will probably continue to seek economic assistance from both the West and the Soviet Bloc. (*Para. 66*)

8. Provided that the Communists continue their present conciliatory tactics, further Indian economic and cultural ties

with the Bloc will almost certainly take place. Should skillful Communist exploitation of this situation be accompanied by strong differences between India and the West on such questions as colonialism and military alliances, India would probably be ranged alongside the Bloc on an increasing number of international issues, and some sense of identification with the Bloc as against the West would develop. At the same time, increased Indian-Bloc contacts will probably be marked by at least some disenchantment and friction; also, even in a peaceful and ostensibly friendly atmosphere, political and economic rivalry between India and Communist China may become more evident. (*Paras. 67-69*)

9. India will almost certainly wish to remain on good terms with the US. At best, however, differences and frictions will probably continue to arise on various international issues and over US special ties with Pakistan and with Nationalist China and the Republic of Korea. Provision of substantial US economic assistance would not of itself eliminate such differences, though it would reassure India of continuing US interest in its independence and stability and would probably reduce the likelihood of greatly increased Indian economic relations with the Bloc. (*Paras. 71-72*)

10. Although India will continue to play an important role in international affairs, a lessening of the chances of war between the US and the USSR and a decline in the threat of local clashes between Communist and non-Communist forces would give India fewer opportunities to intervene dramatically as it did in the Korean and Indochina settlements. Moreover, India would encounter more difficulty in

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establishing itself as leader of the Afro-Asian Bloc, whose members tended to accept Indian leadership when the danger of war seemed acute. (*Para. 73*)

11. Indian military attention will probably continue to be directed mainly against Pakistan rather than against the Communist powers. Its armed forces are presently capable of effectively defending Indian territory (including In-

dian-held Kashmir) against Pakistani invasion and could also defend its borders effectively against small-scale Communist attacks from the north and east. India would not accept close military ties with the West except in the event of direct Communist attack on Burma, Nepal, Sikkim, or Bhutan, and even then might revert to nonalignment once the crisis had passed. (*Paras. 69, 78, 81*)

DISCUSSION

I. INTRODUCTION

12. The Indian government inherited from the British a competent Indian civil service, a code of administration and law, a common official language, a countrywide network of communications and transportation, and a well-trained, unified military organization. Indian leaders were well grounded in British constitutional concepts and techniques and many are of outstanding ability. Since 1947 these leaders have demonstrated an ability to conduct an independent democratic government with effective control over the entire country.

13. India is now a federal republic. Federal legislative power rests in a bicameral parliament, the lower house being elected directly by the people and the upper house by the state legislatures. The executive branch of the government is presently strong in relation to parliament. The Indian constitution gives the central government strong residual powers vis-a-vis the states, including the right to suspend a state government under certain circumstances. There are now 28 states (including Kashmir), which range from those with considerable governmental authority to those administered directly by the central government. Under the states reorganization scheme scheduled to come into effect in October 1956 there will be 15 states and seven centrally administered territories. The national parliament, under certain circumstances, is empowered to legislate in the states' sphere of responsibility, and state laws

must not contravene those of the national government. The country's first national elections took place in 1952; more than 100 million of the 176 million eligible voters cast ballots. The more than 600 princely states, which were nominally independent under British rule and covered one-third of the country, have been absorbed into the present state structure.

14. Nevertheless, the government still faces formidable problems:

a. Racial, linguistic, and cultural diversities continue to plague the Indian government. Long standing antagonisms between north and south still exist. There are in India 12 to 15 major languages, for the most part mutually unintelligible, and the government's decision to adopt Hindi as the official national language to replace English¹ still arouses strong resentment, mainly in South India. Religious feelings occasionally flare into serious violence and hinder the present government's program of secularization. The caste system, which despite its gradual breakdown still separates most of the Indian people into well defined social and occupational classes, accentuates the natural tendency of India's predominantly peasant population to resist change and modernization, and makes it unusually difficult for the government to implement some of its most urgent programs.

¹ According to the Indian constitution, this change is to take place in 1964, 15 years after the constitution went into effect.

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b. India's population in 1956 is roughly estimated at 385,000,000, and is growing at the rate of over 4,500,000 a year. Indigenous food resources do not quite maintain even the present very low standard of living and fluctuate widely depending on the adequacy of the monsoon rains. Poverty, malnutrition, unemployment, and disease are widespread. India has made only a small start toward utilizing its substantial resources for industrializing its economy.

c. The foundations for stable democratic government are weak. There is a wide gulf between the great bulk of the peasantry and the small but potent educated elite, which comprises about two percent of the population and is the only group taking continuing active interest in political issues. Three-quarters of the population are illiterate, and except among the comparatively small number who know English, even the literate have no single medium of communication. A substantial number of young intellectuals are vulnerable to Communist appeals. Finally, India is still under the domination of the political organization which led the fight for independence and has still to develop a stable party system.

15. The leaders of India are determined that their country shall be transformed into a unified, strong, and modern nation by democratic means. They feel that they are engaged in a race against time, fearing that democratic procedures may be rendered unworkable by economic deterioration and the factors of disunity inherent within the nation. Unless India can achieve a sustained rate of economic growth greater than the rate of population growth, economic deterioration and concomitant political instability appear inevitable.

II. GOVERNMENT AND POLITICS

The Congress Party Government

16. The Congress Party, dominated by Prime Minister Nehru, is in firm control of the national government which, in turn, is in firm control of the country. Congress Party members hold all the cabinet positions in the national government and in the 1952 elections won 363 seats in the 499-man lower house of

the national parliament. The Congress Party also dominates most of the state governments and manages to control even those states where its position is relatively weak. The Congress Party is the only party in the country with active operating units in all the states.

17. The Congress achieved its dominant position because of its role as the party which led the fight for independence. In the years following independence, however, the Congress Party began to show a number of weaknesses. The absence of the strong and unifying stimulus of the drive for independence led to a growth of complacency, factionalism, and corruption at all levels of the party. The excessive dependence on Nehru and his domination of the party discouraged initiative on the part of others. Similarly, with old-guard members secure in the topmost posts, there was little incentive for young men to try to rise in the party hierarchy. Despite all this, the Congress produced a record of solid accomplishments, and it still appears to retain a fairly large measure of popular support by virtue of Nehru's prestige, the appeal of its middle-of-the-road program of social and economic reform, and its success in increasing India's stature in world affairs. During the past few years, the Congress has been taking steps to remedy its internal weaknesses, but it is not clear how effective these steps have been.

The Non-Communist Opposition

18. The non-Communist opposition parties have had little success in capitalizing on the Congress Party's difficulties and in some cases have themselves suffered a marked decline. The Praja Socialist Party, somewhat to the left of the Congress Party, initially showed some promise of becoming a major rival to the Congress. It was formed in late 1952 as the result of a merger of the Socialist Party and the Kisan Mazdoor Praja Party which, in the 1952 elections, had won approximately 10 and five percent of the popular vote respectively. Both of these parties were initially offshoots of the Congress Party. Since 1952 internal dissension, culminating in an open

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split in 1955, has greatly weakened the Praja Socialist Party. It has suffered defections to both Congress and the Communists, and now appears to be losing its effectiveness as a national political organization. A new party comprised of Praja Socialist Party dissidents was launched in December 1955, but it has thus far shown few signs of strength. The small rightist Hindu parties, such local groups as the Sikh Party in the Punjab area, and the very small extreme leftist parties show few if any signs of growth.

The Communist Party

19. The Communist Party is the second most important party in the country. Its membership is estimated at 50,000 to 60,000, a drop from a high of about 100,000 in 1947 but double the low of about 30,000 reached in 1953. It polled 4.5 percent of the votes in the 1952 parliamentary elections and won 23 of the 499 seats in the national parliament. (Other pro-Communist groups won an additional four seats.) The Communist Party is organized and operates in practically all the states, but its strength is not uniformly distributed. For instance, the Communists are strong in West Bengal and in certain areas of South India. (See map.) On the other hand, they have very little following or influence in a number of areas, including Rajasthan, Orissa, the northern districts of Bombay, Madhya Pradesh, and extensive portions of Uttar Pradesh.

20. There has been a long history of disharmony and rivalry among Communist party top leaders. The party has had persistent difficulties in agreeing on a fully clear and consistent party line. Moscow has apparently done little to help the party to compose its internal differences or give it clear-cut guidelines, although it has provided guidance to Indian Communists through British Communist leaders, through personal contacts and correspondence with Indian party leaders, and until recently through the Cominform journal. The party receives at least some indirect financial assistance from Soviet sources. We have no evidence of significant contact between the Chinese Communists and the In-

dian Party, and it is unlikely that the Chinese Communists exercise any influence over the latter.

21. In 1948-1949, when the Communists attempted a program of violence, the Indian government strongly repressed their activities. The party has since adopted a posture of moderation and has remained a legal political body. With the post-Stalin effort by the USSR to cultivate Asian neutrals and encourage nonalignment with the West, the Indian Communists swung over to support of most of Nehru's foreign policies, though they still continue to attack some of his domestic ones.

22. The Communists draw most of their support from (a) the educated urban population, and (b) organized labor. Their only conspicuous success in mobilizing peasant support thus far has been among the landless laborers and small tenants of certain areas of south and southeast India. (See map.) The unemployed and low-paid among the educated urban population are especially susceptible to the appeal of Communism, and it is from the educated urban group that the Communist Party draws most of its leadership. This group also participates extensively in Communist-front "peace committees," women's and professional organizations, and student associations. The Communists control the All-India Trade Union Congress, the second largest labor organization in India, which claims a membership of over 600,000 representing some 20 to 25 percent of India's organized labor.

23. There is little firm information concerning the extent to which Indian Communists have penetrated and influenced the Indian government. However, there are almost certainly enough Communist sympathizers holding positions in national and state government departments to permit the Communist Party to keep generally informed about government thinking. We believe that Indian Communists are not in a position to have a voice in the determination of government policy.

24. The Communists have probably had their greatest success in penetrating the Ministry

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of Broadcasting and Information and the privately controlled but government-subsidized Indian Statistical Institute, which used Soviet Bloc as well as Western experts as advisers and as aides in assembling the data for the second Five Year Plan. The Communists are especially active in newspaper, cultural, artistic, and student activities. Communist penetration of the armed forces is believed to be very slight, although some state police forces may be penetrated to a greater extent. The party probably has no significant paramilitary capabilities at present. It does not at present pose a serious political challenge to the government, but because of its strength in key industrial and transportation installations it does have considerable capabilities for sabotage and probably could seriously disrupt the Indian communications and transport systems if it chose to. The Bombay riots of January 1956 demonstrated its ability to organize and exploit local discontent by providing leadership and intensifying popular unrest.

Political Prospects

25. On the basis of present information, we believe that the Congress Party will probably win the national elections scheduled for early 1957 by a margin sufficient to retain firm control of the national government. It will presumably enter the electoral campaign with the benefit of Nehru's prestige and the advantage of being backed by the resources of the government. It is the only party with a nationwide organization and has itself been the chief spokesman of nationalist and neutralist sentiment in the country. The Congress Party enjoys the additional advantage of having announced early in 1955 that its goal is a "socialistic pattern of society," thus undercutting leftist opposition parties advocating the same policy. Nehru and other leaders also appear to be placing increasing emphasis on improving economic conditions, and there are signs that Nehru intends to take personal charge of the second Five Year Plan.

26. On the other hand, provincial elections in East Pakistan in 1954 and national elections in Ceylon in 1956 have demonstrated that the

criteria used in predicting election victories for the ruling party were unreliable. The leadership of a few outstanding political figures, a monolithic organization, and party control of the government structure failed to prevent a dramatic election upset by a coalition of opposition groups whose chances of victory had previously been estimated as extremely slight. It is possible, therefore, that our present information may indicate greater popular support for the Congress Party than it actually enjoys.

27. In the likely event of a Congress Party victory, India's present Congress leadership will still face problems of such magnitude and complexity that it will almost certainly fail to satisfy the aspirations of certain elements of the population and is likely to alienate others in its very efforts to improve the situation. In meeting the heavy financial obligations of the second Five Year Plan, the government, in the absence of a substantial increase in foreign aid over present levels, will probably be forced to resort to a number of unpopular austerity measures, including more rigid economic controls and possibly higher taxation than are now in effect. In this event political unrest would almost certainly increase and the government be compelled to resort increasingly to repressive and authoritarian measures. Such measures would stimulate still further dissatisfaction, especially if, as would probably be the case, the common man was unable to perceive any significant improvement in his personal economic status.

28. In addition to the political strains likely to arise over economic matters, the government will continue to be confronted with the serious domestic political problem of satisfying the various groups who desire the reorganization of India's states to fit linguistic patterns. Despite Nehru's present control over the situation, numbers of voters remain dissatisfied, and disturbances such as the Bombay riots of January 1956 may be repeated. Even if present reorganization plans are accepted by all state governments, there will be many opportunities for controversy over precise boundaries and administrative readjustments.

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29. Should the Congress Party suffer a marked decline in popular support during the period of this estimate, the small but relatively dynamic Communist Party would probably be one of the chief beneficiaries. It would have opportunities for increasing its strength and influence in the event of widespread disappointment with the rate of economic progress or dissatisfaction over austerity measures. The Communists would also have a chance to capitalize on a variety of local political issues and on the absence of any other well-organized national party attractive to voters dissatisfied with the Congress. However, continued dissension within the Communist Party as well as close surveillance by the government will probably prevent the Communists from reaching a position sufficiently strong to pose a serious political challenge to the Congress within the period of this estimate. Moreover, although the Indian Communists may have acquired some new respectability among the people as a result of the Bulganin-Khrushchev visit in 1955, they are hampered by the new Moscow line, which requires them to give so large a degree of support to Nehru and his policies that they have relatively few issues on which to oppose the Congress.

30. Among the non-Communist parties, the Socialists might win additional adherents on both linguistic and economic issues among those who did not wish to support the Communists, but would have to develop a stronger program and organization than they now have to gain widespread popular support. Disgruntled business and conservative elements are more likely to swing over to the presently small rightist parties. In addition, there would probably be a proliferation of splinter parties under individual provincial leaders and the emergence of various locally prominent men as independent candidates. Fragmentation and continued disorganization of opposition elements might be of decisive advantage to the Congress Party, which capitalized on similar conditions in 1952 to win approximately three-quarters of the seats in the lower house of parliament on the basis of only 45 percent of the popular vote.

31. Prime Minister Nehru's death or retirement from the political scene would be a se-

vere blow to India and the Congress Party. However, except for the Socialist leader, Jai Prakash Narain, now in semiretirement, the Congress Party would still have India's most prominent and respected political figures on its side. Although it is impossible at present to foresee who Nehru's successor will be, there are a number of able Congress Party leaders, now somewhat obscured by Nehru, who could assume control over the party and the government. The fact that most of these influential cabinet ministers and important state government leaders are relatively conservative in their views suggests that after Nehru's departure the reins of government would by default fall into somewhat more conservative hands. The almost total absence of "liberal" leaders of national stature either inside or outside the government supports this thesis, especially when it is considered that the weight of the business community, its funds, and its propaganda media would probably be on the side of the conservatives.

32. Such a development, however, would be unlikely to lead to an immediate change in India's domestic or foreign policies and it would not mean abandonment of the welfare state principle. The government and the Congress Party are far too committed to this principle, and Indian conservatives have too little popular support, to enable Nehru's probable successors to attempt any such move. The problems of the peasants and of growing numbers of unemployed will be too acute to be overlooked. There might be somewhat greater freedom for private enterprise and some improvement of relations with the West. On the other hand, since many conservatives are also strongly Hindu in their outlook, there might be a drift away from secularism, of which Nehru has been the outstanding champion, and there might also be a tendency toward a narrower world view on the part of the government.

III. ECONOMIC SITUATION AND PROSPECTS Background

33. India inherited from the British the rudiments of a modern industrial system, including sizable mining and manufacturing facilities, an extensive though overburdened rail

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network, and a modern banking system. India is one of the first 10 nations of the world in industrial output, ranking behind Japan and about on a par with Communist China among the Asian nations. However, industry in the Western sense still accounts for only a small portion of total output and employment. Even including the handicraft products of the extensive cottage or village industries, manufacturing contributes only about 17 percent of national income. Of a labor force estimated at about 170 million and growing at a rate of about two million a year, only about 16.3 million are employed in manufacturing and of these approximately 13 million are engaged in cottage industries and only a little over 3 million in organized industry.

34. Seventy percent of the population has remained directly dependent on an agricultural system in which primitive techniques, overcrowding of land, and antiquated practices regarding land ownership and rural credit have remained the rule. In 1948, over 65 percent of rural families owned or tilled less than five acres each and over 45 percent less than two. Many of those owning their own land were so in debt to moneylenders as to make their ownership little more than a legal formality. Levels of productivity, both per acre and per person employed in agriculture, have remained among the lowest in the world. Although 60 percent of India's cultivated land is devoted to wheat, millets, rice, and other foodstuffs (as against tea, cotton, jute, and other cash crops), India has normally had to import some food, even in good years. When the monsoons have failed, as has frequently been the case, substantial imports of food have been necessary.

35. Because of these circumstances, extreme poverty is widespread in India. Available statistics, though insufficiently reliable or complete to provide more than a rough gauge of Indian economic activity, indicate that in 1955-1956 India produced a national income provisionally estimated at about \$22.7 billion, or approximately \$59 per person. This low level of output has provided little surplus for investment; at the time of independence economic growth was barely keeping pace with the steady augmentation of the population by

about 1.3 percent, or over 4.5 million persons, each year, and in the economically chaotic years which immediately followed, it is probable that per capita income actually declined. Another major by-product of the poor and stagnant condition of the economy has been chronic unemployment now officially estimated at between five and six million and severe underemployment affecting many times that number. Included among the unemployed are about 10 percent of the urban labor force and of rural nonagricultural labor.

36. At the time of independence, India had total foreign exchange and gold holdings equal to \$3,354 million, of which the equivalent of \$3,248 million was in sterling balances. However, India drew heavily on these reserves in the first years of independence because of food shortages and the need to make up for wartime neglect of industrial and transport equipment. These reserves now stand at \$1,789 million, mostly in sterling. The proceeds of India's exports (notably tea, textiles, jute products, manganese, mica, and other minerals) have consistently fallen short of paying for the machinery, petroleum, raw cotton, food grains, and miscellaneous other items which India has had to obtain from abroad. Bad crops have sometimes intensified these trade deficits. However, the trade gap has been narrowing as a result of India's improved agricultural position, increasing exports, and tighter import controls. The 1954 trade deficit was about \$110 million (or about four percent of total external trade). With net invisible receipts of about \$150 million, India's international accounts in this period show a surplus in the neighborhood of \$40 million.

37. Indian leaders have from the start placed great emphasis on reinvigorating and developing the economy, not only for purposes of meeting the increasing demands placed upon it by the steady growth of population but also for purposes of creating a powerful modern state. Their sense of urgency about accomplishing this task has been intensified by the growth of popular economic expectations following independence. In accordance with Nehru's welfare state philosophy, principal emphasis has been placed on the role of the

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state, which under India's constitution is specifically charged with developing a social order which would provide "adequate means of livelihood" for all and would ensure that ownership and control of the country's material resources are "so distributed as best to subserve the common good." The government has assumed over-all direction of the economic development effort, taking over direct responsibility for large-scale power projects and similar major tasks and utilizing taxation, licensing and other controls to channel private investment along lines called for under its plans. Moreover, the government has shown increasing interest in pushing socialization. In addition to retaining exclusive operational control in such fields as railways, posts and telegraphs, defense production, and atomic energy activities, it has expressed the intention of participating in all important new undertakings in the mineral, petroleum, and shipbuilding fields. While Prime Minister Nehru has emphasized the continuing importance of the private sector of the economy and has disavowed any intention to press for full socialization of the economy under present conditions, the government has reserved the right to nationalize certain industries in the public interest and has recently had new legislation passed empowering it to take over existing industries which it judges to be mismanaged. The life insurance business, most of it British-controlled, was recently nationalized in order to increase the government's control over financial affairs.

The First Five Year Plan

38. For the first few years after independence, the Indian government was preoccupied with remedying the dislocations caused by World War II and the partition. Some five million refugees had to be resettled; the transportation system was on the verge of collapse; and India's large jute processing industry was disrupted. In 1951, however, with the economy in the doldrums and per capita production actually declining, the Indian government laid the foundations for a systematic attack on the economic development problem by promulgating its first Five Year Plan (1951-1956). This plan, which called for total out-

lays equivalent to \$7 billion, placed major emphasis on expanding the output of foodgrains and other agricultural staples. Irrigation and other projects for extending land utilization were launched, production and use of fertilizers was stimulated, and an ambitious community development program was started to teach new agricultural techniques and stimulate self-help projects in public health and other community facilities. Efforts were also made to assist the land reform programs being undertaken by the states. Actual implementation of the plan was slowed by financing and administrative delays, and it was not until 1953 that the projected levels of investment began to be met. For the entire five year period, though the private sector apparently met its goals, the public sector of the program fell short of meeting projected investment targets by approximately 10 percent. However, the Indian economy has made considerable progress.

39. Over the last five years (1951 through 1955), national income is estimated to have risen by 18 percent, or an average of over three percent a year. Per capita income, taking account of the growth in population, had risen by 10 percent by the end of the first plan period. The industrial production index (1939=100) rose to 145 in 1954, the most important gains being in cement, heavy chemicals, and fertilizers. By 1954, cotton production had increased 33 percent over 1951, permitting a 50 percent cut in cotton imports. Food grain production in 1955, though not as high as during the bumper crop years 1953 and 1954, was about 10 million tons more than in the "normal" year of 1950. Despite rising population, this increase has facilitated a reduction in 1955 food imports to only 1.2 million tons, as compared with a high of 4.8 million tons in 1952 and an average of 3.3 million tons annually from 1948 to 1953. The resultant savings in foreign exchange permitted increased imports of machinery and other developmental materials without producing a serious foreign exchange gap. Finally, heavy government expenditures in the last two years of the plan period, coupled with good harvests, led to increased confidence and increased investment on the part of the private sector of

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the economy, which had initially lagged far behind the investment goals set for it.

40. However, even these fairly impressive gains represent only a start at solving the problem. Unusually favorable weather in 1953 and 1954 probably accounted for about half of the spectacular advances in agricultural output. The community development program, which has now reached 80 million of India's population and close to a quarter of its approximately half a million villages, has provided some impressive local demonstrations of what can be accomplished through increased use of fertilizer, introduction of better seeds, and other technical improvements. However, available figures, though admittedly subject to error, as yet show no significant increase in average productivity per acre for the country as a whole. Most of the permanent improvement in farm production must therefore be attributed to the bringing of marginal lands under cultivation and the extension of irrigation to an additional 17 million acres over the 50-million-acre 1951 base. Meanwhile, though per capita consumption of food grains, the most important component of the Indian diet, is up from about 14 ounces a day per person in 1950 to about 18 at present, it is still low.

41. Industrial production, though showing impressive percentage increases, is still low in terms of the country's growing requirements. The basic problem of unemployment and underemployment has grown rather than diminished as a result of the failure of increased job opportunities to match the growth of the labor force. Finally, the increases in national income, while stimulating some further economic expansion, are not yet sufficiently large to create the surpluses for investment required to assure a self-sustaining rate of accelerating economic growth.

The Second Five Year Plan

42. Recognition of the need for more rapid progress has led the government, in its second Five Year Plan now being set up for the period

1956-1961, to more than double the \$7 billion of expenditures called for under the first plan. Under the second Five Year Plan, the government foresees total expenditures of about \$15 billion, of which it expects to contribute about \$8 billion in investment projects and about \$2 billion for health, education, welfare, and current administrative overhead. Private enterprise is expected to contribute \$4.8 billion.

43. The government expects to finance roughly half of the \$10 billion total for which it is responsible from current revenues, market loans, small savings borrowed from the public, and other budgetary sources. Some \$2.5 billion it expects to raise through deficit financing. About \$1.7 billion it hopes to receive in foreign aid. This figure is over and above foreign exchange requirements met by private foreign investors and by drawing down India's sterling balances, and is twice that of foreign contributions received during the first plan period. An uncovered gap of over \$840 million remains, for which no financing provision has yet been made.

44. Agriculture and community development are slated for almost double the expenditures called for under the first plan, a major goal being the expansion by 1961 of the community development program, or at least some form of agricultural extension work, to cover the remaining three-quarters of India's villages. As in the first plan, major sums will also be devoted to irrigation and power and to improvement of transportation and communications. However, the chief innovation of the new plan is the substantial increase in funds allocated to industrial and minerals development, which Indian planners regard as the key to any sustained economic progress. Four-fifths of the funds allocated in this category are earmarked for heavy industry. The remainder will go to cottage and small-scale industry, which is counted on to absorb some of the increased consumer demand generated by the program and to provide additional employment opportunities with a minimum of capital expenditure.

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TABLE I
PUBLIC SECTOR FINANCING
DURING THE SECOND FIVE YEAR PLAN PERIOD
(in billions of dollars)

REVENUES	EXPENDITURES	
OUTSIDE THE PLAN		
Current revenues	9.555	Current governmental functions, including defense 9.555
ON THE PLAN		
Tax receipts and other budgetary sources	2.520	Investment* 7.980
Domestic government borrowing	2.520	
Deficit financing	2.520	Health, education, welfare, and administrative overhead for plan 2.100
External assistance	1.680	
Uncovered gap	<u>840</u>	
PLAN SUBTOTAL*	<u>10.080</u>	<u>10.080</u>
TOTAL	19.635	19.635

* The private sector of the economy is expected to contribute an additional \$4.8 billion of investment toward the Plan. This private investment will accrue mainly in the fields of construction and industry.

TABLE II
BREAKDOWN OF PLANNED PUBLIC SECTOR EXPENDITURES
First and Second Five Year Plans

	1951-1956		1956-1961	
	First Five Year Plan Expenditures* (billions of dollars)	Percent	Second Five Year Plan Expenditure (billions of dollars)	Percent
Agriculture and community development	\$0.78	16	\$1.19	12
Irrigation and power	1.39	28	1.88	18
Industries and minerals	0.37	7	1.87	19
Transport and communications	1.17	24	2.91	29
Social services, housing, rehabilitation, etc.	1.15	23	1.99	20
Stocks and miscellaneous	<u>0.09</u>	<u>2</u>	<u>0.24</u>	<u>2</u>
TOTAL	\$4.95	100	\$10.08	100

* It is estimated that actual expenditures reached \$4.45 billion.

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TABLE III

**TOTAL EXPENDITURES (PROVISIONAL)
ON THE SECOND FIVE YEAR PLAN***
(in billions of dollars)

Major Development Headings (1)	Public Sector			Private Invest- ment (5)	Total Invest- ment (6)	Total Plan Expend- iture (7)
	Total (2)	Current Outlay (3)	Invest- ment (4)			
1. Agriculture and community development	1.19) 0.42) 1.73	0.42) 2.15) 2.5
2. Irrigation and flood control	0.96))))
3. Power	0.92	...	0.92	0.11	1.03	1.03
4. Industries and minerals	1.87	0.21	1.66	1.16	2.82	3.03
5. Transport and communications	2.91	0.32	2.59	0.10	2.69	3.01
6. Social services and construction (housing, edu- cation, hospitals, etc.)	1.99	1.15	0.84	2.20**	3.04	4.19
7. Stocks and miscellaneous	<u>0.24</u>	<u>...</u>	<u>0.24</u>	<u>0.84</u>	<u>1.08</u>	<u>1.08</u>
TOTAL	10.08	2.10	7.98	4.83	12.81	14.91

* During the five year period total Indian governmental expenditures, including normal government functions and defense, will amount to about \$19.6 billion. The Plan thus accounts for slightly over half of government expenditures. (Rupees have been converted to dollars at the rate of one rupee equals \$0.21.)

** The \$2.2 billion is primarily "construction" in the private sector.

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45. The over-all goal of the second Five Year Plan is to raise national income from an estimated \$22.7 billion for 1955-1956 to \$28.3 billion in 1960-1961, an increase of about 25 percent or about five percent a year as against the three to four percent achieved under the first plan. On this basis, the rate of investment could be increased from the present seven percent of national income to 11 percent by 1960-1961 and still permit an increase in total consumption of 20 percent. Taking population growth into account, this would represent an increase in per capita income of about 18 percent and an increase in per capita consumption of about 12 percent by the end of the five year period.

46. The greatest percentage increases are called for in the industrial field, with steel production scheduled to rise about 250 percent to six million ingot tons,² aluminum listed for a 233 percent increase, and producer goods up 150 percent. Partly as a result of a projected 300 percent increase in production of fertilizers and a 31 percent increase in the amount of irrigated land, some continuing gains in production and consumption of food-stuffs are also planned. The new program emphasizes increased production of milk, vegetables, and other nonstarches to round out the diet. The plan's projections call for an increase in employment of about 10 million, or just about enough to absorb the expected increase in the size of the labor force.

Economic Prospects

47. How close the Indians will be able to come to the achievement of their ambitious plan goals is highly problematical. Despite the increase in skills and experience made possible by the first Five Year Plan, and current plans for expanding the corps of trained administrators, educators, and technicians, the very magnitude of the venture will strain the

² A deal for the expansion of existing facilities has been signed between the Tata steel industry and the Kaiser interests in the US. Negotiations have been completed for the purchase of steel mills from the USSR and the UK, and for the construction of an additional new mill by West German interests. The new mills are of about 1,000,000 ingot tons annual capacity each.

managerial resources of the country and may result in serious setbacks or delays. The uncertainties of the monsoon, though somewhat mitigated by the extension of irrigation, pose a recurrent threat to India's ability to sustain adequate agricultural production. Finally, there remains the central problem of providing the unprecedented amount of funds called for under the program — and of doing so without incurring potentially disruptive inflation.

48. The government will probably come close to meeting its own goal of raising the equivalent of slightly over seven and one half billion dollars internally during the next five years. The present outlook is that the private sector will substantially achieve the \$4.8 billion investment goal assigned to it under the new plan. The capital market is now buoyant, credit facilities are expanding, and an accelerated rate of government developmental expenditures is assured. The incentives to private investment have sharply increased in the last year or two as the impact of the government's investment program and of successive good crops has made itself felt, and the traditional hesitation of Indian capital to take risks for fear of failure or of nationalization is apparently being overcome. However, future business willingness to invest may again be hampered somewhat by concern over nationalization or government control, and should there be major delays in implementation of the government investment program or serious setbacks in the agricultural field, private investment would probably again slump. Moreover, even if the plan's targets for internal public and private investment are substantially met, the diversion of such sizable funds to investment purposes, particularly with the use of considerable deficit financing, will soon raise inflationary problems which may seriously challenge the stability of the economy and the future course of the development program.

49. Even more than under the previous plan, India's success in obtaining foreign aid will play a key role in its ability to carry out the program. Even with a rigorous internal savings and tax program, which will call for the plowing back of approximately 30 percent of

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each yearly addition to the national income, foreign government aid and loans will be depended upon to finance at least 15 percent and possibly as much as 25 percent of development expenditures in the public sector. About \$1.68 billion is to be obtained from abroad — more than double that obtained from various foreign sources during the previous plan period.³ This still leaves an uncovered gap of an additional \$840 million for which no provision has as yet been made.

50. The Indian government hopes that the US can be persuaded to assume a major share in underwriting the external requirements of the program. The plan makes provision for additional support from such sources as the Colombo Plan and the International Bank for Reconstruction and Development, and the Indians have already made efforts to stimulate additional foreign private credits, notably in the deals for construction of additional steel facilities by West German, British, and US interests. However, the Indians clearly recognize that the large amounts called for under the plan are beyond the resources of such lesser potential Western sources.

51. At the same time, the Indian government will probably be increasingly receptive to Bloc offers of economic and technical assistance along the lines of the recently completed deal for Soviet construction of a steel mill in India. The Indians have been strongly attracted by such features of current Soviet offers as low interest rates, the absence of political strings, and Soviet eagerness to provide comprehensive preliminary and on-the-job training to Indians. Despite Indian distaste for Soviet methods of political control, some Indian leaders are probably of the opinion that many Soviet economic methods and techniques are

³ Foreign aid made available to India during the first Five-Year Plan period (1951-1956) was as follows:

<u>Source</u>	<u>Millions of dollars</u>
US (including \$190 million wheat loan)	450
World Bank	83
Under Colombo Plan	95
TOTAL	631

more applicable in India than those of the US and other Western Powers. Finally, while the Indians will probably remain anxious to avoid steps which unduly expose them to Soviet influence or jeopardize their predominant economic ties with the West, they will continue to recognize advantages in being able to look to the Bloc as well as to the West for economic help.

52. Indian failure to obtain the substantial increases in foreign assistance called for in the plan would greatly reduce the chances of generating enough economic momentum to overcome the basic problems of poverty and population pressure. The government would have insufficient foreign exchange to provide the high level of imports of machinery and other equipment required for its industrialization goals — the key to building the base for further economic growth. The Indian government would probably attempt to compensate for the shortfall in foreign aid by efforts to increase the domestic contribution to the development program, notably through increased resort to deficit financing, a tightening up of economic controls, and possibly some increase in taxation. However, these measures would not make up for the shortfall in foreign exchange, and there would have to be a curtailment in the scope of the program. Moreover, competition for the limited available funds would arise between private and governmental interests, with the probability that the economy would move in the direction of greater governmental participation. The net effect would be to dissipate much of the enthusiasm and psychological impetus which has developed behind the present program and to reduce popular support for the government.

53. If, on the other hand, India is successful in obtaining at the appropriate time the large amounts of foreign economic aid called for by its plan, we believe that Indian national income will probably come close to attaining the planned rate of increase (about five percent per annum). This would put the Indian government in a favorable position to undertake the further development efforts necessary to cope with its long-range economic problems. However, even if the second Five Year Plan is successfully carried out, living

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standards would still be extremely low, and severe population pressures would still make themselves felt.

IV. THE LONGER TERM PROSPECT

54. India's long-term ability to carry on as a united and democratic nation is still uncertain. The disruptive potential of existing regional, linguistic, and class and caste conflicts cannot quickly be eliminated. Even after another five years, the Indian people's experience with the democratic process will still be limited. Finally, there will remain the central problem of achieving and sustaining a level of economic well-being which satisfies the needs and desires of the Indian people. All of these problems will place heavy leadership burdens on a political system which is still in process of growing up and in which most of the present key figures will soon have to be replaced by younger men.

55. Indian has the natural resources to support a very substantial increase in levels of production. Its 10-billion-ton iron ore reserve is the second or third largest in the world, and an important part of it is of high quality. Though India is short of high grade coking coal, it has a total coal reserve of 60 billion tons. Its paucity of known oil reserves is somewhat counterbalanced not only by these coal reserves but also by a hydroelectric power potential of an estimated 40 million kilowatts (more than 13 times presently installed capacity) and the presence of significant quantities of monazite and other radioactive materials which might eventually be used in development of nuclear power. Though deficient in copper, lead, zinc, and tin, India has ample supplies of other important industrial minerals; namely, manganese, chromite, and bauxite. There is still considerable opportunity for expansion of the agricultural base by increasing the productivity of existing acreage and some development of presently uncultivated land. Supplies of manpower are more than ample.

56. While these resources give India the potential to become one of the great industrial nations of the world, their effective development will require a high level of sustained

growth not only over the next five years, but for a generation or more. In terms of India's own politico-economic requirements for alleviating poverty and eliminating chronic unemployment and underemployment, even the most dramatic increases in industry will over the short term only slightly reduce the magnitude of these problems.

57. The next five years are likely to prove crucial for India, as it is upon the degree of success achieved in implementing the second Five Year Plan and in coping with the attendant political problems that India's long-term course of development, political as well as economic, probably depends. Nehru's leadership, coupled with the achievements of the last few years, have created an atmosphere of optimism and developed a momentum which would be difficult to recreate in the event of a setback. Hence, if India fails to make substantial progress toward its objectives in this period it is unlikely to be able to do so within the foreseeable future. While even marked failure to reach the goals of the second Five Year Plan probably would not precipitate immediate economic or political collapse, it would almost certainly initiate a period of economic and political decline. Indian morale generally, and that of the Congress Party in particular, would suffer greatly. Popular support for the Congress Party would diminish and opposition to present Congress policies would increase both within and without the party. Internal differences within the Congress Party would greatly increase, and various endemic political and social tensions throughout the country would be exacerbated. The Indian people, disappointed in their hope for economic betterment and lacking the prospect of such betterment in the future, would become increasingly restive. Unrest would be especially marked among the urban population, but even the peasantry might also, though to a lesser degree, be affected. In the face of this unrest, India's leaders might begin to question the suitability of democratic institutions for India and increasingly to adopt repressive and authoritarian measures which would still further enhance their unpopularity.

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V. INDIA'S ROLE IN WORLD AFFAIRS

Objectives and Policy

58. Indian leaders believe that the principal danger to India's security arises from the continuing struggle between the Communist Bloc and the Western Powers headed by the US rather than from a direct threat by any major foreign power. The Indian leaders fear that this struggle will at some time lead to general war, which at worst would directly involve India and its survival as an independent state and at best would severely retard India's efforts to achieve political and economic stability. Thus, in pursuance of national security and the national interest, India's foreign policy seeks not merely to avoid involvement in general war, but to prevent such a war from occurring.

59. Many other nations share India's concern about general war and its consequences. Unlike the governments of most lesser powers, however, that of India believes that it can play a major role in preventing general war. It feels it can best do so not by joining in alliances designed to deter hostile powers from commencing the conflict, but by acting independently in a mediatory capacity. India has accordingly adopted a policy of nonalignment with either power bloc in the cold war, and endeavors to persuade other nations to adopt a similar posture. It views with disapproval the formation of blocs and alliances and the building of military strength by the Communist and non-Communist powers. India's leaders believe that the USSR and Communist China desire to avoid war and will not undertake major military moves unless provoked by Western actions. They therefore strongly advocate a conciliatory attitude on the part of the non-Communist powers.

60. Accordingly, the Indian government becomes particularly active on the international scene whenever any armed conflict, or any acute threat of armed conflict, occurs. At such times it becomes the overriding aim of Indian foreign policy to assuage the situation and thus to remove the immediate likelihood of major war. Even when no immediate and acute threat of war exists the Indian government feels impelled to mediate between the

Sino-Soviet and Western camps, to damp down antagonisms where possible, and to seek to remove points of friction. While this policy is believed by Indian leaders to be the most effective in furthering Indian national interests, it is also true that the policy of nonalignment and conciliation reflects the personal moral convictions of Nehru and his associates.

61. Another, and related objective of Indian foreign policy is to achieve a leading role in Asia and Africa. India hopes that it can marshal the influence of these areas with its own to lessen international tensions, to eliminate the last vestiges of colonialism, and to gain for Afro-Asian peoples a voice in world affairs commensurate with their numbers. To this end, India has sought to establish itself at the UN as the spokesman of Asian interests and the leader of the Afro-Asian group. It has made strenuous efforts to woo other neutralist nations, particularly Egypt and, to a lesser extent, Yugoslavia. It is attempting to build Indian cultural and political influence among the colonial peoples of the Middle East and Africa and to protect the interests of Indian nationals overseas.

62. The Commonwealth relationship is an important component of India's foreign policy. India's economic connections are also mostly with the West, and Indian leaders still look primarily to the Western Powers for economic assistance. They deplore the totalitarian methods of Communist regimes, and they are concerned over Chinese Communist subversive and ultimate military intentions. India is sensitive to Communist incursions and penetration along its northern and eastern borders and to the Chinese Communist threat to Indian influence in Southeast Asia. New Delhi's attitude toward the Chinese has become increasingly suspicious. Indian leaders openly admit that India is engaged in direct competition with China for economic leadership in Asia. India is also probably concerned over Soviet advances in Afghanistan.

63. Nevertheless, India's neutralism, anti-colonialism, and aspirations in Asia (including the acquisition of Goa) and Africa have often brought it into conflict with the US and other Western Powers. India opposes NATO,

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SEATO, and the Baghdad Pact on the grounds that such treaties are not conducive to peace. It especially criticizes the Baghdad Pact for having divided the Arab states and provoked the USSR and probably blames the West even more than the Bloc for increased tensions in the Near East. It deeply resents the grant of US military aid to Pakistan. It supports the Communist Chinese claims to Taiwan and to a seat in the UN. It regarded the Indochina war primarily as a genuine independence movement against French colonialism. Its sympathies lie with the nationalists in North Africa. It has generally been harsher in its criticism of the West than of the Communist powers, partly out of fear of provoking the latter, and partly because of a belief that the Western nations share India's values and hence are more amenable to moral pressure. Most recently, India has become aware of the advantages of closer economic relations with the Communist world, made possible by the new trade and aid policies of the USSR and China. New Delhi, like other capitals, is also aware of the opportunities thus opened for playing the Bloc against the West.

64. Since the 1947 partition, relations between India and Pakistan have been marked by controversies involving: (a) the future status of Kashmir; (b) the disposition of property left behind by refugees during the mass migrations accompanying the partition of India; (c) the water supply for Pakistani irrigation canals in the Punjab; (d) the more recent differences over Pakistan's developing ties with the US and its membership in the Baghdad and SEATO Pacts; and (e) movement of refugees into India from East Pakistan. While the two nations have been able to iron out problems in such fields as railway travel, trade, and border crossings, relations continue to be marred by mutual fears, bitterness, and mistrust inherited from the past. Elements on both sides remain ready to stir up differences for political reasons. Moreover, the conflict between Nehru's strong desire to see the subcontinent remain neutralist and Pakistan's alignment with the West is a continuing irritant.

65. Despite Nehru's avowed policy of conciliation, he has openly rejected the mandate of a

UN Security Council Resolution of 1949, which called for a plebiscite in mountainous Kashmir. The most desirable and productive part, the Vale, is claimed by both India and Pakistan but is now occupied by India under the terms of a cease-fire agreement signed in 1949. Unwilling to risk a plebiscite in this Moslem-populated area, which has been formally incorporated into the Indian federal system, Nehru has in effect rejected the UN resolution on the grounds that "conditions have changed." There is little likelihood that this dispute will be settled in the foreseeable future.

India's Future Role

66. India's foreign policy goals are not likely to undergo any basic change during the period of this estimate. They are too closely associated with Indian ideals and aspirations and with what most Indians consider to be India's national self-interest. Thus, India will almost certainly continue to avoid definite political and military commitments to either the Western Powers or the Soviet Bloc. The external circumstances which have influenced India's attitudes and actions may, however, produce some significant variations in the spirit and manner in which the nonalignment policy is carried out. India will continue its efforts to promote a relaxation of international tensions, to act as an intermediary between the two great power blocs, to reduce Western influence in Asia and Africa, to acquire greater influence in those areas, and to enlist the support of the Afro-Asian world in its efforts to preserve peace. It will probably continue to seek economic assistance from both the West and the Soviet Bloc.

67. Provided that the Communist powers continue their present efforts to win the confidence and friendship of India and other underdeveloped countries, further Indian economic and cultural contacts with the Bloc will almost certainly take place. The USSR and Communist China are therefore likely to enjoy increased opportunities to develop the concept of Bloc friendliness and reasonableness among Indian officials and the Indian public. Should skillful Communist use of these opportunities be accompanied by further Indian dif-

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ferences with the US and its Western associates on such questions as Taiwan, military alliances, colonialism, and economic aid, India would probably be ranged on the side of the Bloc on an increasing number of international issues and Indian attitudes would probably reflect some sense of identification with the Communist world as against the West and its Asian supporters.

68. In view of India's basic concern for its independence and freedom of action, however, it is extremely unlikely that India would form an alliance with the Sino-Soviet Bloc during the period of this estimate, even in the event of a strong emotional drift toward the Bloc and away from the West. Moreover, it is probable that various factors will serve to limit the effectiveness of Bloc efforts to develop influence with India. Trade with the Bloc will probably remain less important than that with the West and, with the passage of time, increased Indian-Bloc contacts will probably be marked by at least some disenchantment and some friction over economic and other matters. Finally, Indian leaders will probably continue to have reservations about the Communist way of life and underlying suspicions about Soviet aims in India and Chinese Communist ambitions in Southeast Asia and along the Himalayan frontier.

69. Even in a peaceful and ostensibly friendly atmosphere, rivalry between India and Communist China for political and economic influence in Asia may become more evident. A vigorous extension of Chinese Communist influence further into Southeast Asia through use of subversive pressures would disquiet the Indians and would probably lead them to take a somewhat stiffer line toward the Communists and to increase their efforts to establish closer cultural, economic, and perhaps even military ties with Southeast Asian nations. If the Chinese Communists undertook to extend their influence in Southeast Asia by overt military invasion, Indian disquiet would turn to alarm. We believe that the Indians would probably condone the use of United Nations military forces to counter the Chinese aggression but would not commit their own troops unless Burma or Nepal, Sikkim, or Bhutan, were directly attacked. In this event India

would almost certainly accept Western military support, and re-examine its fundamental relationship to the two power blocs. Such action would not ensure a permanent Indian alliance with the Western bloc; India might revert to a position of neutrality after the crisis had passed.

70. A marked expansion of Soviet influence in the regions west and northwest of India would probably also cause concern to the Indian government. The establishment of obvious Soviet control over Afghanistan would be viewed by the Indians with grave misgivings, though such a development would probably not cause India to give up its policy of nonalignment. Further extension of Soviet influence in the Middle East would probably arouse Indian alarm only if it raised the threat of general war or resulted in the clear alignment of important Middle Eastern countries such as Egypt with the Soviet Bloc.

71. India will almost certainly wish to remain on good terms with the US even in the face of some continuing differences over particular international issues. India's leaders will probably retain strong cultural bonds with the West. A prolonged reduction of tensions between the Bloc and the West would make the Indians less concerned about maintaining a reserved attitude toward the West as proof to the world, and especially the Bloc, that they had not abandoned a position of nonalignment. Should substantial progress be made over the next five years in liquidation of such colonial problems as those of Goa and French North Africa, a collateral irritant in US-Indian relations would have been removed. Should the US and other Western nations continue to provide substantial assistance in support of India's development program and in addition demonstrate increased sympathy and understanding for the nationalist aspirations and the policy of nonalignment of India and other colonial or ex-colonial countries, a significant improvement in the tenor of Indian relations with the US would probably take place. This might lead India to believe that its consistently pursued policy of neutralism had been completely justified.

72. At best, however, differences and frictions would probably continue to arise between the US and India, particularly so long as the US maintained special ties with Pakistan and with Nationalist China and the Republic of Korea. These differences and frictions would intensify if Indian leaders became convinced that the Communist nations honestly desired peace and that the West, under US leadership, was persisting in primary reliance on military build-ups and armed alliances. While provision of substantial US economic assistance of itself would reassure India of continuing US interest in its independence and stability and would probably reduce the likelihood of greatly increased Indian economic relations with the Bloc, it would not prevent friction from arising on other issues nor would it induce India to abandon its policy of nonalignment. On the other hand, US refusal to provide substantial aid on acceptable terms would be a serious disappointment to the Indians. In this event India would probably move closer to the Bloc, though it would still take pains to preserve its independence of action and its access to Western circles.

73. Although India will continue to play an important role in international affairs, developments over the next five years may significantly affect the nature of its role. India's stature and influence in international affairs have grown materially in recent years, and India's services as a mediator will still be in demand, probably on the Taiwan issue among others. However, a lessening of the chances of war between the US and the USSR and a decline in the threat of local clashes between Communist and non-Communist forces would give India fewer opportunities to intervene dramatically as it did in the Korean and Indo-China settlements. Moreover, India would encounter more difficulty in establishing itself as leader of the Afro-Asian Bloc, whose members tended to accept Indian leadership when the danger of war seemed acute, but drifted off in pursuit of their individual aims when the danger lessened. Southeast Asian members of the Afro-Asian Bloc also suspect India of imperialist ambitions and are loath to tie themselves closely to New Delhi. India will have small capability for influence among

Asian nations if competition between the Western Powers and the Bloc in underdeveloped areas increasingly takes the form of political and economic rather than military action. Finally, India will have no significant capability for directly influencing the outcome of such matters as the Arab-Israeli dispute, the North African problem, the Cyprus question, or the German unification issue.

VI. MILITARY AFFAIRS

Present Situation

74. In relation to its size and population, India maintains a relatively modest though by no means negligible military establishment. In the last few years military expenditures have averaged slightly over 26 percent of the total revenue and capital budget, or somewhat under two percent of national income. The 1955-1956 allocation of \$474 million, including \$427 million for current expenditures and \$47 million in improvement of defense plants and installations, is slightly higher than previous years, probably mainly because of price increases. The current strength of the military establishment is about 430,000 men exclusive of reserves,⁴ or more than twice that of Pakistan's armed forces.

75. The principal aim of Indian military policy has been to maintain sufficient strength over and above basic border and internal security requirements to meet any Pakistani threat in Kashmir or elsewhere. The bulk of Indian ground forces are stationed in Kashmir and other areas close to Pakistan. The United

⁴The Indian Army strength is now approximately 380,000 men. Its 155 infantry battalions, 30 artillery regiments, and 15 cavalry regiments are organized into 2 corps, 6 infantry divisions, 1 armored division, 1 armored brigade, 1 parachute brigade group, and various independent units. It is supplemented by 18,000 state forces serving with the army and about 100,000 men of the part-time Territorial Army. The Air Force, with 21,000 men, has 763 aircraft, including 257 jet fighters, of which 105 are in operational units and is organized into 1 light bomber, 8 fighter-bomber, 2 reconnaissance, and 2 transport squadrons. Naval personnel strength is 11,000, including naval air personnel, and the fleet includes 1 light cruiser, 3 destroyers, 3 escort vessels, 4 patrol escorts, and 6 fleet minesweepers.

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States' decision to supply military aid to Pakistan did not cause India significantly to increase its defense expenditures. Pakistan's subsequent adherence to the SEATO and Baghdad Pact organizations led to some concern in India but has not led to any important increase in the military budget for fiscal year 1956-1957, already passed by parliament. In the 1955-1956 budget increased expenditures went primarily to the air force and navy and were balanced to some extent by a cut in the size of the army.

76. Indian leaders presumably recognize the value of fairly substantial military forces in bolstering India's power position against Communist China, and have demonstrated some concern over their northern and eastern frontiers through their efforts to build up border controls and to develop Nepal's military defenses under an Indian military mission. The Indian army has undertaken some staff exercises contemplating defense of Burma against attack from the east. However, there has been no real shift in emphasis to preparation for defense against major Communist aggression, which Indian leaders almost certainly consider remote.

77. The caliber of the Indian armed forces is reasonably good. The professional standards established under the British have been generally maintained, along with a system of volunteer recruitment which has enabled the services to obtain better-than-average personnel. Individual and small unit proficiency and troop morale are high. However, the Indian armed forces continue to be handicapped by the low level of literacy and technical knowledge among the population; most recruits need extensive schooling, and there are continuing shortages of qualified officers and technicians. Equipment is also a problem; much of that of the navy and air force is obsolescent, while the predominantly World War II vintage heavy materiel of the army is badly worn and in need of constant maintenance, thus limiting training as well as lowering combat effectiveness. Although India has about 20 ordnance plants capable of producing some light and medium artillery as well as small arms, ammunition, and miscellaneous equipment, it is dependent on foreign sources

of supply for most major items and lacks adequate spare parts and other reserves.

78. Indian armed forces are presently capable of effectively defending Indian territory (including Indian-held Kashmir) against Pakistani invasion, though such a campaign would place very great strains on Indian stability. India could also probably defend its borders effectively against small-scale Communist attacks from the north and east, though the rugged and ill-defined nature of the frontiers, together with the political unreliability of many of the border peoples, will continue to make it difficult for the Indian authorities to prevent small-scale infiltration. For defensive purposes, India regards Nepal, Sikkim, and Bhutan as within its military perimeter and is prepared to intervene militarily there in event of an emergency.

Probable Developments

79. During the next five years efforts to modernize and replace wornout equipment, as indicated by the purchase in 1953 of 100 reconditioned Sherman tanks with a two and a half year's supply of spare parts, the contracting in late 1954 for the delivery of approximately 300 British Centurion tanks over a three year period, and recent orders for several new naval vessels from the UK, will probably continue at a slightly increased rate. During this period of time, the IAF acquired 90 Ouragon jet fighters and explored the possibilities of acquiring high performance fighters and light bombers from the UK, France, US, and the USSR. More recently, the IAF acquired 26 C-119 aircraft from US. It is expected that the modernization program will continue at a slightly increased pace, particularly in view of the anticipated increase in the combat capabilities of the Pakistan air force as a result of the US MDA Program. India is determined to maintain its military superiority over Pakistan, and will probably continue to acquire military equipment from abroad.

80. We believe no Soviet equipment has yet been purchased, but, depending on political and financial as well as military considerations, purchases from Bloc sources may be

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made. India's indigenous arms industry will be strengthened in connection with the economic development program, and some Soviet Bloc industrial equipment may be utilized for this purpose. India's modernization efforts almost certainly will not include nuclear weapons. Unless there are increased indications of a threat from Pakistan, India probably will continue the program of creating a smaller, more balanced, and better equipped army. At the same time, however, increased

emphasis will be placed on the development of reserve forces, particularly the Territorial Army.

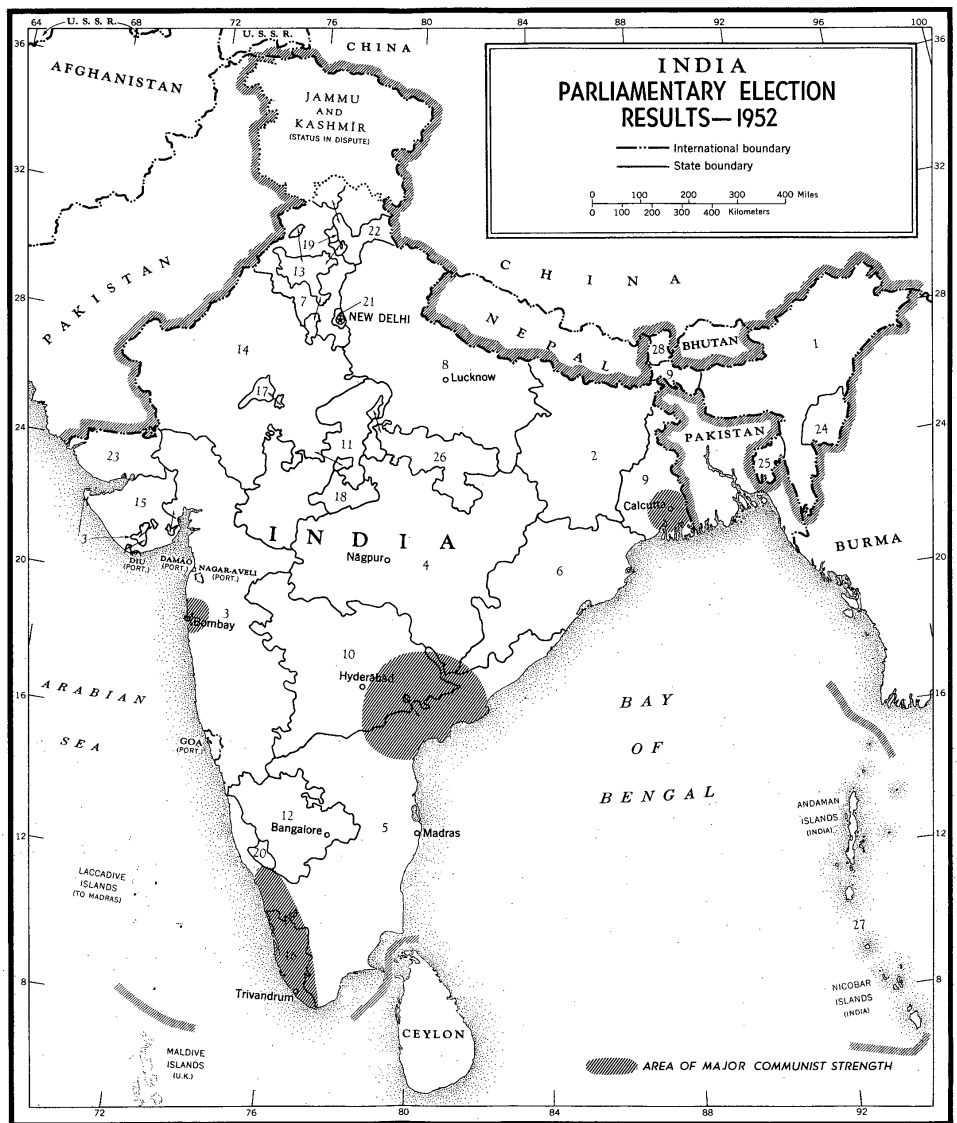
81. Indian military attention will probably continue to be directed mainly against Pakistan rather than the Communist powers. The Indian government will probably take advantage of its ability to provide locally manufactured surplus arms to other Asian countries and in some cases might be willing to provide Indian military missions.

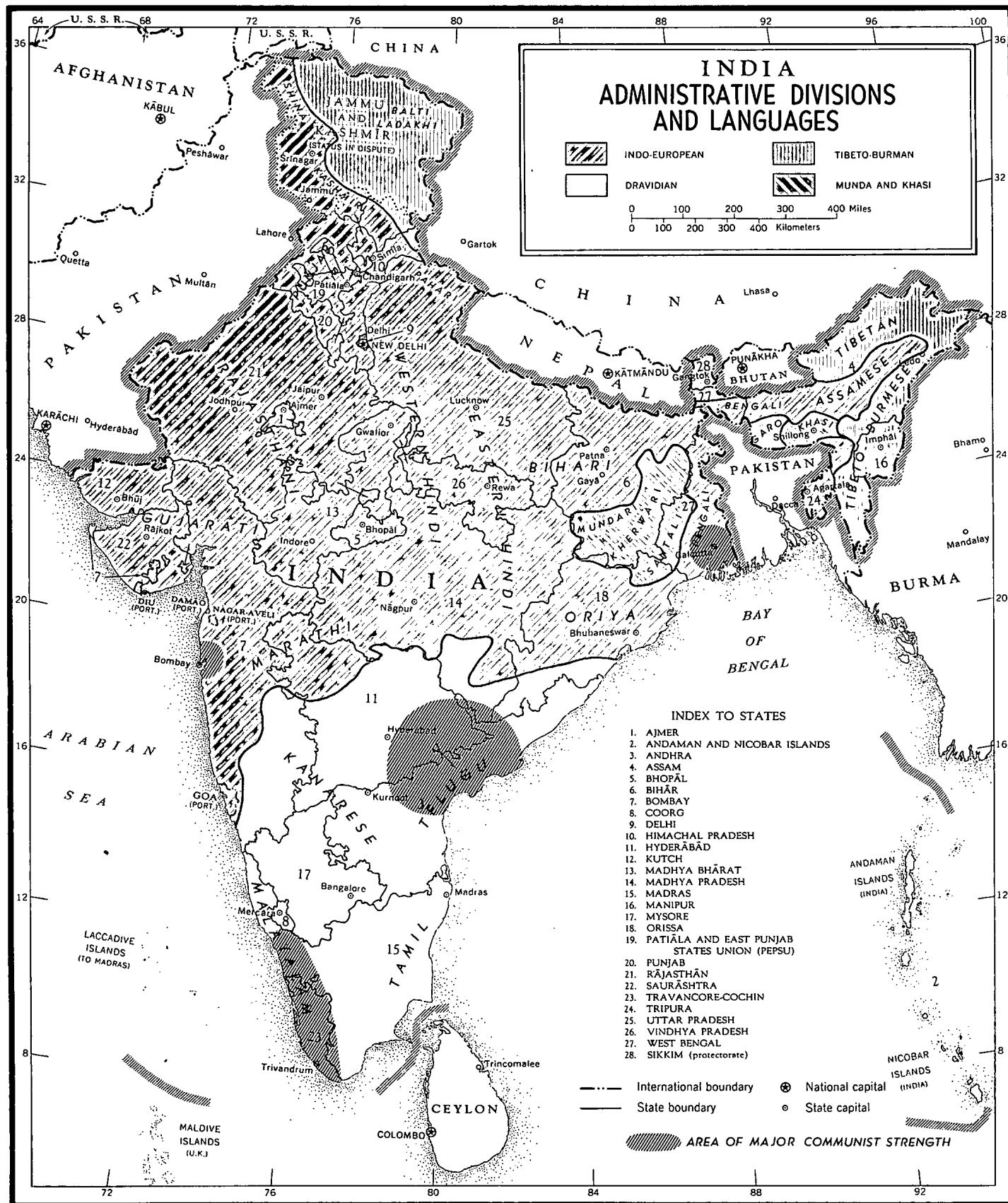
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PARLIAMENTARY ELECTION RESULTS—1952¹

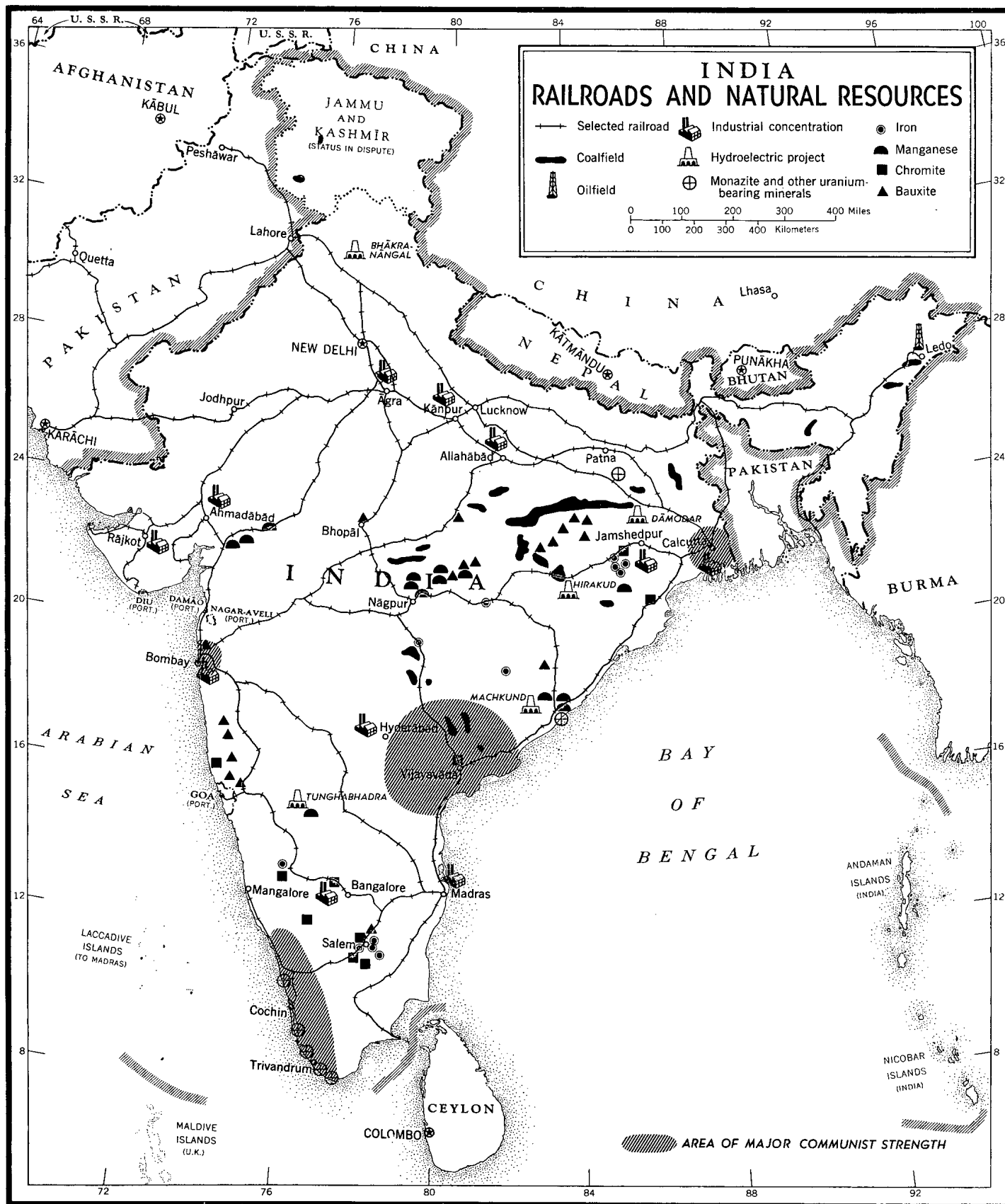
INDEX TO STATES	POLITICAL PARTY		
	CONGRESS	SOCIALIST	COMMUNIST
A STATES			
1. Assam	1,210,707	506,943	-----
2. Bihar	4,573,069	2,087,577	39,272
3. Bombay	5,781,277	1,573,409	14,383
4. Madhya Pradesh	3,713,537	877,392	29,422
5. Madras	7,252,781	1,055,415	1,780,301
6. Orissa	1,601,687	563,462	211,303
7. Punjab	2,134,588	185,446	251,623
8. Uttar Pradesh	9,047,382	2,208,685	59,699
9. West Bengal	3,205,162	152,299	720,304
B STATES			
10. Hyderabad	1,945,798	651,316	1,367,404 ²
11. Madhya Bharat	992,159	268,399	24,716
12. Mysore	1,509,075	181,430	73,322
13. Patiala and East Punjab States Union (PEPSU)	492,408	38,222	41,030 ³
14. Rajasthan	1,460,998	118,287	5,490
15. Saurashtra	506,112	36,980	-----
16. Travancore-Cochin	1,070,700	459,669	-----
C STATES			
17. Ajmer	89,761	-----	25,128
18. Bhopal	97,292	3,329	-----
19. Bilaspur	-----	-----	-----
20. Coorg	38,063	-----	-----
21. Delhi	324,214	-----	-----
22. Himachal Pradesh	117,036	16,780	-----
23. Kutch	78,771	5,985	-----
24. Manipur	36,317	28,372	13,184
25. Tripura	40,263	-----	96,458
26. Vindhya Pradesh	238,215	106,847	-----
D STATE			
27. Andaman and Nicobar Islands	-----	-----	-----
OTHER TERRITORY			
28. Sikkim	-----	-----	-----

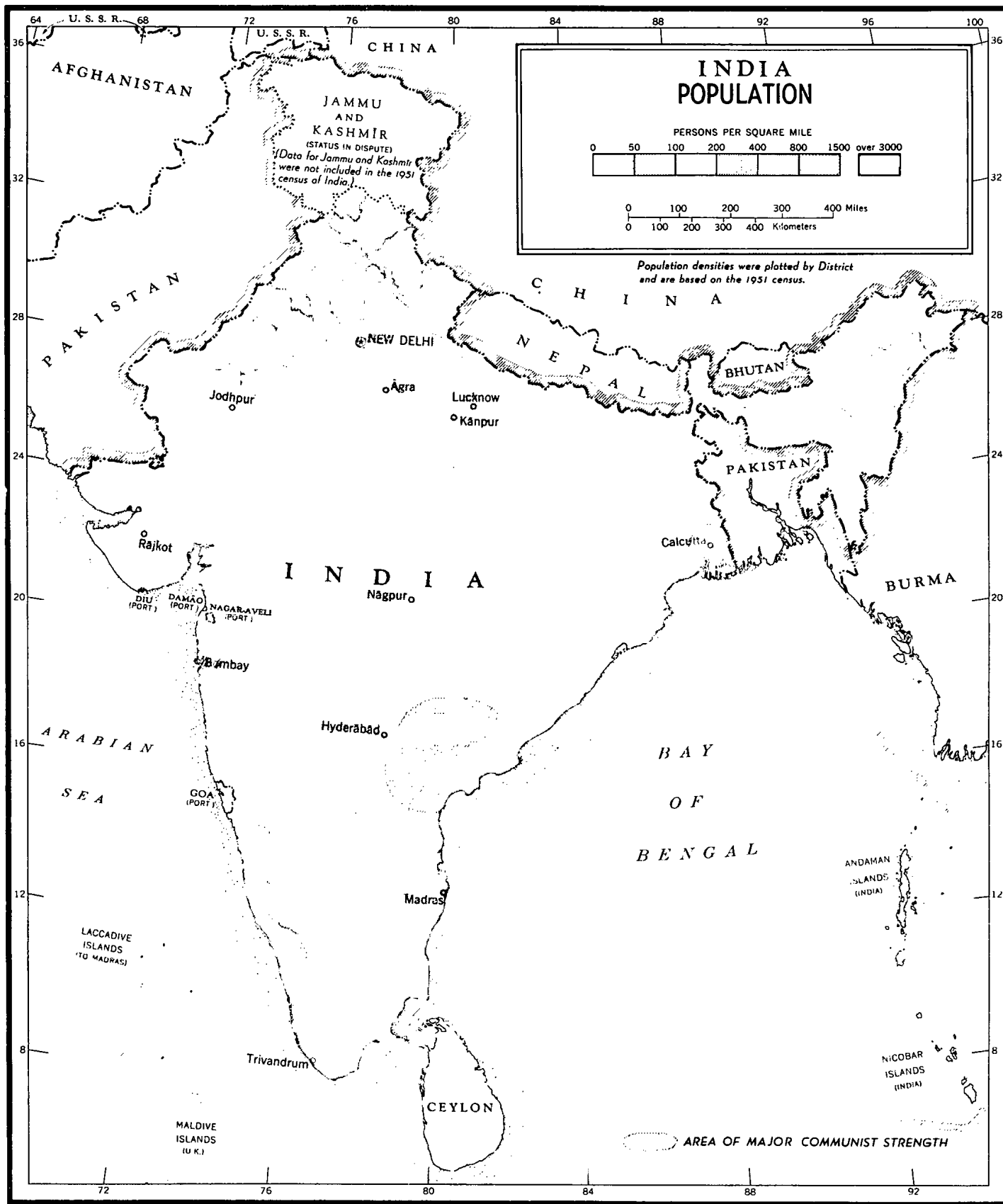
¹Only the election results of the principal political parties in India are shown. In most states where no results are listed, the Communists were weak and ran no candidates; their efforts were concentrated on winning seats in areas where they had the greatest strength.
²The Communist Party of India was banned in Hyderabad State at the time of the 1952 elections. The Communist candidates ran under the People's Democratic Front.
³The Communists in PEPSU were represented by the Lal Communist Party.
⁴The Communist Party of India was banned in Travancore-Cochin State at the time of the 1952 elections. Most of the Communist candidates ran as independents.



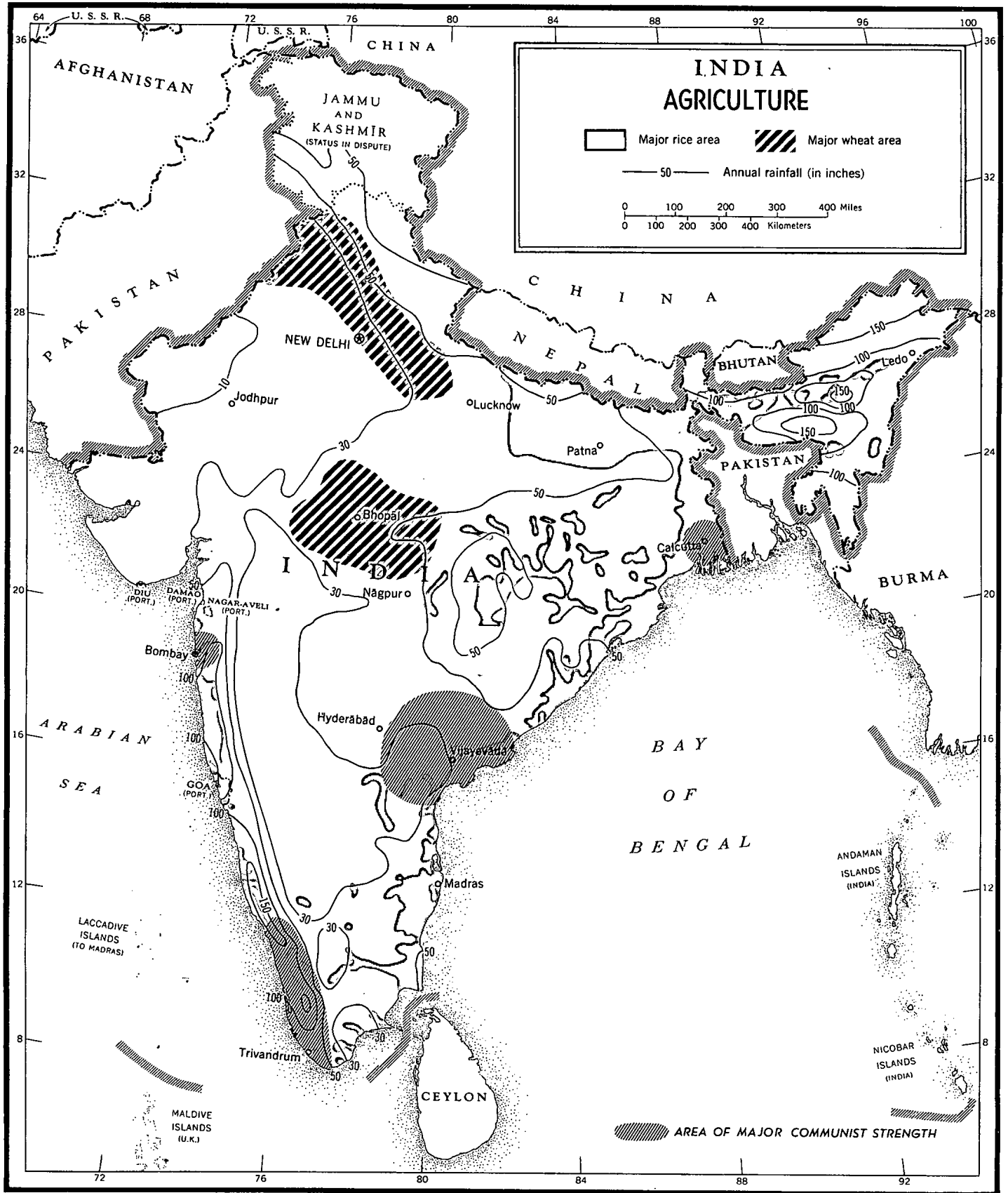


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