THE GANDHI VISIT

Expectations and Realities of the U.S.-Indian Relationship

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RAJIV’S INDIA

India seems a strange mixture of strengths and weaknesses, a country where nothing is ever quite as good or bad as it seems and where public opinion can swing widely from one party to another or from gloom to elation. As Rajiv Gandhi comes to the United States, the Indian mood is definitely up, but there are strong trends pulling in the other direction. It is difficult to perceive what is going on in that vast country—confusion and misperception have bedeviled U.S. policy toward India for years—but it helps a bit to look at India in some different perspectives.

First, although India is certainly a functioning nation-state, it is in some ways less of a nation than a continent. It is as large as Western Europe and much more diverse than either Europe or North America. Attempts to ignore its complexity and expect simple, clear answers will confuse more than they can enlighten. In addition to all of its ethnic, geographic, religious, and linguistic diversities, India consists of two sharply distinct “nations” in the economic and cultural senses. There is the India of the poor, teeming millions to which our food shipments and ill-focused sympathy are directed. Yet there is also the other India, perhaps one-tenth as large—a sort of middle and upper class that includes the world’s eighth largest number of trained scientists and technicians and the thirteenth largest industrial capacity. It builds nuclear plants and perhaps weapons, satellites, aircraft, and modern electronic equipment as well. It commands a military establishment that compares with almost any except those of the superpowers. It has done wonders in increasing agricultural output with modern methods. In terms of education, economic output, size, and its people’s aspirations and standard of living, it is comparable to a less well-off European nation. Although Rajiv Gandhi represents both Indias, it is the latter to which he firmly belongs and it is the latter with which the United States deals in its diplomacy and economic relations.

India’s population is now about 750 million and growing at a yearly rate of slightly over 2%. The continuing rapid growth is due less to the birthrate (which has dropped from 48 to 34 per thousand in the last twenty years) than to a dramatic increase in life expectancy (now 58 years vs. 43 in 1960). There will likely be one billion Indians by the year 2000, which means that the economy will
have to grow by a third simply to keep pace. Were the Indian economy to continue to grow at its traditional rate, the outlook for any substantial improvement in the unacceptably low standard of living in the India of the 90s would be bleak indeed.

The basis for India’s new optimism is the accelerated annual growth rate over the past five years—5.4% compared to the traditional rate of 3.3%. The reasons for this spurt include dramatic increases in food/grain production (150 million tons in 1984 vs. 50 million in 1950), a welcome upturn in industrial output, and the discovery of oil in substantial quantities. Prosperity is evident in India’s cities and many villages.

Yet 40% of all Indians still live below the poverty line, caloric intake per capita is among the world’s lowest, and annual per capita GNP is less than $250. Equity is a severe problem: the lowest 20% of the population get only 7% of the nation’s income, while the top 20% get just short of half. There is no doubt of the reality of extreme poverty—the evidence can be seen everywhere in the cities and the countryside—but the figures may be misleading. For a variety of reasons (not least of which is the pervasive system of controls imposed by the government), a vast, illegal economy in India never enters the statistics.* Even if the total economy is substantially larger than the official figures, however, the situation is still precarious. In absolute numbers, more Indians live below the poverty line than did so at the time of independence. The remarkable Indian achievement of self-sufficiency in foodgrain production is only possible because the great mass of population cannot afford to buy as much food as it needs.

While India accomplished much under its policies of quasi socialism and rigid controls, the rate of growth was simply too slow. This is why Indira Gandhi had begun to reorient economic policy and why her son has made his most dramatic move, announcing in the current budget further, dramatic changes designed to modernize and reduce controls on industry, mobilize private sector initiative, and draw the illegal economy back above ground. Substantial cuts were made in taxes, and imports—especially of technology and capital goods—were liberalized. This approach faces the same kinds of difficulties that supply-side economics encountered in the United States—especially a period of huge deficits with their potential for inflation—in addition to those imposed by the special fragility of the Indian economy. A series of poor monsoons can make a shambles of any Indian economic policy. The already large foreign-exchange gap will grow still further unless and until exports outpace the expanded imports. In a country as poor as India, equity, and especially appearance of equity, are fundamental to the social bargain; current policies are weak on both counts, and in the short run at least, the budget will leave the poor no better and perhaps worse off than they have been. The rationale is much the same one offered in the United States—a generation of welfare policies has not been effective and it is time to try something else, even if the medicine is risky.

*India has the thirteenth largest GNP ($180 billion) in the world if the underground economy is fact half as large, it would be the world’s twenty-fourth largest, ranking between Nigeria and Austria. If the two were combined, they would put India in the number ten spot, just ahead of Spain.

The key to the success of the new policies will be the new enthusiasm and optimism—already focused on Rajiv himself—that they generate in the middle, managerial, and entrepreneurial classes. Rajiv, formerly an unimpressive political figure, acquired a clear vote of confidence by his stunning victory in the national elections (larger than anything his mother or even grandfather had achieved). The shock of India’s assassination galvanized the electorate, and Rajiv was able to seize the issue of national unity as his own at a time when it seemed threatened by the forces behind the assassination. He handled himself well in the campaign and has been able to project an image of intact-ruptability, at sharp variance with the odor that surrounded him—and his mother’s—political party, the Congress. If Gandhi expects to repeat his triumph at the next national elections five years hence, however, he will have to meet the high expectations that he has raised in the minds of the people. His economic program is a promising, if risky, start; the political problems he faces may prove even more difficult to overcome.

Prime among the political problems is Sikh discontent. Immediately following Indira Gandhi’s assassination, mobs in New Delhi attacked Sikhs, killing many and ransacking their residences and businesses. Sikhs claim that individuals close to the Congress party organized those riots and demand an investigation. The entire panoply of Sikh demands that lay behind the events of 1984 is still on the table, and attitudes on both sides have hardened. Gandhi made some moves to defuse the situation, but the Sikhs, profoundly alienated and also split among themselves, have not yet responded. In May 1985, a series of terrorist bombings in New Delhi and elsewhere killed many Hindus. It is virtually impossible to prevent this sort of occurrence, and while there was no Hindu retaliation, a few more bombings will almost inevitably trigger further anti-Sikh rioting, thus widening the gulf between the two religious groups. It will take a master stroke to resolve the problem; Gandhi has yet to demonstrate that he is capable of one. Failure would not mean the breakup of India—the nation’s overall unity and even stability seem assured—but it would be a severe blow to the nation and a continuing drain on its energies.

Gandhi faces another, much broader political task. Over a period of almost twenty years, his mother systematically undermined many of India’s political institutions, notably the Congress party itself and the federal bargain on which India was built. Even the famous Indian bureaucracy and army have become demoralized. The Nehru-Gandhi dynasty is important to India as its symbol of national unity, but the country is in desperate need of restored political institutions; that India had no choice but to turn to such an untried leader as Rajiv Gandhi is stark testimony to the drying up of the country’s once rich leadership pool.

In addition, even the most successful economic policy cannot bring prosperity to India in the foreseeable future. It will require an exquisite political touch to keep the Indian polity in balance—to ensure that not only does the modern part of the economy respond to the incentives and produce greater wealth, but also that adequate proportion of that wealth does in fact trickle down to the poor 90% who, in the Indian system, can express their concerns through both words and violence. Jawaharlal Nehru and Indira Gandhi were consummate masters of the art of convening concern for the principles of equity in
THE DEVELOPMENT OF THE U.S.-INDIAN RELATIONSHIP

For about a generation—almost all of Rajiv Gandhi’s forty years—the U.S.-Indian relationship has been frequently distant, occasionally awkward if not downright hostile, and almost always frustrating for both sides. The two countries are, after all, vastly different. The United States is a country of immense wealth and power, the leader of one of the two contending power blocs in the world, and has assumed many global responsibilities, and its closest ties are to the former colonial powers of Europe. Although committed to changes in the international political and economic systems, Washington has sought to moderate the scope and pace of change and has focused on competition with the Soviet Union. India, on the other hand, is poor and its power position is ambivalent—overwhelming in South Asia but questionable in larger settings. It has consciously set out to redefine the bases of power, hoping to find a leadership role for itself. This has meant rejecting the East-West framework of international politics and seeking to lead the developing countries that want a sweeping reordering of the international political and economic structures.

These differences are reinforced by lack of understanding on both sides, but particularly by American misunderstanding of and disinterest in India. U.S. contacts in India have been sparse, especially compared to those in China, and negative stereotypes—a country beset by ignorance, poverty, and famine and led by arrogant anti-Americans—have remained. U.S. press coverage of Indian developments has generally reflected the broader national disinterest or served to reinforce these stereotypes; perceptive reporting even today is scant and limited to a few major newspapers.

Although contacts are thin, there are positive results. American culture, especially the popular variety, became increasingly attractive to young Indians of Rajiv Gandhi’s generation, and the United States is the preferred destination for Indians wanting to pursue advanced studies. Despite frequent lack of rapport at high levels, Americans and Indians who get to know each other develop warm and lasting personal ties. Indians share with Americans the odd combination of moral preachiness and openness in personal relations. Still, relatively few American tourists and businessmen found their way to India, and before 1988, discriminatory American immigration laws ensured that only a trickle of Indians came to settle in the United States. (In the entire decade of the 1980s, only about 5,000 Indians were admitted to permanent residence.)

Probably the sorest point between the two countries has been psychological. Indians are justifiably proud of their country’s traditions and culture and of their remarkable accomplishment in forging a united country while maintaining a free and democratic society. They see their country as the paramount nation in South Asia, as the natural leader of the newly-independent and nonaligned, and as a country with a claim to be heard in the highest international councils. While most Americans accept these points in the abstract, they have paid them little attention in practice:

—U.S. interest in South Asia is low and derives largely from either the U.S.-Soviet global competition or interest in the Persian Gulf. Both concerns have led America closer to Pakistan than to India and have undermined Indian leadership in South Asia.

—The United States has usually been unpressed by the Non-Aligned Movement and by the global south in general. India’s prominence among the non-aligned (and its frequent tilt toward the Soviet Union) have soured the U.S.-Indian relationship.

—While Americans have tended to accept China as a major actor on the global scene, they are unwilling to extend the same recognition to India—perhaps because India has never been seen as a threat.

Another source of misunderstanding has been excessive expectations. Although American sympathy for the cause of Indian independence was widespread, enthusiasm to aid in the anticolonial cause after 1947 was quickly overshadowed by the exigencies of competition with the Soviet Union. India, however, was less interested in the superpower struggle than in establishing its nonalignment—a policy which Americans found politically and morally unacceptable. When, in the 1960s, the United States enlisted Pakistan in the SEATO and CENTO alliances, India looked to the Soviet Union for support.

Immediately following the 1962 Sino-Indian war, enthusiasm was briefly renewed, based on U.S. military support; but, mutual enthusiasm soon cooled, as Indian concerns grew about resuming nonalignment and heed for Pakistani interests restrained the United States. By the time of the 1965 war (which marked the cutoff of almost all U.S.-Indian military cooperation), the Soviet Union had emerged as India’s principal source of military supply, offering equipment and coproduction rights that no Western country could match.

Soviet political and security support became a critical element of Indian policy. Unhampered by ties to the former colonial powers, and with little responsibility for its rhetoric and actions in the Third World, the Soviets were free to support India in its regional concerns, versus China, and on a broad range of anticolonial issues in the United Nations. The Soviets wavered in the late 1960s, hoping to establish themselves in Pakistan as well as India, but when Indira Gandhi put the chips on the table in 1971, the Soviets signed a friendship treaty with India and used their veto to preserve India from censure in the United Nations. While India viewed U.S. support for Pakistan, on grounds of Henry Kissinger’s global designs, as cynical, Washington criticized India’s role in the disarmament of Pakistan in the same terms. The two nations seemed to have reached a permanent parting of the ways, as each allied itself with a regime that was the other’s principal enemy.

By the time of the Western Union, the USSR had emerged as India’s principal source of military supply.
The Indian economy was also poised to take a turn for the better. Some observers now believe that long years of savings and investment began to pay off in a big way as India acquired momentum for the “take off” of self-sustaining growth. Never an ideologue, Indira Gandhi came up against the reality that her loudly leftist economic policies were not working and that Indian private enterprise was no threat. Agricultural production was rising gratefully, although still heavily dependent on the monsoons. India’s foreign trade performance was beginning to look up, especially with respect to the Soviet Union, which by 1981 became India’s largest trading partner. These improvements were still masked, however, by the nation’s political malaise that was only briefly interrupted by the end of the Emergency and the 1977 election of a new government headed by Morarji Desai, Indira Gandhi’s long-time rival.

The United States responded sensibly to changing conditions. Shortly after the 1971 war, Washington made clear that it accepted the reality of Indian predominance in the subcontinent, and in 1974 the two governments established a Joint Commission to oversee U.S.-Indian relations through functional subcommittees. Neither the Emergency nor the Indian nuclear test in 1974 troubled relations with Washington—both were understandable, if not welcome, in terms of Kissinger’s realpolitic. A new relationship—with modest expectations and few illusions—was emerging.

Major changes in both countries in 1977 resulted in a new period of high hopes. The election of the strongly anti-Communist Desai came only weeks after Jimmy Carter’s inauguration, and the two men shared many values. Enthusiasm built up rapidly; it seemed that the long-awaited coincidence of interests between the two largest democracies was about to happen. The euphoria was short-lived. The U.S.-Indian relationship, freed of East-West preoccupations, quickly ran aground on the issue of nuclear nonproliferation.

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U.S.-INDIAN RELATIONS FROM INDIRA TO RAJIV

By the mid-1970s, the outlook for U.S.-Indian relations seemed bleak at best, as did India’s own domestic situation. The imposition of the Emergency had come as a result of a breakdown in law and order, economic stagnation, and the general atrophy of the political system. The Emergency improved matters for a while, but it soon lost its impetus and became a system of repression.

In retrospect, it seems that India had reached a sort of turning point at the time. Indira Gandhi realized that with Pakistan defeated and the Chinese threat less pressing, the Soviet Union was no longer such an important prop, and by 1976 she had put out feelers to both Washington and Beijing to improve relations. She had also managed to reach a modus vivendi with prime minister Bhutto of Pakistan, and while relations remained difficult, they showed signs of normalizing.
Islamabad remained on very difficult, albeit not threateningly hostile, terms. The advent of a Republican administration into Washington in early 1981 was interpreted by most as another step back in U.S.-Indian relations. (In the subcontinent the Pakistanis are Republicans, the Indians, Democrats.)

Things did not, however, turn out badly as had been feared. The Reagan administration was certainly committed to close ties to Pakistan within the context of a broad emphasis on East-West problems. Yet it was also conscious that its policies do as little damage as possible to U.S.-Indian relations, and it has done a creditable job of keeping in touch with India on a variety of fronts. The parade of high-level American visitors to New Delhi has been remarkable, including Vice President Bush (May 1984), Secretary of State Shultz (June 1985), Secretary of Commerce Baldrige (May 1986), Undersecretary of State Armacost (February 1986), and several Defense Department officials, including Undersecretary Icke (April 1985) and Air Force Secretary Orr (May 1985). The good will report that Indira Gandhi and Ronald Reagan established at their meeting at the Cancun summit (October 1981), and again in the July 1982 visit of Gandhi to Washington, played a useful role as well.

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Indian rhetoric remained a heavy weight on the relationship throughout the Indira Gandhi years. Some of the problem was unnecessary, such as dark and totally unsubstantiated hints about CIA plots against India—usually made when New Delhi was facing an intractable, domestic problem. On other matters it would have been helpful for both sides to weigh the tone of their statements, but difficulties were unavoidable since India was, and remains, outspokenly opposed to any significant U.S. arms-supply program to Pakistan and to the development of U.S. military capabilities in the Indian Ocean, especially the naval facility at Diego Garcia. The U.S. government reciprocated with criticisms of Indian public silence on the Soviet aggression in Afghanistan and New Delhi’s recognition of the Vietnam-backed Heng Samrin regime in Kampuchea in July 1980.

Surprisingly, however, the day-to-day substance of U.S.-Indian relations has changed little since the Carter years and the disappearance of the nuclear fuel-supply question (the United States withdrew from the contract, and European suppliers took its place). In no small part this is due to the fact that expectations had sunk very low by 1980-81. When each side discovered that businesslike ties remained possible, even when warmth was missing, it was a pleasant surprise.

There are other factors in the maintenance of civil U.S.-Indian relations, such as personal efforts to expand its ties with the United States and China, at the same time that it maintains close relations with the Soviet Union and tries to reassert its own leadership role among the nonaligned. Probably the most important factor, however, is economic. Unlike many Third World economies, India already has an extensive infrastructure, a large industrial base, a fair pool of trained manpower, and ample entrepreneurial talent. India also has an extremely competent government bureaucracy—as long as it is given appropriate tasks and not asked to manage state-owned industrial enterprises. What India needs from abroad are financial resources and advanced technology, and it looks primarily to the United States. The Soviet Union cannot significantly help in either of these areas. Indeed, its economic value to India has dropped sharply in the past decade. The kinds of manufactured products and basic industrial goods that the USSR can offer are of diminishing interest to India: if the Soviets have to turn to the West for technology, it makes little sense for India not to do the same.

Economic relations with the United States, therefore, are increasingly attractive. Unlike the situation in the 1960s and 1970s, however, the aid program is not at anywhere near the center of the relationship. Since its reinstitution by President Carter, the program has never gone much over $200 million, which is less than one-half of one percent of India’s total domestic capital formation. In U.S. fiscal year 1984, the total program was $208.8 million, of which $97.5 million was development assistance and the remainder mostly food aid under Title II of Public Law 480. The estimated figure of 1985 was down to $175 million and the administration request for 1986 is $170.9 million—only $50.9 million—more than the Indian repayments of earlier loans. In the current Washington atmosphere of budgetary stringency, the program will do well to hold its own. While U.S. aid remains a useful input and may be increasingly so as its focus is shifted to industrial development and technical transfer, it has ceased to be an important factor in the U.S.-Indian relationship.

Of much greater interest to India are its borrowings from the international lending institutions—the World Bank, and especially its soft-loan affiliate, the International Development Association (IDA); the International Monetary Fund (IMF); and, the Asian Development Bank. Some $500 million passes from the United States to India annually through these institutions, of which IDA is the most important to India.

Traditionally, 40% of all IDA lending has gone to India—a large proportion for a single recipient, but less than India would be entitled to if its recipients received loans on a per capita basis. However, China has now begun to borrow from IDA, and its potential demands are even larger than India’s. This has meant a reduction of India’s share by 25%, but there is pressure within IDA to whittle the share down to the low 20s. A simple remedy would be to substantially increase IDA’s lending ability, but the United States is reducing its contribution by 25%, so that not only is India’s share shrinking, but the overall pie is getting smaller as well. The United States has also resisted credit from the IMF and the Asian Development Bank, which, while based on sound bankers’ principles, has left New Delhi annoyed and apprehensive.

Trade is the preferred means of earning foreign exchange, and after a long period of stagnation, U.S.-Indian trade has picked up. Despite its sharp reduction in food exports to India, the United States regained its position as India’s leading trade partner in 1984. Indian exports more than doubled between 1980 and 1984, so that India now enjoys a favorable trade balance with the United States.

The figures are somewhat misleading, however, for during the past three years, a third to a quarter of these exports have been petroleum—when petroleum has remained India’s single largest export item. This anomaly results from the temporary excess of Indian domestic production over refining capacity and can hardly be counted as a significant “export.” In fact, through 1983, Indian exports (petroleum aside) showed little real growth or diversification except...
for a booming trade in diamonds after 1980. In 1984, however, nonpetroleum exports showed a gratifying increase of 32%, caused by improved Indian export performance generally, as well as the strength of the dollar. In 1984 Indian imports from the United States were $1.548 billion and its exports were $2.551 billion of which $738 million was petroleum and $568 million was diamonds. (Other big items were textiles and ready-made garments, cashew nuts, carpets, leather products, and primary products.)

While recent trends are generally encouraging, India's foreign-exchange needs are becoming acute. Despite increased domestic production, petroleum imports will continue to grow as the Indian economy expands. While the debt burden (29%) is not crushing, heavy repayments of the 1981 IMF loan are just ahead. The nearly $2 billion that Indian workers in the Persian Gulf remit each year is an important input but is more likely to decline than grow. Most important, with lowered import restrictions, the current Indian trade deficit of over $5 billion annually is going to grow. India must do still better—much better—in its export performance. If it is to earn money in the world's main markets (especially in the largest one, the United States), it must not only increase such traditional items as tea and jute, but also export more manufactured products and accelerate even more the diversification into engineering goods. Indian exports are still not competitive with those of many other less developed countries, but even as they become so they will face new problems—not least of which will be protectionism sentiment in the United States.

The remaining sources of foreign resources come from the closely related fields of foreign investment and transfer of the advanced technology India needs to promote efficiency and compete in the international marketplace. The prospects for American investment in India should be bright. The government has generally avoided nationalization or expropriation of foreign investments, its policies on repatriation of profits are fair, there is no shortage of Indian firms to enter into partnership arrangements, and India offers both a huge domestic market and a base for exports to third countries. Despite the socialist rhetoric in which the Indian government has indulged, American businessmen in India have generally found it to be a profitable, if often aggravating, place to invest. Americans are the largest foreign investors in India (total direct investment of about $500 million) and the number of joint ventures approved by the Indian government has risen sharply from 85 in 1981 to 135 in 1985. Prospects for more rapid growth are good, since the new economic policies introduced by Rajiv Gandhi take special note of India's need for foreign investment and make provisions for attracting it.

Despite these advantages, India still has an uphill road in attracting American investment. Potential American investors, possibly able to ignore socialist rhetoric, have been disillusioned by government obstructionism, petty administration of regulations, simple inefficiency, bad faith, and graft. Even the businessmen who persisted and got into the Indian marketplace are sometimes torn between bitterness over day-to-day frustrations and the real and potential advantages and profitability of doing business in India.

The Indian government cannot be faulted for demanding that foreign companies seeking entry into the Indian market bring along modern technology. While some foreign investors are loath to part with their most advanced techniques, negotiation should render this no more of an obstacle to investment in India than in other Third World countries. The U.S. government, however, while strongly supportive of foreign investment, is nonetheless concerned that advanced technology with potential military applications not be exported to places where it could be acquired by the Soviet Union. Although such concerns apply to a relatively small part of manufacturing technology, they can be acute in areas that Indians see as particularly important—electronics and computers. These difficulties are, of course, even greater obstacles to the sale or licensed production of modern U.S. military equipment.

American concerns are understandable, given India's apparently close relationship with the Soviet Union. Also, the Indian government's demonstrably poor record of protecting its own secrets (as shown in the recent, vast spy scandal), makes it only sensible to seek special arrangements to protect sensitive technology that the United States is willing to share with India but not with the Soviet Union. The problem can, however, go beyond this when minute scrutinization of export applications becomes an end in itself or there is a built-in presumption against export to India. Such dilatory and difficult treatment has often been meted out to American businessmen in India, and in both cases the result has been the same: bilateral relations have been soured and an otherwise useful and profitable transaction has been blocked.
2.

AN AGENDA FOR
THE MEETING

THE CHALLENGE OF HIGH EXPECTATIONS

Prime Minister Rajiv Gandhi's June trip to the United States (two days in Washington and a stop in Houston) has the earmarks of a routine jaunt by a newly-chosen leader paying his international courtesy calls. Such meetings rarely resolve problems or stake out new policy directions. In all probability, Gandhi will have little more than an hour or two with President Ronald Reagan—scarcely enough to do more than get acquainted.

Getting acquainted is important, of course, but it can be a trying experience. Successive U.S. presidents—Truman, Eisenhower, and even the enthusiastic John Kennedy—found Gandhi's grandfather, Jawaharlal Nehru, hard to take, and the crucial meeting Rajiv's mother, Indira Gandhi, held just before the 1971 Indo-Pakistani war was described by Henry Kissinger as "among the most unfortunate meetings Nixon had with any foreign leader." Reagan, however, excels at personal diplomacy, and he and Indira Gandhi seemed to hit it off well in their two meetings. He may be able to find some common thread with her son and restore a positive, personal element with a nation where personality and family matter a lot.

The Gandhi-Reagan meeting need not be simply a formality; it could have a much more positive—yet also a much more negative—outcome. Both possibilities stem from the high expectations that have been associated with the meeting and, more broadly, from a new phase in U.S.-Indian relations. Some of the expectations are unrealistic and need to be tempered by better mutual understanding of the nature and requirements of the other side. If they could be held in check, they could be the starting point of a substantially strengthened relationship.

On the American side, interest in and enthusiasm for India may never have been higher, due to a coincidence of events. The appearance of India on American entertainment screens (Gandhi, A Passage to India, and Jewel in the Crown) has been reinforced by the appearance on American news screens of a military assault on a holy shrine, the assassination of a well-known prime minister and the ascendance of a fresh, new face as the leader of India, and the Bhopal disaster. The elaborate "Festival of India" program that will take place throughout
the United States over the coming months can provide a local, continuing focus for this new interest. Skeptics may point out that these are all quite ephemeral happenings compared to the solid substance that is needed, but one of the biggest stumbling blocks of U.S. policy toward India has been public (and, hence, Congressional) distaste. Now there is at least some basis on which to work.

On the Indian side, despite the travails of the Punjab, there is a sense of enthusiasm and new optimism in much of the country, based on the substantial economic growth of the past several years, the sweeping electoral victory of the new government last December, and the new economic program (enunciated in the March budget) that gives major, additional impetus to a liberalization program already paying dividends. There is, to be sure, no direct link between this situation and the United States, but there is an implicit one: Rajiv Gandhi’s economic program is seen as an Indianized version of the supply-side economics now in fashion in Washington, it follows the kind of advice Americans have been pressing on India for years, and the program is a risky one that will require substantial international support.

These expectations, and the enthusiasm surrounding them, are a refreshing change to the recent tone of U.S.-Indian relations; but, for all of his blue jeans and enthusiasm for computers and the Beatles, Rajiv Gandhi is not going to throw his country into the arms of the United States. For all of his enthusiasm for free enterprise, Ronald Reagan is not going to subsidize India’s economic experiments. The real challenge before this summit is to capitalize on a promising moment in U.S.-Indian relations without raising unrealistic expectations or allowing the dead hand of past disagreements to smother new possibilities.

Political Issues

The dead hand—which, unfortunately, is not all that dead—makes the political side of the agenda look unpromising, for the traditional stumbling blocks of U.S.-Indian relations are still firmly in place. U.S. ties to Pakistan have, if anything, strengthened over the past several years, and (largely as a result of that) India continues to carefully cultivate its ties to Moscow. Because the United States sees the Soviet Union as the key to almost all relationships, its principal policy goal in South Asia is to roll back the Indo-Soviet relationship. It is probably not accidental that Gandhi is scheduled to visit Moscow before coming to Washington, since no matter what hopes he may have for future ties with the United States, the Indo-Soviet relationship is more important now to India. The Soviet Union continues to be a generous arms supplier, it is a proven friend for when India gets into difficulties with Pakistan, China, or the United States, and it is still an extremely important trading partner. No sensible leader would jeopardize those advantages—especially when the cost is low.

Thus far, aside from some routine clichés about wanting to improve relations with the United States, the record suggests that Gandhi does not rate the possibility very high. In a series of press conferences and statements, he has made clear his view that improvement of the relationship depends on the United States altering its policies to accommodate India. This is, of course, a sensible opening position for any negotiation, and Gandhi probably believes that it is a just and reasonable one. The core of Gandhi’s concerns is the U.S. relationship with Pakistan. He, and virtually all other Indians, see the problems of the subcontinent as stemming from the original U.S.-Pakistan tie, and they believe that most of India’s regional difficulties would melt away if Washington abandoned its security relationship with Pakistan. This is a frequent theme of Gandhi’s speeches, much as it was of his mother’s.

Gandhi has the initiative in deciding the outcome of the visit. If he uses the opportunity to go on at length about the perceived sins of the United States in its dealings with India and Pakistan over the past thirty years, the meeting could become a replay of past encounters. It will be hard to resist the temptation, for even the most sophisticated of Indians, when talking to their American counterparts, are irresistibly lured into lengthy, historical excursions along those lines—presumably on the expectation that once the Indian grievances list has been made clear, the American interlocutor will see the light. It is an approach with a forbiddingly low rate of success, one that best evokes a patient smile but is more likely to lead to an exasperated rebuttal.

Ronald Reagan is said to be a polite listener, but he can hardly be expected not to respond in kind by expressing American concerns over ties between Moscow and New Delhi. He may be tempted in any case to expand on the faults of the Soviet Union, in the hope that Gandhi will be converted once the facts are explained to him. Yet this, too, is an approach that countless Americans have tried on countless Indians with little to show for their efforts. Nevertheless, it would be politically impossible and dangerously unwise to avoid these subjects completely. Markers must be placed, lest one side underestimate the genuine concerns of the other. Placing markers need not, however, take very long, nor need this set the tone of the entire conversation.

Until the United States and India develop a web of shared interests strong enough to affect each other’s views on these central concerns, little more can be achieved than an agreement to disagree. The question facing the two leaders is whether they will be able to move on to an agenda that looks to the future rather than to the past and has some prospect of creating the web of shared interests needed if the two countries are ever to move toward each other politically.

The issue on which American global and Indian regional preoccupations intersect most clearly is Afghanistan. The approaches of the two nations remain sharply at odds. The U.S. focus on Afghanistan as a key element in the East-West competition underlies rediscovered American interest in Pakistan and assistance to the Afghan resistance—both of which India decries. The Indian approach of being nice in public to the Soviets and their Afghan puppets (while claiming to express private concern to Moscow) is seen in the United States as inef- tual, if not morally myopic. As long as the Afghan situation festers, this too will remain a subject on which the United States and India can hope for little more than agreement to disagree.

The political agenda for the talks has a more positive aspect, for it offers an opportunity to make some important points uniquely suited to high-level
reassurance. Gandhi is certainly not going to be mesmerized by the Great Communicator. However, he represents a new generation without the ideological prejudices of his mother’s, and this meeting is a singular chance to get across some of the basic ideas of U.S. policy as well as assurances of good will that Indira Gandhi seemed unwilling to consider:

—The United States does not see India as a tool of the Soviet Union. It has legitimate problems with the way India has handled the Afghanistan and Kampuchea questions, but it does not question India’s independence.

—The United States is firmly committed to the cause of Indo-Pakistani unity and, more broadly, a subcontinent that accepts Indian primacy and lives at peace with itself.

—U.S. security involvement in West Asia, South Asia, and the Indian Ocean is a reaction to the activities of the Soviet Union; it is not in any way directed against India or other nonaligned nations of the region.

—The United States has global responsibilities, and meeting these may on occasion lead to actions that, while not directed at India, run counter to Indian interests. The United States will do its best to consult with India when this kind of problem arises and to minimize the difficulties.

—The U.S. commitment to India’s unity and integrity is absolute. It has no conceivable interest in supporting separatist movements in the Punjab or anywhere else, nor does it dabble in Indian politics.

Gandhi’s political agenda in the meeting could be the reciprocal of these. Americans need to be persuaded that India not only is independent of Soviet control but will do a better job of maintaining genuine nonalignment. Given the importance of Pakistan to the United States, it would be useful for Gandhi to share with Reagan some of his views on how Indo-Pakistani difficulties can best be solved and demonstrate that India is pursuing well thought-out and conciliatory policies toward its neighbors. Such reassurances will have to be followed up as well. The United States has to think through more clearly, for instance, what it means when talking about Indian leadership in South Asia, while Gandhi has to follow through on the fairly encouraging start he has made in putting India’s relations with its South Asian neighbors on a sounder basis.

Finally, the meeting could lead to a clearing of the air on some of the rhetorical problems. If Gandhi is uncertain whether the United States was or was not involved in his mother’s assassination or whether it supports Sikh separatism in the Punjab (as he suggested during the Moscow visit), these concerns should be laid on the table and clarified now, rather than being allowed to continue poisoning the atmosphere on both sides.

ECONOMIC ISSUES

Unrealistic expectations must be curbed on the economic side of the agenda as well, for the realities of the situation do not permit sharp changes by either side. Past changes have left the basic structure and conditions of the Indian economy unaltered; the United States has long since ceased to be a cornucopia of economic benefits for other nations. Nonetheless, it is in the economic issues that the foundations of a more solid U.S.-Indian relationship can best be sought.

One of the historic props to the relationship—bilateral American aid to India—is not likely to figure significantly in the discussions. The present level is likely more than the United States gets back from India in payment for previous loans. Even this amount will be difficult to maintain in the face of continuing budgetary stringency in Washington and competing demands of nations more supportive of U.S. policies.

The issue of international lending is a much more important one for India and poses for the United States some decisions that could make a real difference. India faces a double blow in its relationship with the most important of the international lenders—the International Development Association (IDA), soft-loan window of the World Bank. Not only does India’s traditional 40% share of IDA funds now have to be shared with China, but the total amount available for lending by IDA over the next three-year period may be cut by as much as 30% because of reduction in the U.S. subscription. While the United States does not determine IDA lending policy unilaterally, its voice is a strong one. New Delhi already perceives an American preference for China, whether in nuclear cooperation, arms supply, or cultural interests, and Washington’s stand on India’s and China’s relative shares of IDA lending will be watched closely. The more important element may be the level of U.S. contributions, a matter of concern to many nations besides India. While this is a familiar pattern—India harmed by a U.S. policy not aimed at it— the blow falls perhaps most sharply on India because of the reduction in its share and the increased need for foreign assistance resulting from the new economic policies.

The administration’s response is likely to follow familiar lines—that India has an excellent credit among commercial bankers and could shift its borrowing either to them or rely even more on the higher-interest loans of the World Bank. There are, clearly, nations much needier than India—notably in Africa—in the sense that they do not have a realistic option of borrowing at higher rates. This raises the problem of which India one is talking about. The smaller, more advanced India of 70 million—the India of Rajiv Gandhi and the India with which the U.S. government deals—has little justification for seeking loans on terms designed for the neediest. The other India—the India of the 700 million—is, however, extremely poor and warrants special treatment by almost any standards.

The more prosperous part of India is also not as well-positioned as it seems. India has accumulated a debt ratio of 20%—not dangerous but also not comfortable. Over the next several years it will see its repayment obligations rise, as payments on the 1981 International Monetary Fund loan come due. The policies Rajiv Gandhi has launched promise growth and solvency in the long...
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Last year the total American investment in India was under $30 million.

term, but over the next several years the expected surge in imports will probably not be offset by export growth. India’s $6 billion trade deficit will grow further. The need for outside resources will be acute; if matters get too bad, there will be strong pressure to reverse the reforms, to reemphasize barter trade with the Soviet Union, and to cut back on imports of the kind that the United States is best qualified to supply.

The Indian domestic budget poses additional difficulties, for, as in the United States, tax cuts will, for some time at least, mean lower revenues—hence, larger deficits. The current Indian budget expects to run a record deficit of over $400 million. Even those American economists most enthusiastic about the Indian economic performance recognize that dangers lie ahead. The belief that India has now “taken off” in self-sustaining growth and graduated from the ranks of the needy, no longer requiring special external assistance, is another perception that needs to be kept in perspective. In a time of short resources, the United States has to consider whether its interests in India and Indian economic development are such that it wants to make a special effort to support them—perhaps at the cost of other, also worthy, claimants. While the question may not arise in this form at the summit, it and related trade questions form an important part of the background of U.S.-Indian relations.

Although borrowing is important for India, other economic measures are equally important in the short term and will provide the only long-term solution to India’s foreign and domestic economic needs. First among these are the related matters of foreign investment and transfer of technology, also areas of high expectations. On the American side there is enthusiastic response to the more positive and open approach to foreign investment that has been developing in India over the past few years and should be given major impetus by the most recent economic package. The Reagan administration has been preaching the benefits of foreign investment, and India would seem to have taken the sermon to heart. But last year the total American investment in India was under $30 million. Even if that were to grow fivefold in the next year or two, it would still be only a small addition to Indian resources—welcome, but not a panacea. In addition, it remains to be demonstrated that the Indian conversion has reached into the levels of the bureaucracy responsible for implementing the new policies. Many frustrations experienced by would-be American investors have been at this level, not on matters of high policy.

That is a problem Gandhi must deal with at home. While here in the United States, he has an opportunity—perhaps a unique one—to encourage American investors. He is a new figure, and his economic policies are seen as opening a new phase in relations with foreign business. He will be meeting American businessmen in person and reaching many more through television. In a sense, he will be India for a few days and precisely the kind of image that appeals to Americans—young, innovative, impatient, and technology-oriented, rather than a maharaja, beggar, London School of Economics graduate, or another stereotype of the past.

The U.S. government also has a role to play in stimulating foreign investment. Even though it is private individuals who make investment decisions, the government gives signals that will be noted. In addition, the U.S. government

THE GANDHI VISIT

can work with the Indians on joint promotional efforts. Washington has more than an ideological motivation to stimulate foreign investment in India. The Indian market is vast, and the potential for profitable multinational collaborations is substantial. Europeans (especially the French) and the Japanese have already recognized the potential—several Japanese firms have entered into a large-scale cooperative agreement to produce automobiles and motor scooters in India. India will modernize its economy with or without the United States. Given America’s own precarious position in the international economy, it makes good sense to put as much effort into developing mutually profitable economic relations with India as it does with China.

India sees foreign investment less in terms of the capital than the technology the investor brings. While Americans may think that “appropriate technology” for India consists of simple, village-level projects (and these are certainly needed), the Indian government is determined to take its place in the forefront of technologically-advanced nations—an appropriate enough ambition for a large, modernizing economy. By and large, this is a problem that the Indians can handle by themselves, for they are experienced and adept bargainers in ensuring that Western investors in joint enterprises bring their best technology with them.

Problems do arise with the U.S. government, however, especially in fields of particular importance to India, such as electronics and computers—fields in which the United States also holds some comparative advantage. Many of these items are under export controls designed to ensure that they do not become available to the Soviet Union. Although there is no evidence to suggest that India has passed or would pass American-controlled technology on to the Soviet Union, Washington’s concerns are understandable, based on India’s close ties with the USSR and less than perfect record in protecting even its own most important secrets. Washington is also concerned that its technology not be used in support of nuclear proliferation. These matters have been worked out laboriously between the two governments (and even more laboriously within the U.S. government) and incorporated in a Memorandum of Understandings that should do much to ease the problem. Yet the U.S. administration also has a problem with its bureaucracy, just as the Indians do, and it will take substantial prodding to ensure that legitimate technology transfers are not obstructed.

The meeting will also see the signing of an extension to the 1982 bilateral agreement on technology, but the most important contribution of the visit may be the building of an atmosphere of trust and confidence between the two leaders: a recognition that India will not pass secrets to the Soviet Union and a reciprocal recognition that the United States genuinely wants to see India develop into a modern economic power. This is something eminently in the interests of both countries and is virtually cost-free—indeed, over the long term, it promises a substantial return to both.

The Bhopal tragedy inevitably forms part of the background of any discussion of American investment in India, but on the U.S. side it is a matter between Union Carbide Corporation and the courts. Clearly, an unduly punitive attitude on the part of the Indian government in pursuing claims could have a chilling effect on American investors, but that is something the Indians understand.
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well. There will be little for Ronald Reagan to do or say except to express one nation’s sorrow to another.

The most important economic issue—and probably the most difficult to resolve—pertains to bilateral trade, specifically, Indian exports to the United States. The recent spurt in Indian exports overall, the greater absorptivity of the booming American market with its overpriced dollar, and fortuitous oil sales have pumped up Indian exports, while the decline in Indian food imports from the United States has provided India a net favorable balance. This situation, however, can be maintained only with great difficulty; improving on it will be still harder. Yet India must export more and more if it is to meet its international obligations and, in addition, buy those things that it needs for modernizing its economy, not to mention more directly improving the lot of the poorest Indians. Only trade will be able to generate resources of those dimensions, and the American market is one that India must penetrate much more extensively.

Most of the trade problem must be corrected by the Indians themselves. Even when access to the American market is not impeded, Indian goods often fail to meet the tests of quality and price, losing out to other sellers. Effective export promotion was for many years a notable Indian weakness that is only gradually being overcome. Another part of the difficulty lies, however, within the United States—and once again the Indian problem is only part of a much larger problem. The mood in the United States is far from favorable regarding imports, especially when the country’s own trade balance is sagging badly and a number of industries are unable to compete with foreign producers. Renewed protectionism, more than lowering of trade barriers, is the focus of public and Congressional interest. The American market, thus, is a pie that India and other exporting less developed countries (LDCs) fear will shrink, rather than grow, over the coming years. To the extent that this pie is divided up by imposition of quotas for some products, India is only one of many claimants. As in the case of lending, the United States would face difficult choices in balancing those claims, if it intended to do anything special for India.

Like many developing countries, India finds textiles and garments to be the most promising dollar earners in the short term, and Indian textiles sell well in the United States ($684 million in 1984). However, textiles are among the thorniest of international trade problems, and India is a relative latecomer to the American marketplace—the scene of bitter conflict between LDC textile exporters and a noncompetitive, American textile industry that demands import restrictions. India encounters problems both in the mix of articles it can export to the United States as well as in an overall quota that is small in comparison with that of East Asian textile exporters. Ongoing negotiations have not solved the problem, and it is too complex to be addressed at the summit.

SECURITY ISSUES

The nuclear issue that bedeviled the Carter administration’s relations with India crops up again in another form. The danger of competitive Pakistani and Indian nuclear weapons programs is a real one, and Reagan must express American concerns. Gandhi, on the other hand, suspects that the United States is helping Pakistan with its program, and this is a canard that Reagan will want to lay to rest. It is another topic that promises little useful dialogue but that could lead to sharp exchanges.

A more interesting security matter—U.S. arms sales to India—has gained increased attention since the April visit of Undersecretary of Defense Fred Iklé to New Delhi, and the U.S. side, at least, is seriously looking at the possibility of a substantially expanded sales program that could contribute usefully to the overall U.S.-Indian relationship. For almost a decade, India has been concerned about its heavy dependence on the Soviet Union as a source of advanced military equipment and has sought alternate suppliers. The British and especially the French have campaigned hard for business and enjoyed some success, as have several other European manufacturers. U.S. arms sales to India have been explored frequently but have remained at a frustratingly low level. Occasional feelers put out by Indians have raised U.S. expectations but have not been followed up. The Soviets can routinely outbid America on the bases of price, repayment terms, and coproduction, and America, itself, puts major obstacles in the way of purchases by India. In some instances, these are restrictions applied broadly, according to the dictates of U.S. global arms-supply policies. The United States keeps a tight rein on spare parts and reserves the right to suspend deliveries (if, for instance, the recipient becomes embroiled in a conflict which the United States does not support). America resists coproduction of weapons with recipients and, when it does allow it, wants to keep a veto over sales to third parties. These are not unreasonable restrictions, but they make it difficult for a country as sensitive about its sovereignty as is India to do business with the United States. Security considerations have also posed obstacles, but those should be reduced to manageable size now that the Memorandum of Understanding on technology transfer has been worked out.

While in New Delhi, Iklé spoke in terms of a major, long-term U.S. program to help India achieve world power status; that vision is, at best, a long way off and would be possible only after the entire U.S.-Indian relationship had been redefined. In the shorter term, modest sales of appropriate weapons could contribute to the building of a stronger relationship, and there is much to be said for helping India develop alternatives to the Soviet Union. For the foreseeable future, however, the United States neither could nor would want to rival the Soviets. America does not enjoy the comparative advantage in weaponry, and arms sales—especially when made by a superpower—inevitably carry a connotation of political support. In its tangled web of relations with India, the Soviet Union, Pakistan, and China, that is not a message the United States is in a position to send. The United States and India are, however, very important to each other in implicit security terms, and this is something that needs to form the background of the conversations between Gandhi and Reagan, even if it remains unstated. The ability of the United States to counterbalance the Soviet Union at the strategic level is the condition that makes Indian nonalignment possible. Were the Soviet Union not effectively opposed by the United States, India’s political options would be narrow at best. This applies preeminently to the Indian Ocean region—something the Indians would do well to keep in mind when inveigling against the U.S. presence there.
At the same time, it is the existence of a strong and independent India that permits the United States to devote such relatively little attention to the affairs of the subcontinent, for only a strong India will be able to limit the extent of the Soviet role in South Asia. It would be costly, at best, if the United States had to compete directly with the Soviet Union for domination of an area so close to the latter's borders, and as long as South Asia maintains its independence, the most important U.S. interests are served. This is something the United States would do well to remember when shaping policies toward southern Asia.

This strategic consideration, while important, will remain implicit. When Gandhi and Reagan survey the other items on their agenda, they will not find many immediate openings for strengthening of relations. The heritage of past misunderstandings is also an impediment—about the best that can be said is that it is encouraging that things are not much worse between the two countries.

The future can, however, be much more interesting than the past and present, and Reagan and Gandhi can make an important contribution by both facilitating near-term improvements in the relationship (mainly economic) that build toward a much more substantial future, and by making the future the context of their meeting.

There are three factors in particular that suggest a better future for U.S.-Indian relations:

—First, the changing pattern of India's economic needs and capabilities should draw it closer to the United States and other free-market economies.

—Second, to the extent that India is able to compose its differences with Pakistan and China, it will rely less on Soviet security support.

—Third, since the change in American immigration policy in the 1960s, large numbers of Indians have migrated to the United States. These half a million remarkable people, together with the ties they keep to their homeland, will inevitably provide a substance to the relationship that both governments will be able to draw upon.

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