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INDIA AND THE U.S.

INTRODUCTION

Indira Gandhi begins a nine-day state visit to the United States this week. This will be her second meeting with Ronald Reagan (they met only briefly at the Cancun economic summit last year) and a time for an extensive review of U.S.-Indian relations.

In recent months, India has toned down its strident Third World rhetoric, made some genuine economic progress and even indicated some reservation about the value of its close relations with the Soviet Union. Over a period of many years, however, Americans have grown greatly disenchanted with "the world's largest democracy." Aside from maintaining a democracy, which Indira Gandhi once threatened to destroy, few activities of the Indian government in foreign or domestic policy have earned the respect of the American people. While India has received more foreign aid from the United States than has any country in the world, New Delhi consistently has criticized the U.S. for insufficient assistance and demanded, as a matter of alleged right, massive transfers of wealth from the developed nations of the North to the developing countries of the South in constructing a New International Economic Order. While borrowing substantial amounts of money from capitalist countries and institutions, including a recent record \$5.7 billion from the International Monetary Fund, India consistently has denounced the capitalist system and squandered money on its own form of state socialism.

While criticizing the arms race among the superpowers and excoriating excessive defense spending compared to foreign aid in the West, India has built the fourth largest army in the world and has engaged in a major buildup of weaponry, mostly purchased from the Soviet Union. While denouncing American efforts to bolster the security of Pakistan as a threat to India, New Delhi has said little and done less to thwart either Soviet imperialism

in Afghanistan or Vietnamese imperialism in Indochina. Finally, while denouncing nuclear arms, India has exploded its own atomic bomb and still refuses to sign the Nuclear Non-Proliferation Treaty.

India traditionally has played a prominent role in world politics, but it has become evident in the U.S. that, in the future, simply being "prominent" will not guarantee American financial or other support for a country such as India.

Only through more concerted actions demonstrating devotion to effective economic development, genuine non-alignment, and criticism of aggression will India win a receptive audience in the U.S. Otherwise, American aid and security assistance in Asia, as elsewhere, should increasingly be diverted to countries that share American security concerns and demonstrate a willingness to allow the kind of economic freedom that stimulates development.

AFGHANISTAN AND INDIAN FOREIGN POLICY

Since December 1979, when the Soviets invaded Afghanistan, the United States has focused increased attention on security problems on the subcontinent. With Soviet aggression in Afghanistan threatening the territorial integrity of Pakistan, the Reagan Administration has supported a substantial increase of security assistance to the government of Pakistan's President Zia. The Soviet actions and U.S. reactions conspicuously revealed the peculiar orientation of Indian foreign policy which denounced U.S. assistance to Pakistan more vigorously than Moscow's aggression in Afghanistan.

Although there is much speculation that the Indian government is concerned about the Soviet occupation of Afghanistan, India's representative to the U.N. emergency session of the General Assembly, Mr. B.C. Mishra, abstained on a resolution calling for the removal of foreign troops in Afghanistan. He said, at that time:

We are against the presence of foreign troops and bases in any country. However, the Soviet Government has assured our Government that its troops went to Afghanistan at the request of the Afghan Government...and we have been further assured that the Soviet troops will be withdrawn when requested to do so by the Afghan Government. We have no reason to doubt such assurances, particularly from a friendly country like the Soviet Union, with which we have many close ties....¹

¹ B. C. Mishra, General Assembly, Sixth Emergency Special Assembly, Plenary Meetings of the United Nations, January 10-14, 1980, p. 34.

The resolution passed by an overwhelming vote. Almost all negative votes and abstentions came from the Soviet bloc. Indira Gandhi since has made vague statements calling for the withdrawal of all forces from Afghanistan, although not on the scale of India's denunciations of the U.S. involvement in Vietnam during the 1960s.

This May, President Chaldi Bendjedid of Algeria visited India. The joint communiqué issued at the end of his visit characterizes much of India's stand on issues of foreign policy. It called for the strengthening of collective autonomy between developing countries, "a zone of peace" in the Indian Ocean which included a criticism of the American naval facilities on Diego Garcia, support for the terroristic Palestine Liberation Organization and the South-West African People's Organization (SWAPO), criticism of the unwillingness of the industrial nations to implement the so-called New International Economic Order, and a call for the U.S. and the USSR to resume the process of detente.² Noticeably missing was any reference to the Soviet invasion of Afghanistan or explicit mention of the Soviet naval buildup in the Indian Ocean.

THE SOVIET CONNECTION

For the last two decades, India has been considered Moscow's largest and closest ally in the noncommunist world. India has formally recognized the Vietnamese surrogates in Kampuchea when most of the noncommunist world has refused to do so. Soviet Foreign Minister Andrei Gromyko has characterized the importance of Indo-Soviet relations by saying:

Against the background of flare-ups of tension and conflict situations in different parts of Asia, one should single out such an important factor for stability and peace as the Soviet Union's relations with the great country of India.³

India has benefited from vast amounts of Soviet military aid, diplomatic support, and some developmental assistance, and today the Soviet Union is India's largest trade partner. In May 1980, India and the USSR concluded a \$1.6 billion arms deal estimated to be worth \$3 to \$4 billion in real market values. The loan is repayable in seventeen years at only 2.5 percent interest annually--striking in comparison to French offers to finance arms purchase agreements at 14 percent. This latest arms purchase agreement typifies the longstanding military relationship between India and the Soviet Union.

² Foreign Broadcast Information Service, Daily Report: South Asia, May 6, 1982, Vol. 8, No. 88, p. E2-3.

³ "India Wooded," Soviet World Outlook, March 15, 1980.

With the breakdown of Sino-Indian relations in 1959 that culminated in the Sino-Indian border war of 1962, the Soviet and Indian governments began negotiations for transfers of high technology warplanes. It was not until 1964, however, that negotiations were concluded with an agreement that provided India with 38 Mig-21s. Since the 1964 agreement, the Soviet Union has been the largest arms supplier to India. While India has purchased high technology weapons from others, such as France and Great Britain, the terms of payment as well as the quantity provided have dictated Indian preference for the Soviet Union. It has been argued that, with the Western arms embargo placed on the subcontinent after the Indo-Pakistan War of 1965, it was "basically the nonavailability of Western arms that led to India's shift towards the Soviet Union."⁴

Besides the massive purchases from the Soviet Union, India has ordered Jaguar interceptor aircraft from Britain, the Mirage 2000 from France, and two Howaldstwerke submarines from West Germany. According to the International Institute for Strategic Studies publication The Military Balance, India has an army of more than 1,000,000 men, more than 1,000 main battle tanks (with an additional 1,000 light tanks) and more than 600 combat aircraft, making India indisputably the most powerful military power in the Indian Ocean region.⁵ (See Table 1 for selected figures on Indian and Pakistani military hardware.)

It should be noted, however, that in the past several months India has indicated some reassessment of her relations with Moscow. On a recent visit, Soviet Defense Minister Ustinov met with a cool reception from the Indian government. While the Soviets celebrated the recent ten-year anniversary of the Treaty of Friendship and Cooperation between the USSR and India in Moscow, there were no such festivities in New Delhi, official or unofficial. Many "India watchers" see these as examples of India's attempt to distance itself from the Soviet Union. Others view India's actions more as a calculated move to maintain Western assistance. Indeed, Indira Gandhi recently contended that "we don't think one friendship (with the Soviets) should exclude another (with the U.S.)."

INDIA'S STRATEGIC POSITION IN SOUTH ASIA

A point of continuing friction between the United States and India is the increase of U.S. military aid to Pakistan after the Soviet invasion of Afghanistan. The Indian government contends that this aid, particularly the forty F-16 aircraft still to be

⁴ P. R. Chari, "Indo-Soviet Military Cooperation: A Review," Asian Survey, March 1979, p. 234.

⁵ International Institute for Strategic Studies, The Military Balance, 1981-1982, pp. 79-80.

delivered to Pakistan, eventually will be used against India. New Delhi contends, moreover, that it is unlikely that Pakistan will use the planes against Soviet forces.

When asked in an interview about the \$3.2 billion military and economic aid program the Reagan Administration has promised Pakistan, Prime Minister Gandhi stated "we are against the collection of highly sophisticated arms in the region."⁶ This was incongruous in light of the sophisticated Soviet aircraft which the Indian government has bought and ordered. In fact, with Soviet help, India is now producing Mig aircraft. It is questionable that U.S. sales to Pakistan will pose any real threat to India. It should be noted that recently Pakistan offered, and India accepted, a conference on negotiating a nonaggression treaty.

In assessing the military superiority of India over Pakistan, Anthony Cordesman characterized the sales of U.S. arms to Pakistan by stating that:

...the U.S. is responding to a massive Soviet effort, and is acting to stabilize a situation that the U.S.S.R. is doing its very best to destabilize and exploit.

It would be very nice if this weren't the case, if any of India's constant moral posturing were justified, and if we only had to sell arms to polite little democracies like Austria and Switzerland.... In the case of the Indian Ocean area, reality means acting to check a vast Soviet effort and counterbalance an increasingly imperial India.⁷

With hostile Iran to its West, longtime adversary India to its East, and Soviet occupied Afghanistan to its North, Pakistan will not, even with the F-16s, pose a serious threat to India. Indeed, despite the posturing as an innocent, endangered state, India is a nuclear power. It exploded its first atomic device in 1974 under the leadership of Indira Gandhi. India's atomic program began in the early 1950s with assistance from the United States under the Atoms for Peace program. It was not until 1964, after the People's Republic of China (PRC) exploded its first nuclear device, that India began a program for nuclear explosives capability. India now has four nuclear generating plants and one experimental breeder reactor. The Indian nuclear weapons delivery capability is unknown. In 1978, the U.S. Congress outlawed

⁶ "Behind the Nagging Feud With India," U.S. News and World Report, December 21, 1981, p. 34.

⁷ Anthony H. Cordesman, "This Time Can We Begin With a Few Facts?," Armed Forces Journal International, December 1981, p. 27.

Table 1

Country	Gross National Product	Defense Expenditure	Tanks	Modern Combat Aircraft	Major Surface Combat Ships	Submarines	Total Military Manpower
India	1982 estimate \$153.1 bill*	1981 est. \$5.12 bill#	2,120	970 (215 on order)	40	8 (2 on order, 5 to be built)	1,096,000 Reserves 240,000
Pakistan	1982 est. \$23.8 bill*	1980 est. \$1.54 bill	1,065	223 (90 on order including 40 F-16s few of which have been delivered)	9	12	439,600 Reserves 513,000
People's Republic of China	1982 est. \$247 bill*	1981 est. \$12.5 bill#	11,000	5,200	72	94	4,360,000 (not including an estimated 7 million man militia)
Bangladesh	1982 est. \$10.6 bill*	1980 est. \$158m#	30	37 (an unknown number of Mig-21s from the PRC on order)	2	0	78,250

*Figure from the 1982 Far Eastern Economic Review, Asia 1982 Year Book.

#Figure from The International Institute for Strategic Studies, The Military Balance 1981-1982.

All other figures from the Defense and Foreign Affairs Handbook 1981 published by Copley and Associates.

atomic fuel shipments to countries--such as India--that have not signed the Non-Proliferation Treaty.⁸

Table 1 contrasts economic and military strengths of states in the Indian Ocean region. In general, most of the equipment possessed by the People's Republic of China is of 1950s' vintage, as is the limited equipment in Bangladesh. Most of the high technology equipment of India and Pakistan is that of the 1970s.

In terms of a possible military threat to India, it is estimated that the PRC has deployed nine regular infantry divisions in the Chendu Military Region on the Sino-Indian border totaling some 80 to 90 thousand troops, not including local militia. Pakistan is significantly out-manned and out-gunned by India. Bangladesh, the only other sizable country on India's borders, is deficient in terms of manpower and very weak in terms of military equipment. The Indian government each year justifies its multi-billion dollar defense budget by stressing the need for modernization of its forces for self-defense. The question is: Defense against whom?

The Indian government states that it is threatened by potential Chinese or Pakistani aggression, perhaps simultaneously. Recent history has witnessed an Indian border conflict with China (1962) and three wars with Pakistan (1948-49, 1965, and 1971). The governments of the PRC and India held negotiations earlier this year to settle the 1962 border dispute. Only a small number of PRC troops are deployed in the Chendu Military Region. Peking's overwhelming concern is with the threat posed by the Soviet Union, on whose border are stationed 69 regular divisions, or an estimated 1.5 million men, including local reserve forces.

Pakistan is not in a military or geopolitical position to seriously threaten India. The Indo-Pakistani conflicts have not been exclusively the result of Pakistani aggression. For example, in the 1971 conflict, it was generally agreed that the Indian government made a decision to back, by direct military intervention, the secessionist movement in Bangladesh in order to split Pakistan in two, thereby reducing its potential threat to India.

Overall, India appears to be less threatened by external powers than at any time since its independence. At the same time, however, India is undergoing massive military modernization and expansion. The Indian government may wish to maintain its current security posture, but any reasonable threat assessment indicates that India's strategic situation does not warrant the amount of resources being expended on the military, particularly at a time when these resources could be allocated to vital domestic economic needs.

⁸ For a discussion of U.S. policy towards India on atomic and related policy matters see: Walter Andersen's chapter titled "Policy Toward India and the Indian Ocean" in Asia and U.S. Foreign Policy by James C. Hsiung and Windberg Chai (New York: Praeger, 1981), pp. 191-208.

INDIAN ECONOMY

The Indian economy has made great strides since gaining independence thirty-four years ago. Yet it has not grown as rapidly as have other noncommunist countries in Asia. India's average GNP growth rate was 3.1 percent, significantly less than the rate of growth of Indonesia at 7.5 percent, South Korea 8.7 percent, Malaysia 8.0 percent, Thailand 7.0 percent, and Sri Lanka 6.9 percent. Clearly, the economic policies of India have not enjoyed the same success as those of other nations in the region faced with similar economic challenges.¹⁰

The Indian economy faces formidable challenges. It must sustain an enormous and still growing population of around 670 million people, whose yearly incomes average \$240, making it the fifteenth poorest nation on earth. As many developing countries have discovered, there is a reciprocal relationship between rising per capita income, with its concomitant increase in the level of education and health services, and decelerating population growth. The fundamental question is whether India's economy will be able to provide the kind of growth that will produce those rising incomes.

Perhaps the brightest spot in India's economy in recent years is agriculture. In the years immediately following independence, increases in agricultural production were largely due to increases in the amount of land being cultivated. Since the mid-1960s, however, they have come to be attributable primarily to a rise in productivity, made possible by what is known as the "green revolution"--the introduction of new technology in the form of superior seeds, fertilizer, irrigation, and pesticides, thereby increasing crop yields and reducing the amount of time between sowing and reaping.

While agriculture has been a bright spot, industry has not. Admittedly, India has the tenth largest industrial economy in the world, and it is true that from independence in 1947 until about 1965, the industrial growth rate increased steadily, averaging 9 percent from 1960 to 1965. But since then, the average annual growth has remained at only about 4 percent, or considerably below many other noncommunist countries in Asia. This helps to explain why India is the only country in the world where the proportion of the population living in the countryside (about 75 percent) has not dropped in the last twenty years. Inducements to migrate to the city have existed, but industrial jobs have not. In spite of this, cities and towns have been growing and will continue to grow. The government estimates that, by the end of the century, the number of cities with populations of 100,000 or more will have increased from the present 185 to 300; New

¹⁰ Figures from the Far Eastern Economic Review, Asia Yearbook 1982, pp. 8-9.

Delhi's population will rise to nine million and Bombay and Calcutta will have eleven million each. Industry will have to provide jobs for this growing urban population.

The reasons for India's slowdown are many. Industrial policy figures prominently. It was decided from the beginning that domestic production should satisfy as much of the domestic demand as possible, in spite of the fact that the home market was poor and apt to grow slowly. In addition, investment was concentrated in capital intensive rather than labor intensive industries, which would seem, on the face of it, to make no sense in a very populous country. There has also been an emphasis on nationalized industries and a xenophobic discouragement of imports and foreign investment.

India has long been known for its tremendous bureaucracy. Part of this may be attributable to a certain zest the Indians have for it, but much of it arises from central planning, a practice the current government is beginning to pull away from. But the vagaries of Indian planning have led to problems. For example, new capital investment is referred to as "plan outlay" and treated as sacrosanct, whereas spending for maintenance is not considered part of the plan and may suffer accordingly.

On the microeconomic level, government regulation becomes even more pernicious. Industrial capacity is determined by what planners estimate the demand will be. Expansion requires a license from the government. In addition, companies with assets of \$25 million or more are subject to special controls and find it especially difficult to get permission to expand. This is intended to prevent large companies from abusing their size and stifling competition, but, since the amount of capacity is limited and most of that already allocated, it is difficult for any new company to acquire enough to get started.

Nevertheless, in the past four years, there have been encouraging signs. Import controls have been relaxed somewhat, and restrictions on foreign investment also have been eased. All companies, even the large ones, are being allowed to expand capacity by 5 percent a year for five years. It should be noted that Sri Lanka, in an effort to revitalize its own beleaguered economy, tripled its real growth rate after easing economic control from 1977 to 1980.

A great many Indians have a vested interest in keeping the status quo. The bureaucrats who control the economy are in an excellent position to extort bribes. Many businessmen would not like to see India's heavily protected home market opened up to foreign competition. Moreover, they have derived considerable benefit from the black market economy, estimated to be anywhere from \$20 to \$60 billion per year, to which excessive controls and exorbitant taxes have inevitably given rise.¹¹ Trading on the

¹¹ Rajiv Desai, "India's Economy: New Confidence," Chicago Tribune, July 3, 1982.

black market goes unreported and untaxed and helps make up for much of the unprofitability of the legal economy.

If industry is to grow and the economy to expand, the Indian government must make a more conscientious effort to stifle bureaucratic inefficiency, make the marketplace freer, and encourage foreign investments.

ECONOMIC AID

India currently receives foreign aid from a plethora of agencies, both public and private, from many developed nations on a bilateral basis, and from international organizations. The World Bank recently announced that--as in the past--India continued to be their biggest borrower, followed by Indonesia and Brazil. India regularly receives about 40 percent of all the so-called soft loans of the World Bank through the International Development Bank. From the U.S. alone, India has received loans and grants from 1946 to 1980 totalling \$10.12 billion, of which \$4.5 billion has been repaid. In contrast, India has received only \$3.54 billion in all forms of assistance from the Soviet Union and Eastern Europe between 1954 and 1980.

As proposed by the U.S. Agency for International Development for fiscal year 1983, India will receive \$218.5 million in humanitarian aid and developmental assistance. The total bilateral aid to India from developed countries for 1980 was \$967.7 million; this does not include \$1.49 billion from multilateral development agencies. For the same year, the Soviet Union assisted India with \$800 million in loans and grants, primarily used to purchase Soviet equipment and goods.

AID has shifted its emphasis over the last five years from resource intensive aid to technology intensive aid, which depends far more on follow-up by the Indian government with Indian private enterprise. In the AID FY 1983 report to Congress, U.S. objectives in the region were characterized as follows:

U.S. interests in India are in its position as the economic and political force in South Asia and a major spokesman on North-South issues. India can play a major role in determining the effectiveness of U.S. policies in the region, particularly in Pakistan. The United States, as India's major non-petroleum trading partner and second largest foreign private investor [\$500 million in 1981] has substantial interests in a growing Indian economy, already the world's tenth largest.¹²

¹² AID Congressional Presentation, FY 1983, Annex II, p. 47.

Earlier this year, the International Monetary Fund approved a \$5.7 billion loan. Because India's 1981-82 defense budget is estimated at \$5.68 billion, a 20 percent increase over last year, it might be argued that the IMF loan, which is not slated for any specific program but will go directly to the Indian government as a general loan, is indirectly funding the Indian defense establishment.

CONCLUSION

In discussions with Indian officials, the United States should indicate clearly that in the future Washington will no longer be willing to unquestioningly underwrite the Indian economy and ignore the foreign and defense policies of the Indian government.

In the past, U.S. officials did not sufficiently monitor Indian policies, but instead appeared to support substantial economic assistance simply on the basis of widespread poverty in the country. With relatively scarce resources available for international assistance programs, the Reagan Administration needs to very carefully examine the character of the economic program of nations receiving U.S. aid. At a time when the U.S. is reducing the role of government in the U.S. economy to stimulate economic growth, it would be singularly incongruous to provide financial support for governments that continue to subscribe to the belief that government spending can lead to economic development.

Instead, India must be willing to reduce regulations and cumbersome bureaucratic procedures that have always hindered its economic progress. India needs to allow its potentially vibrant private sector to assume a more prominent role in the economy. Finally, to create productive enterprises and jobs, India needs to abandon the hostile attitude towards investment in India. Only the private sector in the U.S. and in other developed countries have the resources available for the capital investment desperately needed by Indian industry. Other Asian countries have successfully blended the incentives of a free enterprise system with traditional social values; India should learn from their examples and end its romantic association with the failed prescriptions of the New International Economic Order.

In order to enjoy substantial sympathetic support in the U.S., India should also continue to reassess its close relations with the Soviet Union. Prime Minister Gandhi apparently hopes to downplay her relations with the Soviets during her visit to Washington, but she will balance this visit in September by going to Moscow. India may contend that its "alliance" with the Soviet Union is a matter of convenience, based largely on the common mistrust of the People's Republic of China. However, any realistic assessment of both the nature and scope of Indian relations with the Soviets indicates that New Delhi long ago abandoned any

genuinely non-aligned position. Despite some recent military purchases from Western European countries, India still purchases the bulk of its military equipment from the Soviets. India must indicate a far more extensive de-coupling of its security relations with the Soviets before the U.S. should consider selling any military equipment (such as the F5G) to India. Overall, the vast Indian military buildup must be viewed with alarm as long as that nation's foreign policy is based on hostility to Pakistan and benign acceptance of Soviet and Vietnamese imperialism in Asia. Indian silence on the worst examples of foreign aggression in the post-World War II period must end; otherwise, the U.S. cannot take seriously India's alleged commitment to democracy and self-determination.

Shortly before departing to the U.S., Indira Gandhi perceptively raised the fundamental problem India has in dealing with the U.S. as she noted that "There is a feeling here [in India] that they [the Americans] are not really bothered about India." Until India makes more significant changes in its foreign and domestic policies, Americans have few compelling reasons to be "bothered about" the problems of India, particularly if such concerns must be manifested in increased U.S. aid. Only if friendly rhetoric from Indira Gandhi during her visit to the U.S. is supplemented by the kind of positive actions outlined in this paper can the U.S. be expected to improve relations with India.

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