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Near East and South Asia Review

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Some articles are preliminary views of a subject or speculative, but the contents normally will be coordinated as appropriate with other offices within CIA. Occasionally an article will represent the views of a single analyst; these items will be designated as noncoordinated views. 25X1

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Articles

South Asia in Strategic Perspective 25X1

We believe that US interests in South Asia were enhanced by regional developments in 1985. The Afghan resistance to the Soviet invasion is stronger than ever, and the Soviets have hinted at greater interest in a negotiated settlement to the war in Afghanistan. Pakistan is more confident in its foreign policy and is moving toward better relations with India. The Indian Government under Rajiv Gandhi has adopted a more conciliatory approach in the region, has placed high priority on procuring advanced Western technology, and is willing to pursue more balanced relations with the United States.

Nonetheless, longstanding regional antagonisms and the potential for political instability will pose risks for US policy in South Asia in 1986. US policy could be severely challenged by new tensions between India and Pakistan—especially over nuclear developments—or by failed expectations of either country in their relations with the United States. Domestic or economic pressures could cause policy changes in Islamabad that could set back US regional interests. New departures in Soviet policy might undermine Pakistan's strong support for the Afghan resistance.

The War in Afghanistan

The fighting in Afghanistan last year was more intense than in previous years and, in our judgment, caused greater casualties and equipment losses both for the resistance and for Soviet and Afghan regime forces. The Soviets made greater use of their overwhelming advantages in firepower—especially artillery and airpower—and mobility in attacking insurgent positions. They also significantly increased pressure on insurgent supply lines, including frequent ambushes by elite Spetsnaz forces.

Even though Soviet forces were more active and aggressive than in the past, they did not make major gains against the Afghan insurgents. In 1985 resistance forces—better armed and trained than before—intensified pressure on the Soviets and the Kabul regime in many areas of Afghanistan. We believe the fighting in the last year has increased popular perceptions in Afghanistan that the guerrillas are becoming stronger and the regime weaker. 25X1

In our view, the war in Afghanistan will become still more fierce in 1986. Insurgent capabilities are improving throughout the country as better weapons are making their way to more groups and to more remote regions of Afghanistan. The insurgents also are becoming more bold in attacking major Soviet and Afghan military targets. 25X1

We believe that increasing insurgent capabilities have caused the Soviets to limit their near-term aims in Afghanistan. The Soviets almost certainly recognize that in areas of significant resistance—including several major cities and near vital supply lines—the insurgents are well entrenched and have the advantages of terrain and the support of the local population. The Soviets undoubtedly realize that the performance of the Afghan army and the credibility of the Kabul regime are a liability and that Soviet forces are far too few to consolidate control of the country. 25X1

Thus, rather than expecting to make great strides against the Afghan resistance in 1986, we believe the Soviets will primarily be concerned with preventing

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further deterioration of the military situation. We expect the Soviets to increase pressure in areas of significant resistance and on the insurgents' supply network.

Political Maneuvering on Afghanistan

Soviet hints about new flexibility in their position regarding a political settlement may be disingenuous. We do not expect the UN-sponsored talks on Afghanistan to yield an agreement. The Soviets maintain that a Soviet troop withdrawal can be negotiated only between Moscow and Kabul and that guarantees of nonintervention must precede the withdrawal. Pakistan insists that troop withdrawals must be part of the final agreement.

Still, the most significant developments in Afghanistan may be political rather than military. We cannot disregard the possibility that Moscow is looking for a negotiated way out of an increasingly costly war in Afghanistan. Recent high-level changes in the Kabul regime and informal Soviet suggestions of willingness to see a broader-based government in Kabul probably are aimed partly at inducing Pakistan into new talks that would sell out the Afghan resistance. For its part, Moscow would not accept any agreement that did not protect its interests and political allies in Afghanistan.

Islamabad so far has stood firm in its support for the Afghan resistance even though Soviet military pressure along the border has increased.

Many Pakistanis believe that coming to terms with the Soviet presence in Afghanistan poses fewer long-term risks than backing the insurgents. Islamabad is almost certainly inclined to explore Soviet diplomatic openings because of concerns about the economic burden of the Afghan refugees and their impact on political stability in the northwest. A major political debate on Zia's Afghanistan policy within the civilian government could cause Islamabad to make concessions to Moscow and Kabul.

The major Afghan exile groups in Pakistan that united to form a new resistance alliance in 1985 probably will increase efforts to improve political cooperation and establish their credibility in representing the Afghan cause. Disunity within the insurgent alliance is likely to be a continuing problem and could undermine its efforts to gain broad international backing. 25X1

Political Change in Pakistan

President Zia so far has skillfully managed the transition from military to civilian rule in Pakistan. Last February's legislative elections enhanced Zia's political legitimacy, but he has had to concede more power to the Prime Minister and make other concessions to the National Assembly to gain the political consensus he sought for lifting martial law. Outmaneuvered by Zia's control and manipulation of the political process, the old opposition alliance is fragmented, lacks direction, and is left with declining influence in Pakistan. 25X1

A more open political system will encourage greater assertiveness by the National and provincial assemblies and result in greater opposition to many of Zia's policies in the year ahead. In our judgment, Pakistan is unlikely to face a major political crisis in the next year because most of the relevant political actors—including the National Assembly and the military—are concerned not to short-circuit the development of civilian rule by adopting confrontation tactics. 25X1

New Policies in New Delhi

New Delhi has pursued more conciliatory policies at home since Rajiv Gandhi was overwhelmingly elected Prime Minister following his mother Indira's assassination in October 1984. Gandhi scored major political successes by reversing his mother's hardline policies toward communal tensions in Punjab and Assam; he made political concessions that allowed him to achieve accords that undercut extremist agitation in both states. Important aspects of both accords remain to be worked out. Gandhi also moved quickly to crack down on patronage and corruption in the ruling Congress Party and emphasized his plans to reform the government bureaucracy and streamline

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decisionmaking. We believe Gandhi hopes next to focus on modernizing India's economy with imported Western technology and private-sector investment.

We believe that regional stability has been enhanced by Rajiv's less confrontational approach to Indian relations with Pakistan and some of the smaller South Asian countries. India has played a major role in trying to resolve Sri Lanka's communal tensions and has been more constructive in support of the newborn South Asian Association for Regional Cooperation. In our view, Gandhi's more moderate regional policies are aimed at reducing tensions that encourage outside intervention and at demonstrating India's intention to be more respectful of its smaller neighbors.

Uncertain Prospects for Indo-Pakistani Relations

Both Zia and Gandhi seem committed to improving at least the tone of their relations and to maintaining a dialogue. The two leaders have met six times in the 14 months since Indira's death. Pakistan—which is more assured in its relations than in the past—is determined to achieve a reconciliation on the basis of a mutually acceptable strategic balance. India—although skeptical of Pakistan's intentions, especially in the nuclear area—wants to defuse tensions so it can focus on economic development and reach agreement on preventing nuclear proliferation.

Gandhi and Zia made a major step in this direction in December when they agreed not to attack each other's nuclear installations. They also agreed to negotiate accords that would normalize economic and cultural ties, resume discussions on reconciling differences between Islamabad's proposed nonaggression pact and New Delhi's draft treaty of friendship, and begin high-level discussions on reducing border clashes in northern Kashmir. The pledge not to attack each other's nuclear facilities is a significant confidence-building measure between the two sides.

The halting progress in Indo-Pakistani relations could stall over the nuclear weapons issue. Zia and Gandhi emphasized in their December meeting that major differences remain about their nuclear programs, and discussions on a nuclear agreement have been deferred. The Indians regard a nuclear Pakistan as a threat to their national security as well as their regional political interests, and they have warned that a nuclear Pakistan would force them to reconsider their policy of forsaking nuclear weapons. (Some analysts believe New Delhi will launch a nuclear weapon program anyway—if it has not already done so—to gain greater strategic influence and as a hedge against China.) The Pakistanis believe a nuclear capability is essential both to their security and to gain strategic parity with India. 25X1

India and Pakistan both clearly have begun thinking about the military implications of nuclear weapons. It is possible—although not likely as long as both sides are suspicious of each other's motives and intentions—that the implications of nuclear weapons might cause New Delhi and Islamabad to agree on ways to assure stability in a nuclear South Asia. India and Pakistan have each made proposals to prevent proliferation, but each so far has found the other's ideas unacceptable. 25X1

Besides the nuclear issue, historical antagonisms and dramatically different perceptions of their strategic roles in South Asia are significant obstacles to a long-term reconciliation between India and Pakistan. Fundamental differences lie behind India's refusal to accept Pakistan as a strategic equal and Pakistan's refusal to accept Indian dominance. Both sides suspect the other is arming, training, and infiltrating dissidents against their country. Although neither country is prepared to go to war over Kashmir, neither will abandon its territorial and political claims. An escalation in clashes along the Kashmir cease-fire line—such as in the Siachin Glacier area—could provoke wider fighting in a period of mounting tensions. 25X1

Outlook for US Policy Interests

New Delhi and Islamabad will each continue to look with suspicion on the other's relations with the United States. The Indians remain dubious about the ultimate use of US arms supplied to Pakistan and believe that the United States chooses not to press Islamabad on its nuclear program because of Pakistan's role as a strategic partner in opposing the Soviets in Afghanistan. The Pakistanis fear that closer US-Indian ties—especially the development of 25X1

a large Indian market for US trade and investment—will be at Pakistan's expense, and that the United States would not back Pakistan in a new crisis with India.

Pakistani disappointment about the size of the next US security assistance package—Islamabad hopes to double the present $3.2 billion five-year program—or irritation at increased US pressure on the nuclear front would cause strains in US-Pakistani relations. We believe most Pakistanis are suspicious of US motives and do not share Zia's view of an enduring US commitment to Pakistan. US inability to meet Pakistan's aid expectations could even undermine the foundation of Zia's personal commitment to strengthening ties to the United States. In any case, US policies are likely to become a greater target of criticism in a civilian-ruled Pakistan.

The United States faces a major challenge in trying to establish a new basis for relations with India—including closer consultations and cooperation on issues such as Afghanistan and the development of a military relationship—while continuing extensive security aid to Pakistan. New Delhi also rejects US military interests in the Indian Ocean region and would firmly oppose greater US-Pakistani military cooperation—including US access to Pakistani bases for regional military contingencies. Indian officials are skeptical of US reliability, and major difficulties over technology transfer or the development of a military relationship could erode support for closer relations with the United States.

Nonetheless, Gandhi's more moderate foreign policy and interest in US technology provide a significant opportunity for the United States to improve relations with New Delhi. Although differences over Pakistan probably limit the expansion of US-Indian relations, we believe that Rajiv is willing to tolerate more policy differences with the United States than was his mother. We believe the prospects for improved US-Indian relations would diminish markedly if Rajiv Gandhi were no longer Prime Minister because no other Indian leader would have the influence he has to overcome widespread suspicion of the United States in India. 25X1

Increased US aid and technology transfers will not cause New Delhi to abandon or substantially reduce its strategic ties to Moscow. Despite a policy of arms diversification, India will remain dependent on Soviet arms for at least the rest of the decade. At the same time, we believe that Gandhi's interest in Western technology and in pursuing a more balanced foreign policy will cost Moscow influence in New Delhi. The Soviets may also find Rajiv less willing than his mother to support some Soviet policies, possibly including Moscow's policy in Afghanistan. 25X1

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The War in Afghanistan: Trends in 1985 and Implications for 1986

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During 1985 both the Soviets and the insurgents took a more aggressive approach to the war in Afghanistan. The Soviets improved their use of air assets and put new emphasis on small combat operations; they only slightly increased their troop strength. We expect Moscow to continue to stress operations by specialized troops, including night operations, and the use of airpower in 1986. We do not foresee a sizable increase in combat personnel, barring major insurgent battle victories.

The insurgents extended their operations to new areas of Afghanistan in 1985, began adapting to Soviet mobile, small-unit operations, cooperated better on tactical issues, and executed more complex operations with greater firepower. They maintained their high morale and the support of the population in Afghanistan. In 1986 we expect to see a well-supplied, aggressive, offensive-oriented insurgency with greater capability to operate throughout Afghanistan. We also expect the insurgents to position some headquarters and training camps in Afghanistan, form some large and conventionally organized groups, develop more refined infiltration routes, and improve training.

The Afghan Armed Forces remain beset by severe manpower problems, desertions, and factionalism despite a concentrated Soviet effort to improve their capabilities. The Armed Forces' continuing difficulties are reflected in their poor performance this year and make it unlikely that they will be able to operate effectively against the insurgents in the near term.

Barring an unlikely decision in Moscow to deescalate the war in the interests of a political settlement, we expect few major changes in the overall military situation in 1986. Although we expect casualties on both sides to increase, we see no signs of war weariness among the resistance or any lessening of Soviet determination.

Soviet Improvements in 1985

Soviet troop strength in Afghanistan increased by approximately 4,000 during 1985. An additional motorized rifle regiment was deployed to Herat in western Afghanistan to improve security in the area.

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Although multibattalion operations remain the Soviets' principal method of engaging the insurgents, the use of small and well-trained units increased measurably in 1985. Night ambushes by groups of 20 to 30 Soviet soldiers—usually Spetsnaz—equipped with antipersonnel mines and small arms are now common.

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In 1985 the Soviets significantly increased emphasis on training troops specifically for Afghanistan to overcome problems with inexperienced troops.

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To hold down their casualties, the Soviets made greater use of their overwhelming advantages in firepower—artillery, multiple rocket launchers, and airpower—to support ground operations. Helicopters played an increasingly important role, airlifting troops into combat areas, providing close fire support, escorting troop and supply columns, and transporting critical supplies to remote areas.

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The Soviets improved their airfields and added to their petroleum facilities in Afghanistan during 1985. A second runway was built at Termez airport in northern Afghanistan, and an 800-meter runway

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extension at Kabul airfield was completed in June. The supply and storage of petroleum, oil, and lubricants were enhanced in western Afghanistan by a new pipeline from Towranghondi to Shindand and an additional 900,000-liter fuel storage area at Herat.

Little Progress for Afghan Regime

The Afghan Armed Forces still cannot recruit and retain enough reliable manpower to wage a counterinsurgency effort.

Persistent factionalism and disloyalty in the leadership prevent the building of a cohesive army.

Afghan troops for the most part are unwilling to fight their fellow countrymen. Units in many parts of the country avoid confrontations with insurgents and have generally proved ineffective in unilateral operations. Their poor performance will require the Soviets to shoulder an even greater share of the fighting, spreading their military resources—already insufficient—even thinner.

Insurgent Capabilities Grow

During 1985 the insurgents began developing tactics to counter Soviet small-unit ambushes, improved cooperation among insurgent groups in the field—particularly among Islamic fundamentalist groups operating in northern Afghanistan—and executed more sophisticated operations with greater firepower. Some resistance forces were hurt, however, by defections to the regime or the death of important leaders.

The insurgents' capabilities improved because of the increased weapons, training, and equipment they received during the year. They have:

- Used air defense weapons more effectively. We estimate that during 1985 the resistance destroyed or severely damaged some 180 Soviet and Afghan aircraft.
- Improved their logistics. In the remote northern Balkh Province, the insurgents obtained weapons, munitions, and supplies from Peshawar, Pakistan, by truck,
- Improved their mine-laying techniques and increased their mine-clearing capabilities,
- Proved quicker to adapt to changes in Soviet tactics than the Soviets have been to new insurgent tactics.

These improvements have enabled the resistance to hold their own against Soviet and Afghan regime forces and score occasional but significant psychological and tactical victories.

Looking Ahead

Soviet Forces. We expect the Soviets to do many of the same things they have been doing in Afghanistan over the past six years. Some small increases in troop strength are likely. More special-purpose forces probably will be deployed in areas where insurgent activity has increased—between Lashkar Gah in the south and Shindand in the west, for example.

We believe the Soviets in the next year will continue to emphasize attacks on guerrilla camps and supply lines within Afghanistan. Mobile forces operating independently in small units, including Spetsnaz troops, are likely to carry out more reconnaissance and ambush missions against insurgent caravans—more frequently at night—to slow the insurgents' arms flows from Pakistan.

We speculate that Soviet large-scale offensives will involve fewer troops than in the past to maintain flexibility in responding to insurgent activity elsewhere in Afghanistan and to reduce the warning time for the insurgents. Greater reliance on heliborne assaults with heavy air and artillery support in large operations is likely.

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Because of the unreliability of the Afghan army and Air Force, Moscow may put more effort into developing paramilitary and irregular units among Afghan tribesmen to assist in blocking insurgent infiltration. Several such units have been set up this year, mostly along the Pakistan border.

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We believe the Soviets will continue to face many of the same problems that have plagued them throughout their occupation of Afghanistan—poor intelligence, too rigid command and control practices, and too few troops

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Soviet political pressure on Pakistan will probably increase. This may increasingly include Soviet/Afghan attempts to win over Pakistani border tribes.

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The Insurgents. The insurgents will continue to try to expand both their operations and their tactical cooperation. They will probably continue to try to extend the fighting into areas—such as Helmand Province and the Hazarajat region—where fighting has traditionally been limited. Insurgent cooperative efforts against government forces will continue to increase.

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We expect that insurgent groups throughout Afghanistan will be better armed in 1986, in part because of improved infiltration and supply routes. New arms will add to their capabilities against both Soviet Ground and Air Forces.

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Afghanistan: Progress Toward Peace?—An Alternative Analysis

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This article explores recent developments that suggest a different Soviet political approach to the war in Afghanistan and poses a new negotiations scenario. The authors assume that the Soviets are feeling the cost of the war, that they are actively looking for a face-saving way out, and that Gorbachev faces no insurmountable internal obstacles to withdrawal—assumptions that are not widely shared in the Intelligence Community. Nonetheless, the authors believe that there is enough recent evidence that Moscow is considering an alternative negotiating strategy to warrant discussion.

Soviet Communist Party General Secretary Gorbachev's attitudes toward Afghanistan at the November meetings with President Reagan in Geneva, recent statements by other Soviet officials suggesting a Soviet desire to leave Afghanistan, and last month's changes in the Kabul regime provide tenuous hints that Moscow is reassessing its approach to negotiations on Afghanistan. Although there are many reasons to be skeptical of the apparent Soviet flexibility, we cannot rule out the possibility that Moscow is serious about negotiating a face-saving withdrawal.

If the Soviets are—or are becoming—serious, we believe Moscow most likely would pursue informal, secret talks with Pakistan. In our view, Pakistan would be willing to participate in such negotiations. The talks might begin with each side carrying out confidence-building measures—such as a small Soviet troop withdrawal and Pakistani agreement to engage in direct talks with Kabul—to test each other's sincerity. Even under these circumstances, a peace agreement involving a firm timetable for Soviet withdrawal and an end to Pakistani support for the resistance would be a long-term prospect, given the two sides' mutual distrust.

Moscow's Multitiered Strategy

In their efforts to obtain their primary security objective in Afghanistan—the establishment of a government in Kabul sympathetic to Soviet security concerns—the Soviets are pursuing a variety of tactics. Besides attempting, with minimal success, to defeat insurgent forces on the battlefield, Moscow is holding fast at the bargaining table in its refusal to consider a timetable for Soviet troop withdrawals until Pakistan agrees to direct talks with Kabul. Moscow maintains that the present regime in Kabul is legitimate, that the Soviets were invited into Afghanistan to help the fledgling socialist state cope with an insurrection, and that the real cause of the war is foreign support—primarily Pakistani and US—for the Afghan resistance.

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At the same time, Moscow almost certainly is disappointed in the Afghan Communists' failure to win broad popular support and recognizes that its commitment to defend Afghanistan could drag on for years if the insurgents are not neutralized—either militarily or diplomatically. Moscow's recent hints at flexibility on Afghanistan may mean that it is seeking a face-saving way out of the protracted, bloody conflict without sacrificing its major security objectives.

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We believe Moscow hopes that, with the lifting of martial law in Pakistan next month, President Zia will come under significant domestic pressure to review his country's support for the Afghan resistance. The Soviets have been encouraging the Kabul regime's recent efforts to make Islamabad's support for the resistance more costly—by, for example, sowing discord among the border tribes and sending saboteurs into Afghan refugee camps—while at the same time seeking both privately and publicly to convince Pakistan and the United States, among others, of the seriousness of its desire for peace.

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Movement in Kabul

As part of this effort, the Kabul regime is undergoing a facelift. In a sharp break with past practice, it has for much of the last year minimized its Marxist-Leninist ambitions and instead stressed its adherence

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to traditional Afghan politics. Speeches by Babrak and other key Afghan officials have sought to portray the government as pluralistic and the party as only one of a number of organizations that together govern Afghanistan. Underscoring Kabul's purported concern for traditional ethnic, regional, and tribal interests, for example, the Afghan media portrayed this summer's token local elections as proof that the government is popularly based. To enhance the "national democratic" flavor of this appeal, the regime welcomed cooperation from all quarters, including "private capital holders."

The rhetoric—which we believe is motivated in part by the regime's desire to improve its international image—may be aimed at convincing regime opponents, including the resistance, that Babrak is willing to discuss power-sharing arrangements, including a coalition government. In Babrak's speech on 9 November, he underlined the regime's willingness to "widen the talks, contacts, and understanding with those elements unconsciously taking a hostile position against the revolution or those repenting their counterrevolutionary deeds."

Is Moscow Serious?

We doubt that Babrak would have been willing to take such an approach without Soviet approval. According to the US Embassy in Kabul, Soviet diplomats in Kabul appear to be pushing the idea that some conciliatory gestures have already been made to the resistance—including overtures to resistance leader Ismail Khan—and have attributed the recent elevation to the Politburo of Minister of Nationalities and Tribal Affairs Solayman Laeq to his "good connections" with the resistance.

Moreover, Moscow's efforts to portray the changes as major moves toward a political settlement are, we believe, also significant:

- According to the US Embassy in Moscow, Gankovskiy subsequently told US officials that Afghanistan is launching a major effort to achieve a negotiated settlement.

- During the Geneva meetings between President Reagan and Soviet Communist Party General Secretary Gorbachev, Soviet officials talked publicly about the high costs of the war and Soviet willingness to depart. US officials were struck by the fact that Gorbachev did not mention the need for direct talks between Pakistan and Afghanistan when he spoke about the need to support the UN diplomatic process in Geneva. 25X1

Taken together, these events strongly suggest that the leadership changes in Kabul are more than a propaganda ploy and are primarily aimed at making the Kabul regime more palatable to the Pakistanis. 25X1

How Might the Peace Process Work?

Recent Soviet and Indian contacts with Pakistan point to a new Soviet interest in discussing Afghanistan directly with Islamabad: 25X1

- Indian Foreign Secretary Bhandari told US officials that he had discussed with the Pakistanis an "informal process" designed to supplement the Geneva talks. The Pakistanis were interested in the idea.

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- According to press accounts, Soviet Deputy Foreign Minister Korniyenko told Pakistani Foreign Minister Yaqub Khan that Moscow would consider "in theory" a graduated troop withdrawal. 25X1 25X1

We believe Pakistan would be amenable to informal talks with the Soviets because they hold the prospect of reducing the Soviet presence in Afghanistan and allowing nearly 3 million Afghan refugees to return home. The two states would probably prefer to conduct such negotiations in secret, perhaps at a 25X1

Middle Eastern capital like Damascus, where Moscow, Islamabad, and Kabul all have diplomatic representation. Iran and China—both of which have recently stepped up bilateral contacts on Afghanistan—are also prospective intermediaries.

Such a process, in our view, would allow each side to carry out confidence-building measures—token Soviet troop withdrawals, for example, in return for Pakistani willingness to meet directly but secretly with Afghan officials—that could restore momentum to the negotiations and allow the Soviets and Pakistanis to test each other's intentions.

The process could be drawn out further once the initial steps are taken to each side's satisfaction. The Soviets could follow their token troop withdrawal with moves to broaden the regime, bringing in to nonsensitive posts some figures acceptable to the resistance. In exchange, Islamabad might be willing to offer a public statement on noninterference. The Soviets probably would also expect the Pakistanis to gradually shut down resistance facilities in Pakistan and cut off the flow of men and supplies through Pakistan. Over time, power-sharing arrangements could be worked out for high-level government posts in Kabul and in the Armed Forces, with, for example, the Soviets naming the defense and foreign ministers and army commanders, and the Pakistanis nominating the interior and tribal affairs ministers and the deputy army commanders.

Negotiations would be protracted, however, and the process could be quickly reversed. Mutual distrust would remain high.

What About the Resistance?

A major stumblingblock to successful informal talks would be the Afghan resistance. Islamabad almost certainly realizes that the resistance would object to diplomatic probes of Moscow's position and would oppose an agreement that conceded Moscow's security interest in Afghanistan. The Pakistanis, accordingly, would probably not consult closely with resistance leaders.

If the insurgents find out about the negotiations, at least some of the groups would try to sabotage the peace negotiations by stepping up activity against the Soviets. The insurgents, moreover, have been storing arms and ammunition in the event of a "sellout" by Pakistan, and their independent military action in Afghanistan could call into question Islamabad's sincerity, thus derailing the peace talks.

Moscow and Islamabad would probably bank on resistance disunity to impede its effectiveness. By offering resistance leaders Cabinet or high-level army posts in a coalition government, Moscow and Islamabad probably would try to split the resistance along ethnic or religious lines and render its ability to oppose the arrangements negligible. On balance, we believe the Soviets and Pakistanis would judge that the threat a fractured resistance would pose to a new, more inclusive Kabul regime would rapidly deteriorate without the use of Pakistan as a safehaven and resupply point.

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Pakistan at a Crossroads: Prospects for Civilian Rule

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President Zia's lifting of martial law on 25 December—the birth date of Pakistan's founder—will give the country its first civilian government in more than eight years. We expect the new government, with Zia as civilian president, will survive its first year. Zia has shown himself a wily politician—he has already outlasted all but one of his predecessors—and we believe the civilian government will not press for rapid liberalization. Even so, the government faces potential economic and political pitfalls. In our judgment, Pakistan's senior military leaders will not hesitate to step in if they believe the civilians are losing control or betraying military concerns.

The New Political Arrangement

The political framework approved by the National Assembly last November outlines a more balanced sharing of power between the president and the prime minister than Zia had envisioned. Zia preferred that the president be the chief executive officer with the prime minister reduced to a figurehead role—the reverse of the situation during the previous Bhutto regime. He also wanted this relationship paralleled at the provincial level, with a strong governor and a weak chief minister. Parliament would clearly have been a junior partner. Although legislative and judicial power would not have been directly circumscribed, Zia's proposed amendment would have removed any formal constraints on the presidency.

Zia accepted significant changes to his blueprint to get the unanimous approval he believed was necessary to legitimize his acts as military ruler as well as his future role as civilian president. He jettisoned the proposal to establish a National Security Council—essentially a watchdog over Parliament—to gain consensus. The emergence of an articulate opposition in Parliament forced further concessions.

The constitutional amendments finally approved still sanction a strong executive office, but Zia surrendered some of the presidency's more significant discretionary powers—including the right to select the prime minister and provincial governors and to dissolve the National Assembly whenever the president believes an appeal to the electorate is necessary. Zia, however, managed to retain the provision granting him and other martial law officials immunity from prosecution for their acts under military rule.

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Factors Influencing Stability

We believe the stability of the fledgling civilian government could be affected by the handling of key issues.

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Zia's Vulnerabilities. We believe the success of the new political system, at least early on, depends to a large extent on Zia's continued rule. Zia, never enthusiastically supported by his countrymen, owes his longevity to a combination of circumstances—principally a healthy economy and the existence of a clear threat to Pakistan's national security. Zia may come under stronger criticism in a freer environment, however, and we believe he is vulnerable on several scores:

- His promise to permit parliamentary examination of ways to compensate the victims of martial law excesses could lay his regime open to public scrutiny, if not to judicial review. The impending investigation of human rights in Pakistan by US and international human rights groups could also prove embarrassing or damaging to Zia's future as a civilian leader.

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- The December 1984 presidential referendum could come to haunt Zia. We believe Zia is protected from a legal challenge to the widely disputed results of the poll, but, by linking his election to a five-year presidential term to approval of his Islamization program, Zia has exposed himself to charges of exploiting Islam for political purposes.

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- Zia intends to form a Policy Coordination Council, which would include senior military commanders, in place of the rejected National Security Council. Such a move might accomplish his aim of satisfying the military that it plays an adequate role in national security decision making, but disclosure would arouse criticism of both Zia and Parliament for having permitted him to renege on his promise not to establish a watchdog body.

Junejo's Performance. Zia, at least, has growing doubts about Prime Minister Junejo's abilities. Zia was disappointed with Junejo's handling of the constitutional amendments. Reporting from the US Embassy suggests Zia believes Junejo's apparent determination to form a government party based on the Muslim League will alienate many progovernment delegates. An aggressive parliament could find more room to maneuver between the president and the prime minister, testing the management skills of the prime minister—and perhaps the patience of the military.

The Economy. Temporary improvement in government finances and the foreign payments situation only masks longstanding structural problems and the shrinking of overseas markets for Pakistani workers. In our judgment, the government will probably be able to delay hard decisions about economic reform for the next year. A recent opinion poll, however, indicates that most Pakistanis believe the economy is the country's major problem and suggests that Parliament will be under close watch, if not criticism, for its handling of the economy.

US-Pakistani Strategic and Aid Relationship.

Islamabad could find it increasingly difficult to justify close bilateral ties to a public that already considers Washington an unreliable ally. Moreover, the prospect of dividing a smaller aid pie probably guarantees a "guns-or-butter" debate between the government, which wants 60 percent of the package earmarked for economic assistance, and the military, which will be concerned that Pakistan's defense needs will receive short shrift 25X1 25X1

Afghanistan. US Embassy reporting indicates that the problem of the more than 3 million Afghan refugees and, by extension, Pakistan's policy toward Afghanistan will become a more contentious issue over the next year. Complaints that refugees compete for scarce jobs, land, and water may receive more attention in the National Assembly and in the assembly of the North-West Frontier Province, where most of the refugees have settled. The government's policy of supporting the insurgents and sheltering the refugees almost certainly would become a more serious liability in the event of an economic downturn, a perceived deterioration in the US-Pakistani relationship, or sharply increased Soviet military pressure. 25X1 25X1 25X1

Provincial Pressures. Reporting from US Consulates in Pakistan indicates the new provincial assemblies have turned in lackluster performances so far, and national issues related to the return to civilian rule have preempted provincial concerns in the National Assembly. We anticipate that regional grievances may become more prominent under civilian rule, particularly over resource allocations. Separatist movements may also be revived—particularly if the newly formed Sind-Baluch-Pushtun Front succeeds in wooing support from traditional political parties—which may in turn generate pressure in the National and provincial assemblies for more regional autonomy. 25X1 25X1

Islamization/Sectarian Tensions. Concern among the Shia minority that imposition of Sunni jurisprudence would reduce it to second-class status has been a key factor in sporadic outbreaks of sectarian violence. Parliamentary discussion of religious legislation could set off another round. The predominantly conservative National Assembly will probably try to keep consideration of Islamic initiatives to a minimum, but the more articulate minority of Senate members with ties to leading 25X1 25X1 25X1

Provincial Concerns

Aspirations and grievances in Pakistan's provinces to monitor over the next year include:

- ***Sind.*** *Sind Province is the home of the Bhutto family, and the Pakistan People's Party (PPP) still commands a large following there despite party factionalism, according to US Embassy reporting. The PPP organized the four-month anti-Zia campaign in 1983 that soon turned into a movement for Sindhi separatism. Although the Sindhi separatist movement has been suppressed by the Zia regime, provincial grievances have not disappeared. Many Sindhis charge that irrigation canals in Punjab—Pakistan's agricultural center—divert scarce Indus River water away from the arid Sind. They also claim that they are underrepresented in the civilian and military bureaucracies. US Embassy reporting indicates that government grants of Sindhi land to retired military officers, most of whom are Punjabi, are likely to become a more important source of Sindhi resentment.*

- ***North-West Frontier Province (NWFP).*** *The predominant Pushtun tribes of the NWFP also resent what they consider to be Punjabi domination of their affairs. US diplomatic reporting indicates that NWFP civilian officials have protested to Islamabad about the proposed construction of the Kalabagh Dam, which, they say, will force some 150,000 residents to relocate and destroy 24,000 hectares of arable land. Many farmers and tribesmen also resent the federal government's efforts to curb illegal poppy production in the province, and local officials are often reluctant to enforce the poppy ban,* [redacted] *Finally, and perhaps most important, 2.5 million Afghan refugees have settled in the NWFP, and longtime residents complain about having to compete with the Afghans for scarce jobs, land, and water.*

- ***Baluchistan.*** *Tribes in Baluchistan, Pakistan's largest and least developed province, have long resented what they consider to be the Punjabis' efforts to encroach on their tribal areas and to exploit the province's natural resources. Reporting from the US Consulate in Karachi indicates they also resent the influx of Punjabis and Afghan refugees into the province, claiming that the Punjabis buy up the land and accusing the Afghans of banditry and kidnapings. Unemployment among young Baluchs is also a problem—especially since job opportunities in the Arab Gulf states are diminishing and Baluchistan's undeveloped economy provides little employment potential. Finally, Baluch separatist sentiment, while subdued, may rise again if, as in 1973-77, Islamabad tries to impose policies that local tribal authorities believe threaten their authority and traditions.*

- ***Punjab.*** *Punjabis—including Zia—have traditionally dominated Pakistani politics and have sought to preserve Punjab's status as the wealthiest, most populous, and most developed province. Reporting from the US Consulate in Lahore, for example, reports that the new provincial assembly amended a law so that the federal government is now required to pay full market price for Punjabi land it acquires by right of eminent domain. The Consulate also reports that the assembly is planning new provincial development projects, including roads, irrigation, and schools. Punjabis will probably fight efforts by the other provinces to obtain some of the large federal funds that traditionally go to Punjab.*

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religious parties probably will push such legislation. The government has already acceded to demands that it present by April a bill forcing all laws to conform to Islamic principles.

Nuclear Tensions With India. In our judgment, the risk of a confrontation with India has declined in large measure because of Rajiv Gandhi's apparent determination to pursue peaceful resolution of outstanding differences. A resumption of tension, however, is a constant possibility, especially over the Pakistani nuclear program and Pakistan's alleged support for Sikh extremists. The military will pay close attention to the civilian government's approach to New Delhi.

Political Parties: The Wild Card

Zia has kept the parties in the political wilderness, and he has told Western journalists he would prefer the parties stay there until the 1990 elections. In our judgment, Zia wants to better gauge the political pressures that have built up during his military regime before widening political participation. As part of the deal for the passage of the constitutional amendments, however, he promised an early debate of a parties law. The bill submitted to Parliament apparently would disqualify parties that were not registered before the second set of elections aborted by Zia in 1979, a provision that would exclude such major parties as the Pakistan People's Party (PPP), two major regional secular parties, and a faction of the religious Jamiat-ul-Ulema-i-Islam. It also called for the disqualification of any member of the National or provincial assemblies who changed party affiliation during his term of office.

In our view, the government considers the parties more manageable when they are in the open and may consider changes in registration requirements. Reporting from the US Embassy in Islamabad indicates the prohibition on floor crossing could be weakened to satisfy concerns of progovernment delegates who would be reluctant to be permanently tied to a government party formed around a revived Muslim League.

Pakistan: Public Attitudes

A recent poll by Gallup Pakistan, which is affiliated with the US Gallup group, indicates widespread popular support for Zia and the government's handling of foreign and domestic issues. The poll was conducted in October among 1,700 Pakistani households in 100 representative villages and 75 urban centers throughout the country, using a methodology that the US Embassy in Islamabad believes is sound. The following isues were raised:

- ***Talks with Kabul regime.*** *Sixty-six percent support Islamabad's opposition to direct talks; 78 percent oppose recognizing the Karmal regime . . . opposition to direct talks strong even among supporters of political parties that advocate such a step.*

- ***Afghan refugees.*** *Support for presence of the refugees fairly strong on a national level (46 percent approve, 20 percent oppose, 34 percent no opinion) . . . among respondents in rural NWFP, where most of refugees live, 48 percent approve and 32 percent oppose . . . widespread apathy about refugee issue in politically alienated Sind Province.*

- ***Parliamentary performance.*** *Thirty-seven percent say performance of National Assembly is good; another 33 percent call performance modest or reasonable.*

- ***President Zia versus Prime Minister Junejo.*** *Junejo's approval rating has risen to 47 percent, compared with 29 percent last May . . . 55 percent say prime-ministership should be most powerful office, while 25 percent favor a dominant presidency . . . even so, respondents preferred Zia to Junejo 4 to 1.*

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The political parties—in disarray and fragmented—are having a difficult time mounting a credible opposition to Zia, particularly because the public generally supports Islamabad's policies. The opposition coalition Movement for the Restoration of Democracy (MRD) has atrophied, and the government has prevented its leaders from meeting to map out a post-martial law strategy. The PPP, the dominant member of the MRD, is also weak. Differences between exiled leftist leader Benazir Bhutto and the more moderate Sind Province party president, Ghulam Mustafa Jatoi, have not been reconciled. The detention last summer of Benazir, and her subsequent exile, apparently did not rally public opinion to the PPP.

The Military: Watching and Waiting

The senior leadership of the Pakistani military appears to have pressed for the turnover of the government to civilians because,

the military leadership believed that martial law has outlived its usefulness and its retention would serve only to besmirch the military's honor. In our judgment, however, the current military leadership holds the traditional view that intervention in Pakistan's domestic affairs by the armed forces is a legitimate exercise of the military's responsibilities. The military will remain on the sidelines as long as the police and paramilitary forces can contain political unrest and its perceived economic and defense needs are satisfied.

When he resigned from the military, Zia left behind a coterie of senior officers who owe their positions to him personally and from whom he will continue to seek advice about major policy initiatives. If the domestic situation deteriorated to the point that military intervention appeared imminent, we believe Zia might preempt such a move by requesting the military to return and reimpose martial law. In such an event, Zia probably would expect his connections with the senior commanders to ensure his continuance in power.

We believe the principal candidates to assume control would be the Army Chief of Staff—the position formerly held by Zia—or the corps commander of the Rawalpindi area (currently Zaid Ali Akbar). 25X1

Outlook for Stability

We believe the political opposition will need at least six months to organize itself and will not engage in premature and irresponsible activity that might provoke a speedy reimposition of martial law. We believe the PPP may soon be further weakened by a split between party mainliners and Sindhi nationalists who may increasingly turn toward separatist groups, especially the Sind-Baluch-Pushtun Front. 25X1

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The National Assembly will almost certainly try to follow its own agenda—which may include staking out a role in foreign policy making—its recent success in forcing compromise and concessions almost certainly having fed its ambitions. In particular, we believe tension between the military and National Assembly over the distribution of resources—particularly in the negotiation of the post-1987 aid package—is inevitable in the next year. 25X1 25X1 25X1

The military will, in our judgment, continue to act as the strong silent partner exercising broad control over major foreign policy and defense issues. In our view, the military will monitor closely Zia's national experiment with democracy, particularly during the early months, and would abort the experiment only in a crisis such as hostilities with India or the Soviet Union. A widespread breakdown in law and order caused by sectarian, tribal, or labor unrest could prompt another military takeover, but the military could well decide to step in only to restore calm. 25X1

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Pakistan: Looking to the United States for More Aid

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Disturbed by the wide gap between US and Pakistani proposals put forward during talks last November on the next five-year aid package, Islamabad will push hard for increased economic and military aid from Washington. A much lower aid package than Pakistan seeks would provide ammunition to those who oppose close ties to Washington and might prompt Islamabad to drag its feet on matters of interest to the United States in the region, perhaps even trimming its assistance to the Afghan resistance.

We judge that Pakistan's balance-of-payments and financial position will probably improve next year. This and a largely conservative National Assembly will enable Islamabad to postpone politically sensitive economic reforms recommended by the United States and multilateral lenders. Structural problems, such as neglected energy and irrigation facilities, are likely to hamper economic performance during the period of the next aid package.

High Hopes for US Aid

During the consultative group meetings in Islamabad in late November, Pakistan asked for more than twice the current $3.2 billion aid package to bolster its defenses and strengthen its economy. Pakistan requested $6.5 billion—60 percent economic aid and 40 percent military assistance—over five years (FY 1988-92).[1] Finance Minister Mahbubul Haq told US officials that the request was based on the assumption that $4.5 billion would be required merely to match the current package, accounting for inflation, and the remaining $2 billion was needed for debt servicing and to show "growth." Even though the Pakistani request implies that $2.6 billion would be allocated to defense, military officials said that their minimum requirement was $3.5 billion directed toward acquisition of air defense systems, armor, naval surveillance, and defense industry support, according to US Embassy reports. The economic assistance is to be divided between fast-disbursing commodity aid and project assistance in energy, agriculture, and irrigation

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Pakistani officials were disappointed with the preliminary US aid proposals—$3.2 billion under current terms or less money but greater concessionality—according to US Embassy reporting. Although it is possible that Pakistani displeasure with the US proposals was a ploy for more aid, some in the Pakistani military viewed them as a "betrayal." Pakistani officials—particularly military officers—were unmoved by explanations of US domestic budget constraints and stood by their $6.5 billion demand, claiming it represented a "reasonable" extension of the current $3.2 billion program.

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The Pakistani performance at the consultative group meetings suggests that the government is divided on the amount, mix, and terms of its aid request. We judge that the US proposals may well ignite an internal struggle between Pakistani economic and military officials for a larger share of a smaller-than-expected aid package. The Finance Minister told US officials that Zia supports a proportionately larger share of economic aid in the new package but that this request was "very unpopular" with the military.

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Back From the Brink

Pakistan faced a serious foreign exchange crisis last summer brought on by a disastrous cotton crop two years ago, a steady decline in worker remittances, and a reluctance to institute politically unpopular import and spending cuts. From a high of $2 billion in December 1983, liquid reserves plummeted to roughly $325 million in mid-August—equivalent to about three weeks' imports.

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Over the last four months, fortuitous economic circumstances and creative financial maneuvering

[1] The Pakistani fiscal year runs from 1 July to 30 June.

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have enabled Pakistan to finance the public deficit and more than double foreign exchange reserves:

- Export earnings—primarily raw cotton and cotton-based manufactures—increased more than 28 percent, while imports dropped about 6 percent in value compared to the first quarter of FY 1985, according to US Embassy reporting.

- Over the same period, a lower US dollar and improved banking procedures have stimulated a nearly 10-percent rise in remittance earnings.

- Sales of Special National Fund bonds (SNFBs) designed to tap the nation's large reserves of "black" money—estimated to be 20 to 50 percent of GDP—have netted over $1 billion, more than five times the expected amount.

- Since August, the success of the new high-interest foreign exchange bearer certificates (FEBCs) has added more than $100 million to Pakistan's reserves.

We believe that the country's foreign exchange reserves are now sufficient to cover about two months of imports, increasing the probability that Pakistan will not need an IMF loan next year.

Islamabad—citing political difficulties—is reluctant to institute economic reforms recommended by the United States and multilateral lenders. Since 1981, Islamabad has been unwilling to slash spending, reduce subsidies, or raise taxes to control the deficit. IMF recommendations to narrow the trade deficit by currency devaluation have also been strongly resisted. In our view, the recent improvement in Pakistan's financial position and the dominance of conservative landlords and businessmen in the new National Assembly—they account for nearly 70 percent of the membership—do not augur well for reform.

Temporary Relief

The improvement in Pakistan's domestic finances and foreign payments position is likely to provide Islamabad only temporary relief from longstanding economic problems. Increased export earnings were largely in highly competitive areas—such as textiles and cotton—which depend on import quotas and declining world commodity prices. The new bond schemes will provide only short-term help, and past heavy borrowing from the domestic banking system to finance chronic budget deficits is likely to add to inflationary pressures. The high-interest FEBCs may well raise the country's debt service burden and increase the opportunity for capital flight if purchasers decide to claim their interest or cash in their certificates during periods of economic or political instability. In addition, with nearly $200 million in US foreign military sales payments due this fiscal year, we estimate that at least 25 percent of earnings from exports of goods and services will be required to meet growing debt service payments.

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Pakistan has also neglected its infrastructure—irrigation works, roads, and energy facilities—to "buy" economic stability and modernize the military. Spending on development as a share of GDP has dropped from 36 percent in FY 1978 to about 25 percent in FY 1984, while gross domestic investment has stagnated, according to official statistics. Over the same period, energy demand has outstripped supply, hobbling Pakistan's industrial production and leading to a threefold rise in energy imports—to more than $1.5 billion in FY 1984, according to the World Bank. The extensive irrigation system that supports Pakistan's key export crops—rice and cotton—is so leaky that the World Bank estimates that only half of the potential irrigation water actually reaches the fields

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Outlook

The new financial instruments, higher exports, and remittances will continue to temporarily strengthen Pakistan's foreign exchange position, increase its tax base, and help eliminate this year's budget deficit. In our view, political considerations and an improving economy are likely to provide Islamabad an excuse to defer recommended economic policy changes, such as currency devaluation, tax reform, or spending cuts.

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Over the longer term, Pakistan's economic growth is likely to suffer and its external payments position worsen unless structural reforms are undertaken.

Because Islamabad has neglected its vital economic infrastructure—energy and irrigation facilities—we judge agricultural and industrial production is likely to be hobbled. Moreover, if Islamabad remains unwilling to devalue its currency, depressed international commodity prices and stiff competition will probably limit Pakistan's export growth and strain its fragile balance-of-payments position. 25X1

We believe Islamabad took into account its perception of Pakistan's strategic importance to Washington and its calculations of the severity of financial problems down the road when it proposed the $6.5 billion assistance figure. In our view, Pakistan will push hard for a level closer to its $6.5 billion request and aim for a compromise aid package somewhere between $4-5 billion. Although we expect Islamabad would reluctantly accept a package close to the current $3.2 billion with a greater emphasis on concessional military aid, there is a possibility that Pakistan could reject the US offer—either to gain domestic political support or as a negotiating tactic. 25X1

An aid package similar to the current one would provide ammunition to those who are wary of Pakistan's close ties to the United States. Critics will charge that the United States is holding back aid to Pakistan in an effort to woo India. We view Islamabad's disclosure of its $6.5 billion request as an effort to lay the blame on Washington if lower assistance leads to unpopular austerity measures. 25X1

The Zia regime may choose to show its displeasure with Washington over a less-than-desired aid package by:

- Putting distance between itself and the United States.
- Reducing Pakistani assistance to the Afghan resistance.
- Refusing to allow US naval reconnaissance flights to land in Karachi and denying pre-positioning facilities for US forces. 25X1

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India's Rajiv Gandhi: Dealing With Domestic Priorities

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Rajiv Gandhi has finished his first year as Prime Minister having achieved movement on some of his country's most persistent problems—forging accords to resolve civil strife in Punjab and Assam, setting in motion several economic reforms, and inaugurating a clean government campaign. Even critics admit he has injected a new style into Indian politics. Gandhi faces some major political hurdles in 1986, however, as he attempts to implement difficult decisions called for by the political accords and as he confronts India's entrenched bureaucracy.

Reaction From the Public and the Press

Indian pundits analyzing Gandhi's political decision making during his first year have looked for evidence of an emerging leadership style as well as for signs of a consistent approach to problem solving. Yearend reviews by supporters and critics alike favorably compare Rajiv's open, conciliatory approach with his mother's autocratic style. Most concur that Gandhi has brought a new optimism and vitality to Indian political life. A prominent journalist, commenting on the widespread euphoria over what has become known as the "Gandhi phenomenon," said, "There is a kind of relief that [Indira's] style of politics is no more." A respected Western commentator summarized Gandhi's first year by saying, "[He] has put such a strong personal stamp on the government that the memory of Mrs. Gandhi has receded."

Both critics and supporters, however, have had difficulty in identifying a consistent policy line underlying the shift in style. Some editorials in the Indian press portray Gandhi as a "tinkerer," a political novice who is attempting to apply simplistic solutions to the complex human problems that retard India's modernization efforts. These critics point to the crisis last spring in Gujarat between upper- and lower-caste Hindus—in which the state's Muslim minority also became involved—over education and labor rights that resulted in months of civil disruption. They claim that Gandhi failed to respond to the situation in time because he does not understand the role traditional ties—such as caste and community—play in Indian society.

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Nonetheless, the opposition has had difficulty finding ground on which to attack Gandhi. According to Embassy reporting, opposition parties throughout the country have been weakened by Rajiv's popularity in his first year. A diplomatic observer described them as "awestruck bystanders." They have been put off balance by the widespread popularity of his response to the problems in Punjab and Assam. Furthermore, Gandhi has talked past the opposition to the public, which has generally responded well. An Indian journalist, countering the suggestion that Rajiv lacked his mother's world view, grudgingly confessed that, "The things that need to be done in India are obvious—they don't require a world view"—a comment that illustrates the popular acceptance of many of Gandhi's initiatives and helps explain the opposition's frustrations.

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Responding to Communal Challenges

Gandhi's handling of Punjab and Assam earned him high ratings in India for crisis management. Many Indian observers linked his successes in Assam and Punjab to a "transformation in the national mood." We believe, however, that, despite the euphoria generated by the accords, implementing them will bring many underlying political and economic problems to the fore again.

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The most troublesome issues—water sharing, contested state boundaries, movement of illegal immigrants, relations with the central government, and validation of electoral rolls—were referred to committees of inquiry. As these committees deliver their recommendations—most of which are scheduled for early 1986—Gandhi may find that local officials

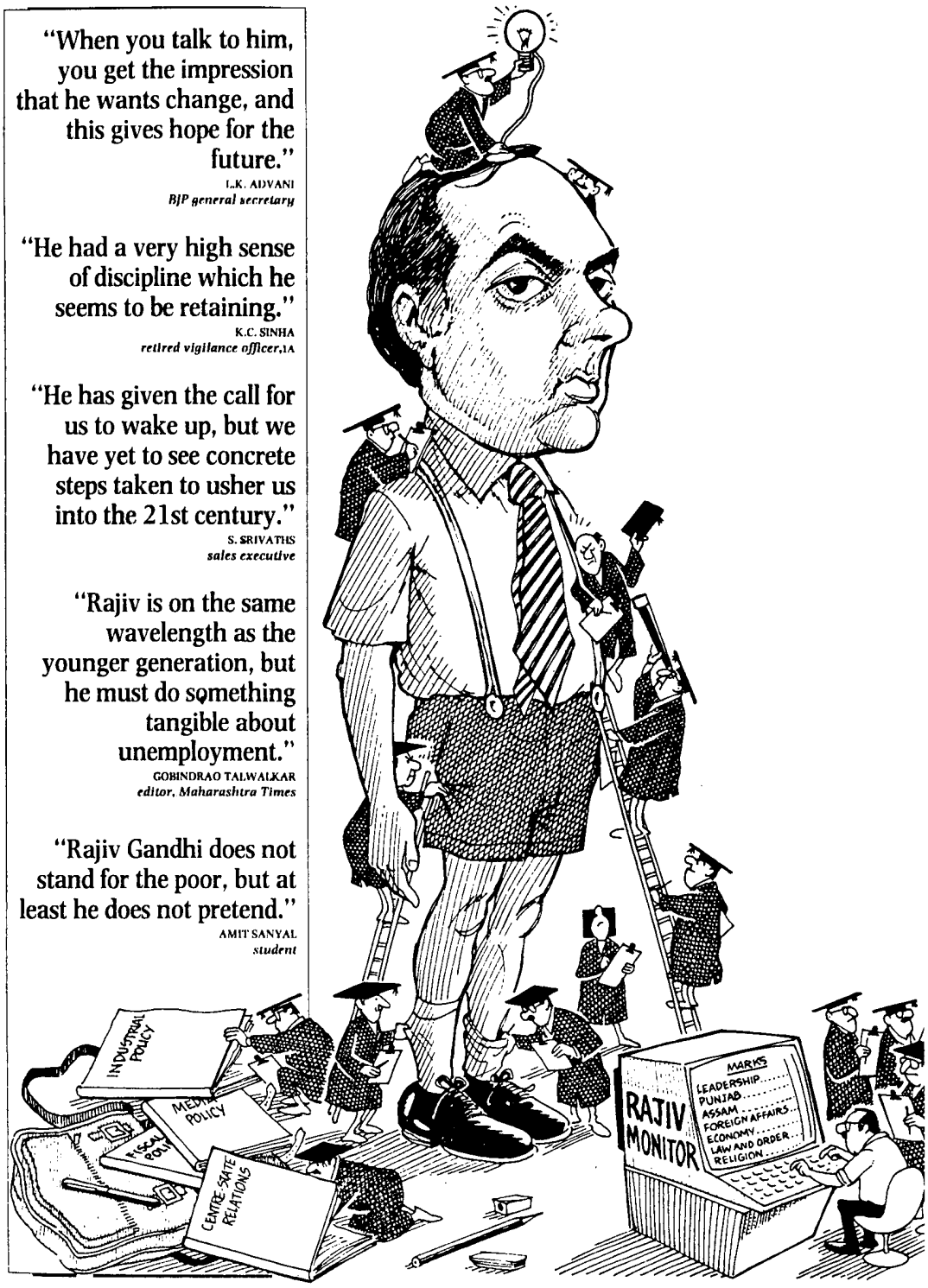
"When you talk to him, you get the impression that he wants change, and this gives hope for the future."
L.K. ADVANI
BJP general secretary

"He had a very high sense of discipline which he seems to be retaining."
K.C. SINHA
retired vigilance officer, IA

"He has given the call for us to wake up, but we have yet to see concrete steps taken to usher us into the 21st century."
S. SRIVATHS
sales executive

"Rajiv is on the same wavelength as the younger generation, but he must do something tangible about unemployment."
GOBINDRAO TALWALKAR
editor, Maharashtra Times

"Rajiv Gandhi does not stand for the poor, but at least he does not pretend."
AMIT SANYAL
student



Rajiv Gandhi's report card

India Today

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may not be strong enough politically to enforce them. There is a danger that failure to implement these recommendations could undermine the accords. This in turn could prompt a backlash against Gandhi in Punjab and Assam for promising but failing to deliver.

Tackling the Economy

In identifying his priorities for his first year, Gandhi emphasized that the immediate problems of civil order in Punjab and Assam were short-term issues he hoped to resolve quickly in order to attack his primary goals—modernizing the economy and reforming the bureaucracy. Asked recently to list the successes of his first year in office, Gandhi told a foreign journalist that he took the most pride in his moves against the underground economy and for reforming the collection of taxes.

Although Indian businessmen have welcomed the liberalization measures that Gandhi has introduced, many Indian commentators have had difficulty identifying a clear direction in Gandhi's economic policy. A journalist noted in a review of the economic community's response to Gandhi's first year in power that, although they believe that a break with the economic past is possible, "this belief stems as much from what Gandhi expects as from the recent rapid progress."

In 1986 Gandhi may well face the first serious criticisms of his economic initiatives. For example, if India's balance-of-payments situation continues to deteriorate, as we expect, Gandhi's perceived preference for expensive, imported high-technology items may draw increased criticism, both from the opposition and from within his own party. If his economic programs continue to be perceived as favoring the upper and middle classes at the expense of the poor, Gandhi may face increasingly strident charges that his government has turned its back on the social welfare programs of his mother.

Seeking "Government That Works—Faster"

Early in his tenure, Gandhi announced that reducing corruption throughout the government, increasing accountability in the federal bureaucracy, and streamlining government decision making were among his highest priorities. He has made several well-publicized efforts to increase accountability and reduce corruption in his first year. He set up permanent committees to identify corrupt practices in each government department in September, and a national ombudsman was created in August to investigate charges of government corruption reported by citizens. Gandhi also ordered cuts of 5 to 7 percent in central administration personnel during the coming year. He twice reorganized his Cabinet, placing close associates in key positions, presumably to short-circuit cumbersome lines of authority. Each of these measures has been extensively covered in the national press, and Rajiv has used them in interviews with foreign journalists to illustrate his administration's motto, "Government that works—faster." Rajiv appears to be under no illusions about how difficult it will be to bring corruption and inefficiency under control, much less eradicate them. 25X1 25X1 25X1

Given the Congress Party's dependence upon kickbacks, too much attention to government corruption could embarrass party officials close to Gandhi. The Congress Party receives between 20 and 25 percent of its working funds from rupee trade kickbacks—including an estimated 20 percent from Communist countries that wish to extend their trade in India 25X1 25X1 25X1

Experimenting With the Congress Party

We believe Gandhi will try to tinker with the Congress Party in the coming years to open up opportunities for younger talent, diversify regional representation, and perhaps demonstrate his commitment to clean government by eliminating notoriously corrupt local party figures. When election rosters were announced in several key Indian states last February, for example, nearly a third of the places were given to first-time candidates in response to Gandhi's orders to identify younger, "cleaner" candidates. On the other hand, the recent reshuffle of state chief ministers and several state party committees seemed almost to have been made at random. All things considered, the party changes Gandhi made during 1985 showed no particular direction. 25X1 25X1

Gandhi plans a countrywide Congress Party election in early 1986. If it takes place, the move could set in motion some important, long-term changes, one of which could be a shift of some political power from New Delhi to local party leaders. Indira Gandhi had announced similar elections several times but repeatedly found reasons to call them off at the last minute, using her power as chairman of the party to appoint new officials instead. Rajiv could back off as well, but failure to hold the election will leave him open to charges that he is continuing his mother's autocratic style of party management. 25X1

Prognosis for 1986

We expect Rajiv to find 1986 a more difficult year on the domestic front than 1985. With many of the domestic political fixes Gandhi made in 1985 dependent for implementation on local governments, state Congress Party structures, or the findings of autonomous commissions, Gandhi is likely to find progress slow and halting. Some of the officials responsible for carrying out programs identified with Gandhi in the popular mind will lack the capabilities or the will to do so. In the case of opposition leaders, Rajiv will probably find many reluctant to cooperate and add to his luster. We believe most opposition leaders will spend much of the coming year rebuilding grassroots organizations severely damaged by Gandhi's overwhelming popularity. 25X1

Gandhi will be faced with increasing criticism in the Indian press and from the political opposition if his promised programs falter. Despite the potential pitfalls, Gandhi remains firmly in control of his agenda and has a large reservoir of good will to draw on. 25X1

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India: Gandhi's Economic Reforms

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In the year since Indira Gandhi was assassinated, Rajiv Gandhi has moved, through liberalization measures and exhortations, to transform the Indian economy into a more dynamic and competitive force. Gandhi still acknowledges the need for the government to retain overall control of the economy, but he believes that less bureaucratic meddling and more competition in the private sector will spur modernization, limit corruption, and ease strains on the government budget. Over the next year, Gandhi must watch carefully for signs that his program is adversely affecting India's foreign payments. He will also have to watch for a popular backlash against measures already viewed by opposition figures as well as some members of the Congress Party as weighted toward the upper and middle classes at the expense of the poor.

Domestic Economic Measures

Gandhi's strong interest in upgrading technology and productivity has prompted him to accelerate liberalization moves begun several years ago under his mother. Manufacturers in several industries may now set up new operations or expand capacity and vary their product mix without seeking government permission. He has also relaxed antimonopoly legislation and lowered corporate and personal tax rates.

Businessmen are awaiting the announcement of a long-term fiscal policy in 1986 that they hope will contain additional tax reforms. Finance Minister V. P. Singh has already conveyed to the business community his interest in a tax structure that will encourage long-term investments. A technical study recently submitted to the Finance Ministry recommends reforms in excise taxes, which account for about 70 percent of government revenues. If the major recommendations of the report are implemented, the excise tax structure will be simpler, without the multitude of rates and complicated exemptions that make the system inefficient.

The new development plan calls for the private sector to assume 52 percent of total investment, compared to 47 percent under the previous plan. More major projects are likely to be funded as joint ventures and in areas long barred to private-sector participation. Private companies, for example, are being invited to invest in telecommunications equipment—ending the monopoly of the public sector. Power generation projects, six proposed gas-based fertilizer plants, and road construction projects are also being opened to private enterprise.

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Gandhi, however, clearly intends that the government retain control of the direction of the economy. Although easing regulations, he has retained the basic structure of industrial licensing, preferences for small producers, and close supervision of large corporate groups. Gandhi apparently has no plans to rely on market forces to allocate basic consumer goods and will continue the public distribution system that supplies grain to urban consumers and supports prices farmers receive for major crops, such as wheat and rice.

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Attacks on the Bureaucracy and Corruption

Gandhi hopes his efforts to make the Indian bureaucracy more efficient will have a bracing effect on the economy. He has repeatedly emphasized decentralization of decisionmaking so that public-sector corporations can make business decisions without interference from government ministries. The government department that supervises private corporations has been shifted to a ministry that favors production rather than restraint.

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Gandhi's concern for bureaucratic efficiency and government revenues has prompted an anticorruption drive, a crackdown on tax evasion, and new efforts to tap the underground economy. Several studies

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indicate that "black" money accounts for 20 to 40 percent of GDP. Gandhi hopes to encourage increased reporting of taxable income by lowering tax rates and relaxing some of the controls that have led businessmen to conceal part of their production. Rewards for information about smuggling have been increased, and corporate contributions to political parties—long a source of corruption and shady dealings—are once again legal.

Looking Outside for Help

Import policy changes have been relatively cautious, combining safeguards for domestic manufacturers with efforts to promote modernization and exports. Import licensing regulations have been eased to remove restrictions on some industrial machinery and offer a new duty-free import scheme for exporters. New Delhi has promised easy access to imported technology, especially for electronics and export industries, and procedures for employing foreign technicians have been simplified. The government has even emphasized that foreign equity investment—previously tolerated but not encouraged—will be welcomed in electronics and oil exploration.

Overall, Gandhi's economic policy still stresses self-reliance. Government approval is necessary before an Indian firm may purchase or lease foreign technology, even in industries recently exempted from industrial licensing restrictions. Domestic manufacturers are still required to reduce gradually their use of imported parts and are expected to develop their own skills. New Delhi remains reluctant to open the Indian market to foreign investors who cannot contribute technology or promote Indian exports. Gandhi has also warned that he will take action against those industrialists who fail to use imported technology within a reasonable time.

Positive Signs

Rajiv's efforts are already showing some signs of success. Private businessmen have moved to increase investment in response to the administration's decision to ease licensing requirements in several industries. Indian industrialists report that approvals for private projects can be obtained more quickly than in the past. Investor confidence is high, as demonstrated by the high turnover on the security exchanges and the oversubscriptions of new stock issues.

The incentive programs and a crackdown on tax evasion apparently have struck a responsive note with the middle class and business leaders. Government officials estimate that more than $4 billion in taxable income will surface from the underground economy this year. Indian monetary officials believe revenue from taxes will be 20 percent higher this year. 25X1

Looming Domestic and Foreign Constraints 25X1

Gandhi's approach to India's economic challenge is not without limitations. Rajiv is probably very much aware that government revenue shortages—a major factor in his push to free the private sector—will limit additional tax concessions. Revenue shortages in 1986 will place the government in competition with the private sector for funds, raise the debt service burden, and add to inflationary pressures. Additional tax concessions or a miscalculation in the direction of new fiscal policies could worsen government revenue shortages. 25X1

Moreover, increasing foreign payments strains could jeopardize India's ability to become more productive and efficient. Foreign trade statistics for the first quarter of the fiscal year beginning in April showed that exports were stagnant and imports increased by 25 percent compared with the first quarter of the previous year. Although international financial reserves are adequate—about $6 billion, equivalent to four to five months' imports—continuing expansion of the domestic economy will require faster growth in the volume of imported petroleum and capital goods in the next few years. Meanwhile, scheduled payments to the IMF and to military suppliers, particularly the USSR, will mount sharply within the next two years, and we see no good chance for discovery of additional petroleum deposits, rapid export growth, or increased foreign aid. 25X1 25X1

Rather than risk a serious balance-of-payments problem, New Delhi probably would sacrifice some import liberalization measures. We speculate that Gandhi would postpone plans to spur domestic efficiency through increased import competition and might close off recently introduced opportunities for import-intensive production of vehicles and consumer durables. We believe the government would initially

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try to meet the demand for imported petroleum, fertilizer, and grain and preserve access to foreign technology.

Gandhi's support for simplifying bureaucratic procedures suggests that he would emphasize tariffs to slow import growth. The administrative structure for tighter licensing controls remains in place, however, and New Delhi probably would take some step in this direction. Policy-induced cutbacks in the volume of imported capital goods and industrial inputs would lower India's potential overall growth, but not necessarily below the average annual rate of 3.8 percent maintained since the mid-1960s.

Potential Political Pitfalls

Gandhi must be prepared to contend with the likelihood of increased opposition to his economic measures, particularly because there already is criticism that he is slighting the poor in favor of India's small upper and middle classes and its private corporate sector. Less than 3 percent of the population stands to gain directly from Rajiv's large tax cuts on personal income, wealth, and inheritances. Some Indians, including members of his own party, probably fear that Rajiv, in his enthusiasm for "middle class" issues, may allow welfare and rural programs to stagnate and, in his quest for efficiency, cut jobs in India's state-owned industries. Moreover, some long-established industrialists probably would welcome a reprieve from the loss of protection and heightened foreign competition implied by Rajiv's reforms.

A slowdown in the pace or scope of liberalization would entail no fundamental redirection of the economy and might even bring him modest political gains with few costs. The liberalization program, although notable in the Indian context, has been cautious. On the other hand, Rajiv would face widespread popular dissatisfaction in the event that his economic policies lead to a balance-of-payments crisis, galloping inflation, or a sharp decline in growth.

The US Angle

Gandhi's economic approach has accelerated interest in India in business ties to the United States. During the first six months of 1985, 92 new financial and technical joint ventures between US and Indian businessmen were approved. If the trend continues, 1985 will have been a record year. Since June, Washington has approved export licenses for over 60 advanced high-technology systems. During the last five years, Indian-US trade has increased nearly 50 percent and will grow again in 1985, despite the strong dollar.

Opportunities for US suppliers could be curtailed in 1986 if balance-of-payments strains limit India's ability to modernize. Indian Government purchasing agencies would probably give greater weight to price and financial terms and favor countries with fewer export controls, which might provide an advantage for Japanese or European suppliers. Indian officials might blame slower economic growth and a need for import restrictions on the United States for limiting Indian borrowing from multilateral lending institutions.

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India: Rajiv's "Good Neighbor" Policy— An Interim Report Card

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In the year since he succeeded his mother, Rajiv Gandhi's fresh foreign policy approach has improved the tone, if not always the substance, of India's relations with several neighboring countries. Rajiv's emphasis in foreign—as in domestic—policy on reducing differences rather than winning confrontations has led some Indian and Western commentators to characterize his regional stance—perhaps prematurely—as a "good neighbor" policy.

Gandhi has adopted a more conciliatory approach to Pakistan but shares many longtime Indian suspicions of Pakistan's intentions—particularly in regard to the Pakistani nuclear program—and appears to believe that the burden of breaking new ground in their relations rests as much with Islamabad as with New Delhi. He has also improved relations with Sri Lanka by reversing his mother's policy of aiding the Tamil insurgents and by establishing regular contact with Sri Lankan President Jayewardene and his Cabinet. Gandhi's persistent efforts to promote a negotiated settlement of the communal conflict in Sri Lanka reduced the level of violence on the island during 1985. The Sinhalese government and the Tamils remain some distance apart on the terms of Tamil autonomy, however, and both are threatening to break off talks and renew military operations. Progress on water sharing has sufficed to advance Indo-Bangladesh ties, but relations with Nepal remain captive to bureaucratic habit and India's longstanding differences with China.

So far, Rajiv has sought to establish his credentials as a statesman more by his conduct of regional affairs than by taking a lead on Third World issues in the Nonaligned Movement or the United Nations. In our view, the conciliatory line he has adopted toward his neighbors probably reflects less his innate good will toward other South Asian states than a desire to clear his agenda of conflicts that compete with his primary objectives—modernizing India's economy and reforming its bureaucracy. Moreover, his "good neighbor" policy is premised no less than the so-called Indira Doctrine ascribed to his mother on India's continued military and economic dominance of the region. Rajiv has not been averse to reminding India's neighbors occasionally of India's ability to work its will.

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Moving Cautiously With Pakistan

Relations between India and Pakistan have been more cordial under Rajiv than under his mother. Gandhi and Pakistani President Zia met several times in 1985, and their discussions, described by both sides as cordial, have spurred efforts by each to ease tensions. Zia's decision in early 1985 to bring to trial the Sikh hijackers of two Indian airliners was welcomed by Rajiv as a first step toward reducing strains. New Delhi, in return, agreed to resume the bilateral talks that Indira broke off in mid-1984.

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Still, Rajiv apparently shares longstanding Indian doubts about the sincerity of Pakistani professions of good will, and Indian officials have continued to remind Washington that New Delhi views Zia's regime and Pakistani regional policies—including its security relationships with the United States and China and its stance on Afghanistan—as a threat to Indian interests. Last May, Foreign Secretary Bhandari told a high-ranking US official that India was proceeding "step by step, very cautiously" to "cool down the atmosphere" with Pakistan because Islamabad in the past has not shown a sustained commitment to improving relations.

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For Gandhi, suspicion of Pakistani involvement with Sikh extremists in Punjab remains an impediment to improved relations. Despite Zia's denials, Gandhi has continued to charge that Islamabad has systematically trained and armed Sikh dissidents in Pakistan, although he has produced no evidence other than Indian police interrogation reports to support his claims.

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Rajiv is as worried about the Pakistani nuclear program and US arms aid to Pakistan as his mother was. As part of his public campaign against the Pakistani program, he has indicated that he is reviewing India's nuclear options. Rajiv undoubtedly hopes to increase US Congressional pressure on Zia to eschew weapon-related activities in his nuclear program. Rajiv probably also hopes to persuade Zia to enter into serious talks with India on nuclear weapons.

There are indications that Gandhi is willing to explore new options to narrow Indo-Pakistani differences on nuclear issues. In early November he took an innovative step by inviting Munir Khan, the chairman of Pakistan's Atomic Energy Commission, to visit one of India's nuclear facilities—which he accepted. Foreign Ministry officials from the two sides briefly discussed late last summer a no-first-use nuclear weapon pact that had been unofficially floated in the Indian press at Gandhi's suggestion. Although neither side has endorsed such a pact, Gandhi's apparent willingness to consider an arms control rather than just a nonproliferation approach suggests that he hopes for a breakthrough on the nuclear issue.

Seizing the Initiative in Sri Lanka

Largely through Gandhi's personal initiative, Indo–Sri Lankan relations improved significantly in 1985. In sharp contrast to his mother's irritation with Sri Lankan President Jayewardene's independent voice in the Nonaligned Movement and perceived ties to the West, Gandhi has avoided criticism of Colombo and even invited Jayewardene to accompany him on a highly publicized tour of flood-ravaged Bangladesh in June. Gandhi's evenhanded mediation effort in Sri Lanka has reversed his mother's policy of support for the militants, led to a close Cabinet-level working relationship between Colombo and New Delhi, and has muted popular anti-Indian Sinhalese rhetoric. In our view, Gandhi's pragmatic, conciliatory approach toward Sri Lanka helped pave the way for Jayewardene's unprecedented acquiescence to Indian mediation.

As he said he would, Gandhi moved first to try to help resolve Sri Lanka's two-year-old communal conflict. Strong Indian diplomatic pressure and direct personal intervention by Gandhi lowered the level of violence during much of 1985, brought Tamils and Sinhalese together for direct talks, and extracted new autonomy concessions for the Tamils from the government.

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Although the two sides remain some distance from each other over the details of a settlement, Gandhi's persistent public and private diplomacy, in our view, has narrowed the gap. He and other senior Indian policymakers have made clear to the Sri Lankan Government that they hold it responsible for maintaining an atmosphere conducive to negotiations and for making important concessions on autonomy. New Delhi has also told the militants that those who do not agree to the best terms India can get will be left behind, with the implicit threat that India would help Colombo enforce a fair accord. For Gandhi, a successful settlement will have to provide increased Tamil autonomy, be enforceable in the field, and guarantee greater discipline by the Sri Lankan military and full acceptance of the agreement by the Sinhalese opposition.

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Gandhi's policy toward Sri Lanka underscores his political pragmatism. His decision to broker negotiations meant engaging fully in a political relationship with Sri Lankan President Jayewardene's United National Party (UNP), despite years of anti-Indian rhetoric from UNP hardliners and India's traditionally close ties to the opposition Sri Lanka Freedom Party. Similarly, his willingness to include the proscribed Tamil United Liberation Front, a moderate group that had nearly been eclipsed by the militants, has strengthened its standing among Tamils and prepared the way for its reentry into Sri Lankan political life.

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A Good Start With Bangladesh

Rajiv's surprise trip, with Jayewardene in tow, to inspect tidal wave damage in Bangladesh in June with Bangladesh President Ershad was, in our view, a highly successful exercise in media diplomacy—for which he earned respect in India and gratitude in Bangladesh. The meeting, quickly dubbed "the barefoot summit," set a tone in both countries for a new, more cooperative relationship.

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Gandhi and Ershad have settled two of four key bilateral issues:

- At the recent Commonwealth summit in Nassau, the two leaders agreed to extend the 1982 Ganges Water Sharing Agreement for three more years and to study ways to augment the flow of rivers entering Bangladesh from India.

- Gandhi also agreed, in principle, to guarantee access to several Bangladesh enclaves inside the Indian state of West Bengal

There has been little movement, however, on two other issues—New Delhi's construction of a border fence to help control immigration from Bangladesh and the repatriation of illegal Bangladesh immigrants from the neighboring Indian state of Assam.

Little Change Toward Nepal or Bhutan

The Gandhi administration's relations with *Nepal* show little change from New Delhi's traditionally heavyhanded approach. In our view, this reflects both New Delhi's assessment that Nepal is, for all practical purposes, a territorial extension of India as well as wider Indian strategic considerations vis-a-vis China. The Gandhi government's direct interference last summer in overturning a Chinese bid to build a road in southern Nepal underscores India's concern about Chinese influence.

Nepal had initially welcomed Rajiv's succession and appears disheartened by New Delhi's failure to seek a more equitable balance in bilateral affairs. New Delhi's interference in the Chinese roadbuilding contract bid reinforced the views of many Nepalese that India believes it must dominate bilateral relations.

Bhutan, the smallest of India's neighbors, has long accepted India's dominant role in its foreign policy, and Rajiv has helped to maintain strong ties. He chose Bhutan's capital, Thimphu, as the site of the Sri Lankan peace negotiations last summer and paid the Bhutanese a three-day visit in October. Maintaining such cordial relations has helped Bhutan emerge somewhat from India's regional shadow, but India almost certainly was consulted before Bhutan signed a formal agreement with Bangladesh in January to expand trade and economic relations, and before King Wangchuck's agreement in May to abide by the Non-Proliferation Treaty.

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The China Factor

Like India's South Asian neighbors, the Chinese have sensed an opening to improved relations with New Delhi under Rajiv's stewardship. Public Chinese statements about Premier Zhao's meeting with Gandhi at the United Nations last fall and about the sixth round of border talks concluded in November, as well as about such Indian regional efforts as the Sri Lankan negotiations, have been largely positive.

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For New Delhi, China figures prominently as a potential meddler in and rival for influence with neighboring South Asian states. With the exception of Bhutan, India's neighbors look to China for both diplomatic and material support. Beijing's close relations with Islamabad, which date from the 1962 Sino-Indian war, have fueled intermittent fears in New Delhi of a Pakistani-Chinese-US alignment against Indian interests. Still, broader foreign policy considerations have prompted the Indians since 1979 to cultivate cordial relations with China and to continue talks on the border dispute that comprises the primary bilateral issue.

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Prospects

Gandhi may calculate over the next few months that his "good neighbor" policy has had sufficient success to allow him to devote more time to his domestic priorities. He can already claim credit at home for making an effort to solve the communal conflict in Sri Lanka, reopening a dialogue with Pakistan, and easing strains with Bangladesh, while retaining a valued relationship with the Soviet Union and invigorating India's ties to the West through personal diplomacy.

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If, however, India's regional policy is subsequently left to professional bureaucrats, with Rajiv showing an attitude of "benign neglect," we would expect little progress. We do not believe the Ministry of External Affairs would continue Rajiv's conciliatory initiatives, particularly toward Pakistan.

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Sri Lanka: Steps to Peace, Strides to War

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After initial strides toward peace during the summer of 1985, momentum toward a negotiated settlement between Sinhalese and Tamils has slowed. By year's end, renewed military preparations by both sides and continued outbreaks of fighting were threatening to eclipse New Delhi's bid to broker a settlement that would give limited autonomy to the Tamils within the confines of a federal system. Frustrated by Colombo's backsliding on earlier concessions and the Tamil militants' inability to formulate a negotiating position, Indian Prime Minister Gandhi may soon play a less prominent role as mediator. We see two likely scenarios for Sri Lanka in 1986—an untidy settlement to which only some Tamil groups are party and which would require substantial Indian followthrough with both militant Tamils and Colombo to foster and enforce; or a collapse of the current negotiations and a return to major fighting that could eventually lead to new talks but could also compel New Delhi to intervene militarily to stop the bloodshed and hold down repercussions in India.

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1985 in Review

The year 1985 was a watershed in Sri Lanka in many ways. After the collapse of government-Tamil negotiations in December 1984, the government and Tamil militants engaged in the most intense fighting of the seven-year conflict. Increasingly effective insurgent attacks on Army and police posts in the north, and a more sophisticated use of ambush techniques, virtually isolated government forces in their protected camps, and by June they had left the guerrillas in de facto control of the Tamil-dominated Northern Province and contesting government control in the Eastern Province.

At the same time, Sri Lanka's undisciplined security forces—seeking to carry out President Jayewardene's public promise in the wake of the failed talks to crush the insurgents—perpetrated increasingly irresponsible reprisals against Tamil civilians. Acknowledging that they had no cohesive military strategy and that the security forces were out of control, senior Sri Lankan officials stepped up their search for counterinsurgency help—both in arms and advice—from the United States, United Kingdom, China, Israel, and Pakistan. The search has led to a substantial increase in weapon stockpiles but little improvement in the training of government troops.

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By spring, Tamil militants had joined in a rickety but effective military alliance and began launching attacks in the predominantly Sinhalese North-Central Province. In May they carried out their boldest initiative to date, infiltrating the sacred Sinhalese city of Anuradhapura and killing more than 78 Sinhalese civilians, allegedly in response to an Army massacre.

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The attack in Anuradhapura brought the conflict home to many Sinhalese and underscored the government's failure to contain the insurgency. It provoked, for the first time, denunciations of Jayewardene's policies by the Sinhalese public and from hardliners such as the Buddhist clergy and the main opposition party. In our view, the insurgent attack at Anuradhapura caused the government to lose confidence in itself and demonstrated for the first time Tamil willingness and ability to target Sinhalese civilian areas.

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Anuradhapura also rang alarm bells in New Delhi, where an increasingly anxious Indian Government was closely watching the deteriorating security situation in Sri Lanka. Worried over a renewed Sri Lankan Tamil refugee exodus to India's Tamil-dominated south, and fearing that a collapse in civil order could invite US or Western intervention in support of Colombo or open the way for involvement by the Soviet Union, the PLO, or Libya with the militants, Prime Minister Gandhi decided by early June to offer India's good offices to facilitate a cease-fire and new negotiations.

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The Importance of Jayewardene and Gandhi

At 79, President Jayewardene is still in good health. Nonetheless, he has four years left in his presidential term and was the target of at least one assassination attempt in 1985. If he died in office, Prime Minister Premadasa, the most likely successor, would be even less likely to reach a political solution with the Tamils and would probably prefer a military solution to the insurgency. In any case, Premadasa does not have Jayewardene's strong political base within the ruling United National Party and would be less able to make significant concessions to the Tamils.

If Gandhi died suddenly—for example at the hands of a Sikh assassin—we believe India's need to focus exclusively on domestic stability and promoting an orderly succession would, in effect, require it to set aside a leading role in Sri Lanka, at least for the short term.

The Negotiations

Gandhi launched India's mediation role with a well-publicized early June summit in New Delhi with Jayewardene and ordered Foreign Secretary Bhandari to arrange face-to-face talks between the Sri Lankan Government and Tamil leaders. Hoping to keep risks to Indian diplomacy at a minimum, New Delhi initially stayed in the background. Bhandari quickly found that mutual distrust, even hatred, between government negotiators and militant leaders would lead to a collapse without constant Indian pressure and cajoling, and both he and Gandhi were soon drawn into prominent personal diplomatic roles.

Even with such high-level Indian aid, the direct talks broke down in August over the government's opposition to Tamil demands for combining the Northern and Eastern Provinces into a Tamil-dominated entity and the inability of Tamil militant leaders to agree on a negotiating position short of an independent state—which New Delhi also opposed. Despite repeated violations of the cease-fire, Bhandari succeeded in September in persuading Colombo to initial a draft agreement offering some measures of autonomy—largely made up of earlier government offers, but also including new concessions on security and land settlement. 25X1

New Delhi subsequently began putting intense pressure on Tamil militants—who depend on Indian political and refugee support as well as on Indian military aid—to develop a realistic negotiating position based on limited autonomy. Although the militants remain largely unable and unwilling to respond, the more moderate Tamil groups, particularly the Tamil United Liberation Front, had by year's end provided a detailed counterproposal. 25X1 25X1

The Situation at Year's End

Colombo's concessions on autonomy fall far short of Tamil demands. Diplomatic reporting indicates the main sticking point is the Tamil proposal for a merger of the Northern and Eastern Provinces into an autonomous unit. Colombo considers the proposal a stalking horse for eventual secession and will only consider autonomy for separate provinces. Even on the less thorny issues of the legal status of the Tamil language and Tamil access to government education and employment, Jayewardene knows he must show Sinhalese hardliners that he is bargaining from a position of strength. 25X1 25X1

In recent weeks, Jayewardene and other senior officials have reverted to an increasingly uncompromising position, saying they have offered all they can. They are threatening to renew military operations soon if New Delhi does not persuade the Tamils to accept Colombo's offer. Some of the more hardline Tamil leaders are also taking an increasingly tough stance toward the negotiations and are planning to resume insurgent operations soon. 25X1 25X1

Faced with increasing violations of the nominal cease-fire and a deadlock in negotiations, Gandhi appears to be reconsidering India's role as mediator. His recent cautious public statements on peace prospects in Sri Lanka and his less frequent contacts with both the militants and the government suggest he has come to believe a negotiated settlement will be more difficult

than he had earlier anticipated. His actions also suggest he is seeking to play a less conspicuous role as mediator and lower the risk to Indian diplomatic prestige amid warning signs of a new round of full-scale fighting.

Possible Scenarios

Although Jayewardene has increasingly signaled his readiness to try to defeat the insurgents in the field and has aggressively pursued a military buildup, he is unlikely to abandon peace talks. His tougher line in recent weeks reflects in part his perception that sentiment in his Sinhalese constituency and among members of the opposition is hardening against further concessions. Jayewardene may also calculate that his military threats will gain him leverage with both the militants and New Delhi at a time when Colombo senses growing frustration in India over Tamil intransigence.

Having rearmed and consolidated their forces in Sri Lanka over the last six months and made some inroads into the Eastern Province, many of the militants see further talks as slowing their momentum and giving Colombo more time to buttress its counterinsurgency capability. Even if New Delhi succeeds in bringing militant leaders back to negotiations, pressures to continue fighting from the rank and file would keep the leadership from making major concessions. Moreover, rivalry among the militant groups over strategies toward the negotiations has weakened their already fragile political alliance and made reaching a consensus on Tamil objectives even more difficult.

In our view, 1986 holds two likely paths for Sri Lanka. One leads to a partial settlement that would be based largely on Colombo's current offer, but with further compromises on the status of the Northern and Eastern Provinces. This agreement would probably include only some Tamil groups and would require a great deal of Indian arm twisting. The other path leads to a collapse in talks and a resumption of full-scale fighting that might eventually induce both sides to resume negotiations but could also force New Delhi into direct military intervention in Sri Lanka to restore order.

A partial settlement would reflect New Delhi's calculation that it could not, without perhaps allowing a new round of fighting that might radically alter conditions, persuade either side to give substantial additional ground. Such a settlement would give New Delhi a much desired diplomatic return for its efforts and would, in India's view, help isolate those militant groups who refused to agree, eventually forcing them to acquiesce. It could also enable the moderate TULF to recapture Tamil political leadership from the militants. Without having capitulated to the militants' demands, Colombo would gain a partial accord that could reassure worried foreign investors and aid donors.

A partial settlement, however, would pose serious problems for both Colombo and New Delhi. As mediator, New Delhi would have to accept responsibility for monitoring compliance either by establishing a limited military presence in Sri Lanka or by authorizing a third party or parties, such as the Nepalese or a South Asian regional contingent, to take on the task. In the first case, India would risk accusations of strong-arm tactics in the region and could face a costly, long-term presence in Sri Lanka. In the second, New Delhi would have to come to grips with its long-term concern toward Sri Lanka—keeping third parties out.

For Colombo, a settlement requiring foreign monitors could provoke a backlash among the Sinhalese electorate, fueling accusations by the opposition of a sellout of Sri Lankan sovereignty and prompting new demands for general elections. Moreover, there would remain the threat of attacks by hardline insurgent groups—determined to extract concessions of full autonomy from Colombo—on critical economic targets in the Sinhalese south. If the insurgents penetrate deep into Sinhalese territory to strike either at civilians or economic targets, a Sinhalese public backlash would prevent Jayewardene from reaching even a partial accord with Tamils. Neither side appears capable of gaining a decisive edge in the fighting over the short term.

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A new round of heavy fighting would also spur more government defense spending, increasing Colombo's budget deficits and forcing further diversion of development funds. The widely held belief among Tamil hardliners that the United States provides military support to Colombo could put US citizens at particularly high risk if fighting resumed. [redacted] 25X1

Faced with a renewal of full-scale fighting, New Delhi would have at least two alternatives. If the fighting did not pose a serious threat to the stability of the Colombo government and did not provoke violence in south India, New Delhi would not intervene, at least in the short term. We speculate that New Delhi would count on new fighting, resulting in an eventual stalemate to encourage both sides to resume negotiations under more sober conditions. In such a case, New Delhi would be gambling that outside intervention would not occur. [redacted] 25X1

If, however, the violence toppled the Colombo government or provoked widespread unrest in south India, Gandhi could be forced into direct military intervention at considerable cost to Indian regional diplomacy. Indian intervention would not only underscore New Delhi's diplomatic failure in Sri Lanka but also would vindicate regional suspicions of traditional Indian pretensions to regional hegemony. From the start of his six-month-old mediation effort in Sri Lanka, Gandhi has sought to establish an Indian regional policy of conciliation. In our view, New Delhi's relations throughout the region—particularly with Nepal and Bangladesh—would suffer. [redacted] 25X1

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Bangladesh: Ershad's Long, Hot Winter

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President Ershad will probably be unsuccessful in gaining the opposition's cooperation in his plan to lift martial law and hold elections by April 1986. To date, the two major opposition parties have refused to participate in any elections. Meanwhile, militant labor unions are violating martial law and exploiting Bangladesh's economic problems by planning national strikes that would further disrupt Ershad's political plans. The Army is increasingly dissatisfied with Ershad's lackluster performance in office, but it prefers the status quo to a government dominated by leftist parties.

Ershad's Uncertain Strategy

Ershad's goal is to hold elections with opposition participation by 1986 that would result in his election as president and give him a majority in Parliament. He, however, has yet to develop a coherent strategy to achieve these goals. He has not announced a specific date for elections, nor has he said whether presidential and parliamentary elections will be held concurrently or consecutively—a key issue with the military. Ershad might consider holding nonparty elections if the opposition refuses to participate. US Embassy sources, however, say that he is prepared to delay elections to gain the acquiescence of the opposition parties.

In anticipation of planned elections, Ershad relaxed martial law on 1 October by allowing indoor political meetings; on 15 December he announced that he would allow open politics to resume on 1 January 1986. Moreover, in an apparent peace offering to the opposition, Ershad has announced that he will restore certain provisions of the suspended 1972 Constitution before elections are held.

Ershad created a new political coalition—Jatiya—comprised of his own party, Janadal, and several smaller parties in the hope of building a larger political vehicle for his ambitions. Politicians belonging to these parties have been appointed to Cabinet posts and other government positions. The US Embassy reports that Ershad eventually wants to organize Jatiya into a single party. Embassy sources indicate, however, that the coalition is divided by political and personal conflicts and hurt by low morale.

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The Opposition's Intransigence

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The two major opposition parties have persistently rejected Ershad's election proposals, forcing the cancellation of national elections three times in the past two years. Both the leftist, pro-Indian Awami League and the centrist Bangladesh Nationalist Party (BNP) have rejected participating in national elections unless Ershad agrees to their preconditions, Ershad has consistently rejected their demands, although he has conducted indirect negotiations with the Awami League on the election issue, according to the US Embassy.

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The preconditions of the Awami League and the BNP include:

- The immediate lifting of martial law.
- Unrestricted political activity.
- Parliamentary elections held before presidential polls.
- The replacement of Ershad and his regime with a "neutral" caretaker government.

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Ershad's Problems With The Army

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Relations between Ershad and his fellow Army generals have become strained in recent months, in our view. some senior generals are dissatisfied with Ershad's reputed corruption, dealings with opposition politicians, and general lack of leadership.

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The generals' most immediate concern is their suspicion that Ershad may offer too much—such as agreeing to hold parliamentary elections first—to the opposition parties, particularly the Awami League, in return for their participation in national elections. several senior generals fear that the Jatiya Front is too disorganized to win parliamentary elections and would win fewer votes than the Awami League. The Army's conservative senior leadership fears that the League, if it gained power, would pursue policies—such as drawing closer to India and purging the military—that are contrary to Bangladesh's interests and a threat to the Army's position.

Increasing Labor Militancy

Labor unions, in conjunction with the Awami League and other leftist parties, are increasing their agitation against the regime by organizing "hartals"—national strikes. Workers at Bangladesh's largest jute mill went on strike in early November in a wage dispute. Jute is Bangladesh's major export, but decreased world demand and a bumper crop have depressed prices for jute farmers. The opposition is agitating for higher government prices for jute, according to the US Embassy. The striking workers clashed with police, resulting in one worker killed and about 50 workers and police injured, according to US Embassy reports.

Bangladesh's largest trade federation, the Sramik Karmachari Oikya Parishad (SKOP), along with the Awami League and the BNP, conducted a six-hour hartal on 11 November to protest the police actions. The hartal succeeded in shutting down business in most areas of the country, according to US Embassy reporting. US Embassy accounts indicate that the regime, caught off guard by the extent of the hartal, did not try to halt it.

The Ershad government's passive response to the 11 November hartal has probably encouraged more labor and opposition activity. Another hartal was held on 2 December by SKOP. US Embassy reporting indicates that the hartal shut down industrial sectors in Dhaka and several other large cities. Both the Awami Leaque and the BNP held illegal outdoor demonstrations on 16 December with little government response, according to press reports.

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Prospects for 1986

We believe elections will probably be postponed next year in Bangladesh as Ershad and the opposition probably will be unable to reach an accommodation. Ershad would remain as President and Chief Martial Law Administrator.

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Another postponement of national elections would probably be accompanied by the reimposition of full martial law, including a ban on political activity. Although the Awami League and the BNP might continue antiregime demonstrations and hartals, they would be unlikely to threaten Ershad's regime. Senior generals would probably agree to a continuation of the status quo, preferring stalemate to the risk of an Awami League victory at the polls.

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Ershad, however, may decide that postponing elections would be an embarrassing demonstration of political weakness and could follow Pakistan's example by holding nonparty elections. The Army would probably approve of nonparty elections, and we believe enough politicians would be lured away from the opposition parties to make the vote credible. Progovernment candidates, helped by regime financing and probable vote rigging, would probably win a majority in the Parliament, and Ershad, with his control of the media and access to government funds, would easily be elected president. This, however, would require him to ban, at least temporarily, all political parties, including his own—an undercutting of his politcal supporters that he might consider too risky. He would also be concerned that such a ban would diminish the legitimacy of the elections in the eyes of the international community.

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If Ershad worked out a deal, or appeared to be on the verge of one, with the Awami League that would allow parliamentary elections to be held first—an unlikely development, in our view—the Army would probably attempt to overthrow him. Many generals believe that only the military can bring stability to Bangladesh, and [redacted] some of these generals scorn civilian politicians and resent Ershad's efforts to build political parties. [redacted]

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In the unlikely event that elections brought the Awami League to power, we believe that the Army would almost certainly intervene before the League took office. Most Army officers fear that an Awami-dominated Parliament would be a threat to the military's interests, in our view. We believe that Ershad does not command wide respect in the Army and that few officers would be willing to defend him in the event of a coup attempt. [redacted]

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Looking to Washington

No matter what regime is in power in Dhaka, it will remain dependent on the United States for economic aid that is crucial to the country's poorly developed economy. US assistance for FY 1986 will amount to $167 million, accounting for roughly 12 percent of government revenues, and there are no alternative suppliers of aid willing to match it. [redacted]

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Any Bangladesh government is likely to press for increased levels of US funding, citing the country's endemic poverty. It also probably would continue petitioning the United States for increased access to the US market for Bangladesh textiles. A more generous military relationship with Washington, including funds for weapons and other equipment, is also going to be on the agenda, whether a military or conservative civilian government sits in Dhaka. [redacted]

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