CHAPTER V

ECDC AND TCDC IN INDIA'S RELATIONS WITH HER NEIGHBOURS

India's cooperation with, aid and assistance to other Third World countries should not be viewed as an altruistic expression of her political principles preached on the NAM forum and otherwise. It should be considered as the operational aspect of her foreign policy which aims not only at the promotion of peace and stability among countries but also serves the advancement of India's political and economic presence on the international arena. Her relations with the neighbouring countries should be looked at in this context.

India has been cooperating with her neighbours long before the NAM was initiated and gave the additional political rationale to this form of relations between countries. It can be said that her cooperational experience was utilized in some way to formulate the more specific concepts of the ECDC and the TCDC, which in turn strengthened the rationale of India's cooperational initiatives towards other developing countries, in this case her neighbours.

Her first bilateral programmes of this type have been agreed with her neighbours Nepal, Bhutan, Sikkim (till the later became one of the Indian states on May 16, 1975) and Bangladesh. They are among the world's least developed countries. These agreements were rather one-sided aid
programmes dictated by India's security perceptions. They aimed at creating an aid-absorbing infrastructure, particularly social overheads in the Himalayan kingdoms, and in Bangladesh at restructuring of her economy destroyed by war. This cooperation was meant to shape India's strategic environment and generate the political goodwill in her immediate neighbourhood.

The domestic economic forces, mentioned in previous chapters, which force the Indian state to adopt measures aiming at extension of India's economic presence in other developing countries also strongly interfere in her relations with the neighbouring states.

The geographical position of Nepal, Bhutan and Sikkim made them strategically important for both their big neighbours, India and China. This is the most compelling reason for both of them to strive for special and friendly relations with the Himalayan kingdoms. Friendly and, if possible, dependent Nepal, Bhutan and Sikkim as buffer states shield India and China from one another. The gain of one is looked upon as a set-back of the other.

In the first years of her independence India did not perceive any danger to her security on the northern frontiers, thus her attitude towards the Himalayan states was indifferent. But by 1949-50 the developments in China and Tibet changed India's perceptions and as a result, she signed treaties with Sikkim, Bhutan and Nepal. The developments
on India's northern frontier were one of the main imperatives of her foreign policy to direct the major thrust of her economic and technical assistance to her northern neighbours. Her economic policy was expected to

1- increase her links with the Himalayan region,
2- counterbalance the influence of the Chinese aid diplomacy,
3- speed up the economic progress in the region,
4- ensure the political stability.

The treaties signed in 1949 and 1950 followed the pattern set up during the British rule. Under these treaties annual grants of Rs. 1,000,000 for Nepal, Rs. 500,000 for Bhutan and till 1975, Rs. 300,000 for Sikkim have been extended. These amounts had been respectively increased in the course of time. The treaties initiated economic and technical cooperation between India and these countries.

In a broader Asian and African context, India's aid was rather limited, especially during the period till 1963. Mainly because of her limited possibilities (economic constraints) and also because the Chinese threat was not yet known, India's assistance consisted of minor ad hoc gestures towards various countries.

An analysis of India's relations with her neighbours can give some insights as to how India shapes her cooperative ties with them, if it is a conscious and pre-thought

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1 Devan C. Vohra, "India's Aid Diplomacy in the Third World", New Delhi, 1980, p. 199.
or rather an ad hoc behaviour, how does she understand and implement the concept of ECDC and TCDC in her relations with them, and what pattern of neighbourly collaborative links emerge in the process and what trends, if any, in her dealings with other developing countries could be pointed out at this stage of her relationships with them.

NEPAL

The main factor dictating the terms of the link between India and Nepal is the security consideration though there are several other distinctive factors like the open border, shared river waters, Gorkhas in the Indian army, to name some of them.

As the former foreign secretary A.P. Venkateswaran stressed: "We cannot have a situation develop where the Chinese, through a creeping intrusion supplant us in Nepal".\(^2\) India needs Nepal as a strategic buffer state as long as China is her major adversary in the area. A.P. Venkateswaran emphasized further that "so long as the border is open, there can be no question of Nepal keeping equidistant from the Chinese and us".\(^3\) This attitude does not leave much scope for Nepalese initiative. It implies a firm, strong Indian grip, tight control over Nepal and dictating of conditions. Any of these factors is a contradiction of friendship and cooperation.


\(^3\) *Ibid.*
After the British withdrawal India expanded and formalized the existing ties with Nepal. Both countries signed on July 31, 1950 treaties of peace and friendship as well as of trade and commerce. According to the interpretation of both sides, Nepal became an integral part of the Indian security system in the Himalayan area. The trade treaty gave Nepal some concessions but as a limited common market agreement it left Nepal open to various forms of Indian economic and political pressure.

After the Chinese invasion on Tibet India rethought her policy towards Nepal and supported the internal political developments which caused the fall of the Rana regime which was replaced by the one headed by king Tribhuvan and prime minister B.P. Koirala. They, being indebted politically and dependent on India, followed her advice. This allowed India to gain gradually more and more say in Nepalese affairs. After consultations in New Delhi the Nepali prime minister stated the necessity of close relations with India. His statement was followed by India's massive aid programme. He negotiated a loan of 150 million rupees (~US $21 million).

This was the beginning of foreign loan and aid programmes in Nepal. B.P. Koirala negotiated many foreign aid projects, mostly from India. She has almost always occupied the first position among the bilateral donors providing grant assistance and, if one excludes the multilateral lend-

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4 Asad Hussain, Asifa Anwar, "Conflict in Asia, A Case Study of Nepal", New Delhi, 1979, p. 15.
ing agencies, maintained this position. Not only the volume of India's aid but also the extent of areas it covered is impressive. There is no development sector in Nepal, where the Indian aid was not flowing.5 The table 1 illustrates the sector-wise allocation of Indian aid to Nepal in the years 1951-1980.

The list of Indian commitments to this country in the years 1964-1978 was showing 70 items costing \text{} Rs. 11049 lakhs6 revealing the extent of India's involvement in Nepalese economy. The flow of Indian aid did not stop and was not disturbed even at times when the relations between both the countries were strained. In the 1950s India sent yearly an average of about Rs. 1.5 crores in Nepali currency. In 1960s her assistance increased after the Sino-Indian hostilities in 1962 to Rs. 8.5 crores a year. It was raised to about Rs. 12 crores in 1970s at current prices, even after India started aiding newly independent Bangladesh. In the years 1980-83 India's aid to Nepal averaged Rs. 24 crores a year.7 The uninterrupted flow of India's aid to


6 Devan C. Vohra, "India's Aid Diplomacy in the Third World", New Delhi, 1980, pp. 75-77.

7 Devendra Raj Panday, \textit{op. cit.}, p. 10.
### Table 1

<table>
<thead>
<tr>
<th>Sectors</th>
<th>Amount in millions Indian rupees</th>
<th>Percent</th>
</tr>
</thead>
<tbody>
<tr>
<td>Roads and Air Ports</td>
<td>1005.0</td>
<td>61.8</td>
</tr>
<tr>
<td>Irrigation, Power and Water Supply</td>
<td>442.7</td>
<td>27.2</td>
</tr>
<tr>
<td>Agriculture and Village Development</td>
<td>12.6</td>
<td>0.8</td>
</tr>
<tr>
<td>Industries</td>
<td>35.7</td>
<td>2.2</td>
</tr>
<tr>
<td>Postal and Telecommunication</td>
<td>16.0</td>
<td>1.0</td>
</tr>
<tr>
<td>Miscellaneous Schemes and Technical Assistance</td>
<td>73.3</td>
<td>4.5</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>1603.7</strong></td>
<td><strong>100.0</strong></td>
</tr>
</tbody>
</table>

Source: M.D. Dhamadasani, "India's Aid Diplomacy in Nepal", paper presented on the Seminar on Indo-Nepalese Relations organised by the Institute of Asian Studies, Hyderabad and Nagarjuna University, Guntur, in Hyderabad on 30th and 31st March 1985, p. 11.

Nepal indicated the degree of her interest in her neighbours development. Most of the Indian assistance during the 1950s and 1960s has been invested to build the infrastructure in Nepal enabling her to absorb the aid. Roads, transport, irrigation, water, power, post, communications, community development and panchayats, education, health, industries, agriculture, horticulture, forestry, archeology and survey have been developed through the cooperational schemes. The
aid following in the 1970s was used mainly for maintenance of previously built projects.

The Indian aid projects had been implemented by Indian experts, by Nepalese trained in India, with necessary equipment to accomplish these schemes supplied from India. Among the experts deputed to Nepal were engineers, architects, planners, physicians, teachers and professors mainly for the Tribhuvan University. The absolute number of Indian experts sent to Nepal has never been published by the government of India.\(^8\) The bilateral assistance authorised by Nepal upto March 1984 totalled over Rs. 2600 million of which Rs. 2342 million was in the form of grants and rest in loans.\(^9\) This does not include grants spent on Kosi and Gandak schemes which had been financed by the Bihar government, neither the expenditures on training of Nepalese scholars in India. As it has been already mentioned, Nepal has also been a major recipient of Indian assistance channelled through Colombo Plan.

Indian experts helped Nepal draft her five year plans as well as India, along with other countries, assisted financially her neighbour in implementing the plans. The table no. 2 shows the quantum of Indian assistance utilised by Nepal in her successive plan periods.

Yet, the assistance extended by India to Nepal did not bring the expected results of generating friendly

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\(^8\) Devan C. Vohra, "India's Aid Diplomacy in the Third World", New Delhi, 1980, p. 83.

\(^9\) Nagesh Kumar, *op.cit.*, p. 5.
Table 2

Indian Assistance to Nepal in the Planning (in million rupees)

<table>
<thead>
<tr>
<th>Period</th>
<th>Quantum of Assistance</th>
<th>Percentage of Indian aid</th>
</tr>
</thead>
<tbody>
<tr>
<td>Pre-plan period</td>
<td>70.00</td>
<td>73.68</td>
</tr>
<tr>
<td>First Plan</td>
<td>82.1</td>
<td>21.44</td>
</tr>
<tr>
<td>Plan gap year 1961-62</td>
<td>40.9</td>
<td>21.94</td>
</tr>
<tr>
<td>Second Plan</td>
<td>110.0</td>
<td>23.94</td>
</tr>
<tr>
<td>Third Plan</td>
<td>550.5</td>
<td>56.68</td>
</tr>
<tr>
<td>Fourth Plan</td>
<td>563.7</td>
<td>37.36</td>
</tr>
<tr>
<td>Fifth Plan</td>
<td>643.6</td>
<td>15.18</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>2060.8</strong></td>
<td><strong>26.23</strong></td>
</tr>
</tbody>
</table>


Nepalese feelings towards her big neighbours. There are many reasons for that, i.e. shortcomings in the quality of Indian aid and its slow and erratic implementation etc., but the domestic Nepalese set-up is also responsible to a considerable degree why Indian aid had little impact. Nepal's own internal problems originating from feudal structure of the society and vested interests have been responsible for the sluggish economic progress and faulty implementation of many projects. In her economic environ-
ment marked by stagnation and even retrogression aid in general had very little visible and lasting impact. This is true as much for the Indian aid as well as aid from any other source and with the unchanged environment it is unlikely that India or any other donor can do better in Nepal in the future than they have done in the past. In this situation some of the Nepalis themselves have developed serious reservations on the role of foreign aid itself. They felt that unless the Nepalese government changes its priorities and takes steps to bring their own house in order any help from outside, Indian or otherwise, will achieve very little.

Nepalese authorities, who did not want to admit their failures, to delink the attention of the people from their lack of performance, several times fuelled anti-Indian sentiments putting the blame on India for all the shortcomings. It does not mean that all the anti-Indian outbursts were unjustified but many times they had an official support. These factors also should be considered while viewing the complex Indo-Nepalese relationships.

**Nepalese Criticisms**

Despite India's voluminous assistance for Nepal the whole complex of the relationships between both the countries comprised several irritants. The construction of the highway

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10 Devendra Raj Panday, "Indo-Nepal Cooperation...", *op.cit.*, pp. 11-12.
linking Kathmandu with India (Trihhuwan Rajpath) or modernization of the Gauchar airport in Kathmandu were criticised as not serving the real needs of Nepal but rather military requirements of India. Indian contribution towards reorganizing the Nepali army and improving of the civil administration offered her an opportunity to infiltrate into Nepalese domestic affairs. This was also detested in Nepal.

Indian assistance was channelled not through the external Affairs Ministry but through the Planning Commission which gave Nepal a status comparable with the another Indian states. This was also not liked in Nepal. The greatest Nepali indignation was caused by the effects of the implementation of the Kosi river project which has been completed in April 1954. The project included construction of extensive flood-control, power and irrigation facilities on the Kosi river near the Nepal-Bihar border. Its cost estimated at Rs. 400,000,000 was to be met by India. It was projected by India as a generous act but closer scrutiny revealed that Nepal received only a negligible proportion of the whole irrigated area, India would benefit more from the power resources developed from Nepal, the water - storage system would function on the cost of some of Nepal's richest agricultural lands in the eastern Terai and ruin them by accumulation of silt, Nepali peasants were discriminated

against while the compensations were paid.

It was admitted that it was India's own scheme under the River Valley Projects and the matter took a form of a serious controversy just before Lal Bahadur Shastri's visit to Nepal in April 1965.13

Anti-Indian feelings were spreading and becoming a very important factor in Nepali politics. Nepal government's increasing dependency on Indian aid and advice also generated anti-Indian sentiments. Opposition against India's interference in Nepal's domestic affairs was expressed by anti-Indian demonstrations. The prime minister admitted that the Nepalese population nurtured anti-Indian feelings: "The Kosi agreement, the presence of an Indian Military Mission, a large contingent of Indian advisers and technicians and the India-Nepal trade agreement have been irritating the national sentiments of the Nepalese people".14

The first nonaligned conference at Belgrade in 1961 gave the Nepali king Mahendra an opportunity to voice the protest against India's colonial behaviour towards Nepal. The emphasis on "non-intervention and non-interference in the internal affairs of nations"15 were the words used by

15 Yadu Nath Khanal, "What Nepal Expects from the "Neutral Summit"; text of the statement by the Nepali Foreign Secretary at the bureau meeting of the Belgrade Conference", Gorkhapatra, August 8, 1961.
him. Apparently he addressed the colonial powers but in reality he meant India, \(^\text{16}\) a country who contributed to the ideology of nonalignment.

Even today the Indo-Nepali relations are perceived by the Nepalese and compared to the interactions between the North and the South and explaining them as a continuation of colonial relations. \(^\text{17}\)

The shortcomings and mistakes in conducting the aid policy did not allow the Indian aid effort to achieve its target. It gave A.P. Venkateswaran the opportunity to comment: "With Nepal we have allowed our once predominant position to be eroded, without in any way gaining Nepal's affection". \(^\text{18}\) A veteran Nepali diplomat, Rishikesh Shaha noticed the same: "India felt perturbed that its sizeable economic and political aid had generated no goodwill or gratitude in Nepal; on the contrary, Nepal was drifting away from India, and wooing her enemies, China and Pakistan". \(^\text{19}\)

Both countries have drifted apart quite considerably, as India is also nursing a long-time grievance that Nepal has observed neither the letter nor the spirit of the 1950 treaty and is unhappy because of the shape of the relations


\(^{17}\) Interview, Kathmandu, September 12, 1988.

\(^{18}\) Indian Express, July 5, 1987.

between both the countries and is in the process of revising them.\textsuperscript{20} It would be relevant here to quote the veteran Indian diplomat P.N. Haksar who said that India has created her dilemmas and perplexities herself and named her relations with Nepal a state of misperceptions.\textsuperscript{21} Rishikesh Shaha from the other side also regretted "that India could not formulate a well informed and imaginative policy towards the countries on its periphery, including Nepal, by practical demonstrations of its regard for their nationalist aspirations as well as for their desire for economic development".\textsuperscript{22}

**Trade and Transit Treaties**

India wanted to reinforce her position by influencing Nepal's economy. The topographic features of the country made it even easier. A Nepali scholar commented that Nepal is not only landlocked country but rather India-locked.\textsuperscript{23} The inadequate transport system does not interlink the whole territory of Nepal which is divided into different segments. Its Western and Eastern parts are easier to approach through

\begin{itemize}
\item \textsuperscript{20} The Times of India, October 8, 1988.
\item \textsuperscript{21} On the seminar on "Recent Trends in Pakistan and its Nuclear Capability", held on August 6-7, 1988, by the Indian Centre for Regional Affairs at India International Centre, New Delhi.
\item \textsuperscript{22} Rishikesh Shaha, \textit{op.cit.}, p. 137.
\item \textsuperscript{23} Interview, Kathmandu, September 8, 1988.
\end{itemize}
India than Nepal. Both the countries are linked with 500 miles of open border. Indian capital found its way into Nepal after the WWII. Until 1960 both Indian and Nepalese currencies were in circulation. Free trade to either side flowed unrestricted. These circumstances influenced Nepal's dependence on the Indian economy. The dependence is reinforced by far reaching control over Nepali economy exercised by Indian Marwari business groups. These factors bred in the Nepalese society a general feeling of being exploited, of being a periphery of the centre. Thus the question of her economic independence is perhaps the most significant in Nepal's case in the complex process of economic cooperation which involves several sensitive issues.

The trade aspect of Indo-Nepali economic relations were regulated by successive trade treaties signed in the years 1950, 1960, 1971 and 1978.

The 1950 Treaty

The 1950 Treaty of Trade and Commerce strengthened the traditional trading links between both neighbours. It established Nepal's right to trade with third countries through Indian ports and territories. However, the transit procedures were quite cumbersome and created many inconve-

24 Interview, Kathmandu, September 9, 1988, with a retired Nepali diplomat.

nences for Nepal. They tied Nepalese liquid capital which for a poor country like her meant losses as this capital could have been used in some productive way. It has been suggested that since the Nepalese government at that time had to face the political crisis at the time of signing the Treaty, some element of political pressure was possible. The Treaty restricted Nepal's freedom of trade and commerce and in successive years met much criticism and resentment of the Nepalese.

The 1960 Treaty

In 1960 both countries signed a new Treaty of Trade and Transit. The rules and provisions of this document were not precise enough, giving both countries a considerable scope to accommodate their own actions according to their interests.

The lack of precision in this document allowed the clandestine or unauthorised trade, as the smuggling was called in the official parlance, to continue unchecked which was one of the most acute problems between both the countries. Since Nepalese economy is structurally woven into Indian economy smuggling of goods into either country is quite common. Both the countries complained that this


28 N.P. Banskota, op.cit., p. 60.
unauthorised foreign trade caused losses to their economies and both decided to introduce anti-smuggling measures on their border. However, as the situation prevailed like that for quite some time it created vested interests on both sides so measures aimed at preventing the clandestine exchange were not too eagerly introduced. Some groups of influential Nepalese and some Indian commercial interests deliberately exploited the openings created by the incoherences of the rules of the treaty to gain lucrative, though short-term advantages. In the years 1966-1969 Nepal experienced a real boom of her overseas exports. This was possible only due to the loopholes in the treaty which gave enough scope for clandestine trade in the form of re-export to India of Nepal's imports from the third countries. This was against India's elementary import policy. 29

India's main complaint was directed against this mechanism and practices based on it. She went even so far as to object to the large scale of Nepal's imports of foreign goods. 30 This again was resented by the Nepalese.

Nepal complained that India having an overwhelming share in Nepali trade was in a position to dictate terms of trade to her and to discriminate her against other Asian countries. The dissatisfaction was owing to the unit prices charged to Nepal by India on commodity exports generally.

29 Rishikesh Shaha, op.cit., p. 146.
much above the prices charged by India from other Asian countries. But the unit prices she paid to Nepal on imports have been almost equal to the unit prices paid to other countries.\footnote{N.P. Banskota, \textit{op.cit.}, p. 5.} To Nepal's dismay the treaty gave India the prerogative to reject on numerous grounds the imports from Nepal or close her markets to some of them if in her assessment it was desirable.

Inconvenient customs procedures and the way the cargo was handled and transported were another cause for discontent of the Nepali dealers. Many irritants resulted from practical exercise of the provisions for transit offered by the treaty. They were particularly troublesome for Nepal. She complained mainly against procedural formalities which created delays and losses for her. Another important one was the bonding system which held substantial amounts of capital for an indefinite period. This system caused for Nepal enough trouble to be annulled in 1963.

Since Nepal cannot afford to build the infrastructure necessary for the transport of goods in transit she was and is dependent on India in this respect. Both port and railway facilities offered by India were not only insufficient but also caused many problems.

India has promised Nepal a separate shed in the Calcutta port but did not provide it. The railway authorities were treating Nepal's freights in a discriminatory
The high land transit costs reduced the competitiveness of her exports and restricted her opportunities to export to countries other than India. Thus while negotiating the subsequent treaty Nepal gave much importance to transit.

Due to the troubled transit relations the Nepalese authorities realised that the country cannot develop either internally or her international trade without proper facilities of trade and transit. Thus Nepal together with other developing landlocked countries brought the pleas for recognition of the right of free transit on the international arena, on the fora of ECAFE, Ministers' Conference in Manila, UNCTAD. This was interpreted by India as an attempt to pressurise her in order to get better conditions. The 1960 treaty has also another aspect. It designed an economic interaction which emphasized special economic relations consisting of:

1- absence of institutional control on the trade between both countries,
2- lack of restriction on the conversion of Nepalese rupees into Indian rupees and vice versa in Nepal,
3- mobility of factors of production.

A Nepalese author stated that this type of relations exist between countries - members of a common market. While trying to clarify what had been India's intention to propose

32 Ibid., p. 43.
33 Ibid., pp. 53-54.
this kind of arrangement he emphasized that in the existing conditions of different levels of development of the countries the less developed one would be reduced to the role of a supplier of primary goods. Even skills and capital would be drained to the more advanced country. In short, he felt, it would mean exploitation of Nepal by India.

During the 1960s the question of coordinating the rules of the economic systems in India and Nepal was coming up several times, but in 1971 Nepal stated that she could not accept this as she believed that this process always favours the more advanced country.

The 1971 Treaty

The treaty signed in 1960 gave many reasons of dissatisfaction for both India and Nepal. It did not meet Nepalese needs and expectations related to trade which was considered as the main instrument of economic growth. Since this document, being imprecisely worded, gave too much scope for free interpretation of its provisions, Nepal felt that the terms of the forthcoming treaty should be defined very clearly in every detail. Thus Nepal proposed separate treaties on trade and transit. It was expected that a separate treaty on transit would facilitate Nepal's trade with the third countries. Nepal pressed also for free entry of her goods on the Indian market. Thus the main issues discussed during the trade talks were transit facili-
ties and Nepalese imports to India. The 1960 treaty terminated and Nepal did not ask for its extension. The talks for improved conditions failed. It was followed by public recriminations with India. One of the Nepali officials publicly expressed dissatisfaction over India's uncompromising attitude and anticipated the results of possible cut off of trade and transit. This gave rise to anti-Indian demonstrations in Kathmandu and other urban centres. This annoyed India as she thought that in return for the facilities she offered Nepal at Calcutta and Haldia ports she could expect more favourable reaction. Privileges she claimed that she has given Nepal were unparalleled in the world in matters of trade. All that notwithstanding export of essential goods to Nepal and import of primary of primary goods to India continued.

By the mid-1971 Nepalese economy and trade were in such a bad shape that the government of Nepal had to give in to India's standpoint on trade and transit and sign a less favourable treaty. The inappropriate Nepalese diplomacy caused the loss of some advantages enjoyed under the 1960 treaty. The new treaty gave India a right to stop transit to Nepal if in her opinion Nepal's imports were more than her requirement or exports more than her surplus. India introduced mechanisms meant to check the export of goods of Indian origin as Nepali products on terms contradictory to

India's overall trade policy. India's main considerations was to limit Nepalese imports from third countries to prevent their being diverted to India where they had been very highly priced and on the other hand to stop side tracking of Indian products to third countries through Nepal. It has been suggested that establishment of industrial units collaborating with Indian private business and public sector firms could solve this kind of problems.35

India wanted to have access to the Nepalese market on terms of the most favoured nation. But giving this kind of preference to India in the context of her over-valued currency would exert too much pressure on Nepal's resources. These factors have been driving Nepal towards binding her trade and exchange policies to India's plan and policies although her own economic and developmental plans were obviously different.

It is quite apparent that India will always be in a position to compel Nepal's dependence on her for transit facilities, to bother her in one way or the other. The 1971 treaty put India in a position to refuse the movement of traffic in transit if she thought that the transit system conceded to Nepal has been used for illegitimate purposes. This restricted Nepal's opportunities to use Indian territory to trade with other countries which put this trade on a fragile ground.

35 N.P. Banskota, op.cit., p. 89.
Lengthy and oppressive formalities of different type many times created delays thus making Nepal pay millions of rupees for demurrages every year.

The provisions of the treaty were to be implemented by the Joint Committee set up for this purpose. It had to tackle the trade and transit difficulties which were likely to emerge between both the countries.

Although it can be said that the stricter terms of the 1971 treaty were partly a result of Nepal's deliberate abuse of the loopholes in the previous treaty, those terms were resented by the Nepalese, generated anti-Indian feelings and did not contribute to the improvement of the relations between Nepal and India.

The 1978 Treaties

In 1978 Nepal achieved what she was striving for i.e. separate treaties on trade and transit. It would be quite indicative of Indian attitude and behaviour towards Nepal to know that Indian negotiator C. Alexander, had been sent in 1976 for negotiations with a decision from the highest quarters that India would not accept Nepal's proposal of separate treaties and this decision of the government of India was irreconcilable and irrevocible.\(^{36}\) This did not

\(^{36}\) Interview with Devendra Raj Upadhya who negotiated the treaties on behalf of Nepal with C. Alexander; interview held on 9.9.1988, in Kathmandu.
leave much scope for any negotiations. However, it was during the Janata rule that separate treaties have been signed. These were the Treaty of Trade, Treaty of Transit and Agreement to Control Unauthorised Trade. The last document met the long-lasting Indian demand to revise and change the system which enabled Nepali trade with third countries to be used as a backing for the large-scale so-called unauthorised trade or smuggling of commodities. Although the new set up could not abolish fully the very intricate smuggling system it met India's expectations up to a satisfactory degree.

The trade treaty agreed to an enlarged scope of preferences for Nepalese manufactured goods in the Indian market in order to contribute to the process of Nepal's industrialisation. However, the access of Nepali goods to the Indian market did not come up to Nepal's satisfaction.37

Although it was said that the treaties and the agreement were working satisfactorily38 there were some snags i.e. the impression that Indian suppliers regarded Nepal as an extension of their domestic market and were dumping there sub-standard goods. A Nepalese economist sarcastically explained that may be the payment in Indian currency for Indian goods does not qualify Nepal for export-quality wares. However, since the deficit has to be cleared in

37 Interviews with Devendra Raj Panday and Devendra Raj Upadhaya, Some faculty members of the Department of Political Science, Tribhuvan University, Kathmandu, September, 1988.

38 N.P. Banskota, op.cit., p. 91.
convertible currency, he opined, the goods should be as
good as under the convertible currency payment system. 39

As far as the overseas trade is concerned "Nepal has
long felt that": here "it has not had a fair deal from
India" and this is why she always wanted to secure some
form of international guarantee for access to the sea for
the land-locked countries. 40

The changing provisions of the successive treaties
expressed Nepal's efforts to review and improve her foreign
economic policy. However, Nepal was not able to evolve
independent economic policy due to the long open border to
India. She had to subordinate herself to a considerable
degree to the Indian price structure. India's internal
terms of trade are in favour of manufactures. This impinged
upon the level of prices in Nepal relative to prices of
manufactures. This works for India's advantage since she
exports manufactures to and imports primary commodities
from Nepal. Nepal had to keep an overvalued exchange rate
with the dollar area to maintain a balance with Indian
rupees for which there is an arrangements for full conver-
tibility. This in turn disturbed Nepali exports to the
third countries. Nepal's exports to countries other than
India had been disturbed also by India's restrictive foreign
exchange and trade policies.

39 Devendra Raj Panday, op.cit., p. 15.
40 Rishikesh Shaha, op.cit., p. 152.
The Future

The Indo-Nepalese trade treaty lapsed on 23 March, 1988, and was extended twice by six months every time. India also decided to let the separate treaty on transit lapse it ended almost at the same time as the trade agreement. She stated recently that special privileges governing bilateral trade and transit for third-country trade for the past three decades will have to be renegotiated. As it has been pointed out India has traditionally used the trade and transit agreements to keep Nepal in line. Now she listed the following complaints against Nepal:

1- abuse of the transit agreement leading to third country goods being smuggled across to India; and she accuses Nepal of importing more goods from the third countries than she can conceivably need, knowing that they will be smuggled to West Bengal and Bihar,

2- the new rule introduced by Nepal that Indian nationals working there need work permits,

3- weapon purchases from China and the West which, according to India, indicates that Nepal does not view her as a friendly neighbour.

India accuses Nepal that she discriminates against Indian citizens and firms who are not allowed to visit or work in Nepali districts close to the Chinese border, whereas

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Chinese have access to areas close to Indian borders and execute projects there, that Nepal preferred to give some contracts close to India's borders to firms from some third countries. Thus it is suggested that India through "undeclared economic war" wants to bring Nepal to negotiations and that she wants again a single treaty for trade and transit, while it was so difficult for Nepal to negotiate separate treaties in the past.  

Nepali foreign minister said that Nepal wants to put her relations with India on a more equal footing and to end her special relationship with her which had become one of economic dependence. He stressed that it is in Nepal's interest to see that her dependence on one country does not grow.

Joint Ventures

Before 1978 the Nepalese government had discouraged transactions from the larger, more reputable Indian firms for fear of deepening of the Indian domination of the Nepali economy, though there was some Indian investment, mainly small-scale enterprises often wanting to gain "easy" and fast profits through doubtful methods. Shriman Narayan, India's ambassador to Nepal in 1964 wrote, "During my diplomatic tenure, I encouraged several Indian industrialists

42 Ibid.

43 Indian Express, April 12, 1989.
to set up joint ventures in Nepal with the assistance of the local entrepreneurs. But, to my great distress, several Indians who had come to Nepal some years ago had not earned a good name there mainly because they tried to earn easy and quick profits through dubious methods. They were more keen on evading Indian income-tax laws and excise duties rather than on helping Nepal in attaining a faster rate of economic growth through the diversification of their economy.\textsuperscript{44} This reinforces the argument contained in the chapter on the joint ventures investments abroad. This type of investment contributed little to the meaningful economic development of Nepal but bought the favours of a number of Nepalese government servants and other elites while contributing to their well-being.\textsuperscript{45}

The 1978 treaty put more stress on the establishment of Indo-Nepali joint ventures and it was expected that the Indian investment under the changed conditions will bring about some meaningful contribution towards Nepal's industrial and commercial development. But not only did it not meet the commercial expectations - as Nepal was not able to establish herself on foreign markets - but the potential areas of developing her industries on a long-term basis have even not yet been explored as well as the Nepali


government does not have any strategy of industrial development, thus in this respect the joint ventures with India did not have the expected impact.

Nepal has tremendous untapped resources for setting up of joint ventures. Thus she was looking towards India for technical know-how, that she would harness Nepal's unexploited resources as well as for saving transit costs. Nepal's expectations were quite considerable indeed, according to some authors, and again they reflected the spirit of dependence.

There were, however, many apprehensions and reservations too. There was a fear that the new policy towards joint ventures would make Nepalese economy and foreign trade more interlinked with the Indian economy than before. In the perception of some Nepalese this would be most dangerous and threatening for their country to become a dependent state. Some say that joint ventures would be good if India opened her market for their products.

In 1986, according to FICCI data, there were 10 Indo-Nepali joint ventures in Nepal; 5 in operation and 5 under implementation. These were exploring minerals,

49 Indian Joint Ventures Abroad, and Project Exports Federation of Indian Chambers and Commerce and Industry, New Delhi, 1986.
mining magnesite and manufacturing refractories, producing dry batteries, paints, enamels, varnishes and synthetic resins, manufacturing cigarettes, beer, rice mills, rubber rolls. There is also a 5 star hotel and a travel, tourism and transportation agency. The Indian equity in all of them totalled Rs. 418.64 lakhs. These joint ventures were meeting some of the Nepalese needs as specified by N.P. Banskota, the Nepalese author quoted several times here.

There are also 4 Indian investments in Nepal which are not covered by the official lists. These are:

Table 3

<table>
<thead>
<tr>
<th>Indian Company Name</th>
<th>Nepalese Company Name</th>
</tr>
</thead>
<tbody>
<tr>
<td>ITC Ltd.</td>
<td>Hotel Kathmandu Ltd.</td>
</tr>
<tr>
<td>Texmaco Ltd.</td>
<td>Kapilvastu Sugar Mills Ltd.</td>
</tr>
<tr>
<td>UP Trading Co Ltd.</td>
<td>Kapilvastu Sugar Mills Ltd.</td>
</tr>
<tr>
<td>Upper Ganges Sugar &amp; Ind.</td>
<td>Kapilvastu Sugar Mills Ltd.</td>
</tr>
</tbody>
</table>


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50 Indian Joint Ventures Abroad, K.V.K. Ranganathan, p. 14.

As it can be noticed, recent years indicate some relaxation of Nepal's rigid stand towards joint ventures with India. It seems that behind it is perhaps the expectation that the ventures will allow for some benefits of a number of Nepali officials and other elites. Yet, the reservations made in connection with joint ventures in the relevant chapter stand valid, so it remains to be seen if those ventures will meaningfully contribute to the economic development in Nepal.

**Water Resources**

One of the most promising fields of Indo-Nepalese economic cooperation is the development of water resources. The potential of the three Nepali rivers Kosi, Gandak and Karnali and their main tributaries is estimated 83,000 M.W. which is equivalent to the installed hydro-electric capacity of Canada, USA and Mexico put together. Only 0.12 per cent of this potential has been harnessed today. It is anticipated that these rivers, if harnessed could improve protection against flood, could be used for irrigation and give hydro-energy for both the countries.

But Nepal's experience with the very controversial Kosi river project, and the general lack of understanding between both the countries on the political level, did not allow much room for better use of the existing potential.

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52 M.D. Dharmadasani, "India's Aid Diplomacy in Nepal", etc., p. 8.
A similar issue exists between India and Bangladesh, where India proposed to utilize Brahmaputra and pressed for a bilateral agreement. Bangladesh wants to tackle the problem trilaterally together with Nepal. Perhaps also the possibility of including China, as Brahmaputra is flowing through her territory, is lurking. Negotiations were going on for years. Only recently India seemed to agree with Bangladesh.

**Concluding Remarks**

The above discussion shows a rather disarrayed picture of Indo-Nepalese economic relations indicating lack of planning and conscious effort on both sides. Since India is the stronger party in this relation, it may be because of the inadequacies of her policy towards her neighbours in general and also because of the ad hoc character of her policy. Perhaps lack of trust and understanding at the political level leads to exaggerated caution at the bureaucratic level which curb the occasional initiatives from either side. And even if the bureaucrats and technocrats were earnest in their efforts they cannot overcome the obstruction created by lack of understanding at the political level. The lack of understanding on both the political and bureaucratic planes indicates existing inefficiencies of India's diplomacy, economic or otherwise, towards Nepal. This is perhaps why Nepal wants to start bilateral negotia-
tions with a review of the whole gamut of Indo-Nepali relations.

BHUTAN

India's aid for Bhutan is founded on the same grounds as her cooperation with Nepal. The relations between both countries are regulated by the friendship treaty signed in August 1949. Its article no. 2 specifies that India should not exercise any interference in the internal administration of Bhutan. Bhutan herself agreed to take advice of the government of India with regard to her external relations with the understanding that the government of Bhutan might or might not follow such advice.

India's competence to advise Bhutan on external matters provided under the second clause in fact gives her the opportunity to interfere in internal affairs also as in the current context of international affairs it is hardly possible to separate strictly internal and external activities. Thus the Druk Gyalpo said in 1960 that "we are not hundred per cent independent because of the 1949 treaty".

53 B.S. Murthy, "Normative Standards for Relations between India and Bhutan", paper presented at the Seminar on "Indo-Bhutanese Relations" held at Hyderabad on 15th and 16th March, 1986 under the auspices of the Institute of Asian Studies, Hyderabad.

54 The Hindu, Madras, June 3, 1960.
After the merger of Sikkim there were some indications that Bhutan might ask for updating or revision of the treaty. Bhutanese National Assembly adopted several resolutions asking for the review of the treaty of 1949 or annulment of its Art. 2. The recent years, however, diluted its meaning without any formal revision of its text.

Till 1958 Bhutan refused Indian aid offers considering them as contradictory to her national prestige. It was in 1958 when the government of Bhutan first accepted aid of Rs. 1.50 lakh as well as material and equipment for road building and a loan of Rs. 2.20 lakh to build an orange crushing factory. In 1960 Rs. 1500 lakh have been planned to build four North-South roads linking Bhutan and India, and one East-West highway to unify the road system internally. From 1960 onwards India was giving Bhutan an annual grant of Rs. 7 lakh. The amount of Indian aid depended on the increase of Bhutan's capacity to absorb it and by the 1970 it was intensified considerably. India sends her loans and grants through the Colombo Plan. Aid for Bhutan is an integral part of the Indian Plan.

India's major contribution for Bhutanese economy was the development planning. It was drawn in the framework of five years plans by a team from Indian Planning Commission in 1961. The general and of the socio-economic development planning was to uplift the living standards of the people, to initiate the necessary economic growth to sustain this higher standard of living and to create the infrastructure capable of absorbing the expanded aid.

The first five year plan focussed on the establishment of basic infrastructure of a network of roads, a modern educational system and a basic health care system.

The second five year plan, apart from continuing with construction of the basic infrastructure in the country, set up micro/hydro-electric stations and elementary telecommunication facilities.

The third plan emphasized on the productive sectors of the economy like agriculture and animal husbandry as well as industries based on indigenous resources.

The fourth one increased the output of the productive sectors of the economy. Large surplus of agricultural products have been offered for exports. Several industrial projects have been constructed.

During the fifth plan there was essential progress in development. Throughout these years necessary trained personnel were brought from India. The financing of the plans came mainly from India. The tables (4-5)
below illustrate India's participation in financing of Bhutan's successive five year plans.

Table 4

<table>
<thead>
<tr>
<th></th>
<th></th>
<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Government of India</td>
<td>107.2</td>
<td>200.00</td>
<td>426.6</td>
<td>853.00</td>
</tr>
<tr>
<td>UN &amp; other international agencies</td>
<td>-</td>
<td>-</td>
<td>15.8</td>
<td>193.7</td>
</tr>
<tr>
<td>Internal Resources</td>
<td>-</td>
<td>2.2</td>
<td>32.8</td>
<td>59.5</td>
</tr>
<tr>
<td>Total</td>
<td>107.2</td>
<td>202.2</td>
<td>475.2</td>
<td>1106.2</td>
</tr>
</tbody>
</table>

Source: Fifth Five Year Plan Main Document, Royal Government of Bhutan.

Table 5

Vth Plan 1981-82 - 1986-87

<table>
<thead>
<tr>
<th>Sector</th>
<th>Internal resources and GOI grants</th>
<th>Committed international assistance</th>
<th>Financing gap</th>
<th>% of total gaps</th>
</tr>
</thead>
<tbody>
<tr>
<td>Non-Developmental</td>
<td>532</td>
<td>526</td>
<td>6</td>
<td>-</td>
</tr>
<tr>
<td>Developmental</td>
<td>2210</td>
<td>1436</td>
<td>464</td>
<td>310</td>
</tr>
<tr>
<td>Sub Total</td>
<td>2742</td>
<td>1962</td>
<td>470</td>
<td>310</td>
</tr>
<tr>
<td>Commercial</td>
<td>1596</td>
<td>520</td>
<td>51</td>
<td>1025</td>
</tr>
<tr>
<td>Total</td>
<td>4338</td>
<td>2482</td>
<td>521</td>
<td>1345</td>
</tr>
</tbody>
</table>

Source: Fifth Five Year Plan - Main Document, Royal Government of Bhutan.
Indian agencies also contributed to planning and research by sending experts and personnel working in the fields of telecommunication, hydrology, forestry, minerals exploitation, urban planning, road construction, archaeology etc. Other assistance are in the form of supplies of equipment for projects undertaken there, grants of scholarships to Bhutanese students, training in science, technology, medicine, public administration, tourism, hotel management, forestry, post and telecommunications.

Bhutan is almost completely - 94 per cent - dependent on India in the matters of trade. In the three years from 1981 to 1983 for which data were available Bhutan had balance of trade deficit with India. The table 6 illustrates Bhutan's exports to and imports from India in 1981-1983.

Table 6

<table>
<thead>
<tr>
<th>Year</th>
<th>Export</th>
<th>Import</th>
<th>Balance of trade</th>
</tr>
</thead>
<tbody>
<tr>
<td>1981</td>
<td>166,340</td>
<td>451,024</td>
<td>- 284,684</td>
</tr>
<tr>
<td>1982</td>
<td>156,938</td>
<td>440,779</td>
<td>- 283,841</td>
</tr>
<tr>
<td>1983</td>
<td>136,916</td>
<td>320,049</td>
<td>- 183,133</td>
</tr>
</tbody>
</table>

The trade between Bhutan and India takes place both on government-to-government basis as well as through private corporations.

In Bhutan, like in Nepal, the Indian rupee is valid tender. Bhutan tried to introduce her own currency but officially she is part of the RBI's jurisdiction. Thus despite being a sovereign country Bhutan's sovereignty is restricted, among others, by this fact.59

The scope of Indian aid proves that India practically underwrites Bhutan's economy. Though Bhutan established relations with other countries and international institutions she is still dependent on India for finances, manpower, materials and markets.

However, recently Bhutan decided to distance herself from India and displays her hostility towards her which is particularly evident in trade. Bhutan tends to keep her trade ties with India on a low key and intensify her links with other SAARC countries.60

With SAARC as a regional body some of Bhutan's dependence could be channelled through it which would perhaps boost her prestige and self-esteem but is unlikely to change the reality of her dependence on India.

59 Srikant Dutt, "India and the Third World...", p. 84.
SIKKIM

Indian aid for Sikkim followed the same pattern as her aid for Nepal and Bhutan. It started in early 1950s following the signing of the India-Sikkim Peace Treaty on 5th December 1950. According to it India gained "the exclusive right of constructing, maintaining and regulating the use of railways, aerodromes and landing grounds and the air navigation facilities, posts, telegraphs and wireless installation in Sikkim" and "to construct and maintain in Sikkim roads for strategic purposes". The first grant of Rs. 50,000 has been given to Sikkim in 1950 for a land reform programme and forest survey. A Seven-Year Development Plan had been outlined by the Indian team and approved by the Indian Planning Commission in June 1954. The plan has been brought about by funds granted by India. In the beginning Sikkim was able to utilise only about half the funds because of lack of trained personnel and inefficient administrative system. The first plan was followed by three subsequent ones. Nearly half of the funds under the second plan were spent on building of roads and transportation to create infrastructure for the Sikkimese economy. All the funds under the plans went to Sikkim as grants.

Indian loans and grants financed the special projects like the Aerial Ropeway between Gangtok and the Sikkim border


62 Devan C. Vohra, op. cit., p. 95.
Table 7

India's Development Assistance to Sikkim
During 1954-55 - 1975-76

<table>
<thead>
<tr>
<th>Plan</th>
<th>Period covered</th>
<th>Expenditure</th>
</tr>
</thead>
<tbody>
<tr>
<td>First</td>
<td>1954 - 1961</td>
<td>324.00</td>
</tr>
<tr>
<td>Second</td>
<td>1961 - 1966</td>
<td>813.00</td>
</tr>
<tr>
<td>Third</td>
<td>1966 - 1971</td>
<td>900.00</td>
</tr>
<tr>
<td>Fourth</td>
<td>1971 - 1976</td>
<td>1850.00</td>
</tr>
</tbody>
</table>

Source: MEA Annual Reports 1960-61 to 1975-76.

or the Sikkim Mining Corporation to extract resources. India assisted Sikkim and took care of elementary needs of the Sikkimese economy, population and development. Like in Bhutan, in Sikkim, too, India practically underwrote the growth of this small country. On May 16th, 1975 Sikkim was incorporated as the 22nd state in the Indian Union.

**BANGLADESH**

India aided Bangladesh in different circumstances than the Himalayan kingdoms, and also because of strategic reasons. She wanted to create friendly environment in her neighbourhood, gain easier access to her Eastern territories and strengthen her advantages in the situation of changed power balance in the subcontinent. There were also socio-
economic considerations since the illegal migration that has already taken place caused immense problems for India.

India has vested interest in the welfare of Bangladeshi population, particularly the minorities, as any noticeable deterioration in their living conditions provokes immigration to India and aggravates the already existing tensions. India had to check this process and reverse it with the return to Bangladesh of those who have illegally entered Indian territory in previous decades. During the civil war in 1970-71 in what was earlier East Pakistan, millions of Bengali refugees took shelter in India. Thus the most direct need was to create political and economic conditions which would convince the refugees to go back to their country. Consequently Bangladesh became an area of highest bilateral aid concentration for India in her economic cooperation in her neighbourhood in the 1970s.

As help for refugees India offered Rs. 18.58 crores as a grant to be distributed among them in form of cash doles as well as drugs, medicines and transport. Most of the refugees returned to Bangladesh by March 1972.

The government of India assisted the reconstruction of Bangladeshi war-damaged economy in a complex way. In 1972 she extended a grant of Rs. 25 crores enabling purchase of most essential commodities like food, petroleum and its products, fertilizers, cotton and yarn, sugar, salt, baby

63 MEA Annual Reports 1971-1972, p. 11.
food, oil seeds, cement, steel and steel products, chemicals, power generation and transmission equipment and vehicles. Apart from this loan to overcome economic difficulties, a loan of Rs. 10 crores for reconstruction of the railway network, a loan of £ 5 million for the immediate foreign exchange needs, a sum of Rs. 200 crores, out of which Rs. 167.63 crores as grants and Rs. 34.83 crores as loans on concessional terms: the largest component was the grant of a total of 930,000 tonnes of foodgrains during the year 1972, aid worth Rs. 150 crores under commercial arrangements, Indian engineers repaired also the vital bridge in Bangladesh in 1972. Till 10th April 1975 the value of Indian assistance totalled in Rs. 3.08 billion. 65

The good neighbourly relations promoted by Indian help had been disturbed within few months among others by the uncontrolled activities of the private entrepreneurs and influential politicians and high administrative officers on both sides who tried to exploit the chaotic situation on the Bangladeshi market mainly by drainage of essential goods through smuggling. Their behaviour generated and revived anti-Indian emotions and suspicions arose that the Pakistani domination had been replaced by a new group of exploitators. These new suspicions have been nourished by the traditional fear of Hindu domination which in 1947 had been one of the reasons for the partition of Bengal.

64 Ibid.
To contain these feelings, official decision had been taken that the trade between both countries would take place on the state-to-state basis through governmental enterprises and agencies.

**Agreement on Trade, Border Trade and Transit**

The Indo-Bangla agreement about trade, border trade and transit, signed for one year on 28th March 1972, became also the subject of criticism and a source of tensions between both states. The weak Bangladeshi economy was not able to cope with the demands of the agreement due to various reasons and the import was higher than export which resulted in trade deficit for Bangladesh. Despite these difficulties, it was extended for the next three years again putting unrealistic targets which Bangladesh could not meet. Her trade deficit further deepened.

**Table 8**

<table>
<thead>
<tr>
<th>Years</th>
<th>1972</th>
<th>1973</th>
<th>1974</th>
<th>1975</th>
</tr>
</thead>
<tbody>
<tr>
<td><em>Export</em></td>
<td>85.4</td>
<td>174.3</td>
<td>61.3</td>
<td>71.2</td>
</tr>
<tr>
<td><em>Import</em></td>
<td>2.1</td>
<td>22.8</td>
<td>10.4</td>
<td>5.1</td>
</tr>
</tbody>
</table>

Since 1 January 1975 India and Bangladesh discarded rupee trade and went over to hard currency payments, as the prevailing barter trade was not possible any longer. At the same time some technical credits were converted into inter-governmental loans, with repayment of 50 per cent within a year, the rest falling due after 3 years. The severity of India's lending terms also contributed to the breakdown of Indo-Bangladesh relations creating in Bangladesh an impression that India tried to exploit her.

**Jute Trade Agreement**

On 14 November 1972 the Indo-Bangla jute trade agreement has been signed. At that time also a tentative proposal of joint strategy in jute production and exports has been drafted. It has to be pointed out here that Bangladesh nurtured apprehensions that joint control over jute production meant joint control over Bangladeshi economy. Under the auspices of cooperation both countries decided to set up a 400 million thaka \(^{68}\) coming from the assistance given by Federal German Republic and Great Britain\(^{7}\) jute research centre to be set up at Narayanganj, Bangladesh Today, London 1973, no. 24, p. 2.

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66 S. Dutt, "India and the Third World...", p. 70.
centre on the territory of Bangladesh in Narayanganj but with offices in India.

Particular attention has to be paid to the relations between both the countries in the field of production and export of jute and its products as they influenced the Indo-Bangla relations as a whole and the fate of the regime of Mujibur Rahman and Awami League.

Jute was a source of approximately 80-85 per cent of earnings from foreign currency for Bangladesh, thus the importance of this raw material was crucial for her economy.

After the partition in 1947 both India and Pakistan had to restructure their jute production. The Pakistani competition caused in the 1960s the decrease of jute production in India. At the same time the Pakistani production located in East Bengal, exports and foreign currency inflow increased. Before the war in 1971 East Pakistan accounted for approximately 45 per cent of the world's jute production and was one of the main exporters of jute goods. The export was subsidised by the government, so it was possible for Pakistan to dictate prices and to take over traditional Indian markets. India was not able to compete and maintain her position. Her output decreased, she lost her markets and was producing for her own needs and for the East European markets.

The turbulences of the year 1971 changed the situation to India's advantage. While Bangladesh was reconstructing
her economy, India invested into her jute processing industry. The supply of jute products from Bangladesh decreased sharply giving India an opportunity of almost monopolised supplies and to take over Bangladeshi markets cutting inflow of foreign currency for her economy. A substantial part of India's exports contributing towards her income consisted of jute smuggled from Bangladesh. It has been estimated that in 1972-73, one million of bales of jute have been smuggled to India. The London "Sunday Telegraph" from 29 December 1974 wrote that hundreds of tonnes of jute had been sold to Great Britain after being smuggled from Bangladesh to India. Thus a specific problem surfaced: how to turn the competition with India in this field into cooperation advantageous for both countries. No doubt, India was taking advantage of the difficult situation of her neighbour, her jute production increased due to jute smuggled from Bangladesh. Though rivalry is not conducive for cooperation it was clear that it will be difficult for Indian side to subordinate the every-day practice to the officially preached governmental policy. Still the governments insisted that ways should be found to turn competition into complementarity.

Smuggling

A substantial part of goods exchange between Indian and Bangladesh was covered by smuggling. During the 1971 civil war in East Pakistan the Awami League encouraged this
form of transmission of several goods, mainly jute, to India to prevent those goods from being sent to the Pakistani market. However, after December 1971 war such activities continued. Essential commodities like rice, fish, other food, jute and gifts which came to Bangladesh as relief from other countries or international sources have been smuggled to India, where their prices were much higher. Some goods, like fertilizers, have been smuggled back to India after being sold from India to Bangladesh on 50 per cent subsidized rates. 69 According to the reports of the Bangladeshi press, in the period from March till September 1972 the Bengal Rifles arrested 5834 persons under charge of indulging in smuggling and confiscated goods worth 7.5 million taka. 70 This demonstrates fairly well the extent of smuggling and black market activities and resulting losses for the economy of this country. It caused capital outflow from Bangladesh and rising commodity prices which subsequently led to protests against the Awami League regime and to anti-Indian feelings. Both governments mobilised all means to check the illegal activities and consequently the border trade has been suspended. Indian government even proposed to close the 1250 miles long border with Bangladesh. The question of fence between the neighbours was pending till recently. On 18th March 1989 the Assam

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Chief Minister inaugurated the construction of a border fence along the Indo-Bangladesh border at Sonarhat. The main reason of this drastic step is to stop the illegal migrants from Bangladesh from entering Indian territory.\footnote{Indian Express, March 20, 1989.}

Despite some temporary success repeated efforts of the Bangladeshi Army to curb smuggling soon collapsed as many influential members of Awami League or higher administrative officers, not to talk about interested persons on the Indian side, carried on their black market activities. Soon smuggling reached its previous volume and even outpaced it.

Illegal trade soon dominated the whole Indo-Bangla trade exchange\footnote{Lawrence S. Lifschulz, "Bangladesh: A State of Siege", Far Eastern Economic Review, 1974, no. 34, 49.} and became the main problem of the economy in Bangladesh. Capital outflow to India and other countries forced the Bangla government to take more financial credits to cover the budget deficit. The economy constantly deteriorated and India had been blamed for it along with the Awami League regime.

The rule of the Awami League in Bangladesh finished in a dramatic way and has been replaced by subsequent regimes rather unfriendly towards India.

Concluding Remarks

Inability of both, Indian and Bangladeshi, governments to control the processes between their countries did not
allow the voluminous Indian help extended to Bangladesh in the initial period of her independent existence to bring the expected results. Instead of generating goodwill and friendly and constructive relationship it created a fear of Indian hegemonistic intentions. This fear was reinforced by India's emerging as a main competitor in jute production and trade, so essential for the economy of Bangladesh. Both governments assume that ways should be found to turn the existing competition into complementarity. The change from rivalry into cooperation created for both parties a very complex problem, which had to be solved carefully to avoid tensions between both of them. Discussion continues, but the problems cast their shadow on the SAARC.

SRI LANKA

India's economic relations with Sri Lanka are relatively less developed than those with Nepal and Bangladesh. Even so they are not without an irritant of economic character which is an element of the problem connected with the presence of Indian ethnic community in Sri Lanka.

The authorities of the newly-freed Sri Lanka [then Ceylon] were well aware of the possibility of Indian domination in the future, if not political but economic and demographic. As early as the 1930s the economic penetration of Indians into Ceylon caused her concern. Indian community was composed of unskilled labours from the South, a class of
South Indian bankers and financiers - the Nattukottai Chettiars, a class of Marwari, Sindhi, Gujarati merchants and traders, salesmen, clerks, domestic workers etc.

Their presence put a serious financial burden on Ceylon's economy and created several social tensions. Indians competed directly with Ceylonese labourers, displaced them from employment and increased unemployment among them. They were ready to work for lower wages pushing down the higher living standards among the Sri Lankan workers. They remitted abroad all their savings instead of contributing to the Ceylonese economy thus strained this country's adverse balance of payments.

The dominating presence of the Indian workers on the Ceylonese labour market stirred nationalist resentment and called for restriction of their immigration.

The investment of the Chettiars in Ceylon was considerable. In 1945 they owned 750 firms totalling about Rs. 100 million in banking and commerce. Though there was no estimate of their investment later on, in 1964 it still probably amounted to Rs. 100 million enabling them to control the big business to a great extent. This was also a matter of concern for the Ceylonese authorities.

Indo-Sri Lankan Trade

In the first years of her independence Sri Lanka, as a basically agricultural country, earned her foreign

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exchange from exports of three agricultural commodities: tea, rubber, and coconut. The earnings were not enough to cover her import expenses and Sri Lanka had a persistent balance of payment crisis. This forced her in the 1950s to restrict her foreign exchange transactions and her international trade in general.

Thus her exchange with India was also not too substantial. The trade expansion was further limited by problems of the balance of payments suffered by both the countries. Ceylon, later Sri Lanka, had a limited significance for India as a source of supply which was expressed by a continuous adverse balance of her trade with India. This is shown by the table 9 below.

Table 9
Indo-Ceylon Trade in Rs. millions

<table>
<thead>
<tr>
<th>Year</th>
<th>Imports</th>
<th>Exports</th>
<th>Trade balance for Ceylon</th>
</tr>
</thead>
<tbody>
<tr>
<td>1948</td>
<td>130</td>
<td>20</td>
<td>-110</td>
</tr>
<tr>
<td>1949</td>
<td>153</td>
<td>20</td>
<td>-133</td>
</tr>
<tr>
<td>1950</td>
<td>181</td>
<td>29</td>
<td>-152</td>
</tr>
<tr>
<td>1951</td>
<td>188</td>
<td>47</td>
<td>-141</td>
</tr>
<tr>
<td>1952</td>
<td>212</td>
<td>36</td>
<td>-176</td>
</tr>
<tr>
<td>1953</td>
<td>200</td>
<td>41</td>
<td>-159</td>
</tr>
<tr>
<td>1954</td>
<td>191</td>
<td>65</td>
<td>-126</td>
</tr>
<tr>
<td>1955</td>
<td>242</td>
<td>78</td>
<td>-164</td>
</tr>
<tr>
<td>1956</td>
<td>213</td>
<td>71</td>
<td>-142</td>
</tr>
<tr>
<td>1957</td>
<td>226</td>
<td>50</td>
<td>-176</td>
</tr>
<tr>
<td>1958</td>
<td>220</td>
<td>37</td>
<td>-183</td>
</tr>
<tr>
<td>1959</td>
<td>247</td>
<td>53</td>
<td>-194</td>
</tr>
<tr>
<td>1960</td>
<td>268</td>
<td>38</td>
<td>-230</td>
</tr>
<tr>
<td>1961</td>
<td>207</td>
<td>38</td>
<td>-169</td>
</tr>
<tr>
<td>1962</td>
<td>163</td>
<td>66</td>
<td>-103</td>
</tr>
<tr>
<td>1963</td>
<td>95</td>
<td>29</td>
<td>-64</td>
</tr>
</tbody>
</table>

India imported from Ceylon copra, coconut oil, desiccated coconut, betel nuts, unmanufactured tobacco, spices, cinnamon leaf, oil, rubber, graphite and hides and skins. India exported to Ceylon textiles, dried fish, onions, dried chillies, other curry stuffs, coal, fertilizers, jute manufactures, tiles, bricks, cement, brassware, aluminiumware, cinematographs films, etc.

After the establishment of the Joint Commission in 1969 the trade between both of the countries increased, though still with Sri Lanka's deficit. Her trade deficit in 1977 amounted to US $37.89 million and increased to US $62.4 million in 1980. Sri Lankan exports to India increased from US $1.18 million in 1977 to US $34.3 million in 1980.74 The balance of trade has been favourable to India throughout 1980-1984 and was showing a rising trend in this period.75

**Joint Ventures and Other Forms of Cooperation**

Apart from trade links other aspects of economic relations between India and Sri Lanka are not too significant. Though in the 1970s Indian firms conducted some pre-


75 Govind R. Agarwal and others, "South-South Coopera-
paratory tasks in the form of feasibility studies and reports aimed at setting up and developing rubber - and graphite -based industries. As a follow up, concrete proposals have been tabled to the governments of India and Sri Lanka for examination. It was decided that the National Rubber Manufactures Ltd. would cooperate with the Sri Lanka's government to build up rubber-based industries through joint venture. The Indian collaborator was ready to absorb the surplus of tubes and tyres produced in Sri Lanka.

The feasibility studies have been also conducted by Indian experts with the objective of developing production of laboratory glassware, refractories, graphite, mica, fertilizer and textiles technologies.

Another joint venture was requested of Graphite Corporation of Sri Lanka for collaboration in establishment of graphite-based industries. It was agreed for Indian share participation of 49 per cent. The agreement stipulated production and marketing of finished products as well. Under both these agreements India had to supply necessary machinery and equipment, know-how, and training of local labour.

The government of India specified some areas for possible collaboration with Sri Lanka: metal mould release components, graphite based paints, high-quality graphite-based greases and lubricants, high conducting colloidal graphite solutions for the manufacture of HT electric
cables, graphite crucibles, cinema arc electrodes and chemical cell electrodes.

The power grids of the two countries are linked under an agreement.

The telecommunication system between Colombo and Madurai had been improved through a microwave link completed in 1974 at a cost of Rs. 28 million. India gave Sri Lanka equipment worth Rs. 9 million for this purpose in a goodwill gesture.76

India helped Sri Lanka with her expertise and experts for construction and development of the Mahaweli Development project which was of special importance for the island.

According to the record of the Federation of Indian Chambers of Commerce & Industry in 1986 there were 17 operating Indian joint ventures and three under implementation in Sri Lanka.77 They produced sewing machines, electric fans, leather cloth, glass and glassware, pigment emulsions, toiletries and cosmetics, synthetic resins, cotton hosiery, industrial rubber products, vehicles, cutting tools, wax matches and book matches. One of them was drilling tube wells. Six of them were established in the service sector: two restaurants, hotel, travel, tourism, financial consultancy.

76 Brojendra Nath Banerjee, "India's aid to its neighbouring countries", New Delhi, 1982, p. 712.

77 Indian Joint Ventures Abroad and Project Export, publ. Federation of Indian Chambers of Commerce and Industry, New Delhi, 1986, pp. 125-129.
There were also 12 other Indian investments which were not covered by the official lists. Eight of them were owned by Shaw Wallace and their participation was 100 percent. 78

Recent Cooperational Efforts

In September 1987 the forth ministerial meeting of the Indo-Sri Lankan Joint Commission for Economic, Trade and Technical Cooperation was held in Delhi. The meeting initiated a new phase in the cooperation between the both countries. They decided to revive the Indo-Sri Lankan Joint Business Council, which had last met in 1981. The Council would facilitate interaction at the business level thus promoting bilateral trade, economic cooperation and joint ventures.

The Indian government was willing to grant Sri Lanka a government to government credit of Rs. 200 million on concessionary terms.

Several aspects of mutual cooperation have been reviewed in the meeting. Both sides were concerned over the decline in the total volume of trade in the last two years and decided to expand it and diversify. Sri Lanka's trade offer was limited to nylon textile yarn, cloves, coconut oil, and natural rubber. India was ready to import

78 K.V.K. Ranganathan, "Indian Joint Ventures Abroad", publ. by Corporate Studies Group, Indian Institute of Public Administration, New Delhi, year of publication not given, pp. 37-39.
natural rubber, cloves and precious and semi-precious stones. Her export offer included agricultural products including fruits and vegetables, cotton and synthetic fabrics, pharmaceuticals and bulk drugs, agrochemicals, dyes and dye intermediates, auto tyres, sports goods, railway rolling stock, passenger coaches and container wagons, tractors, machine tools, commercial vehicles, electrical equipment, telecommunication equipment and management consultancy services.

During the meeting the Sri Lankan representative recalled the excellent cooperation between both the countries in connection with the international trading of tea. However, despite the excellent cooperation, the unity of the tea producers could not be achieved. Both parties decided to carry on their joint efforts on research in tea production and marketing. The meeting found considerable scope for improving transport facilities between both the countries such as additional ferry services, air services, use of Colombo dry docks by Indian ships, Indian assistance for restoration of railway tracks, Indian consultancy for development of Sri Lankan railway services.

They agreed to develop a petroleum exploration strategy for the Palk Straits and Gulf of Mannar and establish an interlink for exchange of power between their power grids. Sri Lanka needed and asked for more scholarships in Indian institutions, among others in IITs, IIMs and medical
colleges, for specialised training and consultancy services in animal husbandry, dairy farming, farmers training, pasture production, for training in hotel and catering management.

Sri Lanka invited India for joint ventures participation indicating areas for that. She was particularly interested to base the joint ventures on local raw materials and to make suitable buy-back arrangements import facilities for items produced by such ventures.79

The text of the minutes of the ministerial meeting shows clearly not only the discrepancy between the trade offer between both the countries but also the scope of openings for India to enter and control many fields of the Sri Lankan economy as well. It indicates that Sri Lanka's trade deficit with India would continue, that she would be flooded with Indian goods, that she would depend on Indian know-how and technology. She will become dependent on India in many aspects of her economic and subsequently social life. The political results will follow soon.

The political situation of the island is sharply anti-Indian now when the Sinhalese extremist group Janata Vimukti Peramuna (JVP) wants all Indian business establishments, banks, lending agencies, insurance companies and

other commercial units to be closed by June 14, 1989. Indian goods are boycotted and all Indians are asked to leave Sri Lanka or else, they have been warned, they face death.80

These circumstances do not leave any scope for economic cooperation of both the countries for some time.

After over 40 years of independence, India and Pakistan were not able to overcome their political differences. Thus their economic relations are also limited to mere trade and complementary activities including remittance facilities between the State Banks of both the countries and direct shipping service between them.

There is no trade agreement between India and Pakistan at present. The trade is regulated by a Trade Protocol from 30 November 1974 and by the Trade Agreement signed for one year in January 1975. It was extended later till its lapse in January 1978. The agreement gave the governments of both countries a full control over their trade which was to be conducted through governmental agencies and undertakings. In practice these were the State Trading Corporations. The document specified broadly commodities to be traded. These were cotton, engineering goods, jute manufactures, iron ore, railway equipment and rice.81


81 S.S. Mehta, "Economic Cooperation Between India and
After resumption of trade in 1975 the balance of trade was in favour of Pakistan. However, after 1976 when private sector was permitted a direct exchange, the situation changed to India's favour. Demand for consumer goods is relatively high in Pakistan and Indian products were found to be competitive there.

The hitherto trade agreement came to an end in 1978 and the subsequent trade negotiations in 1978 did not bring any mutually acceptable formula for its renewal. At present India does not restrict her imports from Pakistan but Pakistan has unilaterally limited her imports from India to public sector and checked the activities of her private sector.

After 1978 a new trade agreement has not been signed, mainly because Pakistan was not ready to uplift the restrictions following her export/import policies. Though India agreed to make some provisions enabling a more equitable balance of trade with Pakistan, Indo-Pakistani trade is negligible as the table 10 shows.

Private businessmen and industrialists in both countries declare that they are interested in reestablishment of more forms and channels of economic exchange with India. Privately, however, they admit that they prefer links with Western industrialised countries. 82 Pakistani

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82 Charan Wadhwa in a discussion.
<table>
<thead>
<tr>
<th>Year</th>
<th>Exports to Pakistan</th>
<th>Imports from Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1975-76</td>
<td>0.78</td>
<td>22.12</td>
</tr>
<tr>
<td>1976-77</td>
<td>8.87</td>
<td>0.01</td>
</tr>
<tr>
<td>1977-78</td>
<td>42.12</td>
<td>23.91</td>
</tr>
<tr>
<td>1978-79</td>
<td>1945</td>
<td>12.77</td>
</tr>
<tr>
<td>1979-80</td>
<td>8.50</td>
<td>23.69</td>
</tr>
<tr>
<td>1980-81</td>
<td>0.82</td>
<td>84.33</td>
</tr>
<tr>
<td>1981-82</td>
<td>4.41</td>
<td>56.01</td>
</tr>
</tbody>
</table>


Officials are of the opinion that trade in the manufactured goods would endanger Pakistani industries. This controversy expressed itself in the discussions on SAARC when the questions of cooperation in fields of industry, trade etc. arose.

Though there is no trade agreement between the both countries the Indo-Pak sub-Commission on Trade established in 1983 by the Indo-Pak Joint Commission met twice in 1983-84 and decided to find ways and means to involve the private sector into the trade exchange. The lists of items from
both countries for bilateral trade were also identified, 
the information, however, about the number and contents 
of the lists vary. 83

The establishment and activities of the Indo-Pak Joint 
Commission can bring about less restrictive commercial 
relations between both the countries but it is scheduled to 
meet only once a year 84 which is not enough if any meaning-
ful expansion of the exchange really has to be effected. In 
the absence of the trade agreement the Indo-Pakistani trade 
is minimal. This can be illustrated by the fact that 
Pakistan's exchange with India accounts for only 2 per cent 
of Pakistan's total exports. 85

Till recently the possibility to negotiate a new trade 
agreement in the near future was not big. However, after 
the situation in Pakistan has changed prospects for Indo-
Pak closer relations, also of economic type, seem to have 
 Improved. The recent SAARC summit in Islamabad was a clear 
indication of big interest on both sides to change their

83 Govind R. Agarwal and others, "South - South Economic 
Cooperation...", pp. 127-128; ed. Hans Singer and 
Others, New World Order Series: Challenges of South-
South Cooperation, part 2, pp. 653-654.

84 S.S. Mehta, "Economic Cooperation between India and 
Pakistan" in "Challenges of South - South Cooperation" 
part 2, New World Order Series" etc., p. 651.

85 Charan D. Wadhwa, Sadrel A. Reza, Hafiz G. Siddiqui, 
Zafar Mahmood, S. Sureshwaran, Y. Schokman, "Regional 
hitherto strained mutual interaction. The economists in both countries are preparing in-depth studies on pros and cons of intensified economic relations between their countries.

CONCLUSIONS

The above review of India's relations with her neighbours indicates that India's short-term policy towards them succeeded in the sense that she, while treating them instrumentally and subordinating them, was able to strengthen herself. Perhaps also the opportunity of showing off and exercising power flattered the egos of some officials. As Iqbal Masud put it: "India's ruling classes... have never seriously attempted a non-patronizing, non-Big Brother dialogue with our neighbours". 86 While offering them her assistance in any form she claimed spheres of influence in the neighbouring countries instead of respecting their sovereign rights. 87 This made her fail in the long-term objective: instead of generating goodwill and friendly climate in her neighbourhood, which means also South Asian region, through her voluminous assistance and substantial cooperational effort, she has unfriendly neighbours all around. In her relations with all of them exist many more or less grave irritants of various character.

86 Indian Express, July 5, 1987.
87 Indian Express, August 2, 1987.
Recently, commenting the developments in Nepal, Sri Lanka and Bhutan, a senior bureaucrat in the external affairs ministry said that "at this rate, India would soon become an island in a sea of hostility". 88

India's failure in achieving a long-term objective is another prove of her ad hoc approach towards her neighbours which lacks a long-term preplanned studied policy line. This is what Rishikesh Shaha regretted: "That India could not formulate a well informed and imaginative policy towards the countries on its periphery, including Nepal, by practical demonstrations of its regard for their nationalist aspirations as well as for their desire for economic development". 89

This is the political environment in which the SAARC has to operate.


89 Rishikesh Shaha, "Guidelines from Experience" in "Future of South Asia", p. 137.