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8 August 1986

MEMORANDUM FOR: Distribution

SUBJECT: Inter-Agency Meeting

TYPE OF MEETING

SIG

DATE

~~15~~
21 August 1986

TIME

1500

PLACE

Rm. 7516 Department of State

CHAired BY

Armacost

ATTENDEE(S) (probable)

~~DDCI~~

SUBJECT/AGENDA

India

PAPERS EXPECTED

Agenda received 8 Aug

INFO RECEIVED

Per memo received 8 Aug

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Dick Kerr attended

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SUSPENSE 19 Aug 86
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Remarks To 9: Please have NIO/NESA take lead in preparing material for DDCI.

Executive Secretary
8 Aug 86
Date

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United States Department of State

Washington, D.C. 20520

 EXECUTIVE SECRETARY
 86-3584X

August 7, 1986

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Interagency Group No. 60

TO: OVP - Mr. Donald P. Gregg
 NSC - Mr. Rodney McDaniel
 ACDA - Mr. William Staples
 AID - Mr. Richard Meyer
 CIA -
 Commerce - Mrs. Helen Robbins
 Defense - COL James Lemon
 JCS - CDR Manfred Karlisch
 OMB - Mr. L. Wayne Arny
 Treasury - Mrs. Sherrie Cooksey
 USIA - Mr. Larry Taylor
 USTR - Amb. Michael Smith

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SUBJECT: SIG on U.S. Relations with India

Under Secretary Armacost will chair a SIG meeting on India on August 21, 1986, 3:00 p.m. in Room 7516 at the Department of State. The SIG will review progress in demonstrating to India that it can and should widen its strategic options through improved relations with the United States, as mandated by NSDD 147. Ambassador Dean, who is in the United States on consultations and home leave, will attend. The Interagency Intelligence Memorandum "Indian Response to U.S. Initiatives" (NI IIM 86-10009) provides background on progress achieved. A brief discussion paper on issues will be circulated before the meeting.

Representation will be principal plus one. Please telephone the names of your agency's representatives to Sharon Ohta (647-5804) by COB 19.

Nicholas W. Platt
 for Nicholas Platt
 Executive Secretary

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 DECL: OADR



**Director of
Central
Intelligence**

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Indian Response to US Initiatives

Interagency Intelligence Memorandum

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NI IIM 86-10009
June 1986

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NI IIM 86-10009

INDIAN RESPONSE TO
US INITIATIVES

Information available as of 13 June 1986 was used in the preparation of this Memorandum, approved for publication on that date by the Chairman of the National Intelligence Council.

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CONTENTS

	<i>Page</i>
SCOPE NOTE	1
KEY JUDGMENTS	3
DISCUSSION	7
India's View of the United States.....	7
US Gains and Setbacks in India Since November 1984.....	7
Transfer of Sophisticated Technology.....	7
Terrorism and Narcotics	8
Continuing Differences over Pakistan and Sri Lanka.....	9
Major Factors Influencing the Indo-US Relationship.....	10
Gandhi's Survival.....	10
Gandhi's Commitment to Economic Reform.....	10
Foreign Payments Strains.....	10
Indian Bureaucrats and Elites.....	10
New Delhi Sees Obstacles and Opportunities Ahead	11
US Strategic Interests in Asia	11
Superpower Relations.....	11
Technology Transfer Issues.....	11
Narcotics.....	12
External Factors That Will Influence US Ties to India.....	12
Soviet Policy Toward India.....	12
Indo-Pakistani Relations.....	13
Future US Actions or Events That Are Likely To Accelerate or Slow Improvement in Relations.....	13
Expansion of Trade, Especially in Sophisticated Technology...	13
Cultivating the High-Level Dialogue.....	13
Maintaining Momentum in Traditional Areas of Indo-US Cooperation.....	14
Military Assistance to Pakistan	14
Erosion of Gandhi's Political Power.....	14

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SCOPE NOTE

In connection with a current interagency review of US policy toward India, the Department of State has requested a study of the effect of these policy initiatives over the past year on Indian foreign policy and on Indian attitudes toward the United States. This Interagency Intelligence Memorandum assesses the gains the United States has made since Rajiv Gandhi became Prime Minister, the extent to which Soviet policy and Indo-Pakistani relations will influence Indo-US relations, and addresses the obstacles to and opportunities for improved Indo-US relations over the next year or two.

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KEY JUDGMENTS

New Delhi is responding favorably to US policy initiatives to improve relations with India, but continuation of the trend is heavily dependent on Rajiv Gandhi remaining in power. Key factors behind Rajiv's response are:

- His personal affinity for Western culture and conviction that economic reform and high-technology imports are necessary to accelerate domestic development.
- His unprecedented political strength at home and willingness to risk bold departures from his mother's policies.
- His capacity to cope with an entrenched bureaucracy, recalcitrant elites, and foreign payments strains.

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The United States has already made substantial gains since Rajiv assumed power in November 1984:

- Senior Indian officials have largely removed the anti-US rhetoric from their statements on issues over which Washington and New Delhi continue to differ.
- Indian officials have virtually stopped blaming Indian domestic unrest on the United States.
- Gandhi has attempted to deemphasize the importance of US-Pakistani ties in determining New Delhi's relations with Washington.
- The Indians are cooperating on narcotics, have publicly thanked the United States for its cooperation on Sikh terrorism, and have condemned international terrorism in general.
- New Delhi has responded to US Army, Navy, and Air Force initiatives to expand training exchanges and port visits.
- The Indians have signed a Memorandum of Understanding and Nuclear Assurances protocol to facilitate the purchase of sophisticated US commercial and military production technology.
- US and Indian firms are negotiating a dramatically larger number of joint ventures and contracts that are beginning to show up as gains in US exports of manufactured goods.

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New Delhi will be constrained to move only gradually in any further improvement of relations with the US:

- Gandhi still faces considerable resistance from individuals in the government and military bureaucracies who have vested interests in the policies of the past. Some have dragged their feet on implementing Gandhi's program to improve relations with the United States.
- Gandhi may face foreign payments difficulties that will limit New Delhi's ability to purchase sophisticated US technology.
- A qualitative increase of US military aid to Pakistan or embarrassing disclosures on the Pakistani nuclear weapons program may unleash a barrage of domestic criticism that will compel Gandhi to lower the visibility of Indo-US relations.
- Setbacks in relations between the United States and the USSR would constrain Gandhi to move more slowly in expanding cooperation in politically sensitive areas such as military technical missions.
- New Delhi may be less than a full partner in sharing information on narcotics because of political sensitivities.

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Soviet policy toward India and Indo-Pakistani relations will complicate, but are not likely to determine, the course of Indo-US relations. So long as Gandhi controls the policymaking agenda, New Delhi will deflect Soviet efforts to derail improvements in Indo-US relations and will minimize the effects of Indo-Pakistani relations on the relationship between India and the United States. A significant boost in US arms aid to Pakistan involving weapons not tied to the situation in Afghanistan also would slow relations. In neither case do we believe Gandhi would lose his interest in improving ties to the United States, but Gandhi will move cautiously to limit the damage his domestic opposition could inflict on him over these issues.

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From New Delhi's perspective, US decisions on technology transfer issues in the months ahead will be a key test of US commitment to improved relations. Gandhi will be willing and able to ride out a moderate slowdown in technology transfer and the resulting domestic criticism because he needs US technology. A major slowdown, however, in the release of technology or escalation in the level of assurances required will force New Delhi to turn to Western Europe or Japan.

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Additional visits and briefings by US officials with their Indian counterparts will be almost as important as technology transfer in expanding cooperation. The United States can expect to win additional

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good will by expanding links in agricultural research, space exploration and communications, and trade—areas in which the United States and India have longstanding ties. []

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While we expect Indo-US relations to gradually improve, we believe certain developments would seriously disrupt the trend:

- Gandhi's assassination, particularly at the hands of a Sikh, which would force a politically weaker successor to cope with serious domestic communal unrest. A successor is less likely to be committed to improving ties to the United States.
- A dramatic erosion of Gandhi's political power—probably over communal issues, the economy, or Pakistan—which would compel Gandhi to fall back on the "safe" policies of the past.
- Information of substantial Pakistani progress on its nuclear weapons program that probably would cause at least a temporary downturn in Indo-US relations as New Delhi considered its nuclear options.
- Significant developments in the Indian nuclear program that would force the United States to suspend the transfer of sensitive high technology to New Delhi.
- A significant expansion in Sino-US military and nuclear cooperation that India views as discriminatory or endangering New Delhi's security.
- The failure of either the United States or the Indians to show flexibility in response to the other's sensitivities when negotiating security assurances needed for the transfer of restricted technology.
- Leakage of Western technology to the Bloc at rates or levels unacceptable to the United States. []

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DISCUSSION

India's View of the United States

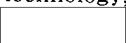
1. From New Delhi's perspective, relations between India and the United States historically have been characterized mainly by differences. India often has viewed Washington's actions as undercutting key interests:

— New Delhi is primarily concerned with securing its preeminence in the region to the exclusion of other—particularly extraregional—powers.

— India also has long aspired to be recognized as a major actor in international diplomacy. 

2. Against this backdrop, however, New Delhi has become determined to join the revolution in advanced technology and views the United States and other Western nations as natural partners in this effort. For the most part, Rajiv Gandhi has conducted foreign policy with an eye to his primary domestic agenda—transforming India into a modern, economic power. He is seeking to improve relations with potentially hostile neighboring states so that New Delhi's attention and resources can be more fully dedicated to accelerating domestic economic growth. 

US Gains and Setbacks in India Since November 1984

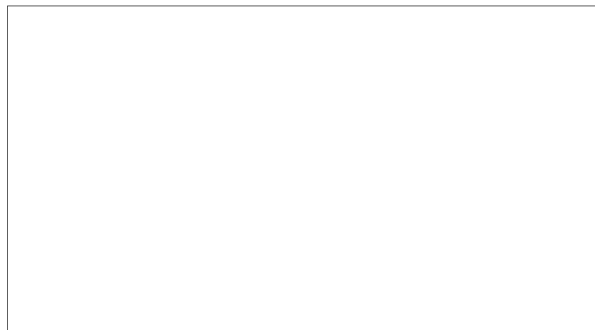
3. As a result, Indo-US ties are gradually gaining a more solid footing, and in this latest upswing in relations, Gandhi believes both New Delhi and Washington have developed a more sober understanding of the different goals each side has for the relationship. Starting with Indira, but picking up momentum under Rajiv, the expanded range of visits and briefings by senior US officials have helped assure India that the United States recognizes New Delhi's preeminent role in the region and values India's views and cooperation on issues of common concern. For its part, New Delhi has moderated its official statements on a number of issues that frequently have soured relations in the past. India also has shown a willingness to cooperate in new areas, such as the transfer of sensitive technology, military training, terrorism, and narcotics. 

4. The atmospherics of the relationship have changed considerably since November 1984, reflecting

Gandhi's personal style as well as a broader favorable response to US initiatives:

— Indian officials have virtually stopped blaming their domestic troubles on the meddling "foreign hand" of the United States.

— High-level Indian officials have denied allegations of US support for Sikhs raised in the Indian parliament.

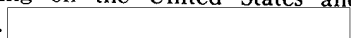
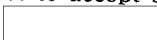


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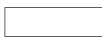
— Following briefings by senior US officials, Gandhi and his principal advisers have modified their rhetoric on several issues on which New Delhi and Washington differ, particularly the Strategic Defense Initiative, disarmament issues, and South Africa.

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— The Indian press has picked up on Gandhi's aversion to anti-American rhetoric. There has been some change for the better in the tone of reporting on the United States and Indo-US affairs.  pro-American articles are appearing with increasing frequency and reporting on anti-US themes has diminished. New Delhi appears to have cautioned editors not to accept Soviet-inspired stories uncritically. 

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5. *Transfer of Sophisticated Technology.* Gandhi's efforts to obtain technology are giving the United States access—although limited—to new areas of the Indian government and industry, fostering ties that will provide a long-term basis for further improvements in relations and opportunities for US business. 

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6. As a result of the high priority India attaches to the acquisition of technology, Gandhi has moved

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forward on issues of importance to the United States. He pressed Indian officials to sign the Memorandum of Understanding (MOU) on technology transfer; negotiations had languished under Indira Gandhi's leadership. New Delhi also agreed to the Nuclear Assurances protocol [redacted]

7. Gandhi has cautioned, however, that he anticipates an extended period of confidence building during which New Delhi and Washington work out their differences over the protection of sensitive technology and costs. Gandhi's acknowledgment that the process may be slow reflects his assessment of the divisions within both the Indian and the US administrations over building closer ties through the transfer of sophisticated technology. On the Indian side Gandhi faces opposition both from those who oppose reliance on imported high technology and those against closer ties to the West. [redacted]

8. The Indians have not been enthusiastic about negotiating a General Security of Military Information Agreement (GSOMIA), and this has constrained efforts to improve relations. Indian Defense Science Adviser Arunachalam has told US officials that New Delhi prefers to place its requests through the newly negotiated MOU and Nuclear Assurances channels. The Indians do not have such an agreement with other states and have told US officials they do not think the Indo-US defense relationship has reached that stage.

9. The Indians have responded to US initiatives to exchange defense technical missions to explore prospects for long-term cooperation in defense production technology. Gandhi has said publicly that New Delhi would look to the United States for sophisticated military production technology before considering purchases of major weapon systems. India has agreed to purchase night vision technology from the United States and a Naval data base system, and has asked for the technology to manufacture or to purchase jet engines, fast computers, communications systems, inertial navigation systems, and a variety of other military-related subsystems. Access for the US Government and private Americans to Indian defense establishments has also improved. [redacted]

10. New Delhi also has responded favorably to US Navy and Army initiatives to expand training exchanges and port visits:

- The Indian Navy in April formally requested that officers be admitted to courses in surface

and ASW warfare, dockyard management, and NBC defenses, and will have a team here this month to study US naval training.

- The Indians also decided against raising the issue of prohibiting port calls by US nuclear armed ships. The Indian frigate, Godavari, is scheduled to pay port calls in the United States in June—a first for the Indian Navy.
- The US Army and Air Force also have offered additional training options that have been accepted by the Indian military, but await final Foreign Ministry approval. A US Army team has visited India to make recommendations on training cooperation. [redacted]

11. US initiatives to boost high-technology sales to India have led to dramatic increases in proposed joint ventures and contracts under negotiation that are beginning to show up as gains in US exports. New Delhi approved 200 new financial and joint ventures between US and Indian businessmen in 1985, more than with any other country. In the largest single deal, New Delhi awarded a contract to a US company for the manufacture of US computers in India over time worth \$500 million. Aside from this sale, US sales of telecommunications equipment, industrial machinery, computers, and scientific instruments reached 10-year highs in 1985, according to US trade statistics. [redacted]

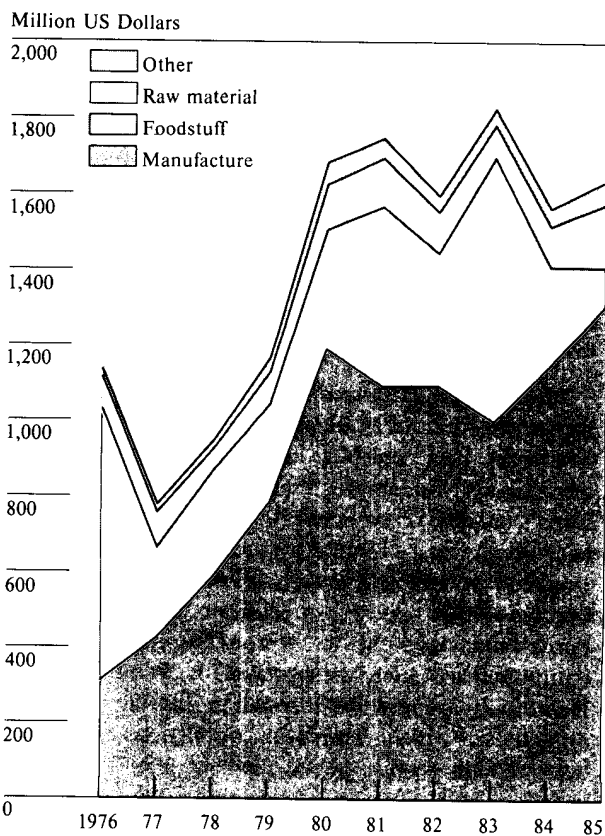
12. *Terrorism and Narcotics.* The Indians have taken several steps on terrorism favorable to the United States, largely in response to US moves such as the arrests of Sikhs allegedly plotting to kill a visiting Indian Cabinet official and the extensive security precautions taken for Gandhi's visits. Although reluctant to enter into a formal counterterrorism assistance program, the Indians have:

- Moved away from their traditional practice of excusing terrorism connected with what they deemed to be national liberation movements and instead are describing terrorism as an international problem requiring an international response.
- Accepted US assistance in upgrading airport security and in investigating the Air India crash off the coast of Ireland.
- Briefed the Indian Parliament and press on US cooperation, resulting in news stories and editorials favorable to the United States.
- Supported bilateral and regional efforts in South Asia to combat hijackings and curtail cross-border movements by suspected terrorists. [redacted]

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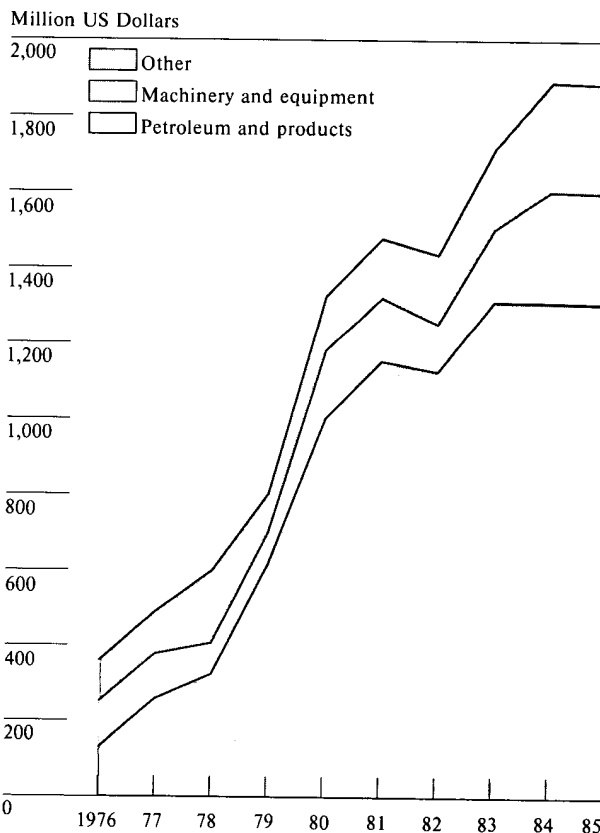
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United States Exports to India, 1976-85



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Soviet Exports to India, 1976-85^a



^a Most military sales are excluded.

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13. A minor setback in relations since Rajiv assumed power is differences that have emerged over Libya. Gandhi and other senior Indian officials have tried to limit the damage, however. Gandhi refused requests from the Arab states to criticize US economic sanctions against Tripoli. Following the US airstrike against Libya, Gandhi took a relatively restrained approach toward the United States in a speech to the Indian Parliament, urging the United States to use diplomatic rather than military leverage to combat the threat. Gandhi also sacked Foreign Minister Bhagat, who vehemently criticized the US action—a move that Gandhi probably hopes has signaled New Delhi's readiness to put the issue aside.

14. On narcotics, US suggestions for increased cooperation have coincided with a growing awareness in

New Delhi of the expanding Indian drug trade. The Indians have responded by:

- Forming an Indo-US working group on narcotics.

- Negotiating a six-point bilateral antinarcotics program with Pakistan.

- Supporting an antinarcotics initiative in the South Asian Association for Regional Cooperation (SAARC).

15. *Continuing Differences Over Pakistan and Sri Lanka.* US arms sales to Pakistan remain an important obstacle to improving relations. Rajiv Gandhi, however, has not made US-Pakistani relations the make-or-break test of improved Indo-US relations the

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way they have been in the past. Gandhi has shifted the focus of New Delhi's opposition to US military aid to Pakistan—stressing the economic costs to India and Pakistan of an arms race in South Asia, rather than the strategic threat posed by Pakistan's possession of the weapons. [redacted]

16. The Indians are aware that Indo-Pakistani rapprochement is a major US regional goal, and argue with US officials that Washington should reward their efforts to reduce Indo-Pakistani tensions by reducing US military assistance to Pakistan and working harder to blunt Pakistan's nuclear program. [redacted]

17. US diplomatic intervention, or sales of lethal military equipment to Sri Lanka in support of Jayewardene would have a serious negative impact on US-Indian relations. New Delhi, so far, has welcomed US diplomatic support for India's efforts to broker a settlement between Sri Lanka's Tamil and Sinhalese populations. The Indians also welcome Washington's willingness to defer, in part, to Indian initiatives toward Colombo, even though some Indian officials continue to be suspicious of US motives in Sri Lanka. In return the Indians have demonstrated forbearance when erroneous press stories have claimed the US was supplying arms or intelligence to Sri Lanka. [redacted]

Major Factors Influencing the Indo-US Relationship

18. *Gandhi's Survival.* We believe continued improvement in Indo-US relations is heavily dependent on Gandhi's survival. His personal affinity for Western culture, bold departures from his mother's policies, and unprecedented political strength at home have been key elements in the improvement of the tone and expanded scope of Indo-US ties. We doubt any successor will have a combination of attributes as favorable to US interests. Although Gandhi is in excellent health, he is the target of Sikh extremists. Their fanaticism together with the inadequacies of Indian security make Gandhi highly vulnerable. [redacted]

19. His death would represent a significant blow to US interests. Those cabinet members who are enthusiastic proponents of closer ties to the United States, Defense Secretary Arun Singh and Finance Minister V. P. Singh, are unlikely to succeed to the Prime Ministership, because they lack strong political bases. Probable successors who do have political influence are likely to be less committed to improving ties to Washington. [redacted]

20. *Gandhi's Commitment to Economic Reform.* The greatest impetus to the continued development of

Indo-US relations comes from the match between Gandhi's drive for high technology and US interest in high-technology sales. Gandhi remains committed to economic liberalization and modernization that, out of necessity, will promote closer trade ties to the United States. Much of the Indian industrial sector is stagnant and inefficient because of government control and lack of competition. The last five-year plan fell 18 percent short of planned expenditures primarily because state enterprises could not provide the necessary resources. Indians believe, and we concur, that India will need more efficient management, greater productivity, and additional financial resources especially from the private sector, to achieve its goal of 5-percent average annual economic growth. [redacted]

21. *Foreign Payments Strains.* Gandhi's focus on the acquisition of sophisticated US technology depends, in part, on New Delhi's capacity to avoid international financial difficulties. A deterioration in India's balance of payments is likely before 1990 both because the cost of import growth—even with lower world oil prices—will greatly exceed the income from the growth in exports. In addition, the debt service burden and payments to Western Europe for military equipment will increase substantially. We expect New Delhi will attempt to forestall a foreign payments crisis by selectively reimposing restrictions on imports, even though such a policy reversal would slow economic growth. Such restrictions would jeopardize the current enthusiasm within the Indian business community to line up joint ventures and purchase US technology. [redacted]

22. Complaints about US policies on loans and trade could cause a deterioration in relations as problems mount and advocates of liberalized economic policies seek a scapegoat for their failure to improve economic performance. Some Indian officials continue to see an anti-Indian bias in US policies that limits Indian access to International Development Agency and Asian Development Bank loans. But Indian criticism of the United States on this issue is less than it was two years ago. [redacted]

23. *Indian Bureaucrats and Elites.* Gandhi's flexibility in accelerating and expanding relations with the United States is constrained by the views of many bureaucrats and university-educated elites who have a vested interest in supporting India's previous policies toward the United States and USSR. Gandhi's efforts to follow through on initiatives toward the United States will be slowed by the imperative of changing this view to accommodate his vision and priorities. [redacted] the foreign policy

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[Redacted]

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bureaucracy has consistently dragged its feet on Gandhi's efforts to improve relations with the United States and to advance India's economic interests through foreign policy. Many of these officials have worked for years to advance India's interests with the Soviet Union and are used to thinking of the United States as a diplomatic opponent. Their deeply ingrained suspicions of the United States will be hard to overcome.

— US military assistance to Pakistan that was not clearly tied to the Soviet presence in Afghanistan.

[Redacted]

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28. Gandhi will face a barrage of domestic political criticism if he continues his visible efforts to improve relations with the United States while Washington is seen to be strengthening Islamabad's capacity to strike India with conventional weapons and failing to pressure Pakistan to contain progress in developing nuclear weapons.

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[Redacted]

24. This is also the case within the military establishment. In the past, Ministry of Defense officials have succeeded in frustrating efforts to expand US-Indian military contacts. In our view, the opposition stems from longstanding Indian worries about a possible US embargo of equipment in the event of a war with Pakistan and the reluctance of officials to jeopardize a vested interest in Indo-Soviet military ties. Therefore, any purchase of major US weapon systems will face strong opposition within the Indian bureaucracy.

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25. Many Congress Party politicians who achieved prominence in the party through loyalty to Indira Gandhi have opposed Rajiv's efforts to expand ties to the United States. Gandhi's decision in recent weeks to oust the most outspoken critics in the party and move aside Indira's old-guard suggest he is gradually consolidating support for his initiatives, including improved relations with the United States.

29. New Delhi also views the developing US-Chinese security relationship and US Indian Ocean policy as inimical to its interests. Neither of these concerns, however, is as important to India as the Pakistani issue.

[Redacted]

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30. **Superpower Relations.** The Indians probably calculate that they can pursue their objectives more easily when relations between Washington and Moscow are smooth. From India's perspective, downturns in superpower relations complicate its efforts to gain greater diplomatic flexibility and self-reliance in defense and economic development.

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26. Finally, India's educated urban elites are still suspicious of Rajiv Gandhi's efforts to deepen ties to the United States.

[Redacted] the majority view US arms sales to Pakistan and the US presence in the Indian Ocean as a direct threat to India's security. In contrast, fewer than 20 percent consider the Soviet presence in Afghanistan or the Indian Ocean as a threat.

[Redacted]

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31. **Technology Transfer Issues.** We believe New Delhi views negotiations with Washington over the timing and release of sensitive technology as both an opportunity and a potential obstacle to improved Indo-US relations. Indian officials are disappointed with the pace and process of technology transfer since the signing of the MOU. In particular, the Indians have complained about the repeated requests from the US for additional assurances. [Redacted] New Delhi resents the inference that India will pass sensitive information to the Soviets and is concerned about opening Indian operations to US inspectors.

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New Delhi Sees Obstacles and Opportunities Ahead

27. **US Strategic Interests in Asia.** For New Delhi the most difficult obstacle to further improvement in Indo-US relations is Pakistan. In April, Gandhi acknowledged to Parliament that there were two issues that could cloud the improving Indo-US relationship:

— Pakistani progress toward the development of nuclear weapons.

32. At the same time, New Delhi welcomes the MOU and the nuclear Assurances protocol as evidence of US interest in marketing commercial and military high technology. US activity intensifies competition among potential suppliers—including the Soviets. New Delhi, no doubt, hopes that it can extract favorable terms and conditions on US technology transfer cases by fostering competitive bidding. We also believe that negotiations on the transfer of sophisticated Soviet

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military weapons technology continue to drag out, in part because the Indians continue to press for better deals from Moscow [redacted]

33. India's growing indigenous capabilities—particularly in software—also may pose a near-term challenge to US interests in protecting international trade control mechanisms. Although India grudgingly accepts controls on US technology as the price of acquiring it, we believe New Delhi would resist strongly any pressure from the United States or COCOM to curtail exports of what it views as its own technology to any country, including the USSR. Restrictions would be interpreted as an affront to India's sovereignty and an attempt to prevent it from challenging the West in world markets. [redacted]

34. *Narcotics.* We expect that Indian sensitivities may prove an obstacle to developing a balanced exchange on narcotics. [redacted]

External Factors That Will Influence US Ties to India

35. *Soviet Policy Toward India.* The Soviets fear that Rajiv Gandhi's Western orientation and his interest in gaining access to Western technology will make him responsive to the US desire for better ties at Moscow's expense. The Soviets are especially concerned about renewed Indo-US military cooperation. In order to prevent any downturn in Indo-Soviet relations, the Soviets have maintained a steady stream of high-level contacts, offered India some of their newest military hardware, and mounted major propaganda campaigns aimed at sustaining Indian suspicions of the United States and Pakistan. The Soviets realize most Indians regard US technology as superior to that of the USSR and have mounted a covert propaganda campaign designed to discredit US technology. However, Moscow's efforts to use its media assets to influence Indian opinion have not been very successful. [redacted] last January that, in the preceding six to eight months, reporting on familiar anti-US themes had diminished substantially and in some cases, all but disappeared from the mainstream Indian press. [redacted]

36. Moscow is trying to counter every development in Indo-US relations with a balancing Soviet move. For example, when it became clear President Reagan would see Gandhi in New York last September, Gorbachev insisted on another meeting with Gandhi as well. [redacted]

When the Soviets saw how much favorable publicity was generated by the Festival of India in the United States, they scheduled a Festival for the USSR. At Moscow's request the Indian frigate, Godavari, which is due in the United States in June, has first paid a port call in the Soviet Union. From the Indian perspective, such Soviet sensitivity represents an opportunity because it gives New Delhi more leverage and allows India to demonstrate its equidistance between the superpowers. [redacted]

37. Moscow has paid particular attention to cultivating Rajiv. In 1983, when he still had only a nominal job in the Congress Party, Moscow invited him to the USSR and gave him VIP treatment beyond even that normally accorded most heads of state. Once Gorbachev assumed office in March 1985, he personally took charge of the courtship of Rajiv. In addition to their three face-to-face meetings since then, Gorbachev nurtures the relationship by writing regularly to Rajiv and by occasionally sending special envoys to New Delhi to brief him on topics of common concern. Reporting suggests that the first Third World country Gorbachev will visit since becoming General Secretary will be India, and that his visit will take place before the end of the year. [redacted]

38. Soviet diplomacy highlighting close Indo-Soviet relations has been supplemented by the conduct of ongoing economic and military relations. The Soviet Union is India's largest commercial trading partner after the United States with total two-way trade of about \$3.7 billion in 1985. The trading relationship consists largely of an exchange of Soviet petroleum for Indian agricultural products and consumer goods. In addition, we estimate India paid the Soviets about \$600 million last year for military imports, India has purchased over \$7 billion in Soviet arms since 1980, and its annual payments to Moscow for arms already purchased will probably increase to as much as \$1.8 billion by 1994. [redacted]

39. The Soviet position in India has broad and diverse foundations and is well entrenched. In addition to diplomacy commerce and arms supply, the broad range of Soviet efforts includes educational exchanges, political party subsidies and subventions, bureaucratic penetration, and a range of active measures, all of which are designed to increase Soviet influence and thwart US inroads. [redacted]

40. Despite the heavy Indian dependence on the Soviets, particularly for military equipment, we believe that, so long as Gandhi controls the policymaking agenda, New Delhi will deflect Soviet efforts to frustrate meaningful improvement in Indo-US ties. [redacted]

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41. *Indo-Pakistani Relations.* A downturn in Indo-Pakistani relations would constrain Gandhi's efforts to improve Indo-US relations, in our judgment. Gandhi faces a domestic constituency that is quick to suspect the worst of the Pakistanis and to criticize Gandhi for being "soft" toward Islamabad. Although we do not expect a collapse of the high-level talks between Indian and Pakistani officials on defense, nuclear, and economic issues, such a breakdown probably would force Gandhi to lower the visibility he gives to Indo-US relations. Similarly, the revelation of information indicating substantial Pakistani progress in its nuclear weapons program probably would compel Gandhi to slow the pace of progress in Indo-US relations.

42. As a result of the extensive cooperation between Washington and New Delhi on the issue of Sikh extremists, we do not believe Indo-US relations will be damaged by Indo-Pakistani differences on this issue. However, the issue of Pakistani support for Sikh separatists remains a source of strain in Indo-Pakistani relations.

43. Indian and Pakistani domestic developments also closely influence the tenor of Indo-Pakistani relations and will, to a limited extent, affect the course of Indo-US relations. In India, a sustained outbreak of Hindu-Muslim sectarian violence—which Gandhi considers a serious possibility—would prompt a major downturn in Indo-Pakistani relations. We believe Gandhi's interest in improving relations with the United States would be put aside while he coped with the political fallout of domestic unrest.

Future US Actions or Events That Are Likely To Accelerate or Slow Improvement in Relations

44. Gandhi is not likely to make dramatic changes in the way he approaches Indo-US relations. In our judgment, he is looking for gradual improvement over a period of many years with a focus on developing ties to the United States that will help India accelerate its drive to self-sufficiency and international prominence. We also do not believe that improvements in Indo-US relations will necessarily lead to a diminution in Indo-Soviet relations. All that said, however, we believe the Indians would be receptive to additional US initiatives to improve relations.

45. *Expansion of Trade, Especially in Sophisticated Technology.* From New Delhi's perspective the key test of US commitment to improved relations will

continue to be Washington's response to Indian requests for the transfer of advanced US technology and for flexibility on financing. New Delhi would welcome:

— US release of the backlog of cases falling under the MOU and decisions eliminating some of what the Indians see as ad hoc requirements for additional assurances.

— US willingness to field additional Defense technical teams, such as the team that recently went to India to discuss the Light Combat Aircraft, in response to Indian requests. We believe a sustained US effort, either directly or through the West Europeans, to assist India in the development of its Light Combat Aircraft would be particularly well received in New Delhi.

— Additional US offers to help with financing to accelerate the pace of Indian purchases of sophisticated technology. Conversely, heavy constraints on financing for major contracts would signal limits in the US commitment to India.

46. A significant slowdown in the release of technology or a major escalation in the level of assurances required by the United States would force Gandhi to turn to the West Europeans or Japanese. If no alternatives are available, he will resort to the well developed "self-reliance" theme and do without:

— Such decisions would also deepen the suspicions of many influential Indians that the United States intends to prevent India from becoming a great economic or political power.

— Even those Indians inclined to support closer ties to the United States would read a drying up of high technology releases as an indication that the United States does not take India's great power aspirations seriously.

47. *Cultivating the High-Level Dialogue.* We believe a continuation of the visits and briefings by senior US officials—such as the proposed visit of the Secretary of Defense—will be almost as important as technology transfer in expanding cooperation:

— These efforts will go a long way toward assuring the Indians that the United States is committed to a longterm, steady growth in relations.

— The United States will hold Gandhi's good will, in our judgment, if it continues to brief the Indians on Afghanistan and US military assistance to Pakistan, despite the public criticism that may flow out of India on these issues.

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- Additional briefings on disarmament issues are likely to help rather than hurt the course of Indo-US relations.
- Similarly, an exchange of views on South Africa probably will help to strengthen Gandhi's understanding of—if not support for—the US position.

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48. *Maintaining Momentum in Traditional Areas of Indo-US Cooperation.* The United States could expect to win additional good will among India's scientific and business elites by expanding cooperation in agricultural research, space exploration, communications, and trade—areas in which the United States and India have long cooperated with little friction:

- US initiatives to reinvigorate ties to US and Indian agricultural research facilities by addressing India's needs in water resource management, energy-saving practices, fertilizers, and dry land farming are likely over time to encourage collaboration and open opportunities for US agribusiness.
- US efforts to sustain Indo-US space cooperation will also protect Washington's long-term investment and advantage over the Soviets. We expect New Delhi will wait for a US launch of its INSAT-IC communications satellite—and also will send the Indian astronaut when NASA re-schedules Shuttle launches.

49. *Military Assistance to Pakistan.* A decision to increase military aid to Pakistan independent of the situation in Afghanistan, in our judgment, would considerably slow the pace of improving Indo-US relations:

- The sale of weapons the Indians consider ill suited for use in the Afghan border area will give credence to Gandhi's critics in and out of his administration who suspect the United States and

the Chinese of arming Pakistan for an eventual attack on India.

- Gandhi will be obligated, from his perspective, to counter US military aid to Pakistan with additional arms purchases, undercutting his ability to reinvigorate the Indian economy. We believe much of the military modernization, however, would occur in any event.

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50. *Erosion of Gandhi's Political Power.* To the extent that Gandhi loses political power at home, he may find it more difficult to pursue closer ties to the United States. Gandhi's fallback position would be to identify more closely with the policies of his mother. These policies, while open to improved relations with the United States, were more closely tied to socialist ideology, anti-imperialist rhetoric, and Soviet friendship. They continue to enjoy the support of many of the Congress Party old guard whose support Gandhi would need in the event that he fumbles away much of his political popularity. Gandhi faces potential domestic crises from growing communal conflicts and from inflationary pressures.

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51. Other possible developments could hamper continued improvement in Indo-US relations:

- Leakage of Western technology to the Bloc at rates or levels unacceptable to the United States. Despite Indian assurances, India will be hard pressed to prevent compromise of some sensitive technology.
- Significant developments in the Indian nuclear program that would force the United States to suspend the transfer of sensitive high technology to New Delhi.
- A significant expansion in Sino-US military and nuclear cooperation that India views as discriminatory or endangering New Delhi's security.
- A potentially contentious Indian request for a Sikh extradition treaty.

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