

And Now, Pakistan . . .

Romesh Thapar

MAKE no mistake about it, the present border skirmishes cum attacks by Pakistan will take on the dimensions of a major confrontation unless we are able in a few precise moves to make clear to our detractors and their influential friends, particularly in the West, that the repercussions of such a confrontation will be deep and widespread. A certain co-ordination is noticeable in the attacks on our border posts in the east and in the west. Concentrations of Pakistani army formations are heavier than usual and the desire to engage in regular battles is more pronounced. The feeling is widespread in the highest quarters that this change in Pakistani tactics is the result of collusion with China's leaders who at this moment would rather that their new found ally exploited the disarray noticeable in India's political life.

Tell the People the Facts

Prime Minister Lal Bahadur and his colleagues at the Centre are for once making the effort to get two steps ahead of the developing situation. Not only have moves at UN level been initiated, but friendly nations are being briefed. There is, however, a reluctance to make people at home more aware of the threat because it is feared that this might provide communal groups with the kind of inflammable material upon which they flourish. This is a mistake, for only an informed public can isolate the 'Hindu' incendiaries who masquerade as defenders of the nation. Home Minister Nanda must link the external threat with the internal in such a way that our defensive strength is not frittered away in law and order problems.

The entire propaganda machine of the GOI should be geared to this task. As with China, so with Pakistan, the attempt is to weaken the unifying elements in this country, to break their resolution and their confidence, to create those economic and political tensions which would make the ruling party hopelessly dependent on foreign support. India in such a state, it is believed, would not be able to retain its federal cohesion. In this respect, the national interests of China and Pakistan coincide to a critically dangerous degree.

Pakistan pretends to be obsessed by the fear of being crushed by 'the bully that is Bharat'. The reality is very different. Her military Junta, preening itself on U S equipment and training, has for long been confident that an armed collision between India and Pakistan would yield dividends. This confidence was further strengthened by India's poor showing in NEFA during 1962. The Pakistani argument, according to reliable informants, runs something like this; it is no longer true that India's army is superior to ours: we have shorter lines of supply, a stable and united population dedicated to the greater glory of Pakistan; our armed forces, thanks to US aid, are better equipped and we have had some ten years of training with equipment which India's forces are only beginning to get used to; and, now, we have them in a fix — strung out thinly behind the longest and most difficult border in the world, a border which over large stretches is not internationally recognised and which does not provide much scope for the quick and rapid deployment of forces.

Rethinking on Defence

This theorising cannot be easily dismissed. Our earlier reliance on massive Soviet assistance in the event of an attack has been much eroded by a short-sighted leadership; indeed, during the past year, as on the question of Soviet naval aid, we have acted as if we put little value on it. Defence Minister Chavan, in spite of his better judgment, has permitted the growth of sentiment in army circles which encourages the thought that India's salvation lies in a firmer military commitment to the West; with Pakistan on the rampage, he must be wondering why on earth he permitted himself the comforting thought that only China was the enemy, for the West is most unlikely in the present confrontation with Pakistan to assist India's interests.

Once again, we have been sharply reminded that India's defence cannot be assured by a fully worked-out commitment to one of the two major nuclear powers. Once again, we have learned that our only course is to build our internal strength to the maximum and through skilful diplo-

macy to negotiate the critical military hardware which we cannot as yet manufacture. The extent of the disorganisation in our thinking is brought home by the fact that only a few days ago Parliament was listening to supposedly profound perorations about the need for full commitment to the West (even to South Vietnam!) and the GOI was fumbling over the question of contradicting the distorted and tendentious reports spread, with the connivance of U S officials and diplomats, about Jawaharlal Nehru's ambivalence on these matters.

Pakistan's Tactics

Pakistan is probing at several widely separate points. At the moment of writing, it looks as if the main *blow* are to be directed in the swampy and supposedly oil-rich Rann of Kutch which from our side is more difficult to get at. It is here that skirmishes have become attacks. In fact, militarily speaking, the only way of punishing Pakistan is to break the back of the attacking force even if it means a counter attack from the coast northward towards the Pakistani line of supply. This would, of course, lay the basis for a major operation. But, then, how else are we to put a stop to continuous skirmishing which develops into a serious violation of our border positions? Pakistan's military junta calculates that India will never push matters to the level of a major operation — or, at least, not until compelled to do so. Like China, she waits to catch us unawares.

The initiative, in other words, remains with Pakistan. It has been suggested that President Ayub is only preparing the background for his visit to Washington where he hopes to limit the supply of U S military aid to India. But this could only be a minor objective. For, whatever be the convictions of those who would have us commit to the West, the fact remains that Washington remains firmly opposed to any move which might offend Pakistani opinion — even in the matter of supplying rather out-dated aircraft which Pakistan already possesses in adequate number. The U S A, it is said, knows that Pakistan is quick to anger. As for India, the greater the neglect the more pliable her pre-

sent leadership becomes. Why worry? Therefore the fear that there is a more sinister plan in Pakistani latest attempt to hot up the border.

It is being argued by many in the Capital that moves at UN level, and also anions friendly nations, will sooner or later have to be followed up by retaliatory diplomatic action, *a la Nasser*, against those who would exploit our present predicament to blackmail us. Whether it is Pakistani skirmishing, or support to an Abdullah or a Phizo, or military involvement with an aggressive neighbour, or mote indirect hostility, we shall have to adopt toucher attitudes. Our carefully civilised postures are apparently misunderstood. Moves *are* tolerated which increase our isolation. We fail to

discern who are genuine friends and who are false. We have no reikible yardsticks. And, in the process, crucial national interests are being sacrificed.

These same circles, however, although incensed by the treatment India receives, fail to stress die paramount need for building a spirit of self reliance. This spirit cannot grow spontaneously, as they seem to imagine. It has to be cultivated, canalised and directed into a carefully devised programme of mobilisation and development. A certain degree of what is called regimentation is a necessary part of such a programme, ana there is no reason why we should weaken ourselves merely because we are unable to find the 'perfect' solution to

our problems. The defence of our sovereignty, as also the democratic State structure which holds our people together, demands that we free ourselves to a large extent from the many inhibiting influences generated by our dependence on others.

Within a fortnight, Parliament will be preparing for the summer recess. Prime Minister Lai Bahadur will be in the throes of readying himself for a three-week tour of foreign capitals. Various ministers and deputy ministers will be organising visits abroad. The less fortunate of the ruling elite will be content with seminars and conferences at various hill-stations, ft is to be hoped that a nucleus of effective leadership will be left behind to 'hold the fort'.

FROM THE LONDON END

The Budget and Overseas Investment

CALLAGHAN'S Budget was obviously framed with the foreign banker in view. The main object of the Budget was to try and convince foreign bankers of Britain's determination to tackle her balance of payments difficulties without devaluing the pound so that, impressed by 'he stern internal measures taken in the Budget to restrict home demand, there would be less opposition to the renewal of the \$ 3.000 million loan in May. On the other hand, too stern a dose of deflation had to be avoided if the old "stop-go" policy so fervently attacked by Labour in opposition was not to be repeated. Generally speaking the comments which have appeared in the press appear to endorse the view that this Budget has found a nice balance between the two objectives.

Again, as a socialist Chancellor, Callaghan had to give some impression that social justice was also one of the aims of the Budget. In order to compensate for increased taxes on beer, spirits and tobacco, the Chancellor has introduced the capital gains tax and the new restriction on all forms of business entertaining. These are quite obviously small sops in order to ensure the success of the incomes policy which will bear heavily on wages and salaries.

The general reactions overseas have been favourable and rumours on devaluation have been now finally scotched. In the event, the City is somewhat re-

lieved as the corporation ax the new tax *on* Company profits is not going to be levelled at a penal rate; it is not going to exceed 40 per cent. The companies which will really suffer from the new corporation tax are those which earn a large part of their income abroad. Thus, companies will be allowed relief on foreign :ax, only to (he extent of their corporation tax liability. With the exception of overseas companies, the immediate effect on industry of the corporation lax should not be too adverse.

Departure from Tradition

Perhaps the most interesting feature of Callaghan's Budget is the direct at-Lack it makes on overseas investment. This is a major departure from the traditional British attitude to foreign investment which has hitherto always been accorded specialised treatment' and, in the days of colonial super-profits, brought in more than Idequate returns.

The outflow of long-term capital from the U K accounted for half of last year's £745 million deficit on the balance of payments, and the decision to take direct action to improve this balance was certainly justified by the size of the present deficit. The present tax system puts a premium on overseas investment as it tends to favour those who invest abroad, and the Chancellor is now aiming "to change *the* direction" and "to channel home some of the accumulation of assets

held in private and abroad". The various steps which the Budget proposes on top of the switch to a corporation tax to discourage companies investing abroad, will bear heavily on companies whose major interest are abroad, and will hit particularly overseas trading corporations—mainly rubber, tin and tea-planting companies who have hitherto paid no profits tax. Overseas trading corporations are companics registered in Britain which operate exclusively abroad. All OTCs pay lax at the local rate in the countries in which they operate, and have so far been given relief for that reason in the U K. Under the new Budget, their special status will be abolished from April 1966, and the only relief that they can obtain will be if the taxation rates in the countries in which they are operating are higher than the proposed corporation tax rate of 40 per cent.

Since OTCs will now have to pay dividends gross, many will have to cut their payments drastically. This may well mean that companies will be sold and British capital will be withdrawn from areas in which it is now established. For example, these new measures may make it of interest for British tea plantations, for example, to sell out to local entrepreneurs in India.

For some years now, it has become fairly obvious that Britain, like the United States, simply cannot afford to invest on the scale of the past ten years. Britain which has gold reserves