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SOUTH ASIA AND THE GREAT-POWER ENVIRONMENT

The great-power environment at any given time has important repercussions on the relations both between the great powers and the South Asian states and among the South Asian states themselves. The first phase of US-Soviet cold war bipolarity and the second phase of the emergence of China as an independent power factor both shaped international developments on the subcontinent. Today's third phase of Sino-Soviet tensions and of the Sino-US and US-Soviet detentes favors a resolution of the Indo-Pak dispute and new balance and detachment in Washington's relations with South Asia. Yet South Asian tensions have a life of their own. Should a new confrontation develop, the then-prevailing conditions of the great-power environment would have an important influence on the reactions of each big power to the new crisis.

The '50's--Cold War and Polarization. Washington's policy of containment during the 1950's polarized South Asia, setting the US at odds with India and in military alliances with Pakistan and Iran. Truman's ultimatum over the Soviet occupation of Azerbaijan placed Iran within the US security sphere at the outset; Washington's hopes for an early resolution of disputes between non-communist states led to US support for Pakistan's position in the Kashmir dispute; and Indian neutrality over the Korean conflict and over Soviet repressions in Eastern Europe

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led to serious strains between Washington and New Delhi. Moscow, after Stalin's death and Khrushchev's opening to the third world, placed a high priority on developing close relations with India as a prestigious new nation advocating "socialism." China, not yet a great power, chose the third world as its forum for international expression and also developed close ties with India.

The cold-war objectives of the great powers provided security for Iran and Pakistan and an international prestige for India which New Delhi could not have achieved on its own merits. For the Shah, the alliance with the US provided protection while he consolidated his control over Iran in its new independence from British influence; for Presidents Iskander Mirza and Ayub, US military aid not only provided security but also enabled Pakistan to challenge Indian control of Kashmir. During the cold war, therefore, the utility of the US alliances for the national objectives of Iran and Pakistan outweighed their concomitant isolation from Moscow and Peking. For India's national interests, conversely, the cold-war environment provided more liabilities than assets: cordial relations with Moscow and Peking and India's prominence in the third world proved superficial and were outweighed by New Delhi's alienation from Washington and the growing military strength of Pakistan. Upon learning of the 1954 US-Pakistan bilateral military assistance agreement, Nehru withdrew from his earlier agreement with Prime Minister Mohammad Ali Bogra to hold a plebiscite in Kashmir in April of that year, and thus foreclosed the implementation of the UN resolutions on Kashmir. Subsequent Indian requests for US weaponry were denied in deference to the US-Pakistan alliance, and India was forced to rely on the Soviet Union for modern arms.

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The '60's--US-Soviet Detente and Sino-Soviet Conflict. The relaxation of the US-Soviet confrontation following the Geneva accords on Laos and the Cuban missile crisis of 1962, and the parallel US and Soviet efforts to contain China following the Sino-Indian hostilities during the same year, introduced a new fluidity in relations between South Asia and the great powers. Washington now reached beyond its treaty partners to India to isolate China, and Moscow discovered that Pakistan's and Iran's memberships in SEATO and/or CENTO were not an insurmountable obstacle to better relations with the Soviet Union. China's debut as an independent world actor destroyed the Bandung spirit and posed a direct challenge to Soviet and Indian hopes for leadership in the third world and dominance in South Asia.

India's Himalayan defeat was a severe blow to its international prestige and left the third world hopelessly divided. None of the non-aligned nations supported India, Moscow stood by tongue-tied, and only the US came to India's defense. The Sino-Indian hostilities thus demolished the underpinnings of India's foreign policy and required a new approach. The new rapprochement with the US, however, was to prove more important to India than the new hostility with China. In deference to Pakistan, the US supplied only limited amounts of military equipment suitable primarily for mountain warfare, but the real significance of the supplies lay in the symbol they provided of a US commitment to India's defense. More important, the US effort to make India a counterweight to China led to massive economic assistance amounting in the mid-60's to

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nearly $1 billion a year. Meanwhile, Moscow began supplying large amounts of armor, artillery, and aircraft and a domestic aircraft production capability--all repayable in Indian exports. For India, therefore, the rupture with China resulted in valuable military and economic commitments from the Soviet Union and the US. India's loss of prestige and third-world leadership was more than compensated for by domestic security and economic improvements.

The change in the great-power environment of the 1960's also had important security implications for Pakistan. With the emergence of China as a competitor with the Soviet Union in South Asia and with the US-Soviet detente, Pakistan needed no longer to rely solely on its US alliances. The US demonstration of concern for India's security, moreover, made it imperative for Pakistan to fashion new relations with both China and the Soviet Union. In 1963 Pakistan agreed to a border demarcation which granted to Peking a substantial area of Kashmir claimed by India, and in 1965 China made its first agreement to supply Pakistan with tanks, artillery, and aircraft. In 1965 Ayub made the first state visit between Pakistan and the Soviet Union and found that even the US base at Peshawar did not preclude an improvement in relations with Moscow. Similarly, Moscow accepted the Shah's unilateral declaration that he would not permit offensive missiles to be stationed in Iran as the basis for a general warming of relations to include trade, aid, and exploration of Iran's national gas.

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The fluidity in great-power relations in South Asia was demonstrated during the 1965 Indo-Pak hostilities. China supported Pakistan against India in order to challenge both US and Soviet influence in Asia; Washington and Moscow attempted to deal evenhandedly with India and Pakistan in order to contain China. Moscow was able to settle the dispute at Tashkent and for a time began to supply weapons to Pakistan. The deepening of the Sino-Soviet crisis in the late '60's, however, made more important to Moscow and Peking their relations with India and Pakistan respectively. Moscow halted weapons supplies to Pakistan and proposed some form of treaty relationship with India; indeed, India was undoubtedly at the top of Brezhnev's list of potential participants in his 1969 proposal for an Asian collective security system. It was also during this period that the bulk of Soviet and Chinese arms agreements was signed with India and Pakistan respectively.

The '70's--Sino-Soviet Competition and Sino-US Detente. The Sino-US detente reduced Washington's interest in both Pakistan and India as vehicles to contain China, but sharpened the interests of both Moscow and Peking in South Asia as an arena for competition. The Sino-US detente and the decreasing importance of India to US objectives in Asia were undoubtedly major considerations for both New Delhi and Moscow in the 1971 Indo-Soviet treaty and the subsequent revival of Brezhnev's Asian collective security proposal. As a corollary of growing Soviet interest in India, the interests of Washington and Peking began to coincide over Pakistan, culminating in the joint Sino-US posture in the UN Security Council during the 1971 Indo-Pak war.

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More important, the Sino-US detente forced Moscow to compete with Peking for good relations with Washington. This competition, in turn, forced Moscow to abandon certain positions of confrontation with the US in Asia--notably the acceptance of the Nixon visit during the bombing and mining of North Vietnam--and thus to accept a loss in prestige and credibility, especially in India.

The Net Results. Washington's interest vis-a-vis Peking and Moscow favors a balance in US relations between India and Pakistan in which the US is firmly committed to neither. Moscow sees its close ties with India as a valuable asset in its competition with China, but is aware of the limitations on its influence in India and on India's willingness to accommodate to Soviet objectives in Asia. Moreover, both to contain China and to nourish its detente with Washington, Moscow sees the need to improve its relations with Pakistan. China's support of Pakistan derives from its confrontation with India,which in turn is related to its rivalry with Moscow; yet Peking is aware of Pakistan's limited utility in this rivalry and the degree to which Sino-Indian tensions benefit Moscow. Thus, China may try to improve its relations with India and Bangladesh once Pakistan works out an accommodation with these two states.

The congruent interests of all three great powers toward one another, therefore, favor a reduction of Indo-Pak tensions and a balancing of the relations of each power with India and Pakistan. Both Moscow and Peking, accordingly, have indicated that their respective relations with Pakistan and India can improve as India and Pakistan resolve their differences. Having both experienced the vagaries of great-power relationships, India

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is anxious to improve its relations with Washington and Peking, and Pakistan its relations with Moscow. As long as Indo-Pak tensions subside or remain quiescent, it is likely that the relations of the great powers with South Asia will become more balanced.

But South Asian tensions are determined by their own dynamic and while subject to great-power influence are not subject to great-power control. In the event tensions should resume, all three powers would have an interest in parallel action to avert a crisis. Should a crisis approach, however, the powers would be forced to make choices, and the interests of each power vis-a-vis the others in the context of Sino-Soviet rivalry and the US-Soviet and Sino-US detentes would have a significant influence on their choices. Under foreseeable circumstances, the Sino-Soviet competition would again link Moscow more tightly with India, and Peking with Pakistan. The US interest would be less clear, and Washington's choice would be much influenced by relative priorities in its diverse relations with Moscow and Peking.

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Congress of the United State
Committee on Foreign Affairs
House of Representatives
Washington, D.C. 20515

March 20, 1973

The Honorable Joseph J. Sisco
Assistant Secretary of State for
Near Eastern and South Asian Affairs
Department of State
Washington, D.C.

Dear Mr. Secretary:

I wish to thank you again for your testimony on South Asia on March 12. The other Members of the Subcommittee on the Near East and South Asia join me in expressing appreciation for the background paper and answers to many questions.

I would like you to submit, for the record of the hearing, answers to the following questions which relate mainly to activities of U.S. businesses in India and the position of Nepal; two topics which were not treated during the hearing.

1. Immediately after the Indo-Pakistani war in December 1970, U.S. companies, having about $560 million invested in India, expressed grea concern about their future on the subcontinent.

How do their prospects appear today?

2. At the time of the Indo-Pakistani war, most of the U.S. companies operating in India had license applications pending with the governmer of India for permanent production increases. One indicator of India's attitude toward American companies in the aftermath of the war would be the government's action or inaction on these requests.

Can you comment on the outcome of these requests?

3. American oil companies are facing increasing difficulties in cond business in India. Among problems cited are an inability to grow wit India's market while being forced to contend with price, profit, and controls that have reportedly reduced their profitability to inadequ levels. ESSO became so disgruntled with its situation that it annou just last October, that it would like to sell 100% of its business i to the GOI.

Has this situation improved?

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4. Even prior to the Indo-Pakistani war, U.S. corporate investment in India had slowed sharply, principally because of difficulties in obtaining GOI license approvals and in getting joint ventures and new projects okayed. Still more discouraging is a ceiling of 40 percent on foreign equity in either new or expanded operations. In essence, U.S. companies already in India found it virtually impossible to grow because of restrictions; those wanting to come in found the government of India bureaucracy so selective and slow that it was usually better to go elsewhere in Asia.

Has the foreign investment climate improved?

5. India has over 20 million unemployed and countless millions underemploye yet has long promoted small businesses instead of labor-intensive big industries that could absorb more workers.

Has this industrial policy changed significantly?

6. Complaints have been heard that the GOI starves major private industries both Indian and foreign-owned, of raw materials, thereby making them appear to be failing and then taking them over. Recent takeovers have included:

--General Insurance Companies
--A British-owned steel company in Calcutta
--Several textile mills in South India
--Coal mining companies in Bihar.

Have any American companies been involved in or threatened by such takeovers?

7. How extensively is the Soviet Union involved in India's industrial economy and what are the indications for the future?

8. Are the GOI's attitudes toward foreign-owned companies in general and U.S.-owned companies in particular the result of having suspended U.S. assistance?

Is it realistic to expect that the resumption of a full-fledged assistance program for India would result in a "softening" of GOI attitudes and in a general improvement in the investment climate?

9. Is it desirable -- or even appropriate -- that a U.S. assistance progr for India should benefit, however indirectly, U.S. companies operating ther

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10. Do you think that India today poses a greater threat to Nepal's independence and territorial integrity than does China? Do you expect Nepal, over time, to evolve to a position similar to that of Bhutan and Sikkim?

11. Why has the United States phased out the rupee-financed portion of the AID program in Nepal? What adjustments will this necessitate? Will it be possible to use U.S.-owned rupees in the future to finance aid programs in Nepal?

12. In what ways does the United States plan to utilize U.S.-owned currencies in India? What conditions exist on their use? How can the conditions on their use be relaxed? Is such a relaxation on their use in our interest or in India's interest? If not, should these currencies simply be returned to India for its use in development projects?

13. Would you comment on the economic crisis in Sri Lanka, how serious is it and how and in what ways does the United States plan to help deal with it?

Thank you for considering these questions.

Sincerely yours,

Lee H. Hamilton, Chairman
Subcommittee on the Near East
and South Asia

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