



Background

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OPPORTUNITIES FOR AMERICA IN A CHANGING INDIA

INTRODUCTION

Its population of over 800 million people is the second largest in the world and is expected to surpass one billion near the turn of the century. Its consumer class of 80 million is larger than the population of any single European country. It has the world's fourth largest army, has detonated a nuclear device, and last year successfully tested an intermediate-range ballistic missile.

This is India, South Asia's superpower. And at last it may be witnessing significant changes in its economic and foreign policies. For over three decades, India was suffocated by its sluggish nationalized economy, and its foreign policy was in a predictable rut tilting strongly toward the Soviet Union and mixed with often publicly invoked anti-Americanism. Hints of change started becoming evident in the early 1980s, when Prime Minister Indira Gandhi tried to balance India's strong ties to the Soviet Bloc and to breath some life into its somnolent economy by seeking closer relations to the West.

Shifting Toward the West. Following her assassination in 1984, her son, Rajiv Gandhi, became Prime Minister and continued the country's shift toward economic liberalization and closer diplomatic ties with the West, particularly the United States. Between 1984 and 1986, India increased its imports from the rest of the world by \$1.3 billion to almost \$19 billion, compared to an almost \$1 billion drop in global imports a year before he took office. During the same period, U.S. investment in India increased by 37 percent to \$450 million. Many of Rajiv Gandhi's efforts, however, soon faltered

within India's massive government bureaucracy. In addition, he was weakened by a series of corruption scandals, further delaying his agenda of economic liberalization.

Last November, Rajiv Gandhi's Congress Party was swept from power in national elections and replaced by a politically-fragile National Front coalition led by Viswanath Pratap Singh. As new Prime Minister, Singh faces a number of pressing problems. For one thing, India's economy still suffers from strong government controls. For another, serious ethnic Muslim unrest continues in the northwestern states of Jammu and Kashmir. At the same time, India's longtime Soviet ally is looking to the West rather than to India for expanded economic activity. In addition, last May's Sino-Soviet Summit has all but ended talk of serious tension between Moscow and Beijing, in which India long had played the role of a key

Soviet ally against China. As a result, India's importance to the U.S.S.R. as a major non-communist trading partner and an opponent of China has diminished, making India's previously strong pro-Soviet stance increasingly a poor basis for its economic and foreign policy.

Technology Cooperation. The U.S. has welcomed the steady change in India's attitude toward the West. In contrast to the diplomatic chill between India and the U.S. in the early 1970s, relations between the two countries improved in the 1980s, thanks in large part to the good personal relationship between Ronald Reagan and mother and son Gandhi. In November 1984, both nations signed a Memorandum of Understanding that outlined restrictions that would prevent U.S. technology transferred to India from falling into

India

Official Name: Republic of India.

Area: 1,269,420 square miles.

Population: 816,828,000 (1988).

Capital: New Delhi.

Ethnic Groups: Indo-Aryan (72%), Dravidian (25%), Mongoloid and other (3%).

Work Force: 319,000,000. Commerce and services - 10.5%; agriculture and fishing - 52.3%; manufacturing - 6.5%; construction - 7.2%; public sector - 6.5%.

Natural resources: Coal, iron ore, manganese, bauxite, chromite.

Per Capita GNP: U.S. \$290 (1988).

Agricultural Products: Rice, cereals, oilseeds, cotton, jute.

Industrial Products: Textiles, steel, processed food, machinery.

U.S. Trade with India:

Imports from India (1988) - \$3.0 billion

Exports to India (1988) - \$2.5 billion

India Trade with the World:

Imports (1988) - \$21.4 billion

Exports (1988) - \$14.6 billion

Heritage DataChart

Soviet hands. By 1987, advanced technology sales from the U.S. to India, mostly military equipment, had increased to \$826 million, almost ten times the amount of 1984. By 1988, overall bilateral trade had risen to \$5.5 billion from the low of \$1.6 billion in 1977.

Since taking office, George Bush has continued seeking closer relations with India. Last year, for example, the first ever defense seminar was held between a panel of Indian military experts and officials from the U.S. National Defense University. Then this spring, the Administration is expected to approve the sale of a second advanced supercomputer to India for the Institute of Science in Bangalore.

Roadblocks to Closer Relations. Indo-U.S. relations, of course, remain hobbled by a number of factors. First, India is suspicious of the close relationship between the U.S. and Pakistan, particularly Washington's commitment to a \$4.1 billion, six-year economic and defense assistance package for Islamabad approved in 1987. Second, India's long history of economic and security links to the Soviet Union rightly make many U.S. government officials, especially at the Pentagon and the Central Intelligence Agency, reluctant to support high technology transfers to New Delhi. Third, India's successful launch of the *Agni* intermediate range ballistic missile last May, combined with its ability to manufacture nuclear weapons, has sparked fears in Washington of a potentially destabilizing arms race in the South Asian subcontinent.

These factors are going to take time to address. Doing so should be part of a coherent long-term policy that the Bush Administration should craft toward New Delhi that is designed to promote a stable India and encourage economic liberalization and less dependency on the Soviet Union. At the same time, the U.S. must emphasize that an improvement in U.S.-Indian relations will not be at the expense of U.S. ties with Pakistan. In pursuit of this policy, the Bush Administration should:

◆ ◆ **Urge the V.P. Singh government to keep India moving toward further economic liberalization. The Singh government recently has sent mixed signals concerning its commitment to further economic liberalization; Washington should emphasize to the Singh government the mutual importance of keeping India on a path toward increased trade and investment.**

◆ ◆ **Continue negotiations with India on contentious trade issues rather than penalize India under the "Super 301" section of the Omnibus Trade Act. Trade retaliation likely could force the Singh government to adopt a more hardline attitude toward trade with the U.S. The Bush Administration should instead promote the current trade talks and recommend that no retaliation against India be considered until next year's Super 301 review.**

◆ ◆ **Send high-ranking active-duty U.S. military officers to the next U.S.-Indian Defense Seminar, tentatively scheduled for this November in New Delhi, and urge India to do the same. To signal the importance with which Washington and New Delhi view this seminar, senior active military officers should be included in the U.S. and Indian delegations.**

◆ ◆ **Apply private but strong pressure on India to refrain from nuclear proliferation and further ballistic missile development.** Pressure should be applied on New Delhi to halt nuclear weapons research, thus avoiding a costly arms race in the subcontinent and averting a situation in which the U.S. might have to cut technology transfers to India.

◆ ◆ **Urge India to publish an official position paper clearly defining the goals and intents of its naval expansion.** India should clearly define the goals of its expanded navy in an official paper to alleviate some of the anxiety among its neighbors and provide Washington with a better basis for determining what kinds of U.S. advanced technology, if any, should be transferred to India to support its expanding fleet.

◆ ◆ **Plan a Presidential visit to India for next year. Given the improvements in U.S.-Indian relations, President Bush should plan for a visit to India in 1991.**

◆ ◆ **Urge New Delhi not to renew the 1971 Indo-Soviet Treaty of Peace, Friendship, and Cooperation when it expires in 1991.** Given New Delhi's proclaimed desire to increase trade and defense cooperation with the West, the Bush Administration should urge the Indian government not to extend the Indo-Soviet Treaty as a sign of New Delhi's intent to conduct truly neutral economic and foreign policy.

A PERCEIVABLE DIPLOMATIC SHIFT

Since India's independence in 1947, diplomatic relations with the U.S. rarely have been warm. For Washington, New Delhi's blatantly pro-Soviet brand of "neutrality," routinely dressed in harsh anti-American rhetoric, was a major irritant during the 1970s. By the early 1980s, however, Prime Minister Indira Gandhi, realizing the need to spark India's long-stagnant economy, partially eased private investment laws and began preliminary discussions with the U.S. on a Memorandum of Understanding (MOU) for high technology transfers to India. She also began to pursue a more balanced approach toward foreign relations, moving India slightly away from its close dependency on the Soviet Bloc by such means as seeking to increase its purchase of Western military equipment. Her son and successor, Rajiv Gandhi, continued these policies after taking office in 1984. He signed the MOU with the U.S. in November 1984 and visited Washington in 1985 and 1987.

Fragile Coalition. Last November, Gandhi's Congress Party was beaten in general elections. With no single party receiving a clear majority, a fragile coalition was formed by the National Front, itself a conglomeration of seven political entities led by V.P. Singh, a former Finance and Defense Minister under Rajiv Gandhi. With his National Front at the center of the coalition, Singh relies on the support of the Marxist-led Left Front and the rightist Bharatiya Janata Party to control the Indian Parliament.

Indo-U.S. diplomatic relations are expected to remain relatively unchanged under the Singh government. Since his days as Finance and later Defense

Minister, Singh has sought improved contact with the West. In addition, the cumbersome Indian bureaucracy, after five years of prodding by Rajiv Gandhi, appears slowly to have shifted in the direction of conducting a balanced foreign policy. However, any quick or pronounced shifts toward the West will be unlikely because of Singh's dependence on support from India's Marxist Left Front.

INDIA'S ECONOMY: SHACKLED BY GOVERNMENT CONTROLS

Since the beginning of its second Five-Year Plan in 1956, India's economy has stagnated. The plan, designed by Prime Minister Jawaharlal Nehru, was to transform India from an agricultural to an industrial economy by restricting imports and stressing production of capital goods. According to the plan, the capital goods sector would create an industrial base, with heavy government intervention throughout the economy.

As with similar plans adopted around the world, it was a colossal flop. Huge sums were poured into the public sector which, shielded from competition, grew increasingly inefficient and corrupt. Meanwhile, oppressive licensing procedures hindered what remained of the private sector.¹

Indira Gandhi first attempted to invigorate the Indian economy in the early 1980s by making investment in India more attractive to foreign private investors. For example, in 1983 restrictions were eased on overseas Indian businessmen, allowing them to buy and sell shares in Indian firms and to expatriate all profits from India. Then Rajiv Gandhi in 1985, his first year in office, introduced a dose of supply-side economics, cutting the top income tax bracket from over 97 percent to 50 percent, lowering corporate taxes from 55-65 percent to 50-55 percent, and further trimming state controls on foreign investment.²

Thwarted By the Bureaucracy. Ultimately, Gandhi's economic liberalization campaign sputtered, torpedoed by India's infamously lethargic government bureaucracy. At least 150,000 money-losing public factories and mills remained open and government employment continued to expand. In addition, the private sector still was not allowed to compete with government institutions on equal terms in India's financial markets.³

Gandhi's attempts to open India to foreign trade and investment similarly were stymied. While he reduced some trade and commerce regulations, lowered tariffs, and abolished quotas in raw materials and capital goods, foreign businesses still largely were blocked from selling their goods and services directly in the Indian market and were forced to be minority partners in joint ventures.

1 *The Economist*, February 25, 1989, p. 76.

2 *Ibid.*

3 *Asian Wall Street Journal*, March 5, 1990, p. 17.

Surge in Trade. The modest success of Gandhi's attempts at liberalization are reflected in the modest improvement in India's trade with the U.S. From 1983 until 1987, bilateral trade remained stuck at around \$4 billion, comparable to U.S. trade with the much smaller nations of Malaysia or Thailand. In 1988, however, U.S.-Indian trade grew 38 percent over the previous year, reaching \$5.56 billion. The reason: a combination of Gandhi's liberalization and an increased willingness by the U.S. government to export high technology to India. U.S. exports to India were valued at \$2.5 billion in 1988, an increase of almost 70 percent, led by the high technology items and energy-related equipment. Meanwhile, aggregate U.S. investment, now India's largest source of foreign investment, rose from \$329 million in 1984 to \$457 million in 1988, a 39 percent increase in five years. Yet, this investment still only equals U.S. investment in Ecuador or Trinidad and Tobago.

TRADE TIES AND SUPER 301

U.S.-Indian trade ties received a setback last May when the U.S. listed India, along with Brazil and Japan, as a Super 301 "priority country" for maintaining "systematic" barriers to U.S. goods and services. This refers to Section 301 of the 1988 U.S. Omnibus Trade Act, which threatens trade retaliation if foreign nations bar American goods and services. India was named as a Super 301 "priority" country for curtailing direct foreign investment by imposing foreign equity limits and domestic content and export performance requirements on U.S. businesses in India. Washington also charged India with closing its insurance market to U.S. firms and not adequately protecting U.S. intellectual property, principally patents and copyrights.

After listing India as a Super 301 priority country in May 1989, the U.S. Trade Representative (USTR) began investigating Indian trade and investment practices. Its report to the U.S. Congress is due June 16. Under the Super 301 provision, if the USTR finds that India hinders U.S. investments, the USTR must try to negotiate an agreement with India to eliminate foreign investment barriers and to open the Indian insurance market by 1992. If an agreement on this is not reached, the U.S. may be forced to retaliate.

Quiet Negotiations. In response to the U.S. listing of India as a Super 301 "priority" country, the Gandhi government refused to negotiate with the U.S. Super 301 is not international law, said New Delhi, and is illegal under the General Agreement on Trade and Tariffs (GATT). Prime Minister V.P. Singh likely will maintain this position publicly because his government could be accused by coalition partners like the Left Front of giving in to pressure from the U.S. on sensitive trade issues. Yet despite the Indian government's public refusal to negotiate under the terms of the Super 301 provision, the U.S. and Indian governments are quietly continuing negotiations to resolve trade issues; the most recent consultations were April 3 in Washington between U.S. Undersecretary of State for Economic Affairs Richard McCormack and Indian Assistant Minister of Finance Bimal Jalan. Discussed at this latest meet-

ing were the broad range of trade issues, including technology transfers and India's economic liberalization.

SOUTH ASIA'S MILITARY SUPERPOWER

India long has been the premier military superpower in the subcontinent. Its military budget doubled in real terms during the 1980s. The 1989-1990 budget, unveiled in spring 1989, "froze" defense spending at \$8.5 billion, though the actual figure may rise to as high as \$11 billion. India's 1980 defense budget, by comparison, was less than \$5 billion. Manpower levels now total 1.4 million men, giving India the fourth largest regular army in the world, after the U.S.S.R., People's Republic of China, and the U.S.

India imports much of its weaponry. In fact, since 1986 India has been the world's largest arms importer. In 1987 alone, it imported \$5.2 billion in weapons, more than Iran and Iraq combined and twelve times more than Pakistan in the same year.

India's history as an arms importer parallels its rise as a major Soviet ally. Prior to the 1962 Sino-Indian War, New Delhi refused military aid from Moscow. In 1963, in an attempt to upgrade its armed forces to counter the military threat from China, India turned to the U.S. for assistance with its air force. Washington refused to provide sophisticated aircraft, so Delhi turned to Moscow, which agreed to sell its MiG-21 fighter to the Indians.

Armed By the Kremlin. Since then, the U.S.S.R. has been India's major supplier of weaponry. Between 1980 and 1985, for example, Moscow sold New Delhi an estimated \$13 billion in military equipment. Today, some 70 percent of India's ordnance comes from the Soviets, who have been willing to provide their most advanced systems. These have included *Kilo*-class submarines, T-72 tanks, MiG-29 *Fulcrum* fighters, Tu-142 *Bear* reconnaissance aircraft, and Il-76 *Candid* transport aircraft. The Soviets have sweetened their arms deals with India by often allowing production of Soviet equipment under license in India, accepting deferred payment in Indian rupees, and charging low interest rates, usually between 2.5 percent and 3.5 percent. The Soviets also are willing to accept "barter" payment in Indian commodities.

Indo-Soviet defense cooperation remains strong though it may be changing. The U.S.S.R. now may be tempted to trim some of its more lavish military aid programs. Moscow, for example, publicly has criticized the Vietnamese for misusing Soviet aid; Moscow even has begun scaling back the number of naval vessels deployed at Vietnam's Cam Ranh Bay. Some U.S. officials speculate that the discounted prices that the U.S.S.R. once charged India for weapons may not be available in the future.

At the same time, New Delhi seeks to develop an indigenous Indian arms industry. For this it needs to blend its current Soviet-based systems with Western weapons. Already integrated into the Indian military are the French *Mirage* 2000 jet fighter and the West German Type 209 submarine.

Indian Safeguards. While India long has expressed interest in U.S. weapons, Washington balked at selling advanced technology to India, rightly fearing that the technology could fall into Soviet hands. Since signing the 1984 U.S.-Indian Memorandum of Understanding (MOU) on high technology transfers, however, Washington's stance on passing sophisticated military items to India has softened. Apparently satisfied that India will safeguard U.S. advanced technology, U.S. military and civilian sales to India increased ten times in the first three years after the MOU took effect. U.S. and Indian teams now meet regularly to streamline the MOU process and expedite sales requests from New Delhi.

India is eager to incorporate U.S. advanced technology into its air force and navy. A key project has been India's Light Combat Aircraft (LCA). The LCA originally was conceived in 1980 as a low-cost air-superiority fighter. The Indian Ministry of Defense approved designs for the LCA in 1985, and planned for major participation by several European companies. For instance, India proposed using RB-199 jet engines produced by Turbo Union, a British, German, and Italian consortium. Since then, the LCA plans have changed substantially. In 1986, the RB-199 engine was dropped in favor of U.S.-made General Electric F-404 engines. Other U.S. manufacturers now are competing with French and Swedish firms to provide the LCA's sophisticated avionics systems, while the U.S. Air force has agreed to provide technical training for Indian maintenance crews.

Moscow has been trying to undercut U.S.-Indian defense cooperation on the LCA with generous offers. In 1987, when it began delivering the MiG-29 fighter to India, Moscow gave New Delhi the option of producing the aircraft in India under Soviet license. Then the Soviets offered India their next generation fighter, the MiG-35, which has yet to be developed; Moscow even offered to let the Indians incorporate LCA technology into the MiG-35. This February, Moscow offered India the Su-27 *Flanker* fighter.⁴ U.S.-Indian cooperation on the LCA, however, so far has continued on course.

REACHING ACROSS THE INDIAN OCEAN

While U.S. cooperation on the LCA has been viewed with favor, Washington is somewhat more reluctant to sell advanced technology to the Indian navy. This is due in large part to anxiety over the pace of India's naval buildup. India is upgrading its three shipyards to build warships and submarines, and is constructing what will be its largest naval base near Karwar, 285 miles south of Bombay on the west coast. India already is at work on its first conventionally-powered indigenous submarine; an Indian-made nuclear-powered submarine, meanwhile, is likely to be launched near the turn of the century. And in its most ambitious project, the Indian navy is designing a

⁴ FBIS-NES-90-037, February 23, 1990, p. 49.

26,000-ton aircraft carrier, to be added to two ex-British carriers, the *Viraat* and the *Vikrant*, already in service.

Such Indian neighbors as Australia, Indonesia, Pakistan, Singapore, and Sri Lanka privately express concern about India's naval buildup. Still, the U.S. has begun exploring areas of cooperation with the Indian navy. India is interested in American sensors and sonar systems. Washington has sent several high ranking defense officials to India, including a visit this February by Chief of Naval Operations Admiral Carlisle Trost. In addition, in 1986 the U.S. Navy resumed port visits to India after a ten year hiatus. Three visits were conducted in 1989, while four took place within the first three months of 1990.

A POTENTIAL NUCLEAR RACE IN THE SUBCONTINENT

The possibility of a South Asian nuclear race remains a source of instability in the subcontinent. In 1974, India detonated a so-called "peaceful nuclear explosion." Since then, Indian nuclear research has continued unabated, though India claims that it has not developed nuclear weapons. Some U.S. intelligence experts doubt these claims. Meanwhile, India keeps most of its nuclear plants closed to international inspections. New Delhi says that it will open them when China, India's greatest regional threat, agrees to similar measures. Meanwhile, neighboring Pakistan continues its nuclear research, apparently with Chinese assistance, and also refuses to open its plants to international inspections.

Making an Indo-Pakistani nuclear race all the more destabilizing has been India's ballistic missile program. After two failed tests early last year, New Delhi successfully launched an intermediate range ballistic missile in May. With its 1,500-mile range, the *Agni* ("Fire") missile could hit any target in Pakistan and those in south and central China. Though India claims that it has no plans to deploy the *Agni*,⁵ India is believed to be preparing further *Agni* tests.⁶

Rapid Reaction. The Bush Administration quickly protested the *Agni* launch. Last July, it banned the sale to India of an American-made sophisticated missile-testing device, valued at \$1.2 million and used to put missile reentry vehicles under simulated stress. Sale of the device initially had been approved in 1985, but had become the subject of intense debate when details of India's ballistic missile program became known. Supporting the sale have been the Department of Commerce and some State Department officials; opposing the sale are the Pentagon and CIA.

Despite U.S. opposition, India currently appears intent on further developing nuclear and missile technology. This could be disastrous for U.S.-Indian relations, since the U.S. Congress may force George Bush to cut back on high

5 *The New York Times*, May 23, 1989, p. A9.

6 *Defense & Foreign Affairs Weekly*, February 26-March 4, 1990, p. 1.

technology transfers to India, especially military hardware, if New Delhi were discovered to have a nuclear weapons or deploy an intermediate range ballistic missile. In addition, the civilian Pakistani government of Benazir Bhutto probably would be pressed to push its own nuclear weapons program. As a result, under the terms of the 1976 Symington Amendment, the U.S. automatically would have to cut its six-year military and economic aid package to Pakistan, which is expected to total \$4.1 billion by 1993. More important, a costly and destabilizing arms race would begin on the subcontinent.

FORGING CLOSER U.S.-INDIAN TIES

It is in U.S. interests to develop a coherent long-term U.S. policy toward India that will promote increased bilateral trade opportunities and encourage New Delhi to become less dependent on the Soviet Union. In developing this policy, the Bush Administration should:

◆ ◆ **Urge the V.P. Singh government to drop its recent populist measures and keep India moving toward economic liberalization.**

In 1988, U.S. exports to India increased from \$1.46 billion to \$2.5 billion, lowering the U.S. trade deficit with India by \$591 million from the previous year's \$1.27 billion. Yet the V.P. Singh government recently has been sending mixed signals concerning its commitment to further economic liberalization and foreign trade. On the one hand, Singh enjoyed a reputation as a key proponent of economic liberalization during his tenure as Finance Minister, and has voiced his support for economic reform since taking office. On the other hand, Singh this March released his first national budget, which shifts the country's focus toward farmers and the nation's poor at the expense of the Indian middle class and private sector. Also in March, the Indian government rejected a bid by the Coca-Cola Company to produce a soft drink component in India. Significantly, Coca-Cola had been ejected from India in 1977, and its return would have viewed by many American businessmen as symbolic of New Delhi's more favorable approach toward foreign, and particularly American, companies.⁷

Washington should point out that it is in India's interest to open its borders to more foreign trade and investment. If India were to do so, American businessmen, in particular, could provide India with much needed high technology, particularly military and energy-related items. Washington also should tell V.P. Singh that improved protection of intellectual property rights is beneficial to India because it encourages innovation and technology advances; the advancements in India's own computer software industry, which is given protection, are proof of this.⁸ The U.S. should underscore these points in such existing fora as the Indo-U.S. Business Council and the Indo-U.S.

⁷ *Asian Wall Street Journal*, March 26, 1990, p. 20.

⁸ Speech by U.S. Ambassador to India John Hubbard to Indo-American and Bengal Chambers of Commerce, May 31, 1989.

Trade Subcommittee, which alternate their meetings between Washington and New Delhi.

◆ ◆ Continue negotiating with India on contentious trade issues rather than retaliating under Super 301.

Trade retaliation initiated by the U.S. under the Super 301 section of the Omnibus Trade Act likely could force the V.P. Singh government to adopt a more hardline attitude toward trade in talks with Washington. The U.S. and India quietly have been negotiating on trade issues, and India already has made some concessions including an agreement to consider the issue of intellectual property protection in the Uruguay Round of the Generalized Agreement on Tariffs and Trade (GATT). Moreover, Prime Minister Singh, at the helm of a weak coalition government, likely will find it difficult to move more quickly on contentious trade issues. To encourage the continuation of the current U.S.-Indian dialogue, the USTR in its June 16 report to the U.S. Congress should note that trade talks with India are progressing and recommend that no retaliation be considered until next year's Super 301 review. Until that time, Washington should focus its negotiations on removing barriers to Indian foreign investment: New Delhi specifically should be urged to remove its foreign equity limits, and domestic content and export performance requirements, which currently severely limit U.S. investment in India. The U.S. also should continue urging India to discuss intellectual property right protection on a bilateral basis; to date, New Delhi only has conceded the possibility of considering this issue on a multilateral basis in international fora like the Uruguay Round of the GATT.

◆ ◆ Send senior U.S. military officers to the next U.S.-India Defense Seminar and urge India to do the same.

Last August, the U.S. and India held a defense seminar in Washington, D.C. For New Delhi, it was the first such meeting with a foreign nation, which is surprising considering India's long-standing security relationship with the Soviet Union. India sent a dozen experts, including former military officers, civilian analysts, and other government officials. The U.S. panel comprised a similar mix chosen by the National Defense University (NDU). Topics discussed included defense cooperation and threat perceptions in South Asia. Both sides hailed the seminar as a success. The next U.S.-Indian defense seminar tentatively is scheduled for November in New Delhi. To signal the importance with which Washington views these seminars, the NDU should include senior active military officers in the U.S. delegation. India should be encouraged to do the same.

◆ ◆ Apply quiet, but strong, pressure to India to support nuclear non-proliferation and halt further ballistic missile development.

Both India and Pakistan are suspected of continuing nuclear weapons research, but neither has publicly admitted doing so. If either India or Pakistan was discovered to be making nuclear weapons, a costly and destabilizing arms race likely would begin in the subcontinent. Moreover, under the terms of the 1976 Symington Amendment, which bars American aid to non-nuclear

weapons countries that refuse to place all of their nuclear facilities under international safeguards, the substantial U.S. military and economic aid program to Pakistan, which since 1981 has totalled almost \$5 billion, would be cut. Similarly, the Bush Administration almost certainly would be pressured by Congress to punish India, possibly by curtailing high technology transfers.

India's launch of the *Agni* intermediate range ballistic missile last May threatens similar instability in South Asia. Though India last year indicated it had no plans of beginning production of the *Agni* missile, reports this February reveal that New Delhi, in fact, may be preparing further ballistic missile tests. If the *Agni* went into production, South Asia would likely see a missile race. In addition, the Bush Administration could be forced to impose high-technology trade sanctions on India, just as it blocked the sale to India of a sophisticated American device following the launch of the first *Agni* last May. To avoid a situation in which the U.S. may have to cut aid programs and technology transfers to Indian and Pakistan, Washington should increase its quiet yet persistent pressure on both New Delhi and Islamabad to halt nuclear weapons research. Such pressure should remain behind the scenes so that diplomatic heavy-handedness will not force either India or Pakistan to take a more hardline attitude toward the U.S. Washington also should urge New Delhi to keep to its earlier promise of not deploying the *Agni* ballistic missile.

◆ ◆ **Urge India to publish an official position paper clearly defining the goals of its naval expansion.**

India's rapid naval expansion has prompted nervous reactions in Canberra, Colombo, Islamabad, Jakarta, Singapore, and, to a lesser extent, Washington. Much of this concern is because of the ambiguous nature of India's naval expansion. To date, New Delhi has not clearly advised foreign nations about the goals of the expanded navy. New Delhi simply says that it needs a large navy for "coastal defense." More believable is India's desire to gain international recognition as a junior superpower. Washington realizes, of course, that the Indian navy poses no threat to the U.S. fleet. In addition, New Delhi has all but stopped its public criticism of the U.S. naval base at Diego Garcia, located in the Indian Ocean about 1,000 nautical miles off the southern coast of India. However, given the concern of America's friends and allies in the region, the Bush Administration should urge New Delhi to publish a position paper outlining India's own reasons for its naval buildup. Such a paper could alleviate some of the anxiety among India's neighbors. It also could be used by Washington as a basis for determining the kind of U.S. advanced technology, if any, to transfer to India as support for an expanding Indian naval fleet.

◆ ◆ **Plan a Presidential visit to India in 1991.**

The U.S. has sent relatively few high ranking officials to South Asia. The only Presidents to visit India have been Dwight Eisenhower in 1959 and Jimmy Carter in 1978. Under the Bush Administration, there has been a slight increase in the number of U.S. officials going to India. Assistant Secretary of Defense Henry Rowen went to New Delhi this January, followed by U.S. Chief of Naval Operations Admiral Carlisle Trost in February.

Secretary of State James Baker is expected to make a trip this summer. Given the improvements in U.S.-Indian relations, a visit by President Bush would be appropriate. If Secretary of State Baker visits India later this year, the White House should plan for a Bush visit to the subcontinent early next year.

◆ ◆ Urge New Delhi not to renew the 1971 Indo-Soviet Treaty of Peace, Friendship, and Cooperation in 1991.

The U.S.S.R. and India have been treaty partners since 1971. This treaty calls for Moscow and New Delhi to consult each other concerning security threats, though does not oblige either party to intervene if the other is attacked. The treaty expires next year, and it is unclear whether India expects to renew it. Given New Delhi's proclaimed desire to increase trade and defense cooperation with the West, the Bush Administration should urge the Indian government not to extend the Indo-Soviet treaty as a sign of New Delhi's intent to conduct truly neutral economic and foreign relations.



For three decades, India has been viewed as a country with a foreign policy closely aligned with the Soviet Union and with a domestic policy supportive of statist, centralized policies. India finally appears poised to break away from this well-deserved stereotype. With its economy growing in real terms by 10 percent last year and U.S.-Indian trade increasing by 38 percent between 1987 and 1988, American businesses may have much to gain by these changes. Moreover, as the Indian military is expanding faster than that of almost any other country in the world, New Delhi is interested in procuring U.S. weapons systems and openly has courted American participation in India's growing defense industry.

Promoting Stability. The U.S.-Indian relationship still is hindered by barriers which will take time to resolve. While maintaining its close relationship with Pakistan, Washington should encourage India to remove these barriers as the heart of a long-term U.S. policy toward India that will promote stability in the subcontinent, lessen India's dependency on the Soviet Union, and put the U.S. squarely among the Western players set to share in the benefits of India's economic liberalization.

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