Chapter 2

Geopolitical Codes of India: Local Level
CHAPTER - 2

GEOPOLITICAL CODES-LOCAL LEVEL

South Asia is a well-developed geographical region with a shared social, cultural and civilized past, but its postcolonial history mired in interstate conflicts, has deeply divided the region (Pattanaik & Pattanaik 2004, p 53). The circumstances under which the British withdrew from South Asia inhibited the prospect of continuing political and economic linkages between the successor states (Rizvi 1993, p.148). The countries of South Asia, which under British colonial rule, functioned like a composite whole, are now trying to function as autonomous economic units with protective trade regimes that are often detrimental to their growth and well being. Such policies are influenced by the fear among some of the smaller states around India that interdependence will lead to the erosion of political autonomy and undermine their leverages for securing honourable settlement of bilateral differences and at times disputes with India (Pattanaik 2006, p.140).

Countries in close geographical proximity are categorised as a ‘region’ when, they share a certain commonality of (national) interests which incorporate a whole gamut of social, economic, political, cultural, historical, and other factors. These countries should be sufficiently enlightened so as to understand the significance of placing cooperation above conflict in the conduct of inter-state relations. This should also be bolstered by a collective desire to come together on a common plank to create some lasting mechanism for regional cooperation. These sentiments are more or less lacking among the South Asian states, as is evident in years of lack-luster performance by the South Asian Association for Regional Cooperation (Monica Bhanot 1999). In the South Asian regional cooperation, states have not been able to think beyond the nation-boundary. The whole notion of welfare has been confined to geographical boundaries. It is difficult for some of the states of South Asia to appreciate the idea of a South Asian Economic Union as they fear their sovereignty would be diluted. The domestic politics of South Asia too have been intertwined with intra-state rivalry and
misunderstanding. The national political interests of this region have taken precedence over collective economic interests that would have at the same time brought security gains. It has also not succeeded in establishing meaningful cooperation with other regional groupings in South East and Central Asia and around the Gulf. Neither has the SAARC been able to take advantage of synergies that can be harnessed by internal and external regional cooperation. As a result, the SAARC remains marginalised at the periphery of the emerging Asian resurgence (Lama & Bhargava 2007, p.3).

The SAARC group comprising eight countries namely India, Pakistan, Bhutan, Nepal, Sri Lanka, Maldives, Bangladesh and Afghanistan and India’s relations with the other SAARC countries is the subject matter of study (Fig.1). The SAARC countries have a distinct, geographical character, the people in the region, irrespective of their religion, nationality and language share common history, tradition and culture and possess considerable degree of homogeneity. India’s freedom in 1947 proved to be an important landmark in the history of South Asia. Despite the global perception of India’s foreign policy, Nehru always underlined the importance of friendly relations with neighbours (Khanna 1997, p.126). During the initial years of turmoil (political and economic) India was in the peripheral position along with the other countries of Asia, Latin America and the other south Asian states. India by its development processes managed to move to the semi periphery. Even though moving ahead of its neighbours, India never exerted its sovereignty, never interfered in their internal problems, but always provided a helping hand so that they can also strive towards development. Indian policy towards its neighbours has been to deal with all matters on a bilateral basis on the basis of equality and mutual benefit, but surprisingly all the ruling elites in South Asia (with the possible exception of Bhutan and Maldives) project India as their major security concern and have all sought external assistance as a counterbalance. Pakistan has made alliances with USA, Sri Lanka sought to limit Indian influence by involving external powers in a UN resolution to make Indian ocean a nuclear free zone; Nepal’s zone of peace also arose from the anxiety about India; and Bangladesh notwithstanding the memories of war of liberation sought close links with Pakistan and even took the issue of
distribution of Ganges water in 1974 to the UN General Assembly in order to bring international pressure on India (Rajan 1997, p.131).

Figure 2.1: South Asia

India and SAARC Countries

The geographical size, the demographic, population, diversities, economic strength, technological capacities and military power and natural resources of India were considered contributory factors to India’s importance. Geography contributed to the process. The borders of other SAARC states touch India’s frontiers. However none have a direct land, marine or river border with each other. India shares ethnicities, languages, religions and cultural traditions with all the other states of the South Asian region. This
overlapping creates a substantive negative challenge to India's relations with its South Asian neighbours (Dixit 2003). In a speech at India International Centre, Indian Foreign Secretary Shyam Saran said that "the logic of geography is implacable and proximity is the most difficult and testing among diplomatic challenges a country faces. Frontiers with neighbours are focal points and where domestic concerns intersect with external relationships. This is an area where Indian domestic and foreign policies become inextricable and demand sensitive handling. It should come as no surprise therefore, that in defining one's vital national and security interests, a country's neighbourhood enjoys a place of unquestioned primacy" (Saran 2005).

**Origin of SAARC**

The idea of regional cooperation was not seriously mooted until 1980. Even then President of Bangladesh Zia-ur-Rehman who first put forward the scheme was motivated by considerations that had little to do with the desire for regional cooperation (Rizvi op.cit., p.154). Zia was suspicious of India because at that time Bangladesh had serious problems with India on the issue of the sharing of the Ganga water. It was envisioned that SAARC would provide a forum for settlement of some of these issues. Zia's main concern was to enhance the security of Bangladesh and he saw a multilateral South Asian forum as a mechanism for bringing collective pressure on India which could not otherwise be exerted through bilateral negotiations. Sri Lanka, eager to look towards the South East Asia as its economic hub, was initially reluctant to join SAARC. However, due to its own ethnic crisis it became interested in the association expecting it would help assuage some of its apprehensions regarding India. Pakistan had only one goal – it believed that the forum would enable greater interaction with other Indian neighbours and it could be used to counter India's influence. (Pattanaik op.cit., p.142).

The efforts of the countries of South Asia were successful in December 1985, when the South Asian Association of Regional Cooperation was formally launched, with the specific aim of promoting regional economic cooperation among the member States. The Heads of State or Government of Bangladesh, Bhutan, India, the Maldives, Nepal,
Pakistan and Sri Lanka at their First SAARC Summit held in Dhaka on 7-8 December 1985 adopted the Charter formally establishing the South Asian Association for Regional Cooperation (SAARC). SAARC was manifestation of the determination of the peoples of South Asia to work together towards finding solutions to their common problems in a spirit of friendship, trust and understanding and to create an order based on mutual respect, equity and shared benefits, in fact upon the five principles of Panchsheel (Jayapa
dar\ 2001, p.490). The Charter further stated that such cooperation will not be an obstacle to other bilateral or multilateral cooperation or be inconsistent with them. Nonetheless, a major hurdle before the organisation has been the failure of some of the member countries – especially Pakistan and Bangladesh – to overcome their proclivity to pursue political goals and limited national agendas within the regional framework (Pattanaik 2006, p. 139). Naturally India was initially less enthusiastic about a regional organisation, fearing its small neighbours were ganging up and therefore preferred to treat with each neighbour bilaterally (Rizvi 1993, p.154). The association (SAARC) that emerged was somewhat different from what was originally conceived. The reasons for these limited achievements are to be found in the geopolitics of the states of the Indian sub-continent, primarily the attitude towards India of the rest of the SAARC countries (Rajan op.cit., p.187). It has avoided taking on any military or defensive role and did not sought to restrict in any way the various alliances between the south Asian states and extra regional powers. India has played a very positive and constructive role in South Asian Association for Regional Cooperation and making it work as a dynamic association committed to consolidate and expand socio-economic-cultural cooperation among the South Asian countries.

From the very beginning Geopolitical Codes have been the unstated driver behind SAARC. The motivations of the regional states in creating the regional organisation were driven by geopolitical considerations, though SAARC Charter kept bilateral disputes beyond the purview. Smaller countries like Nepal and Bhutan had great expectations from SAARC. Geographical imperative made both the countries dependent on India including their foreign policy orientation, whereas India’s security interests have compelled it to take
care of their economic interests. In the case of Bangladesh the motivating factor is mutual economic dependency. The motive of these countries to join SAARC was shaped by the consideration of greater visibility in regional affairs and wide ranging interaction among South Asian countries, especially between those that do not share borders. It was believed that SAARC would help them diversify their Indo-centric foreign policy in order to bargain with India in a unified manner (Robinson 1983, p.301).

It is rightly remarked that, whilst SAARC has done commendable progress in certain areas and in many areas it has not done as expected (Falerio 2004). The SAARC region is the home of one fifth people in the world. However, all the countries in the region are classified as LFDC (Low income, Food Deficit Country) and four of them such as Nepal, Bhutan, Maldives and Bangladesh even belong to the category of LDC (Least Developed Countries) (Pattanaik & Pattanaik 2004, p.53). All the countries of SAARC face common problems of rapid population growth, pressure on land, limited natural resources and high levels of poverty and income distribution. Due to the operation of peripheral processes the imperatives for regional cooperation among SAARC countries are self-evident. Poverty and slower pace of human resources development are the two daunting problems in the SAARC countries. The Human Development Report-2007/08 envisages that about 28.6 percent of population of India is living below the poverty line and as far as international standard is concerned, the report has mentioned that 34.3 percent of population in India are getting less than one dollar. 20% of the Indian population is undernourished and the poverty rank is also low. While the percentage of population living below the poverty line in other SAARC countries are 49.8 in Bangladesh, 30.9 in Nepal, 32.6 in Pakistan and 25 percent in Sri Lanka respectively(Table 1). The key concerns of the SAARC countries are income and human poverty, but the countries in the region are fighting for nefarious purposes other than the key concerns.
Table 2.1: Profile of Poverty and Malnutrition in SAARC Nations

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</tr>
</thead>
<tbody>
<tr>
<td>% pop. Below Poverty line (1990-04)</td>
<td>N.A.</td>
<td>49.8</td>
<td>31.7</td>
<td>28.6</td>
<td>21.0</td>
<td>30.9</td>
<td>32.6</td>
<td>25.0</td>
</tr>
<tr>
<td>% population with income&lt; $1 a day (1990-05)</td>
<td>N.A.</td>
<td>41.3</td>
<td>N.A.</td>
<td>34.3</td>
<td>1.0</td>
<td>24.1</td>
<td>17.0</td>
<td>5.6</td>
</tr>
<tr>
<td>% undernourished pop. (2002-04)</td>
<td>N.A.</td>
<td>30.0</td>
<td>N.A.</td>
<td>20.0</td>
<td>10.0</td>
<td>17.0</td>
<td>24.0</td>
<td>22.0</td>
</tr>
<tr>
<td>Human Poverty Index – 2005 Rank</td>
<td>N.A.</td>
<td>93.0</td>
<td>86.0</td>
<td>62.0</td>
<td>42.0</td>
<td>84.0</td>
<td>77.0</td>
<td>44.0</td>
</tr>
</tbody>
</table>

Asian Development Bank, Key Indicators 2006-2007

With the end of Cold War South Asia like the rest of the third world is faced with the ever-increasing prospect of being marginalized in the international economy (Rehman 1984, p.268). The regional members differ not only in size and stages of economic development but also in their political framework and economic objective. The countries have neither equal per capita income nor have an equal growth rate in industrial and agricultural sectors. However in terms of geographical proximity, historical experiences and the ties of art language, culture and religion they are more closer to each other than the other countries and other regional organizations. Besides all of them share a common concern for economic development, hunger and illiteracy, malnutrition and unemployment baffle them all. The question of growing population and continuous depletion of natural economies of these countries acts as a barrier for their development. The period prior to the eighties has seen sluggish growth and slow pace of structural changes. The eighties and nineties seem to have injected a new economic dynamism in the countries of the region. While Sri Lanka began reforming its trade and industrial policies in the 1980s, other countries followed—India and Bangladesh in the early 1990s, and Pakistan and Nepal in the late 1990s (Devarajan & Nabi, 2006). All of the SAARC countries have initiated economic
reforms, characterized by the liberalization, privatization and globalization. It was during the eighties that most of the economies of the region started the process of rationalizing their policy regimes. This progress has further strengthened in the nineties, which has also coincided with significant structural changes in the world economy.

Among the SAARC countries, India happens to dominate the economic scenario as its population accounts for 74%, followed by Bangladesh, Pakistan, Nepal, and Sri Lanka. India’s area comprises of about 3287.2 sq. thousand kilometers which is the largest among SAARC countries (Table 2). India’s hegemony is a lurking fear in the minds of other SAARC members. Hence, they are generally hesitant to commit themselves to cooperation in hard-core economic areas. Experts suggest that India can assist most of the other SAARC members in their developmental efforts by virtue of its diversified industrial base and relatively skilled manpower. For example, Nepal and Bangladesh could benefit in textiles and plastic products while Bangladesh and Pakistan could substantially improve iron and steel production with a little cooperation from India. Sri Lanka and India can also co-operate in exporting tea to the rest of the world through a properly evolved set of guidelines (Bhatta 2004, p.12). But in reality, attempts to use SAARC as a platform from which to launch joint industrial or manufacturing ventures threatens the smaller states with further integration into India. Moreover, most of the SAARC countries continue to remain primarily agricultural in nature and depend upon the developed world for their exports and imports of both manufactured as well as semi-manufactured products. The resources of the governments in SAARC countries are almost perpetually under severe strain in view of the ever increasing need for social amenities for the expanding populace. This also cuts into the funds originally allocated to various developmental projects. Not surprisingly therefore, lack of adequate financial resources is considered one of the major constraints in transforming the work of technical committees and other SAARC bodies into more effective action (Zaki 1994, p.2).
Table 2.2: Macroeconomic Indicators of SAARC Countries 2005

<table>
<thead>
<tr>
<th></th>
<th>South Asia</th>
<th>Afghanistan</th>
<th>Bangladesh</th>
<th>Bhutan</th>
<th>India</th>
<th>Maldives</th>
<th>Nepal</th>
<th>Pakistan</th>
<th>Sri Lanka</th>
</tr>
</thead>
<tbody>
<tr>
<td>Area sq km (thousands)</td>
<td>5139.5</td>
<td>652.1</td>
<td>144.0</td>
<td>47.0</td>
<td>3287.3</td>
<td>0.3</td>
<td>147.2</td>
<td>796.1</td>
<td>65.6</td>
</tr>
<tr>
<td>Pop. Millions</td>
<td>1476.4</td>
<td>N.A.</td>
<td>153.28</td>
<td>0.64</td>
<td>1094.5</td>
<td>0.3</td>
<td>27.09</td>
<td>155.77</td>
<td>19.67</td>
</tr>
<tr>
<td>Pop. Growth Annual</td>
<td>1.6</td>
<td>N.A.</td>
<td>1.8</td>
<td>N.A.</td>
<td>N.A.</td>
<td>1.6</td>
<td>2.0</td>
<td>2.4</td>
<td>1.1</td>
</tr>
<tr>
<td>GDP($bn)</td>
<td>1015.8</td>
<td>7.31</td>
<td>60.03</td>
<td>0.83</td>
<td>805.73</td>
<td>0.75</td>
<td>8.18</td>
<td>109.50</td>
<td>23.54</td>
</tr>
<tr>
<td>GDP Growth (%)</td>
<td>8.7</td>
<td>14.0</td>
<td>6.0</td>
<td>7.0</td>
<td>9.2</td>
<td>-5.1</td>
<td>3.1</td>
<td>7.7</td>
<td>6.0</td>
</tr>
<tr>
<td>Inflation(%)</td>
<td>6.1</td>
<td>11.9</td>
<td>5.1</td>
<td>5.8</td>
<td>4.4</td>
<td>4.9</td>
<td>6.5</td>
<td>7.0</td>
<td>9.9</td>
</tr>
<tr>
<td>PerCapita income</td>
<td>N.A.</td>
<td>N.A.</td>
<td>470</td>
<td>870</td>
<td>720</td>
<td>2390</td>
<td>270</td>
<td>690</td>
<td>1160</td>
</tr>
<tr>
<td>HDI sectoral share of GDP</td>
<td>N.A.</td>
<td>N.A.</td>
<td>.547</td>
<td>.579</td>
<td>.619</td>
<td>.741</td>
<td>.534</td>
<td>.551</td>
<td>.743</td>
</tr>
<tr>
<td>HDI Rank</td>
<td>N.A.</td>
<td>N.A.</td>
<td>140</td>
<td>133</td>
<td>128</td>
<td>100</td>
<td>142</td>
<td>136</td>
<td>99</td>
</tr>
<tr>
<td>Agriculture(%)</td>
<td>19</td>
<td>36</td>
<td>20</td>
<td>24</td>
<td>18</td>
<td>N.A.</td>
<td>36</td>
<td>21</td>
<td>17</td>
</tr>
<tr>
<td>Industry(%)</td>
<td>27</td>
<td>24</td>
<td>27</td>
<td>37</td>
<td>28</td>
<td>N.A.</td>
<td>17</td>
<td>27</td>
<td>27</td>
</tr>
<tr>
<td>Services(%)</td>
<td>54</td>
<td>39</td>
<td>53</td>
<td>39</td>
<td>54</td>
<td>N.A.</td>
<td>38</td>
<td>51</td>
<td>56</td>
</tr>
<tr>
<td>Exports GDP(%)</td>
<td>20</td>
<td>12</td>
<td>17</td>
<td>35</td>
<td>20</td>
<td>21.6</td>
<td>15</td>
<td>16</td>
<td>34</td>
</tr>
<tr>
<td>Imports GDP(%)</td>
<td>24</td>
<td>56</td>
<td>23</td>
<td>51</td>
<td>23</td>
<td>87.4</td>
<td>29</td>
<td>20</td>
<td>43</td>
</tr>
<tr>
<td>Military Exp. (%)</td>
<td>2.9</td>
<td>9.9</td>
<td>1.2</td>
<td>N.A.</td>
<td>2.8</td>
<td>N.A.</td>
<td>2.1</td>
<td>4.2</td>
<td>2.6</td>
</tr>
<tr>
<td>Merchandise Trade(%)</td>
<td>32</td>
<td>39</td>
<td>39</td>
<td>78</td>
<td>30</td>
<td>121</td>
<td>33</td>
<td>38</td>
<td>64</td>
</tr>
<tr>
<td>External Debt.</td>
<td>1,91,322</td>
<td>N.A.</td>
<td>18,928</td>
<td>649</td>
<td>1,23,128</td>
<td>368</td>
<td>3197</td>
<td>33,173</td>
<td>11,271</td>
</tr>
</tbody>
</table>

Asian Development Bank, Key Indicators 2006-2007  

SAARC is still in the early stages of growth. The countries have been depending on developed countries (core) for their products while the attitude of Developing countries (periphery) has not been helpful in getting the real price of their products. The primary and commodities production sectors have geared towards export development with the natural corollary that the
domestic markets have remained limited. The intra regional trade and economic cooperation has been abysmally low (Table 3). The performance of South Asia is poor in terms of intra-regional trade. Countries within the SAARC do not have significant trade with one another in spite of their geographical proximity and income levels. At present, the official intra-regional trade in South Asia is about $6.25 billion where India alone contributes more than 45 per cent of total intra regional trade. The rest is distributed among Bangladesh, Nepal, Pakistan, and Sri Lanka. Table 3 presents the pattern of intra-regional trade in South Asia for three cross-section points (1991, 1995, and 2003). This table clearly shows that despite overall economic progress in South Asia since 1991, the economies in the region have not yet engaged in higher trading among themselves; intra-regional trade only amounted to 4.18 per cent of trade their global trade in 2003. However, there has been a marginal increase in intra-regional trade during 1991 to 2003, which increased from 3.02 per cent in 1991 to 4.18 per cent in 2003. Except Pakistan, the rest of the South Asian countries have engaged in comparatively higher trade within the region during 1991–2003.

Table 2.3: Intra-South Asia Trade

<table>
<thead>
<tr>
<th>Countries</th>
<th>Trade with World ($ million)</th>
<th>Trade with SAARC ($ million)</th>
<th>Intra-SAARC Trade (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bangladesh</td>
<td>5108</td>
<td>9,625</td>
<td>16,011</td>
</tr>
<tr>
<td>India</td>
<td>37,381</td>
<td>65,021</td>
<td>126,689</td>
</tr>
<tr>
<td>Maldives</td>
<td>216</td>
<td>407</td>
<td>584</td>
</tr>
<tr>
<td>Nepal</td>
<td>757</td>
<td>1,091</td>
<td>2,416</td>
</tr>
<tr>
<td>Pakistan</td>
<td>14,925</td>
<td>19,452</td>
<td>24,968</td>
</tr>
<tr>
<td>Sri Lanka</td>
<td>5,048</td>
<td>8,282</td>
<td>11,797</td>
</tr>
<tr>
<td>South Asia</td>
<td>63,435</td>
<td>103,878</td>
<td>182,744</td>
</tr>
</tbody>
</table>

(See De & Bhattacharyay 2007, p.12)
As countries in the region embark on the road to economic development, the need for greater cohesiveness is gaining ground. South Asia has received growing attention as a region that is integrating successfully into the global economy. With SAFTA, South Asian countries are now looking toward deeper integration of the region. SAFTA, which was signed during the 12th SAARC Summit in Islamabad in 2004, will come into force on 1 July 2006. It will be fully operational by 2016. SAFTA includes some 5,500 tariff lines, taking into account both agricultural and industrial products. SAFTA is projected as a model of integration that would ultimately lead to the formation of South Asia Economic Union once the zero tariff regimes is implemented.

As per the terms of SAFTA, the more developed countries of the region (India, Pakistan and Sri Lanka) need to reduce their tariff to 20 per cent in the next two years and in the next seven years, by 2012, they would strive to bring it down to zero tariffs. The Least Developed Countries (LDCs) Nepal, Bangladesh, Bhutan and Maldives will get an additional 5-year by 2017 to bring down the tariff to zero per cent. It is expected that SAFTA would bring much of the illegal trade in the region to the official level boosting all-round regional trade figures. The countries of South Asia have been mainly a supplier of raw materials to core countries due to their low technical development. The wisdom of cooperation is even more manifest when it is recognised that not only do all these face common problems and the policies and strategies followed by them and the goals of each of them are virtually identical. All of them are endeavouring for technological transformation and structural changes because it was only due to this factor they suffered exploitation by the core countries as they were unable to harness their natural and manpower resources to the best of their advantage. (Rizvi op.cit., p.154).

Not only have the economic linkages with the core countries, Indo-Pakistan rivalry and the fear of India acted as brakes on cooperation, but South Asia also lacks some of the preconditions which have facilitated cooperation in other regions. The threat to security and development is perceived to come from each other not from an external enemy and due to this fact, the states of this region invited external powers to fend off threats from their neighbours. The nature and magnitude of the problems faced by the SAARC countries is such that they call for a collective response to tackle them effectively.
India and Pakistan

On Aug. 14 and 15, 2005 Pakistan and India celebrated their 58th anniversary of the independence of from British colonial rule and even though the region has been independent for over half a century, it is still not free. Today, both India and Pakistan are gripped in the frenzy of a religious fervour that is fundamentally negative in its orientation. Religious activism and mass mobilization in both nations is directed against each other, rather than standing for, something together. Both the countries have so much in common than the rest of the world sometimes find it difficult to understand why they are in a state of perpetual confrontation (Bhutto 1969, p. 162). Both India and Pakistan have divergent national ideologies and have been unable to establish a mutually acceptable power equation in South Asia. The trouble between both the countries began even before they were established as free and independent nations (Hassan 1951, p.4). The national ideologies of pluralism, democracy, and secularism for India and of Islam for Pakistan grew out of the pre-independence struggle between the Congress and the All-India Muslim League. The partition of 1947 created India and Pakistan as separated states and it elevated inter communal strife into interstate conflict making it a central persistent theme of South Asian politics. Although for centuries Hindus and Muslims had lived together in the subcontinent, the partition created unprecedented hostility between secular India and Islamic Pakistan (Khanna 1997, p.62), while India sought to solve its minority problems by establishing a secular state, Pakistan decided to be an Islamic republic. The Muslims of Pakistan formed a separate state because they were unwilling to play a subservient role in the Hindu dominated India; they wanted their own banks, industries, share in international trade and aid without competition from the Hindu elite and wanted to build a rival economy within a protected national boundary. Pakistan was obsessed with the fear of India and of attempts to define Pakistan state, society, culture and ideology as not only distinct from those of India but as its antithesis (Prajapati 1998). Apart from the internal factors which inhibited regionalism in South Asia, external factors, too, impinged on the regional dynamics in a way exacerbating tensions especially between India and Pakistan. Unresolved areas of conflict
and tension between India and Pakistan, that were a legacy of colonial rule, remained intractable due to the cold war. The pressures of domestic politics in Pakistan have complicated the issue and fear of nuclearisation of conflict between India and Pakistan has remained a continued threat. The reports of maltreatment of minorities in either side started causing serious strains on bilateral relations of India and Pakistan (Jayapalan 2001, p.228).

The Initial Irritants

The major issues and problems determining the nature of Indo-Pak relations during the initial stages of independence were:

1. **Transfer of Population**: - One of the most tragic and serious problems that emerged as the side effect of the partition was the transfer of population. Beginning with months before 1947, the migration was the largest in modern history, involving perhaps 12 million persons flowing both ways (Jayapalan op.cit., p.227). In spite of such migration, the problem of religious minorities was not solved in either state about 40 million Muslims remained in India and ten million Hindus in East Pakistan. Most of the migration took place in western half of the continent. It was a horrifying process in which hundreds of thousands lost their lives and millions their livelihoods due to rampart, uncontrolled violence and landgrabs on both sides of border (Dossani 2008, p.20).

2. **Problem of Recovery or Compensation of Abandoned Properties of Refugees in India and Pakistan**: - Migration resulted in complex problem of the recovery or compensation for the abandoned properties of the refugees. The communal riots compelled the migrants to abandon their properties. The negotiations to solve the problem of evacuee property were initiated on 29 August, 1947, but because of the complicated nature of the problem and the differences in approach of the two governments, these negotiations failed to produce any result. Hence there was a vast property movable and immovable in India which belonged to Muslims and in Pakistan belonging to Hindus and Sikhs, left by them (Chaudhari 1957, p.96). For the utilization of the evacuee property for the benefit of refugees Displaced Persons Act
was passed by the Indian Parliament in October 1954. In April 1955, an agreement was signed at Karachi between India and Pakistan and the dispute relating to immovable property was resolved. In January, 1956, the two Governments agreed for the transfer of evacuee Bank Accounts, Lockers and Safe Deposits. This issue, kept the environment governing the Indo-Pak relations tense and strained till late fifties.

3. Division of Assets: - The problem of division of assets Indo-Pak relations tense and strained during the initial years of their relations. On 14 August, 1947, the cash balance of India were about Rs. 4,000 millions out of which Pakistan wanted Rs. 1,000 millions. India was not willing to give such a big share to Pakistan. Arbitral Tribunal decided that Rs. 750 millions should be paid to Pakistan which refused to pay India, Rs. 55 crores which it was to pay as its share of the pre-1947 foreign debt of India, which led into tense relations between the two countries. The partition upset the economic and trade relations. In 1947 and 1948 both the countries signed a Stand Still Agreements for the free flow of goods between the two which failed to resolve the trade tangle which too kept the Indo-Pak relations tense and strained (Jayapalan 2001, pp. 229-30).

4. Canal Water Dispute: - East Punjab in India was relatively underdeveloped in irrigation works, while West Punjab in Pakistan included most of the canal systems of the pre-partition Indus basin. Most of the Pakistani canals originated in rivers and headworks located in and controlled by India. In 1947, Pakistan agreed to pay for the continued flow of water from Sutlej and Ravi rivers but after the expiry of this agreement in April 1948, the East Punjab Government cutoff the supply of water to Pakistan. On May 4, 1948, after ministerial level talks, it was agreed that India would gradually reduce and ultimately stop the supply of water to Pakistan and Pakistan was to tap alternate source for the waters of the eastern rivers (Jha 1982, p. 2-4). However, later on this agreement was repudiated by Pakistan and it asserted the right to get an uninterrupted supply of waters from Indian rivers. Pakistan referred the dispute to the International Court of Justice. After six years of hard negotiations the two countries accepted a draft treaty in 1959.
However, it took sixteen more months for finalising the Indus Water Treaty, which was ultimately signed by Nehru and Ayub at Karachi on 11 September, 1960. The Treaty gave India the full right to utilise the waters of three rivers Sutlej, Beas and Ravi, and accepted the right of Pakistan to use the waters of Jhelum, Chenab and Indus.

5. **Boundary Disputes:** After Partition both the countries through mutual negotiations demarcated East Punjab-Pakistan boundary in June, 1960 and the Rajasthan-Pakistan boundary in 1963. However, the two sides failed to demarcate the Kutch-Sindh boundary. Pakistani invaded Kutch in September, 1965 which created hostility between both of these countries. Dispute over Kashmir also was a result of partition which has been lingering on since 1947 between the two countries. This issue has kept both the countries divided and has largely influenced the international outlook of the both countries. Many times this issue has caused embarrassing situation for the friends and allies of the two countries (Chaudhary 1971, p.54).

**The Kashmir Issue**

![Figure 2.2 The Kashmir Region](http://lib.utexas.edu/maps/kashmir.html)

Right from the initial years of Indo-Pak relations, Kashmir issue continues to be a crucial issue. After the Partition, the Maharaja of Kashmir,
Mr. Hari Singh decided to postpone the decision regarding issue of accession to India or to Pakistan, but due to Pakistan's tribal invasion of Kashmir, the Maharaja of Kashmir on 26 October, 1947 decided to accede to India for securing Indian help in repelling the invaders. Indian government further gave an assurance to the people of Kashmir that after the full restoration of law and order in Kashmir and the eviction of invaders, a plebiscite would be held for determining the Kashmir issue (Jayapalan 2001, p. 234). Pakistani Government however, rejected the accession of Kashmir to India and this led to the emergence of the Kashmir dispute between India and Pakistan. On 1 January, 1948, India took the issue to the Security Council of the United Nations. The Security Council passed a resolution on 5 January, 1949 by which it proposed:

(i) a plebiscite under the auspices of the Government of Jammu and Kashmir;
(ii) affirmed the right of the Indian army to defend the state; and
(iii) called for the withdrawal of Pakistani forces and other elements from Kashmir.

Both India and Pakistan failed to implement this settlement. Since that time Kashmir issue has been lying with the Security Council (Jayapalan op.cit., 242). Since 1947 Pakistan has sought to change Kashmir's status quo or to bring India to the negotiating table by appealing to international opinion, and through resolutions in the UN, a formidable legal effort, and the use of force—usually through proxies. (Cohen 2004 ,p.3). From 1953-54 both India and Pakistan conducted bilateral negotiations over Kashmir but failed to reach any agreement. The people of Kashmir through the National Conference, their Constituent Assembly, by elections and through the resolutions passed by the J&K Legislature, gave full approval to Kashmir's accession to India. This development encouraged India to reject the Pakistani demand for holding a Plebiscite in Kashmir. In 1954, Pakistan became a member of U.S. led security alliance system as her leaders calculated that with a weak military position she would not be able to solve the issue (Sayeed 1969, p.73). Therefore it started using its aligned position for the settlement of Kashmir.
issue through Western pressures on India. The US aligned with Pakistan because she wanted to explicit her strategic location in the Western and eastern Asia in an event of war with USSR and China (Kureishi 1969,p.96). The intrusion of US marred the prospects of an Indo-Pakistan détente and led Pakistan to drift away from her neighbour (Kaushik 1971, p.56), as Pakistan was prepared to do anything to qualify for the supply of arms from any source to be used against India (Kulkarni 1969, p.428). In 1955 at the Bandung Conference due to the personal diplomacy of Mohammed Ali, China’s relations with Pakistan became cordial, as he clarified his Chinese counterpart about Pakistan’s motives of joining western alliances(Goswami 1972,p.41) and also got the assurance from his Chinese Premier that his country wanted to maintain friendly relations with Pakistan( Bhutto 1969,p.131).

After October 1962 Sino-Indian war, the belief in superior military power of Pakistan and the Chinese assurance of help against India, impelled the Pakistani rulers to attempt a forcible annexation of Kashmir. They initiated the process of creating tensions along the Indian borders, particularly along the cease-fine line in Kashmir. However, in the post-1962 period India accepted the proposal to discuss Kashmir with Pakistan. The talks failed to produce any result. To cement further ties Pakistan and China signed a border agreement in 1963 in Peking, and Pakistan illegally ceded a part of occupied J&K to China(Misra 2005, p.20), which was strongly condemned by the Government of India. In 1965, Pakistan attempted a military solution of Kashmir. The positive Chinese help gave Pakistan encouragement during the war (Goswami op.cit.,p.119). Through trained infiltrators it tried to create disturbances in Kashmir with a view to prepare ground for the subsequent conquest of Kashmir. In September 1965, it attacked India; however, India gave a befitting reply and instead captured certain new areas of Kashmir which were under the illegal occupation of Pakistan. Pakistani hopes were dashed to the ground when the US Government suspended military aid to both countries to bring about peace in the Indian sub-continent, in spite of the fact that US was under a treaty obligation to assist Pakistan during the war(( Bhutto op.cit., p.138). The 1965 armed conflict between India and Pakistan was formally brought to an end by signing a declaration at Tashkent where
Prime Minister Lal Bahadur Shastri and President Ayub Khan signed it on behalf of their respective countries in the presence of the Soviet Premier Alexi Kosygin who mediated between them. In 1966 both countries signed the Tashkent Declaration and agreed to settle all their issues and problems through bilateral negotiations.

**Indo-Pak War 1971**

The development of crisis in East Pakistan and the subsequent issue of the liberation of Bangladesh made things worst and in December 1971 when both the countries got involved in another war. This war was not fought for any bilateral problems in the two countries. On 3rd December, Pakistan launched a massive attack on the western front stretching from Jammu and Kashmir to Rajasthan. During the war USSR and the eastern countries sided with India while the US, China, and some Muslim countries were with Pakistan (Bindra 1984, p.67). The Chinese Government fully backed the Government of Pakistan when the liberation struggle was going on in Bangladesh and blamed India for creating tense atmosphere in the Indian sub-continent. The UN General Assembly and the Security Council were quickly transformed into a hub of Chinese protest on behalf of Pakistan (Sidky 1976, p.971). China did not miss any opportunity to criticise the Indians and Soviets (Ibid., p.972). However, in this war the Kashmir issue never came to the forefront and resulted in the defeat of Pakistan in December 1971 and the formation of Bangladesh. After the War, Pakistan was pried loose from its South Asian moorings (Chadda 1986, p.38).

**The Simla Agreement 1972**

After the defeat of Pakistan in 1971 and the creation of Bangladesh an agreement on Bilateral Relations between India and Pakistan was signed. The Government of India and the Government of Pakistan agreed to put an end to their conflict and confrontation and work for the promotion of friendly and harmonious relationship and the establishment of durable peace in the sub-continent, so that both countries may henceforth devote their resources and energies to the pressing task of advancing the welfare of their peoples (Chander and Arora 2008, p.73). One of the excellent feature of the
agreement was that it was a bilateral one and both for the first time felt that if they have a sincere desire, every issue could be settled. Both the countries pledged to refrain from the use of hostile language against each other. With negotiations and diplomacy both succeeded in solving the issue of Prisoners of War and also took number of other steps such as restoring railway and road links. Trade between the two countries picked up (Chopra 1980, pp.494-500).

Relations After The Simla Agreement

In the post-1972 period, both the countries attempted to normalise their relations and establish trade, social and cultural links between the two countries. The Indo-Pak normalization kept up its slow but steady pace during the period 1972-77. Nevertheless, ups and downs continued to mark the course. India’s nuclear test in 1974 came as a setback to Pakistan. Z.A. Bhutto said the Pakistan would never succumb to India’s ‘nuclear blackmail’. He said that the test had put an end to the possibility of a no war pact between the two countries (cited in Khanna 1997, p.94). In 1977 there took place certain far-reaching changes in the domestic political environments of India and Pakistan, which in the initial stages appeared to be capable of further slowing down or producing a negative trend in Indo-Pak relations. In the mid 1980’s Kashmir once again became an irritant in bilateral relations. Indian diplomats consistently accused Pakistan of trying to internationalize the Kashmir dispute in violation of the Simla Accord. When the Foreign Secretary of India visited Pakistan in February 1980, he renewed the offer to sign a No War Pact which was rejected by Pakistan which insisted for a settlement of Kashmir issue first. In the mid to late 1980s, the political situation in Kashmir became increasingly unstable. Government of Kashmir failed to deal with Kashmir’s economic problems and the endemic corruption of its public institutions, providing fertile ground for militant Kashmiris who demanded either independence or association with Pakistan.

In early 1982 Indira Gandhi told some visiting Pakistani journalists “nothing is more important to us than good relations with our neighbours and especially, with Pakistan” (quoted in Rajan 1997, p.171). Unfortunately such
Indian statements meant little to the Pakistani psyche. From 1986 and 1987, first India, then Pakistan, conducted provocative military manoeuvres along their border that raised tensions considerably. The sudden death of Zia in an air crash in August 1988 and the assumption of the Prime Minister ship by Benazir Bhutto in December 1988 after democratic elections provided the two countries with an unexpected opportunity to improve relations. Rajiv Gandhi’s attendance at the SAARC summit in Islamabad in December 1988 permitted the two prime ministers to establish a personal rapport and to sign three bilateral agreements, including one proscribing attacks on each other’s nuclear facilities. Despite the personal sympathy between the two leaders and Bhutto’s initial emphasis on the 1972 Simla Accord as the basis for warmer bilateral ties, domestic political pressures, particularly relating to unrest in Sindh, Punjab, and Kashmir effectively destroyed the chances for improved relations in 1989 and 1990. The spearhead of the Pakistani challenge was its nuclear weapons programme, which aimed at achieving a level of deterrence that Pakistan sought since 1971 (Namboodiri 1986). By mid 1989, it was known that Pakistan had imported beryllium, used in manufacturing small sophisticated nuclear bombs, and acquired equipment to process tritium (Albright and Zamora 1989, pp.20-26). In February 1989, Pakistan announced that it had successfully test fired two short range surface to surface missiles.

The 1990’s saw the need for a subtle shift in India’s policy towards Pakistan. India totally opposed Pakistani created Taliban taking power in Afghanistan. India perceived that any success to any radical movements like Taliban will be a threat not only to India but to the entire international community. Despite the signing of an economic and trade agreement, little progress was made in concluding a comprehensive, long-term economic agreement to have non-discriminatory bilateral trade. A rising spiral of unrest, demonstrations, armed attacks by Kashmiri separatists, and armed suppression by Indian security forces started in 1988 which continued till the mid-1990s. New Delhi charged Islamabad with assisting insurgents in Jammu and Kashmir. Under pressure from the United States, the Soviet Union, and
China to avoid a military conflict and solve their dispute under the terms of the Simla Accord, India and Pakistan backed off in May 1990 and engaged in a series of talks on Confidence Building Measures (CBM's) for the rest of the year. Tensions reached new heights in the early and mid-1990s with increasing internal unrest in Jammu and Kashmir, charges of human rights abuses, and repeated clashes between Indian paramilitary forces and Kashmiri militants, allegedly armed with Pakistani-supplied weapons. By the end 1990's it became clear to Indian policy makers that terrorism and violence have become part and parcel of Pakistani statecraft and has to be dealt decisively (Abhishek 2007, p.405). However, discussions over Confidence Building Measures, begun in the summer of 1990 as a response to the Kashmir confrontation, were cancelled in June 1992 following mutual expulsions of diplomats for alleged espionage activities. Nevertheless, negotiations concerning the Siachen Glacier resumed in November 1992 after a hiatus of three years.

During 1996-97 the Government continued their efforts to resume the bilateral dialogue with Pakistan. Bilateral talks at the level of Foreign Secretaries of both the countries was held to create a positive environment and foster people-to-people relations, the Government took several measures to increase the number of visas being issued to Pakistani nationals and to encourage increased interaction between the intellectuals, scholars, journalists and academicians of the two countries. In May 1997 in Male, Inder Kumar Gujral and Nawaz Sharif initiated the composite dialogue process which created eight baskets of issues (6+2) namely, Jammu and Kashmir, Siachen, Wullar Barrage/Tulbul Navigation Project, Sir Creek, Terrorism and Drug Trafficking, Economic and Commercial Cooperation, Peace and Security, and Promotion of Friendly Exchanges in various fields. Under the composite dialogue process, the first round of talks on J&K were held in Islamabad from October 15-17, 1998, though they ended without success. Pakistan's insistence on third-party intervention was rejected by India, but the need to reduce the risk of a conflict by building mutual confidence in the nuclear and conventional fields was reiterated (Chandel 1998). Pakistan's
response to these measures was not encouraging. Pakistan’s support to cross-border terrorism directed against India, particularly in Jammu and Kashmir, continued unabated whereas Pakistan always declined to accept terrorism as an issue between the two countries (Misra 2007, p.84). Concerted efforts were made to disrupt the political process in the State. Pakistan continued its efforts to acquire sophisticated arms and technology, in excess of its legitimate requirements, from various sources.

The nuclearisation of Pakistan after the 1998 tests had by the late 1980’s set definite limits on the India’s capability to use its conventional superiority and hence on India’s ability to use its predominance to exert diplomatic pressure on Pakistan, even though the distribution of Power had always been in favour of India (Cordesman 1986). In 1998 again India urged Pakistan to work with India to develop trust and confidence, avail of the many opportunities for mutually beneficial cooperation and address outstanding issues. During talks on Peace & Security including CBMs(Confidence Building Measures), India drew Pakistan’s attention to India’s security needs which were a function of its size and assets. India emphasised that its security concerns were not one-country specific and that its defence profile was non-aggressive. In this context, India proposed the upgradation of existing CBMs and the need to put in place new CBMs, ranging from information exchange and improved communication links to exchanging views on security concepts and nuclear doctrines. India also emphasised the need to build mutual confidence in the nuclear and conventional fields. During discussions on Jammu & Kashmir, India made it clear that the legal status of Jammu & Kashmir, i.e. that the entire State is an integral part of India, is clear and does not admit of any change. India also demanded that Pakistan cease forthwith its futile instigation and sponsorship of terrorism in Jammu & Kashmir, which constituted a flagrant violation of the provisions of the Simla Agreement.

The Lahore Declaration

In early 1999, Prime Minister Atal Bihari Vajpayee undertook a historic bus trip to Lahore, where he signed the Lahore Declaration with his
counterpart Nawaz Sharif on February 21, 1999. Among other issues, the Declaration also said that the two parties "shall intensify their efforts to resolve all issues, including the issue of Jammu and Kashmir" (Dixit 2002, p.469)

Governments of both the countries affirmed to Sharing a vision of peace and stability between their countries, and of progress and prosperity for their peoples; both agreed that durable peace and development of harmonious relations and friendly cooperation will serve the vital interests of the peoples of the two countries, enabling them to devote their energies for a better future; and recognized that the nuclear dimension of the security environment of the two countries adds to their responsibility for avoidance of conflict between the two countries; and promised to abide by the universally accepted principles of peaceful co-existence; determined to implementing the Simla Agreement in letter and spirit, and work together for the objective of universal nuclear disarmament and non-proliferation and mutually agreed to the importance of confidence building measures for improving the security environment.

**The Kargil War**

The euphoria of Lahore Declaration lasted only for few months (Chander and Arora 2008, p.119). The Kargil War, between India and Pakistan that took place between May and July 1999 in the Kargil district of Kashmir. The cause of the war was the infiltration of Pakistani soldiers and Kashmiri militants into positions on the Indian side of the Line of Control, which served as the *de facto* border between the two states. During and directly after the war, Pakistan blamed the fighting entirely on independent Kashmiri insurgents, but documents left behind by casualties and later statements by Pakistan's Prime Minister and Chief of Army Staff showed involvement of Pakistani paramilitary forces. The Indian Army, supported by the Indian Air Force, attacked the Pakistani positions and, with international diplomatic support, eventually forced a Pakistani withdrawal across the Line of Control (LoC). This led to mobilization of Indian troops in Operation Vijay to forcibly evict them. The Indian Air Force used laser guided bombs to annihilate the well entrenched positions of the terrorists. The Indian army
fought and won valiant victories against considerable odd retaking most of the
heights.

Post 9/11 Scenario

The 9/11 attack on the US, resulted in wanting to restrain militancy in
Pakistan. The USA put diplomatic pressure on Pakistan to cease infiltrations
by Islamic fighters into Indian-held Kashmir. After intensive diplomatic efforts
by other countries, India started to withdraw troops from the international
border, a move that was immediately reciprocated by Pakistan. In July 2001,
leader of both the countries met in Agra, but talks ended after two days
without result (Mohan 2001). After an attack on the Indian Parliament in
December 2001, India-Pakistan relations cooled further as India accused
Pakistanis of being involved in the attacks. Tensions increased, fueled by
killings in Jammu and Kashmir, peaking in a troop build-up by both sides in
early 2002. In 2003 again attempts were made by India to revived bilateral
efforts to normalize relations. Bilateral relations had been plummeted by then
and both sides agreed on the need to improve the atmospherics first through
restoration of rail, road and diplomatic links, enhancements of people to
people contacts, and several confidence building measures (CBMs), including
new bus and train services, promoting trade and commerce across the LoC
(Line of Control) and opening up of meeting points for people along LoC. Both
India and Pakistan exchanged lists of nuclear installations and facilities and
their commitments not to attack each others nuclear installations and
reiterated their commitment not to attack each others nuclear
installation (Chander and Arora 2007, p.123). In November 2003, Prime
Minister Vajpayee and President Musharraf agreed to a ceasefire along the
line of control in Jammu and Kashmir. In February, India and Pakistan agreed
to restart the '2+6' Composite Dialogue formula and the Promotion of Friendly
Exchanges in various fields. Foreign Secretary-level discussions took place in
June which generated modest progress, and the two sides agreed to
schedule a further set of meetings in July and August.

After a series of CBM's, Prime Minister Vajpayee and President
Musharraf met on the sidelines of the January 2004 SAARC summit in
Islamabad and agreed to commence a Composite Dialogue addressing
outstanding issues between India and Pakistan, including Kashmir to the satisfaction of both sides (Baruah 2004). Building upon the tremendous goodwill that was demonstrated by the people in both countries, the Government pursued a proactive policy of constructive engagement with Pakistan with the objective of cementing a durable structure of peace and stability in South Asia. The talks on Jammu and Kashmir were held on 27-28 June in New Delhi but no breakthrough was achieved, yet the talks were described by both sides as useful, good first step and positive and concrete (Pandit 2004). The Commerce Secretaries of the two countries met in Islamabad on 11-12 August 2004 to hold discussions on the subject of Economic and Commercial Cooperation. India made wide ranging proposals on trade promotion, transit, new trade routes, cooperation in the fields of agriculture, petroleum and natural gas, banking, information technology, telecommunications, postal services, civil aviation, shipping and capital market. During the talks on Terrorism and Drug Trafficking on 10-11 August 2004 in Islamabad, both sides reaffirmed their determination to combat terrorism and emphasized the need for complete elimination of the menace.

In March 2005, the US announced selling of F-16 planes to Pakistan instigating a new arms race between India and Pakistan (Baake 2005). Again optimism on reducing tensions between India and Pakistan was tempered by Pakistan's August 10 test-firing of its first ground-launched nuclear-capable Cruise Missile Hatf VII Babur, with a range of 500 kilometers. Pakistan did not inform India about the test, stating that the agreement between the two countries on pre-notification of missile tests does not cover cruise missiles. On May 10, 2005 the World Bank after consultation with the Governments of India and Pakistan, an agreement has been reached on the appointment of a Neutral Expert to address differences concerning a hydropower scheme under construction on the Chenab River in India concerning the Baglihar project. The meeting of Prime Minister Manmohan Singh with General Musharraf in Islamabad in April 2005 and again in New York in September 2005 underlined the importance both sides attached to sustain engagement (Chander and Arora 2008, p.125). On 8 October 2005 a devastating earthquake—which measured 7.6 on the Richter scale struck the Pakistan-controlled region of Kashmir—killed over 80,000 of people and left millions
homeless. It triggered international attention on the region’s peace process. India helped Pakistan in its rescue missions it announced relief assistance of US$ 25 million. Aircraft of foreign countries carrying relief materials to Pakistan were given permission to overfly in the Indian Territory. Pakistan’s helicopters were also given permission to fly in No Fly zone near the LoC for relief purposes, but Pakistan, rejected India’s offer of helicopters to assist with relief efforts (Misra 2007, p.92). This natural disaster brought forth the peace process and understanding between the two countries promoting mutual agreement to continue the peace process notwithstanding the domestic compulsions and terrorist activities.

Trade Relations

Problems in Indo- Pak relations are one of the major obstacles in the SAARC integration. India and Pakistan account for nearly 80% of the GDP of SAARC. Undoubtedly improvement of Indo-Pak ties is crucial. In the aftermath of partition, more than 70 percent of Pakistan's trading transactions were with India. The gradual severance of bilateral trading relations forced both Pakistan and India to adopt economic blueprints that undermined their self-sufficiency. Pakistan imported coal, steel, iron and even wheat from the West, China, and South Korea when it could have secured these commodities from India at half the price. India also incurred a considerable opportunity cost. For instance, areas more suitable for paddy cultivation were converted to jute cropping when Pakistan prohibited the export of raw jute to India. New Delhi imported pig iron and iron scrap from the region, although it could have been purchased from Pakistan at lower transportation costs (Koshy 2002). Trade relations between India and Pakistan have been influenced to a large extent by their political relations. After the Indo-Pak war in 1965, trade was almost negligible for a period of nine years. Bilateral trade did resume in 1975-76, following the 1974 protocol for the restoration of commercial relations on a government to government basis, signed by the two countries after the 1971 war but it remained at an insignificant level.
Table 2.4: India’s Trade with Pakistan

<table>
<thead>
<tr>
<th>Year</th>
<th>India’s Exports to Pakistan (US $ mn)</th>
<th>India’s Imports From Pakistan (US $mn)</th>
<th>Total Trade</th>
<th>No. Of Items Exported to Pakistan</th>
<th>No. Of Items Imported From Pakistan</th>
</tr>
</thead>
<tbody>
<tr>
<td>1996-97</td>
<td>157</td>
<td>36</td>
<td>193</td>
<td>641</td>
<td>112</td>
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<tr>
<td>1997-98</td>
<td>143</td>
<td>44</td>
<td>187</td>
<td>837</td>
<td>132</td>
</tr>
<tr>
<td>1998-99</td>
<td>106</td>
<td>214</td>
<td>320</td>
<td>936</td>
<td>187</td>
</tr>
<tr>
<td>1999-00</td>
<td>93</td>
<td>68</td>
<td>161</td>
<td>899</td>
<td>189</td>
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<tr>
<td>2000-01</td>
<td>187</td>
<td>64</td>
<td>251</td>
<td>989</td>
<td>243</td>
</tr>
<tr>
<td>2001-02</td>
<td>144</td>
<td>65</td>
<td>209</td>
<td>1021</td>
<td>287</td>
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<tr>
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<td>206</td>
<td>45</td>
<td>251</td>
<td>1111</td>
<td>233</td>
</tr>
<tr>
<td>2003-04</td>
<td>287</td>
<td>58</td>
<td>345</td>
<td>1233</td>
<td>306</td>
</tr>
<tr>
<td>2004-05</td>
<td>521</td>
<td>95</td>
<td>616</td>
<td>1515</td>
<td>487</td>
</tr>
<tr>
<td>2005-06</td>
<td>689</td>
<td>180</td>
<td>869</td>
<td>1895</td>
<td>518</td>
</tr>
</tbody>
</table>

Source: Directorate General of Foreign Trade, Government of India 2008

Both countries traded in a limited number of items, in 1996, India accorded the Most Favoured Nation (MFN) status to Pakistan whereas Pakistan continued to follow a positive list approach. The Government of Pakistan has exercised a slow process of a continuous expansion of the list of items importable from India. In 1986, the Government of Pakistan permitted the import of 42 items from India. The list was expanded to 249 items in 1987, which in 1988, was further increased by 989 in 2000-01. The number of items increased steadily to 1518 in 2004-05 and further to 1895 in 2005-06. Whereas the imports from were 243 in 2000-01, 487 in 2004-05 and 518 in 2005-06. The Import Policy Order, Government of Pakistan, 2005, lists 770 items permissible for import from India and in the subsequent year. It was expected that with the commencement of SAFTA, Pakistan would treat all Members alike in offering trade concessions and that India would
automatically be granted MFN status. However, in a communication to the South Asian Association for Regional Cooperation (SAARC) Secretariat, Pakistan refused to accord MFN status to India and declared that it would continue to follow a restrictive trade policy as far as market access for Indian goods to the Pakistani market were concerned. Thus, there is a perception amongst policy makers and industry that the actual export potential from India to Pakistan continues to remain hugely untapped due to the continuation of the positive list approach being followed by Pakistan towards imports from India. The imposition and application of standards in India is often perceived as non-tariff barriers by Pakistan (Taneja 2007).

India and Bangladesh

India and Bangladesh are historically, geographically so tied to each other that they cannot escape having significant bilateral interaction (Pant 2007, p.232). Before achieving independence in 1971, the modern state of Bangladesh was part of large contiguous Pakistan. Bangladeshis have comprised a major part of the movement to establish the independent state of Pakistan before Independence. As a result many of the grievances that resulted in the original Partition of 1947 remain a large part of the collective historical memory of Modern day Bangladesh (Ganguly 1994, pp. 81-116). The sovereign Independent Republic of Bangladesh was created in 1971 with the active moral and material support of India after the dismemberment of Pakistan. The emergence of a new country in South Asia had changed the entire situation, as it tilted the balance of power in favour of India and this compelled the superpowers to revise their posture towards India (Bindra 1984, p.141). It was because of the timely, moral and material support of Government of India that Bangladesh emergence as sovereign country was possible on the map of the world (Ibid., p.147). It has been a consistent and vitally important principle of Indian Geopolitical Codes to refrain from any interference in the internal affairs of other countries and more particularly, in the internal affairs of its neighbours. But the filthy struggle for power that emerged in Pakistan after the first ever general elections held in March 1970, created a dangerous situation in East Pakistan, which forced India to support,
on humanitarian grounds, the rights of the Bengalese living in East Pakistan. Ever since the creation of Pakistan in 1947, the people of its eastern half - the East Bengal or East Pakistan, as it has subsequently named, were struggling against the domination of their culture and economy by the people of West Pakistan (Jayapalan 2001, p.311).

After 1947, the people of West Pakistan established and then maintained with vengeance, their superior position in all spheres vis-a-vis with the people of East Bengal. Initially, India decided to maintain strictly its policy of keeping away from internal affairs of Pakistan. However, later on, the atrocities committed by the army of General Tikka Khan on the men, women and children of East Bengal compelled India to voice support for the protection of their human rights. Millions of refugees flowed into India and millions of Bengali Muslims were butchered by the Pakistan Army, the defenders of Jinnah's new Muslim state. This created a threatening military and political situation for India on its Eastern flank (Kapila 2006). The crisis soon developed into the December 1971 Indo-Pak War. The Indian Army formed a joint command with Muktibahini (Bangladesh Liberation Army) and both jointly fought against the West Pakistani army in East Bengal. After a highly efficient and successful military operation of nearly two weeks India, was in a position to secure the liberation of Bangladesh on 16 December, 1971. By agreements India pledged its military support, help and involvement in the struggle (war) for the liberation of Bangladesh, India further undertook the pledge to withdraw its armed forces from liberated Bangladesh, agreed that liberated areas would be immediately handed over to the Government of Bangladesh, and that India would defend Bangladesh against any external threat. The agreements affirmed allegiance to Panchsheel and Non-Alignment (Jayapalan op. cit., p.315). By another agreement, India decided to give Rs 100 crores immediately to Bangladesh for helping the initiation of the process of socio-economic reconstruction in that country. India gave full support to the August 9, 1972 application made by Bangladesh for getting the membership of the United Nations. However, the Chinese veto against Bangladesh prevented success in this direction. In February 1974, Pakistan gave recognition to Bangladesh (Jacques 2000, p.161), and it was followed by
the accord of recognition by China. This development cleared the way of Bangladesh's entry into United Nations. In May 1974, when India conducted her first underground and fully controlled Peaceful Nuclear Explosion (PNE), Bangladesh welcomed the development as an important step towards the development of developing countries.

Areas of Cooperation

(i) Indo-Bangladesh Treaty:- On March 19, 1972, India and Bangladesh signed a 25 years Treaty of Friendship, Cooperation and Peace which was designed to maintain fraternal and good neighbourly relations, to transform the borders into a border of external peace and friendship, to uphold non-alignment, peaceful co-existence, to safeguard peace stability and security, to promote and strengthen the existing relations of friendship and cooperation, and to reaffirm the determination to follow peaceful means for the settlement of disputes as well as to uphold the aims and principles of the U.N. Charter (Pant op.cit.,232). No doubt, this treaty did not provide any measure or help in case of internal upsurge or crisis but it can be assumed that India would not be a silent spectator if her security and integrity would be in danger because of the situation in Bangladesh. It was all the more important because of the Bengali population living in the adjoining Indian state West Bengal. It was also alleged that the Government of Bangladesh had been pressurized to sign the treaty. But the fact was that the draft of the treaty was under negotiations for a long time and both the governments were eagerly interested to formalize the already existing friendship between the two countries (Bhattacharjee1973, p.209).

(ii) Border Agreement 1974:- India and Bangladesh signed a Border agreement in May 1974 when Sheikh Mujib Rahman visited India to solve the border problem, it was also agreed to define the border more accurately at certain points and to complete demarcation of the land boundaries between the two countries. The agreement set a pattern for cooperation between the two countries of the region and ushered a new era of peace and solidarity (Bindra 1982, p.30). Geographic,
cultural, historic, and commercial ties were strong, and both countries recognized the importance of good relations.

The Problem Areas

However, along with this positive development, the march of time produced certain irritants in Indo-Bangladesh relations. The history of Indo-Bangladesh can be analyzed through an analysis of the following problems:

1. **Border Problem**: A number of incidents of shooting from Bangladesh side made the situation quite tense in the post-Mujib period. The problem emerged when on 20th April 1976, the Government of India lodged a strong protest with the Government of Bangladesh (Bindra 1984, p.162). In November 1976, the Bangladesh authorities claimed an Indian area measuring about 8 hectares in the Muhuri Char area in the Belonia sub-division of Tripura. Talks were held between Bangladesh Rifles and Indian Border Security Force representatives at Comila on 11 November, 1976, but there could be reached no agreement. After a meeting of the Joint Rivers Commission in Dacca, it was declared on November 20, that both sides have tried to understand each other's viewpoint regarding the border near Muhuri Char land and that both sides have agreed to take steps for removing the irritants. In February 1980, secretary level meetings between India and Bangladesh were held in Dacca for resolving the issue. The talks, however, ended after just striking a note of optimism for future course of Indo-Bangladesh relations. It was in July 1983 that the agreement over the perpetual lease to Tin Bigha corridor to Bangladesh was reached. But in spite of such an agreement, the influx of illegal Bangla immigrants into India continued almost unabated. India opted for border fencing to discourage illegal immigration and to check the movement of insurgents, which Bangladesh saw as a hostile action probably fearing its adverse impact on two key areas of its geopolitical codes- one transferring its surplus population to India and secondly supporting insurgents active in India's northeast(Kumar 2005).
2. **The Problem of Illegal Immigrants:** - The illegal crossing of border by the Indian and Bangladesh nations created tension between the two countries. During Mujib’s period the Government of India drew Bangladesh’s attention on the problem of illegal entrance of Bangladeshi people in West Bengal. The Bangladesh Government denied that any of her nationals had crossed over to India and said that the immigrants were Indians who travelled to India when the freedom struggle in Bangladesh was going on. According to the Government of West Bengal over 2 Lakhs of Bangladesh nationals had come to West Bengal illegally since 1972 until December 1980, with passports and visas did not return to Bangladesh.

3. **Controversy Over the New Moore Island:** - Towards the middle of 1981, Indo-Bangladesh relations developed serious strains over the issue of occupation and ownership of the New Moore Island. In May 1981, there appeared a danger of armed naval clash between the two countries. India resolutely refused to accept Bangladesh’s claim over the New Moore Island (Rajan 1997, p.132). On 11 September, 1981, Foreign Minister of Bangladesh Mr. Shamsul Haq arrived at New Delhi and for two days held discussions with his counterpart Mr. Narasimha Rao. The two foreign ministers agreed that this and other issues should be resolved on the basis of mutual trust and benefit. This visit further helped the two countries to defuse tension over the New Moore Island.

4. **Farakka Dispute:** - Bangladesh is heavily dependent on India for the flow of water from the 54 rivers that the two countries share (Pant op.cit., p.240). The construction of Farakka Barrage by India was a major bone of contention between the two countries. The main purpose of the construction of the barrage was to flush out silt, which entered the Calcutta port, and thus to arrest the deterioration that has threatened its existence (Vakil and Rao1968, p.120). The Indo-Bangladesh talks over the question to argument the flow of Ganga, however, got deadlocked because of a big difference in the approach.
and ideas of the two countries. Whereas Bangladesh wanted to augment the flow of Ganga during lean session by using water stored in reservoirs which were to be constructed in Nepal-Himalayas. India advocated the construction of Brahmaputra-Ganga link Canal for achieving the desired goal. Further, whereas Bangladesh wanted to involve Nepal in negotiations over Farakka. India wanted to settle the issue bilaterally. For this purpose, the Indo-Bangladesh JRC in 1977 was given the responsibility to study the feasibility of all possible alternatives which can lead to the augmentation of the Ganga flow during the lean session. The JRC was also directed to complete the assignment within 18 months. This agreement, divided Teesta waters in the ratio of 39 : 36 per cent between India and Bangladesh and leaves 25 per cent water as unaccounted water flow. Similarly, an agreement has been reached to study the economic, technical and implementability aspects of all the proposals for augmenting the flow of Ganga below Farakka (Jayapalan 2001, p.339).

5. **Anti-India Propaganda in Bangladesh.** After the August 1975 coup, anti-Indian propaganda suddenly picked up in Bangladesh. The Bangladesh press alleged that India was providing arms, training, funds or sanctuary to miscreants who were busy in anti-nationalist activities in Bangladesh. It played a important role in planting anti-Indian feeling in the minds of people of Bangladesh (Bindra *op.cit.*, 160). In February 1976, anti-India propaganda was stepped up in Bangladesh over the issue of Farakka Barrage. In 1981, the issue of ownership of the New Moore Island further gave rise to strong anti-India propaganda in Bangladesh. Such a development, like other developments, involving anti-India propaganda, constituted a big irritant in way of the development of Indo-Bangladesh relations. The subsequent developments since liberation, instead of consolidating and strengthening it, had reversed the trend (Nair 1975, p.8).


**Talks on Farakka.**

In the first week of September 1976, India sent an invitation to Bangladesh for holding bilateral negotiations on Farakka. In the talks aspects of Farakka issue discussed but there could be reached no agreement because Bangladesh, by that time, had decided to internationalize the issue by moving to the U.N. for securing an agreement with India. The government of Bangladesh wanted to divert the attention of the people from the internal situation of the country. Again the rulers of Bangladesh were making efforts to stabilize their positions of showing to the people of Bangladesh in particular and the people of the world in general they had for the problems of their country (Bindra 1980, pp.340-48). After the consensus at the U.N., India and Bangladesh resumed bilateral talks on Farakka issue at Dacca on December 6, 1976. In March 1977, when the Janata party came to power in India it was decided to speed up the process of building more friendly and cooperative relations with neighbouring countries. Consequently, in April 1977, talks between India and Bangladesh were held at Dacca and an understanding was reached on the issue of sharing of Ganga waters. By September 1977, both sides got finalised a short term and long term agreement over Farakka and it was on November 5, 1977 Farakka Agreement was signed between the two countries. The Agreement contained a Preamble and 15 Articles (Bindra 1984, p.189) In the Preamble both sides re-affirmed their determination to promote and strengthen their relations of friendship and good neighbourliness. The agreement provided for a short term and a long term solution to the problem of sharing the Ganga waters at Farakka.

In January 1980, Mrs. Gandhi returned to power in India. Mrs. Indira Gandhi and President Zia-ur-Rahman discussed the issue of Farakka during latter's visit to India in January 1980. Both the leaders affirmed the faith that all problems between the two countries can be resolved through bilateral talks. In April 1981, the JRC (Joint River Comission) agreed to refer the issue to the respective Governments for a solution at the highest and political level.
The Governments of Bangladesh thereupon demanded that India should not operate Farakka Barrage without a new treaty, but the Government of India rejected this demand. The Farakka issue as such once again became a dispute between India and Bangladesh. In March 1982, Bangladesh proposed the reactivation of the standing committee for discussing the sharing of water between India and Bangladesh. This proposal gave rise to a fresh hope that Bangladesh was now prepared to resolve the issue through bilateral talks were held (Khanna 1997, p.146). However, the meeting failed to bridge the gap fully. This meeting definitely ushered Indo-Bangladesh relations into an era in which more fruitful cooperation between the two countries could be envisaged. Indo-Bangladesh Ganga Waters Accord was signed by the two sides in New Delhi on November 22, 1985. It was agreed that the joint study would identify alternatives for the sharing of the water resources common to both countries to the mutual benefit.

The two nations were still at odds, despite high-level talks, in the mid-1990s. In the mid- and late 1980s, India's plan to erect a fence to prevent cross-border migration from Bangladesh and Bangladesh's desire that Chakma insurgents not receive Indian covert assistance and refuge in India were major irritants in bilateral relations. As agreed eighteen years earlier, in June 1992 India granted a perpetual lease to Bangladesh for the narrow, 1.5-hectare Tin Bigha corridor in the Ganga's delta that had long separated an enclave of Bangladeshis from their homeland. India's relations with Bangladesh were greatly enhanced during 1996-97. Prime Minister Sheikh Hasina paid an official visit to India from 10-12 December 1996, during which a landmark Treaty on Sharing of the Ganga Waters at Farakka was signed by the Prime Ministers of India and Bangladesh. Another important step taken was reduction of tariffs on 13 items being imported from Bangladesh (Chander and Arora 2008,p.179). The Prime Minister's visit to Bangladesh on 6 and 7 January 1997 consolidated the greatly enhanced bilateral relationship between India and Bangladesh. A 30-year water-sharing agreement for the Ganges River was signed in December 1996, after an earlier bilateral water-
sharing agreement for the Ganges River lapsed in 1988 (Khanna 1997, p.150-51).

In 1998 the talks were held which were positive in nature and covered a number of areas related to the growth of bilateral economic interaction and infrastructure development. Issues covered during these talks related to security, insurgency, illegal immigration, border management and the visa regime. The talks took place in a constructive spirit while taking into account mutual concerns. Tensions arose again in February 2003, as India attempted to deport people, it claimed were Bangladeshi migrants, but Bangladesh refused to accept them, insisting that they were Bengali-speaking Indians. The government of Bangladesh today does not discuss the division of Bengal, both past and present, and nor does it pose the question of the reunification of the nation of Bengal. Instead, Bangladesh wants to discuss matters such as water-sharing with India, which is done on the basis of accepting the division of Bengal. Bangladesh has even gone further to sign agreements allowing the US navy to use its ports, has plans to buy jet fighters from the US and even to provide facilities for the US marines to land there if they make a request. A meeting of the Joint Working Group at the level of Joint secretary took place in Dhaka on 1-2 August 2005 (Khan 2006). High hopes were raised about the outcome of the meeting. Bangladesh commerce ministry was drawing a road map for negotiation. Bangladesh side expressed concern before the meeting over the flooding of local market with Indian goods. The two-day meeting of the joint working group ended without any breakthrough. The India-Bangladesh Trade agreement could not be finalised. The discussion on non-tariff barriers did not see much progress.

**Economic Relations**

The emergence of Bangladesh as a separate nation state added several new dimensions to the possibilities of India’s trade with the region, previously east Pakistan and the prospects became more brighter with the close political links between the two regimes over the early months of the
liberation of Bangladesh (Sen 1972, p.765). The prospects of trade were circumscribed by two opposite sets of forces, like locational advantages, the political coordination, between the governments, the possibilities of economic cooperation, and the ban in the beginning by Bangladesh on trade with Pakistan tend to brighten prospects of mutually profitable trade between India and Bangladesh (Ibid. p.763). The economic and trade agreements which had been signed during 1972-75 period did not succeed in reaping a rich harvest in the form of increased and diversified trade between India and Bangladesh. The complementary nature of their economies, geographical contiguity and the trade agreements as well as Indo-Bangladesh Treaty could not lead to the expected vital and close economic and trade links between the two countries because of the existence of certain problems and irritants. There were other factors that considerably limited the possibilities of such trade. The structural and policy changes in the two countries over the past two decades of Indo-Pakistan hostilities replaced the earlier pattern of complementarily by a competitive relationship between the two economies. The contents of such policies were crucial to determine both the overall trade bias and the net implications of such bias for the trade between the two countries (Bose & Chatterjee 1972, pp.641-642). The political instability in Bangladesh after August 1975 coup and the consequent emergence of strong anti-India propaganda in Bangladesh, created a situation in which both the countries found it difficult to maintain trade and economic links. In 1976, both the countries reached an agreement for checking the decline in bilateral trade and for securing increased two way trade between them. Agreement in respect of commercial exchange of fish, coal, jute and newsprint was also reached. On 4 October, 1980, both the countries entered into another trade agreement which envisaged measures for expanding and promoting mutually advantageous trade between the two countries. A decision to promote trade and economic links through exchange of visits and through the organisation of trade exhibitions and fairs was also reached. In October 1982 a decision was taken to revive the plan to set up sponge iron, cement, textile and sugar in
Bangladesh. Both sides agreed to set up joint ventures and range of industrial projects discussed including sponge iron and steel, cement, concrete sleepers, modernisation of railway workshops, manufacture of coaches and wagons as well as modernization of four sugar mills of Bangladesh. This agreement revived the hopes that in the years to come, Indo-Bangladesh trade and economic relations were bound to grow. Even though the value of trade between India and Bangladesh grew considerably, the latter, for political reason was not availing the advantages offered by the geographical proximity to India. Items which could be purchased at cheaper prices from India, were imported from distant countries of South-East Asia, Europe and the US (Ved 1981,p.178).

According to the Asian Development Bank (ADB, 2006), intra-regional trade and investment offer immense opportunities for accelerating growth and reducing poverty in South Asia. India could become a hub for stimulating the growth of intra-industry trade in the region and boost the inflow of foreign investment to South Asia. At the same time, in view of several regional and sub-regional cooperation programs involving India and Bangladesh, bilateral economic cooperation and integration between these two economies is a necessary step for a long term construction of an integrated South Asia. This will provide the basic foundation for a more effective SAARC in moving toward more free market and trade-oriented policies. Despite India's unilateral concessions to Bangladesh and the existence of a large land border between two countries, India's trade with Bangladesh is not growing at a considerable rate. Bilateral trade is highly tilted toward India; India's exports to Bangladesh total about $1,892.55 million and imports from Bangladesh are about $121.91 million. India's exports to Bangladesh witnessed average annual growth of about 6% in 1995–2005, whereas India's imports from Bangladesh saw a decline from 85.90 million $ to about 59.26 million (Table 2.5).
<table>
<thead>
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<th>Year</th>
<th>Export ($ million)</th>
<th>Import ($ million)</th>
<th>Total ($ million)</th>
</tr>
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<td>85.90</td>
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<td>995.64</td>
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<td>1999–00</td>
<td>636.31</td>
<td>78.15</td>
<td>714.46</td>
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<td>2000–01</td>
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<td>2004–05</td>
<td>1,606.56</td>
<td>59.26</td>
<td>1,665.82</td>
</tr>
</tbody>
</table>

Source: *Ministry of Commerce and Industry, Government of India;*

Bangladesh’s exports to India in recent years expanded presumably because of trade liberalization, initiated by India unilaterally and regionally (De & Bhattacharyay 2007, pp.15-17). The composition of India's exports to Bangladesh is diversified with cereals, cotton, and vegetable products accounting for a quarter of India’s exports to Bangladesh in 2004–2005. Next in importance comes textile and textile products, followed by base metals and related articles. India and Bangladesh offer high potentials of trade in goods. The degree of trade complementarity between Bangladesh’s imports and India’s exports was quite high during 1980 to 2004. In other words, estimated indices indicate that India's exports to Bangladesh enjoyed comparatively higher complementarity than Bangladesh’s exports to India. Scopes of trade expansion between the two countries appear to be high if we consider comparative advantages of the individual countries in merchandise trade.
India and Sri Lanka

A concept of strategic unity of India and Sri Lanka emerged during the British possession. Sri Lanka came to be regarded prerequisite to the defence and security of India. The Britishers considered it an important position for their defence in the East. Since then the strategic location of Sri Lanka made it a matter of much international concern and India which had no comparable harbour on its coast was most concerned about its potential status and uses (Kodikara 1982, pp.22-23). India became independent in 1947 and this paved the way for Sri Lanka's independence in 1948. The decision of England to leave Sri Lanka was prompted by the need to end the waste of efforts and resources in maintaining control over a small state after its withdrawal from India. Both India and Sri Lanka got their independences from the British rule at, about the same time, yet the objective was achieved in different ways and conditions. India attained independence through a determined and strong national movement. As against this, Sri Lanka got independence because of the British decision to withdraw from South Asia. The government of Sri Lanka considered Britain to be safe and trustworthy friend because the people of Sri Lanka were not annoyed with the Britishers (Bindra 1984, p.290). After their liberations, both India and Sri Lanka decided to join the Commonwealth but on different grounds. India decided to remain in the Commonwealth for maintaining economic, trade and cultural links with Britain and members of the Commonwealth. Sri Lanka's decided to join the Commonwealth was designed to be a means for safeguarding its security interests against the possible invasion from India and for not accepting a power vacuum in Indian Ocean area which involved the possibility of a march of communism in this area. Frequent visits by high level US dignitaries including the Defence Secretary and the Secretary of State, against the background of US quest for bases in the strategic Indian Ocean Area were seen as going against India's security perceptions in the region (Jetly 1986, pp.76-77). Between 1948-56 Sri Lankan Foreign Policy had a distinct bias in favour of the West. The signing of a defence pact with Britain and acceptance of the U.S. blessed Peace Treaty with Japan in 1951, were definitely at variance with the doctrine of Panchsheel and policy of Non-Alignment as propounded by Nehru. Such
aspects of Sri Lanka’s foreign policy and actual behaviour at international level was totally different from the balanced approach of India. India at that time favoured equidistance from both the superpowers and their blocs. This difference in foreign policies of the two countries and certain other negative factors checked the development of Indo-Sri Lankan friendship and cooperation during 1948-56 (Jayapalan 2001, pp.368-369).

Sri Lanka feared of Indian expansionism because its small population and size as compared to India, the existence of the minority problem in Sri Lanka, The memories of invasion by the South Asian states gave strength to such fear (Ghai 1984, p.314). Sri Lanka’s fear regarding the emergence of communist movement in South India, the suspicions regarding the demand for a separate state by the DMK of India, and the differences over the issue of citizenship of the people of Indian origin in Sri Lanka, further prevented the growth of Indo-Sri Lanka relationship (Jayapalan 2001, p.369). The growth of the friendship and cooperation remained very slow and limited during the initial stages. But all this should not be taken to mean that there was a total lack of friendship and cooperation between India and Sri Lanka. In 1949, both the countries sought to develop the traditional trade, and concluded an agreement for the exchange of essential commodities. In 1952, the schedule attached to the agreement included new items which were to be exported from one country to the other. In 1953, certain trade concessions in respect of trade in tobacco and bidis were made. In 1953 and 1954, cultural troupes were exchanged between the two countries (Ghai op.cit.,309).

The Indo-Ceylon Act 1954

The attainment of Independence by India and Sri Lanka gave a new complexion to their mutual relations. The question of the rights of franchise of Indian emigrants in Sri Lanka became overnight a question of citizenship for them. One of the first tasks before the two leaders of the two countries was to find a satisfactory solution to the Indo-Ceylon problem. In 1948 Ceylon Citizenship Act was passed, again in 1949 a Special Act was passed for registration of persons of Indian and Pakistani origin (Sekher1964, p.21). Since these acts involved the exclusion of a large number of residents of
Indian origin they gave rise to renewal of negotiations and discussions with India regarding the future of these excluded residents (Weerawardana 1955, p.216). By the Indo-Ceylon Agreement India accepted the proposal that those persons of Indian origin who were not able to be registered as citizens of Sri Lanka, could apply for Indian citizenship if they satisfied the conditions of Indian Citizenship Act. The worst part of the 1954 Agreement was that it was not implemented fairly either by the government of Sri Lanka or by the Indian High Commissioner in Sri Lanka (Prasad 1973, p.241). The government of Sri Lanka’s stand against the granting of citizenship right was based on economic, political and cultural grounds because the people of Sri Lanka had a negative feeling about the people of Indian origin as they considered their living conditions better in comparison to them. Sri Lanka also started to suspect the loyalty of the people of Indian origin (Chaudhary 1956, p. 127). Sri Lankan’s they felt that their existence as an independent nation was in danger (Valupillai 1963, p.121).

The Indo-Ceylon Problem between 1956-64

After the agreement Sri Lanka started interpreting the Articles of the Agreement in its own way. Large batches of deportees were forced to leave Sri Lanka in the fulfillment of these provisions. Instead of preparing register the Government of Sri Lanka favoured the scheme of issuing identity cards to stateless persons (Bains 1962, p.94). The Government of India questioned the Sri Lankan Government for violating the Agreement, as the illegal status of these persons could be known only on the basis of registration (Radhakrishnan 1963, p.529-37). The death of Bhandarnaike in 1959 gave a blow to the entire issue. Sri Lanka, particularly after 1962, started moving closer to China. As a non-aligned country it did not blame China as the aggressor in the Sino-India Border War of 1962 and desired to maintain impartiality on this issue (Bindra 1984, p.297). Consequently in its effort to remain equidistant it oscillated from one side to another, at times swinging in favour of China. Sri Lanka lost no time in questioning the non-aligned policy of India despite its acclamation of Nehru as the champion of Non-Alignment (Phandis 1963, p.195). In 1963, Ceylon entered into a maritime agreement
with the Chinese thereby angering the Indians, raising their suspicions, and probably helping to push them closer to the U.S.S.R. (Murthy 2000b, p. 6). The situation that emerged after the defeat of India at the hands of Chinese changed the situation completely. The government of Sri Lanka by taking advantage of the situation started interpreting the 1954 agreement in a new way. Moreover, the emergence of the Indo-Ceylon dispute, the differences over the Maritime Boundary, and the Tamil Minority problem in Sri Lanka, further made things difficult. But, in spite of these irritants, the leaders of the two countries kept up their contacts with each other and in certain directions they were successful in resolving bilateral issues and in cooperating at international level for strengthening the process of securing their shared objectives.

**Indo-Ceylon Agreement 1964**

On 29th October, India and Sri Lanka signed the Agreement and ended the controversy over the status of the Indian emigrants in Sri Lanka. In 1964, Sirimavo-Shastri Pact on Indo-Ceylon problem was signed and this came to be a big break-through in the bilateral relations of the two countries. After of hectic negotiations India agreed to the repatriation of 5,25,000 persons of Indian origin over a period of fifteen years. This Agreement removed the long standing irritant between India and Sri Lanka. It was a good example of settlement on the basis of give and take (Jha 1983,p.279). In 1985, political environment in Sri Lanka again underwent a change when relations were improved not only with the West but also with India. Similarly, during (1970-77) important and meaningful efforts were made by both sides-to maintain and develop the bilateral relations between India-Sri Lanka. The efforts produced agreements on Boundary Demarcation and Kachchativu Island, India-Sri Lanka Pacts on the issue of the citizenship and repatriation of stateless people of Indian origin in Sri Lanka, led to the strengthening of bilateral trade and economic links. In January 1974 Mrs. Bhandarnaike and Mrs. Indira Gandhi agreed to take responsibility of the state less persons of Indian origin i.e., 75,000 persons would be given sri Lankan Citizenship, in addition to the 30,000 earlier agreed upon and the remaining 75,000 would be
repatriated to India in addition to the 5,25,000, earlier agreed upon (Sharma 1977).

**Indian Ocean as a Zone of Peace**

Sri Lanka was one of the first few countries who took the initiative in demanding both in the meetings of the Non-aligned countries and in the United Nations, that the Indian Ocean should be made a zone of peace (IOPZ). However, since early 1980s it has been advocating that after the securing of IOPZ, no littoral state should increase its naval presence in the area. Apparently this demand has its roots in the 'Fear of India' with which Sri Lanka has been living since its independence. Sri Lanka wants that after securing IOPZ no littoral state of Indian Ocean should increase its presence in this area (Jayapalan 2001, p.379-80). India stands committed to the objective of securing IOPZ, but is not willing to undertake any commitment involving the future security interests of India. It wants an unconditional acceptance of IOPZ and the liquidation of superpower military bases in the Indian Ocean. India wants Sri Lanka to collaborate fully for securing this objective.

**Problem of Tamils**

With the emergence of J.R. Jayawardene as the leader of Government in Sri Lanka there appeared a welcome change in the psychological environment that governed the relations between India and Sri Lanka. Leaders of two countries started maintaining high level contacts for improving Indo-Sri Lanka cooperation in various spheres. No doubt there continued to be differences over such issues as Indo-Sri Lanka problem. Jayawardene was determined to suppress the freedom call by Tamils via any means. He was ruthless to the Tamils people in the North East. He suppressed the Tamil minority violently and used his party members to organize pogroms against them – notably in July 1983 and these days of violence is known as Black July (Dharakan 2006). In July 1983 carnage, India was in an extremely difficult delicate and sensitive situation. On the one hand the victims of racial violence were persons of Indian origin whether recent or ancient. A large number of Sri Lankan Tamil refugees about 40,000 took shelter in Tamil Nadu, particularly passions were aroused and a volatile situation prevailed. On the other hand
these developments were taking place in a sovereign country and there was a limit beyond which India could not intervene, nor could India support the demand for separation (Phadnis 1984).

The Indian decision to give shelter to these refugees was initiated by humanitarian grounds, but Sri Lankan authorities interpreted it as an Indian move to pave the way for its intervention in Sri Lanka. The decision of Sri Lankan Government to take Israeli help to crush the Tamil rebels was criticized by India as an attempt to involve other countries in the affairs of Sri Lanka, which in the long run were bound to prove dangerous for the peace and stability of South Asia and Indian Ocean. All these developments made Indo-Sri Lankan relations highly tense and strained and these continued to drift dangerously till April/May 1985. Indo-Sri Lankan Summit was held in New Delhi in 1985, which discussed bilateral relations in general and Sri Lanka's Tamil problem in particular. Throughout 1986, the Tamil problem continued to strain Indo-Sri Lankan ties. In early 1987, Sri Lankan government decided to step up the offensive against the Tamils on the ground that the Tamils were not respecting the cease-fire. On July 29, 1987, India and Sri Lanka signed a historic pact which heralded a new era of their bilateral relations. It constituted a bold attempt on the part of both the countries to adopt a cooperative approach not only in regard to the limited issue of resolving the ethnic problem in Sri Lanka but also with regard to all-round relations between the two countries. Indian Peace Keeping Force was dispatched on the request of Sri Lanka to Jaffna peninsula, and the process of surrender of arms got commenced on August 5, 1987 when the commanders and leaders of the LTTE group symbolically surrendered their arms. Soon afterwards several LTTE militant groups got engaged in acts of terrorism, subversion and armed clashes with the Indian Peace Keeping Force (IPKF) since that time the role of IPKF has been increasing, necessitating increased strength and increased involvement in restoring normalisation in Northern Sri Lanka, for preventing LTTE militants to hold out their arms and strike against innocent citizens, to liquidate militant bases, and to restore peace in the war from Jaffna. India was charged by certain Sri Lankan sources as showing military intervention in that
country as an example of Indian hegemony over the Indian sub-continent (Rajan 1997, p.141).

The withdrawal of the Indian Peace Keeping Force (IPKF), in March 1990 brought to an end India’s direct involvement in Sri Lanka and led to a new phase in Indo-Sri Lanka relations. India's new policy primarily consisted of three elements. First a conscious endeavour to adopt a non-intrusive approach towards the ethnic problem. India stated that it favoured a negotiated political solution to the problem. Second, improving and strengthening bilateral relations in all fields of mutual interest, especially economic. Third, in the multilateral context, increased cooperation with the government of Sri Lanka on a positive and pragmatic basis, with a thrust in economic areas (Murthy 2000a.). Bilateral relations improved somewhat in the early 1990s, as the government attempted to expand economic, scientific, and cultural cooperation. India continued to take an interest in the status of Sri Lankan Tamils, but without the direct intervention that characterized the 1980s. The LTTE also faced a deteriorating situation in Tamil Nadu after the dismissal of Karunanidhi's DMK government in January 1991. It was reported that Prabakaran and the LTTE were very worried of Rajiv Gandhi coming back to power. Even the Tamil Nadu Congress President Vazhapadi Ramamurthy was against Rajiv Gandhi's coming to Tamil Nadu, although for different reasons. The state government, which was under Presidential rule, warned Rajiv Gandhi not to visit Tamil Nadu, as security reports pointed to possible trouble for him (Rajasingham 2002). The May 1991 assassination of Rajiv Gandhi, allegedly by the LTTE, forced New Delhi to crack down on the LTTE presence in Tamil Nadu and to institute naval patrols in the Palk Strait to interdict LTTE movements to India. Prabhakaran miscalculated the extreme backlash and negative public opinion that followed this assassination carried out in Tamil Nadu. Not only did the Indian government and the Tamil Nadu state government crack down on his operations, but also the 60,000,000 Indian Tamils of Tamil Nadu began to re-evaluate their support for the 4,000,000 Tamils of Sri Lanka.

During his visit to India from 19-21 June 1996, the Sri Lankan Foreign Minister briefed the Indian leadership on the security situation in Sri Lanka.
and also on the ongoing debate on the proposed devolution of powers to regional councils. He again came to India in December 1996 to attend the SAARC Ministerial Meeting. The Sri Lankan President came to India on a private visit in December 1996. The Minister of External Affairs visited Sri Lanka from 19-22 January 1997 and co-chaired the third session of the Indo-Sri Lankan joint Commission. The visits of the Sri Lankan Foreign Minister, Mr Lakshman Kadirgamar, to India in March and June 1998, as a Special Envoy of the Sri Lankan President provided opportunities for useful, high level exchanges between the two Governments. Both sides reaffirmed the consensus prevailing in both countries on maintaining close and cordial relations. The President of Sri Lanka, Chandrika Bandaranaike Kumaratunga, paid a state visit to India from December 27-30, 1998. During the visit, the two sides signed an agreement to establish a Free Trade Area between India and Sri Lanka (Chander and Arora 2008, p.138). Earlier, India-Sri Lanka Joint Commission met at New Delhi on December 18, 1998. The Joint Commission reviewed the existing levels of bilateral cooperation in the areas of science & technology, economy, trade & investment, and cultural, educational & social matters. Both sides agreed on further programmes to broaden and deepen bilateral exchanges. Bilateral trade between the two countries showed an upward trend. While in the 80s Sri Lanka took the help of extra regional powers overlooking India's security interests, this is not so presently (Murthy 2000b).

In February 2000 India and Sri Lanka held discussions and an agreement was reached whereby India agreed to phase out tariffs on a large number of items within three years, while Sri Lanka would remove tariffs in eight years. The FTA agreement came to effect in March 2000(Chander and Arora 2008, p.139). In February 2001, Sri Lankan President visited India and appraise India's efforts to introduce constitutional reforms to meet the demand of Tamil people. In May 2002, India extended ban on LTTE on account of its unlawful activities on the Indian soil. India's policy towards Sri Lanka was put to test following the crisis in the island nation in April 2004. The crisis brought to the forefront, the stresses and strains which Indian Geopolitical Codes faced from domestic forces, especially the Tamil interests from Tamil Nadu. In
this context the instability in Sri Lanka, pending a solution to the ethnic crisis, is a cause of concern for India. Additional concerns are the activities of LTTE which since the 90s have expanded to trading in narcotics and arms also. Their linkages with the other non state actors in India are an issue of concern for India. Thus, concerns for India have increased in the 90s, which however does not mean that the government of Sri Lanka in anti India. During the crisis in Sri Lanka in April this year the Indo-Sri Lanka relations were put on test. While India ruled out military intervention, it categorically stated that it was not for a separate Eelam and there was no question of recognising such a state. India reemphasised its commitment to a sovereign, united and multi-ethnic Sri Lanka where all minorities, especially Tamils could live with dignity and without fear. India also pledged an amount of $100 million and supplies of wheat, rice and sugar on counter trade basis.

**Economic relations:**

India has been one of Sri Lanka's largest trading partners, but the trade relations have not been always very smooth. The unpopularity of Indian businessmen and moneylenders in Sri Lanka and the trade deficit and imbalances have been the major irritants. The similar export interests, as both the countries are engaged in the export of tea, coconut and rubber, have tended to make the two countries trade rivals in the world markets. Further, being a better developed and technologically advanced country, India can export many things to Sri Lanka. Even today, it accounts for 10 per cent of Sri Lanka's total imports. As against this Sri Lanka has a very limited export potential and as such cannot sell much to India. The net result has been a trade imbalance between India and Sri Lanka. Both the countries have been trying to restore the trade balance, but their efforts have failed to click positively. There exists a strong need for giving a facelift to Indo-Sri Lanka trade relations. India being a bigger and better developed country must take effective steps for developing trade with Sri Lanka and for restoring the balance. Joint industrial ventures on a buy-back basis, expansion of mutual trade and export sales to third countries, further utilisation of the existing facilities in the various fields of industrial and agriculture development,
promotion of tourism etc., can be some of the measures which can help the achievement of the objective. India's Sri Lanka policy should necessarily comprise aid policies to stimulate trade not only with India but also in the Asian region. It should provide for economic linkage between the two countries that would make for the maximum utilisation of resource endowments in the two countries. India should also take steps for liberalising the imports from Sri Lanka. There exists a strong need for strengthening Indo-Sri Lanka trade relations.

India-Sri Lanka relations have undergone a qualitative and quantitative transformation in the recent past. Political relations are close, trade and investments have increased dramatically, infrastructural linkages are constantly being augmented, defence collaboration has increased and there is a general, broad-based improvement across all sectors of bilateral cooperation. Since the entry into force of the FTA in March 2000, trade has grown rapidly. The Indo-Sri Lanka bilateral FTA, for instance, even within a short period of less than three years of implementation, has led to a lot of dynamism in bilateral trade and investment flows. UNCTAD's World Investment Report 2003 has highlighted how Sri Lanka attracted Indian investments of US$ 145 million in a very short period making India the third largest source of investments for the island. Bilateral trade rose to US$ 2.025 billion in 2005. Exports from India to Sri Lanka in 2005 amounted to US$ 1.437 billion, while exports from Sri Lanka to India in the same year amounted to US$ 588 million. At 15% of the total, India is the biggest source of Sri Lankan imports. It is also the 3rd largest destination for Sri Lankan exports. With FDI approvals of US$ 450 million, India is the 4th largest investor in Sri Lanka. In addition to expansion of trade and an increase in investments, efforts were made to deepen and widen the framework of trade by upgrading the Free Trade Agreement into a Comprehensive Economic Partnership Agreement by including trade in services and investments. Two rounds of talks at the level of Commerce Secretary on the Comprehensive Economic Partnership Agreement were held in August 2004 and February 2005.
India and Bhutan

India and Bhutan have traditionally enjoyed a warm and cordial relationship. This traditional relationship has undergone some structural changes in recent times. Bhutan as the closest ally of India in South Asia always supported India in the SAARC forums and toed Indian line at the United Nations and International forums. India's own strategic interests seem to guide its Bhutan policy as this landlocked country is a defence bulwark for India in view of India's northern border with China (Grover 1997, p.492). Bhutan is bounded by the Indian states of Sikkim, West Bengal, Assam, and Arunachal Pradesh (formerly the North-East Frontier Agency) border Bhutan.

Indo-Bhutan Treaty 1949

After Independence, the Government of India made a treaty with Bhutan on 8 August 1949 (Das 1974, p.48), by which India would guide Bhutan in regard to its external relations, and the Government of India undertook not to interfere in the internal administration of Bhutan. Bhutan signed a political Treaty with independent India in 1949, much before it stepped out of its self-imposed isolation in early sixties. According to Article 2 of the Indo-Bhutan Treaty, 1949, at least theoretically, Bhutan is required to consult India in the conduct of its external relations. However, the Treaty which was signed in 1949, has never become an irritant factor in the traditional warm relationship between the two countries. By this treaty the Government of the Republic of India and the Government of the Kingdom of Bhutan reaffirmed their respect for each other's independence, sovereignty and territorial integrity. They recalled the historical relations that existed between the two countries and recognized with deep satisfaction the manner in which these relations evolved and matured over the years into a model of good neighbourly relations. Both countries fully committed to further strengthen this enduring and mutually beneficial relationship based on genuine goodwill and friendship, shared interests, close understanding and cooperation.
Events in Tibet

Events in Tibet had causal effects on Bhutan-Indian relations. When the Chinese communists took over Tibet in 1951, Bhutan braced itself against a renewed external threat with a modernization program and a new defence posture. In his first visit to Bhutan in 1958, Indian Prime Minister Jawaharlal Nehru reiterated India’s wish that Bhutan remain an independent country. Bhutan sided with India when the Chinese army occupied Tibet in 1959 and a border dispute emerged between China and India. A de facto alliance developed between Bhutan and India by 1960, and Indian aid increasingly bolstered Bhutan’s strategic infrastructure development. In times of crisis between India and China or between Bhutan and China, India was quick to assure Bhutan of military assistance. Concerns were raised by Bhutan, however, during the 1971 Indo-Pakistani War when there were doubts about India’s ability to protect Bhutan against China (which sided with Pakistan) while fighting a two-front war.

Relations Since 1971

In 1971, India sponsored Bhutan for membership of the United Nations and this put an end to all such suspicions that India has designs over Bhutan. Since this development Indo-Bhutan relations have become closer and matured. Bhutan feels fully satisfied with its relations with India. It has successfully resisted the temptation of entering into diplomatic relations with other countries. Bhutan fully realizes that her security is closely linked with India. Her rulers have been wise enough to have a special treaty relationship with India (Jayapalan 2001, p.434). In 1975, when Sikkim became a part of the Indian Union, many countries, particularly, China, tried hard to impress upon Bhutan the need to secure Bhutan against possible Sikkim type Indian role. The ruler of Bhutan, King Jigme Singhe Wangchuk, however paid no heed to such propaganda and felt assured of India’s respect for the sovereignty of Bhutan. India’s decision to sponsor Bhutan’s membership of the United Nations was quoted as the clear proof of Indian good-will towards Bhutan. India on her part has been fully alive to the developmental needs of Bhutan, and has always contributed generously towards the economic
development of Bhutan. India has prevented Bhutan from succumbing to Chinese pressures and for this, it came forward to accommodate the needs and aspirations of Bhutan.

The holding of SAARC Meeting in Thimpu and the Tamil-Sri Lankan talks at Thimpu, infused a new confidence in Bhutan as a country with respect, prestige and role in international relations. Bhutan fully realizes and appreciates India's efforts in securing her national interests without in any way injuring the prestige and status of Bhutan in international relations. Bhutan also fully realises the fact that because of the topography and geo-politics of the area the security and progress of the kingdom stands related to the concept of special relations with India. The formal diplomatic relations between Bhutan and India at Ambassadorial level was established only on 8 August 1978. India has been the major foreign aid donor to all five year economic development plans of Bhutan. It finances the entire military budget of Bhutan. It is the largest foreign trade partner of Bhutan. Bhutan has always supported India in the UN and tows Indian line in the SAARC and other international forums. India thinks it is responsible for Bhutanese security and its army is stationed in Bhutan. Bhutan's alleged tilt towards China in Indian perception and its hosting of India's north-east militants have been the major irritants in the otherwise smooth Bhutan-India relationship in the recent past.

Bhutan perceived bilateral relations with India politically risky and uncertain, especially after the Indian annexation of Sikkim in 1975. Hence, it preferred to and opted for multilateralism and even international bilateralism in its subsequent stages of economic development in the late seventies and early eighties. The growing need to preserve country's distinct national identity, sovereignty and territorial integrity began to be articulated among the Bhutanese elite in early eighties. This led to the focused views on the need to minimise and reduce country's heavy economic dependence on Indian aid for financing its economic development programmes. As expected, given the 1949 treaty signed between India and Bhutan, India plays a major role in Bhutan's relations with the rest of the world. However, beginning in the late 1970s, Bhutan began moving away from its reliance on India for guidance in
foreign affairs. The country has played a more independent role in the nonaligned movement and has joined a number of international organizations including the World Bank, the International Monetary Fund, and the Asian Development Bank. A major break with previous practices occurred in 1980 when the country established direct diplomatic relations with Bangladesh and allowed that country to open an embassy in the capital city, Thimphu. It has also entered into direct negotiations with China to resolve a border dispute between the two countries. Bhutanese security perception that domestic upheaval will commence in the southern districts brought it closer to Nepal in the past. This fear resulted in the establishment of diplomatic relations with Nepal in 1983. In 1985, Bhutan was a founding member of the South Asian Association for Regional Cooperation (SAARC) Cordiality has marked Indo-Bhutan relations and Bhutan has been sensitive to India's security concerns. As stated while the 80s witnessed bilateral differences between India and the other neighbours, Bhutan was an exception. India had played a major role in ending Bhutan's isolation policy in the international arena and continues to be an important factor in its economic development. In the late 1990s, significant changes occurred reflecting the king's interests in increased—but controlled—contact with the world beyond Bhutan. As a least developed country Bhutan depends on foreign aids for financing its developmental programmes and establishment costs. India has been the largest donor of external aid to Bhutan and its main development partner. It was at the Indian initiatives that Bhutan launched its First Five Year Economic Development Plan in 1961. Bhutan’s first and second Five Year Economic Development Plan (1962-67) were totally funded by India. India has committed Nu/Rs.9000 million (US $215 million) for the current Eighth Plan (1997-2002). India has contributed generously from the First to the current Eighth Five Year Plan (1997-2002). The total outlay of each of eight five year plans (FYP) of Bhutan and India's contribution in the respective plan is as follows:
A completely free trade regime exists between India and Bhutan. Despite the efforts of diversification, India has been the biggest market for Bhutan's products and imports. India is not only the major foreign aid contributor to Bhutan's economic development, but a mainstay for its economic survival. India wholly financed the first two five year economic development programmes. As a landlocked country, India had been and is a major trading partner of Bhutan in her economic development and external trade. Before eighties, third country import and export was nonexistent in Bhutan. Indian aid accounts for more than sixty percent in its fifth five year economic development plan.

According to Royal Monetary Authority of Bhutan, in 2000/2001, Bhutan's total exports to India were Rs.4.91 billion. This included the sale of electricity to India. It constituted 94.4% of Bhutan's total exports. In the same

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### Table 2.6 Bhutan's five year plans and India’s Contribution

<table>
<thead>
<tr>
<th>Year/FYP</th>
<th>Total Plan Outlay</th>
<th>India’s Contribution</th>
<th>% of India’s Contribution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1961-1966/First</td>
<td>107.2</td>
<td>107.2</td>
<td>100</td>
</tr>
<tr>
<td>1966-1971/Second</td>
<td>202.2</td>
<td>202.2</td>
<td>100</td>
</tr>
<tr>
<td>1971-1976/Third</td>
<td>475.2</td>
<td>426.6</td>
<td>90</td>
</tr>
<tr>
<td>1976-1981/Fourth</td>
<td>1106.2</td>
<td>853</td>
<td>77</td>
</tr>
<tr>
<td>1981-1987/Fifth</td>
<td>4440.5</td>
<td>1340</td>
<td>30.2</td>
</tr>
<tr>
<td>1987-1992/Sixth</td>
<td>9500</td>
<td>4000</td>
<td>42.1</td>
</tr>
<tr>
<td>1992-1997/Seventh</td>
<td>23500</td>
<td>7500</td>
<td>31.9</td>
</tr>
<tr>
<td>1997-2002/Eighth</td>
<td>32610</td>
<td>9000</td>
<td>27</td>
</tr>
</tbody>
</table>

Source: Indian Government Publications.
period Bhutan imported goods worth Rs.7.38 billion from India equivalent to 78.7% of its total imports. Indo-Bhutan Trade Treaty was signed in 1972. It is renewed every ten years – up to March, 2005. The statistics on import from and export to India are given below:

2.7 Bhutan-India Trade statistics

(NU/Rupees in Billion)

<table>
<thead>
<tr>
<th>Year</th>
<th>Import</th>
<th>Export</th>
</tr>
</thead>
<tbody>
<tr>
<td>1994-95</td>
<td>2.22</td>
<td>2.05</td>
</tr>
<tr>
<td>1995-96</td>
<td>2.79</td>
<td>3.07</td>
</tr>
<tr>
<td>1996-97</td>
<td>3.06</td>
<td>3.22</td>
</tr>
<tr>
<td>1997-98</td>
<td>3.68</td>
<td>4.04</td>
</tr>
<tr>
<td>1998-99</td>
<td>4.91</td>
<td>4.18</td>
</tr>
<tr>
<td>1999-2000</td>
<td>6.06</td>
<td>4.71</td>
</tr>
<tr>
<td>2000-2001</td>
<td>7.38</td>
<td>4.91</td>
</tr>
</tbody>
</table>

Source: Royal Monetary Authority of Bhutan

Over the period of 1981-2001, Bhutan's exports to India accounted for an average of 86.5 percent of its exports, and imports from India accounted for an average 79 percent of the total imports. Bhutan's main items for export to India are electricity, mineral products, product of chemical industries, base metals and products, and wood and wood products with hydropower generation being the most important area of comparative advantage. Imports from India include a wide range of items including machinery, mechanical appliances, base metals, electronic items, foodstuff and other basic necessities and consumer items.
India and Nepal

Indian policy towards Nepal has been of considerable importance because of her strategic location, Nepal is the northern gateway to the Indo-Gangetic plain and that is why the Indian security and stability are inextricably linked with the stability and security of Nepal (Tyagi 1974, p.32). Her geo-strategic location between India and China has been emphasized as a prominent variable in defining India's security perceptions towards it. India and Nepal are tied by the bonds of geography, history and culture. Together these constitute the three determinants, or more realistically speaking, the conditioning factors of Indo-Nepalese relations. Geographically the two countries inevitably form one geographic unit (Jayapalan 2001, p.400). The forces of modernization, which became active in other parts of Asia, could not affect Nepalese social set up in any form. Her geographical position accounted in a large measure for her prolonged isolation as well as slow political progress economic immobility and social backwardness (Tyagi, op.cit., p.33). The cooperation between the peoples of India and Nepal during the era of freedom struggle in India made it natural for the Indians to expect the establishment of a democratic system in Nepal. It was with the efforts of India that a political settlement was effected in Nepal. With the existence of an open boundary between India and Nepal, people of both the countries have developed almost a shared living in the border areas. Historically, the two countries originated from the same source. In the past, people of one country migrated to the other either in search of livelihood or business or on a spiritual quest. Both the countries have always accepted the need to develop friendship and cooperation on the basis of similarities in the goals of their national interests. Both accept that the security of one is linked with the strength and stability of the other. For India, Nepal's strength, stability, progress and friendship together constitute an essential healthy condition for its national interests in South Asia. Particularly after 1962, India has come to realize the importance of Nepal for the security of India's northern borders. The Chinese occupation of Tibet and the continued Chinese aggression of Indian borders have made India realize the importance of Nepal (Jayapalan op.cit., p.401). Nepal's location as liability is more pronounced in relation to
India owing to its excessive dependence in economic, political and military matters upon India as also due to very close socio-cultural ties and easy accessibility between the two countries (Muni 1977, p.127).

On 15 August 1947, when India emerged as an independent country, the Government of India inherited the treaty arrangements of the British Government with Nepal. Under these arrangements, although Nepal was an independent country, she had no foreign relations except through the British Government in India. But free India, intent on building Nepal as an independent and progressive country, helped to give content to Nepal's independence and the relations between the two countries were established as between two sovereign states (Chatterjee 1978, p.173). In 1949, India and Nepal signed an agreement on the recruitment of the Nepali Gorkhas in the Indian Army which bound the two countries with a military link. India sent military missions to help Nepal reorganise its Armed Forces. The need to reorganise the army first appeared in 1952 when a small armed force revolted against King Tribhuvan. India wanted Nepal to be a democratic country and played a important role in the short lived democratic experiment in the 1950's (Pattnaik 2007, p.135).

The China Factor

In fact India's security concern was not only to keep China away from Nepal but also to assist Nepal in achieving political and economic stability that could act as a guard against any foreign intervention. Consequently India's involvement increased in developing the infrastructure and economy of Nepal which could take care of the latter's security interests also. From 1955 to 1971 due to the emergence of certain new developments made the course of friendship and cooperation between the two countries uneven and strained. In 1955, King Mahendra ascended the throne in Nepal and he was interested in developing Nepal's relations with other countries, particularly with China as a means to assert Nepal's independence and identity. He was unhappy with the nature of Nepal's relations with India. Boundary dispute between India and China, in the post-1955 period, further made him conscious of Nepal's security needs vis-a-vis both India and China. Under these circumstances,
India decided to impress upon the King, the need to strengthen the political base of Nepal and to work for the maintenance of peace and friendship with China. In 1959 in respect of Nepal, both India and China started competing for the development of friendship and cooperation. The establishment of parliamentary system in Nepal in 1959 came as a big relief and help to Indian efforts which were aimed at cementing Indo-Nepal ties. The conclusion of Trade and Transit Treaty further brought India and Nepal closer, and hence, between 1955-60 Indo-Nepal relations continued to be deeply cordial, friendly and cooperative.

However, the situation got a setback in December 1960, due to the liquidation of the popular and representative government of Prime Minister B.P. Koirala, and partly due to the new foreign policy posture adopted by King Mahendra(Pattnaik 2007,p.135), who decided to go ahead with the plans to develop friendship and cooperation with China. The Indian attempts to secure a favourable change through the use of economic and political pressures produced a reaction in the form of Nepalese attempts to use China as a counterpoise against India. During the Sino-Indian War of 1962, Nepal maintained a neutral stand. The humiliating defeat suffered by India, made it necessary for the Indian Government to make certain moves which were designed to win over Nepal through appeasement and concessions (Jayapalan op.cit., p.412-13). India started reaffirming its respect for the sovereignty and independence of Nepal. Many visits were exchanged by dignitaries of the two countries in 1963 and 1964 But the Indian policy of appeasement could not fully succeed in keeping Nepal away from its apparently increasing association with China. On the one hand, Nepal during this period tried to secure maximum gains out of relations with India and on the other hand, it kept up its policy of securing relations with China. It justified this policy on grounds of achieving a balance in bilateral relations with India and China. It used the situation for securing favourable concessions from both India and China.
Economic Aid to Nepal

Indian Government's liberal attitude towards Nepal was marked by the fact that she was more interested in solving problems. In the year 1968-69, Indian aid to Nepal totalled Rs. 145,000,000 more than 50 per cent of the total foreign aid received by Nepal during that year. In the matters of armaments and military supplies Nepal had to rely on India almost entirely. By offering all such assistance, India surely was not charitable to Nepal that was the need of the situation in which both the countries were placed (Dabke 1969). In the beginning of 1970's there was some change in the rigid attitude of Nepal towards India, to normalise the economic relations between the two countries. The English daily the Rising Nepal which usually project the policy of the administration in an editorial expressed the hope that Nepal would obtain unrestricted facilities from friendly India for overcoming the difficulties of exporting her goods. It further remarked that India had a stake in boosting Nepal's economic development and it should be a matter of satisfaction for neighbouring India to see Nepal become economically strong and prosperous. It added that though relations between countries are intimate and extensive, there is every need that this friendship is not allowed to stagnate but to grow from strength to strength in a manner in total conformity with changes in time and with changing needs of the two countries (cited in Bindra 1984,p.213-214). The changes that took place in the South-Asian sub-continent during 1970-71, brought into existence an environment in which India found it possible to replace appeasement with a more assertive attitude towards Nepal.

The Indo-Soviet Peace and Friendship Treaty, and India's role, in the liberation of Bangladesh gave a big boost to Indian prestige in the region. The status of being the major power in South Asia gave India the much needed base for securing its interest in South Asia. In respect of Nepal, India decided to advocate reciprocity as the basis for Indo-Nepal relations. It made it clear that while making foreign policy goals, Nepal should not be unmindful of Indian interests and that it should not expect India to keep on developing friendship with Nepal through unilateral concessions. India followed this up by
taking a bold stand over the issue of renewal of Trade and Transit Treaty with Nepal that had become necessary due to expiry of the old treaty in November 1970. But the ensuring dialogue could be fruitful only if both the parties try to understand each other's difficulties afresh and evolve mutually acceptable proposals for a new treaty. It could be very unfortunate if the strained relationship of India with Pakistan and China were to be exploited by Nepal. It was argued that India should stop playing the role of "big brother" and extend all possible facilities for the all round development of Nepal (Vyas 1970). As the parliamentary elections were going to be held in the month of March 1971 in India, it was also argued that since the normal trade relations have been allowed to continue for the time being, the differences between the two countries on economic matters should be solved after the new government comes to power (Handa 1971).

**Nepal's Fear of Indian Expansionism**

In 1974, Indo-Nepal relations got strained when, because of a fear of possible fall out on its political system, Nepal reacted strongly to Sikkim's accession to India. India exhibited full firmness in respect of Nepalese reactions. On the one hand, India assured Nepal that friendship and cooperation would be maintained, on the other hand, it declared the resolve to deal firmly with hostility from any quarter (Jayapalan *op.cit.*, p.414). India also decided to take a more firm stand over the issue of supply of petroleum and oil to Nepal. This stiff Indian attitude paid dividends and there appeared a welcome change in Nepal's attitude. In 1975, India did not show any inclination towards the acceptance of King Birendra's proposal for the acceptance of Nepal as a zone of peace. Further, India decided to place restrictions on the movements of Nepalese nationals in some specified areas in Indian territory. All these moves were of the nature of rebuffs to Nepal and were aimed to making the Government of Nepal realize the consequences of overlooking the importance of relations with India. Thus during 1971-77, India maintained friendly relations with Nepal; but along with it an attempt was made to base these upon reciprocity. India abandoned its appeasement policy towards Nepal and instead tried to develop relations on the basis of mutuality.
of interests and needs. Its improved power position helped it to secure the desired change in Indo-Nepal relations.

The Janata Period

In March 1977, Janata Government came to power in India. Realising the existence of close geographic, historic and cultural links with Nepal, the decision was taken to initiate immediate steps for resolving Indo-Nepal differences over various issues. The issue of a composite trade and transit treaty and of the restrictions placed on Nepalese nationals in certain specified areas of India needed immediate attention and the Janata Government was quick to take up these issues with Nepal. On July 1977 Mr. Vajpayee made a visit to Kathmandu where two developments took place which set into motion the process of attempting an improvement in Indo-Nepal relations. Vajpayee's visit was not only successful in removing the misunderstanding but also it paved the way for reactivation of certain projects in Nepal which were yet to be completed by India. Vajpayee assured India's complete faith in the Indo-Nepal Treaty to Peace and Friendship and expressed the willingness to discuss the proposal for constituting Nepal into a zone of peace. This visit helped the process of securing an understanding between India and Nepal. The chances for improving the ties between the two countries further brightened when, in August 1977, Prime Minister Desai informed the Nepalese ambassador that India was willing to conclude two separate trade and transit treaties with Nepal. On 17 March, 1978, India and Nepal signed two separate treaties one relating to trade and the other to transit facilities. These treaties helped the restoration of confidence in Indo-Nepal ties. A memorandum of understanding on Industrial and Economic Cooperation was signed and, it was agreed to develop trade and industrial cooperation for reducing the trade deficit between the two countries. Thus, during Janata Party period, the initial lack of understanding of each other's viewpoint was successfully overcome and replaced by good progress towards the securing of Indo-Nepal cooperation in various spheres. India was successful in establishing a new understanding with Nepal. Irritants like Nepal's proposal for a zone of peace and the issue of restrictions upon Nepalese nationals in certain areas of India etc. continued to remain unresolved.
Return of Gandhi to Power

After the return of Mrs. Gandhi to power in January 1980, the process of development of Indo-Nepal friendship and cooperation continued to progress satisfactorily. This realization about the necessity of cooperation and friendship between Nepal and India indeed helped the two countries to overcome problems and resolve their differences and keep up the process of development of friendship and cooperation. By an agreement on May 1982, India gave a number of trade and transit concessions to Nepal. The emergence of SAARC strengthened further the economic trade and cultural cooperation among the countries of South Asia in general and among India and Nepal in particular because of deep and historical ties between these two countries. In 1986 the two countries reviewed their relations. Difference over zone of peace status for Nepal continued to surround the talks. Both India and Nepal accepted that the Panchsheel spirit and five principles constituted the best basis for conducting their bilateral relations.

Foreign and Economic Relations since 1988

Relations between the two countries sank to a low point in 1988 when Kathmandu signed an agreement with Beijing to purchase weapons soon after a report that China had won a contract for constructing a road in the western sector to connect China with Nepal. India also was annoyed with the high volume of unauthorized trade across the Nepalese border, the issuance of work permits to the estimated 150,000 Indians residing in Nepal, and the imposition of a 55 percent tariff on Indian goods entering Nepal. In retaliation for these developments, India put Nepal under a virtual trade siege. In March 1989, upon the expiration of the 1978 treaties on trade and transit rights, India insisted on negotiating a single unified treaty in addition to an agreement on unauthorized trade, which Nepal saw as a flagrant attempt to strangle its economy. On March 23, 1989, India declared that both treaties had expired and closed all but two border entry points. The relationship with India was further strained in 1989 when Nepal decoupled its rupee from the Indian rupee which previously had circulated freely in Nepal. India retaliated by
denying port facilities in Calcutta to Nepal, thereby preventing delivery of oil supplies from Singapore and other sources.

A swift turn in relations followed the success of the Movement for the Restoration of Democracy in early 1990. Nepal’s restoration of multiparty democracy in 1990 coincided with far-reaching changes in international politics, Nepal greatly needed to reset its foreign policy priorities to cope with the new changes both within and outside the country. In June 1990, a joint Kathmandu-New Delhi communique was issued pending the finalization of a comprehensive arrangement covering all aspects of bilateral relations, restoring trade relations, reopening transit routes for Nepal’s imports, and formalizing respect of each other’s security concerns and reopening of all border points. Research and studies reveal that both the countries have comparative cost advantages in trading amongst themselves for several reasons. Historic trade relation, geographical proximity, identical culture, similar agriculture productions are cited few examples quite repeatedly (Shrestha 2003, p.1). Nepal opened up its economy in the early 1990s with the adoption of economic reform package. With a view to facilitate trade and transit and strengthen security, Government of India has taken up several new projects to improve border infrastructure along the India- Nepal border. Foreign Minister of Nepal visited India in December 1996 to attend the SAARC Ministerial Meeting. Letters were exchanged between the Government of India and the Government of Nepal for renewing the India-Nepal Trade Treaty for a period of five years.

India attached high priority to the development of economic and commercial ties with Nepal. Successive reviews of bilateral trade & transit arrangements were held during Commerce Secretary level talks at New Delhi in March, September and November 1998. A renewed Transit Treaty between India and Nepal was signed on 5 January, 1999 in Kathmandu. The renewed Treaty, valid for a period of seven years up to 5 January, 2006, will be automatically extended for further periods of seven years at a time, unless either of the parties gives written notice of its intention to terminate the Treaty six months in advance. These would be subject to review and modification every seven years or earlier, if warranted. India’s contribution to Nepal’s
economic development in diverse areas has increased over the years. Initiatives were taken by the Government of India to liberalise the trade and investment regime with Nepal which were expected to provide a boost to bilateral economic exchanges in the coming years. Indian investments accounted for over 40% of total foreign investments in Nepal.

Table 2.8 : India’s Imports and Exports to Nepal

<table>
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<tr>
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</tr>
</thead>
<tbody>
<tr>
<td>Exports to India</td>
<td>5226 2</td>
<td>8794.4</td>
<td>12530.7</td>
<td>22618.2</td>
<td>26030.2</td>
<td>28864 9</td>
<td>12959 4</td>
</tr>
<tr>
<td>Growth from previous year</td>
<td>47.9%</td>
<td>68.3%</td>
<td>42.5%</td>
<td>80.5%</td>
<td>22.7%</td>
<td>10.9%</td>
<td>-21.5%</td>
</tr>
<tr>
<td>Total exports</td>
<td>22636.5</td>
<td>27513.5</td>
<td>35676.3</td>
<td>51622.6</td>
<td>55654.1</td>
<td>47539.8</td>
<td>23519.8</td>
</tr>
<tr>
<td>Growth from previous year</td>
<td>13.1%</td>
<td>21.5%</td>
<td>32.0%</td>
<td>44.7%</td>
<td>11.7%</td>
<td>-14.6%</td>
<td>-10.8%</td>
</tr>
<tr>
<td>India’s share</td>
<td>23.1%</td>
<td>31.9%</td>
<td>35.5%</td>
<td>42.8%</td>
<td>46.7%</td>
<td>60.7%</td>
<td>55.09%</td>
</tr>
<tr>
<td>Imports from India</td>
<td>24853.3</td>
<td>27331.0</td>
<td>32119.7</td>
<td>40928.4</td>
<td>45211.0</td>
<td>45364.5</td>
<td>25188.5</td>
</tr>
<tr>
<td>Growth from previous year</td>
<td>5.9%</td>
<td>10.0%</td>
<td>17.5%</td>
<td>27.4%</td>
<td>14.0%</td>
<td>0.3%</td>
<td>15.6%</td>
</tr>
<tr>
<td>Total imports</td>
<td>93553.4</td>
<td>89002.0</td>
<td>87525.3</td>
<td>106967.0</td>
<td>115687.2</td>
<td>106727.2</td>
<td>57702.3</td>
</tr>
<tr>
<td>Growth</td>
<td>28.9%</td>
<td>-4.9%</td>
<td>-1.7%</td>
<td>22.2%</td>
<td>6.6%</td>
<td>-7.7%</td>
<td>10.1%</td>
</tr>
<tr>
<td>India’s share</td>
<td>26.6%</td>
<td>30.7%</td>
<td>34.9%</td>
<td>34.8%</td>
<td>39.0%</td>
<td>42.5%</td>
<td>43.65%</td>
</tr>
</tbody>
</table>

Source: Embassy of India, Kathmandu, Nepal.

It can be seen from the above figures that since 1995-96 the Nepalese exports to India have been growing at a rate which far exceeds the growth rate of Nepal’s overall exports. In general, both imports and exports of Nepal have increased over the years. In the year 2000-01, Nepal’s global imports were worth NRs. 113 billion, of which NRs. 46 billion were from India, i.e., around 41%; and Nepal’s global exports were around NRs. 57 billion of which around NRs. 27 billion worth were to India, i.e., nearly 47%. In the year 2001-
02, 60.7% of Nepal's overall exports were to India and 42.5% of Nepal's imports were from India. The new economic thinking involving speedy economic liberalization oriented toward free and competitive market in Nepal and India has, by and large, contributed in changing the scenario of Indo-Nepal trade relation. Steady move towards economic liberalization undertaken by the both countries brought fundamental changes in the pattern and direction of economic exchanges between them.

Presently the concerns for India from the security dimensions arise primarily from the ISI activities in Nepal which are reported to have begun in the initial years of the nineties. Pakistan is using Nepal to carry out its anti India activities, taking advantage of the open borders between India and Nepal to have an easy access into India. The most serious and adverse impact of open and uncontrolled Nepal-India border has been in the form of growing and anti-social and lawless activities (Kansakar 2001). Some reports speak of the nexus between the ISI agents, the bureaucrats, smugglers and politicians of Nepal which enables the ISI to carry out its activities. India recognises that the open border is being abused by some anti India elements and that the issue has to be addressed jointly. In this direction the first step has been made by bringing in a restricted regulation at the border. India's security concerns became pronounced when smugglers, militants, terrorists and criminals misused its open border with Nepal. The usurpation of absolute power by King Gyanendra in Nepal sent shock waves through India - to the point of stirring even the somewhat complacent foreign policy establishment into making a series of responses (Bidwai 2005). The Feb. 1, 2005 coup was roundly denounced by the king's foreign allies. "These developments constitute a serious setback to the cause of democracy in Nepal and cannot but be a cause of grave concern for India," said a statement by India's foreign ministry shortly after the takeover. India pulled out of a meeting of the South Asian Association for Regional Cooperation in Dhaka to protest the coup, effectively torpedoing the summit (Pattanaik 2007, p.135). The Indian government sent messages of disapproval to King Gyanendra - first, when it cancelled the South Asian Association for Regional Cooperation (SAARC) summit in Dhaka, and second, when Indian Ambassador to Nepal Shiv Shankar Mukherjee met him on February 9th, 2005 to urge the release of
political leaders and the restoration of basic freedoms. Prime Minister Manmohan Singh met King Gyanendra on the sidelines of the Asia-Africa Summit in Jakarta on 23rd April 2005, which broke the ice between the two countries. On 14th December visited Kathmandu and emphasized the restoration of peace, stability economic recovery is in the interest of India (Ibid., p.136).

India – Maldives

India and Maldives have enjoyed close and friendly relations since Maldives became independent in 1965. Disputes between the two countries have been few, and both sides amicably settled their maritime boundary in 1976. Maldives has traditionally sought to maintain a status independent of the great powers while simultaneously preserving cordial relations with all members of the world community. The purposes of this stance are to receive additional aid and to keep the Indian Ocean area at peace. Like India Maldives followed a nonalignment policy. Maldives participates in a variety of international organizations. It joined the UN in 1965 and the World Bank and the IMF in 1978. In connection with its concern over the security of the Indian Ocean area, Maldives was a founder member of the South Asian Association for Regional Co-operation in 1985—It has been a member of the Colombo Plan designed to promote economic and social development in Asia and the Pacific since 1963. Although a Muslim nation, Maldives has remained apart from most of the problems associated with the Islamist (also seen as fundamentalist) movement in the Middle East. Maldives falls within India’s sphere of influence and in 1976 signed an agreement demarcating the maritime boundary between the two countries. Speaking in Male(Maldives) Indira Gandhi said “We in India do not believe in big and small. We accept the sovereignty of independent nations” (quoted in Rajan 1997,p.135). In November 1988, at the behest of the Maldivian government, Indian paratroopers and naval forces crushed a coup attempt by mercenaries and saved Maldives from illegal external intervention (Ibid., p.141). India’s action was viewed by some critics as an indication of Indian ambitions to be a regional police officer, and in keeping with India’s strategic role in South Asia. Under the Economic and Technical Cooperation Agreement, signed during Prime Minister Rajiv Gandhi’s visit in February 1986, a Joint Commission for
Economic and Technical Cooperation was set up between India and the Maldives. Co-chaired by External Affairs Minister and Maldivian Foreign Minister, the Joint Commission meetings took place in January, 1990 in Male, in March, 1992 in Delhi, in August, 1995 in Male and in March, 2000 in New Delhi. In the 1980s, 1990s, and by mid 2000 Indian and Maldivian leaders have maintained regular consultations at the highest levels. New Delhi also has provided developmental assistance to Male (capital of Maldives') and has participated in bilateral cooperation programs in infrastructure development, health and welfare, civil aviation, telecommunications, and labour resources development.

The trade between India and Maldives is governed by the Trade Agreement signed in 1981. Growing from modest beginnings, India-Maldives bilateral trade is now heavily in favour of India. While Indian exports to the Maldives during 2004 were worth Rs.289 crores, imports were worth only Rs. 2 crores. This is in sharp contrast to the situation about five years ago when Indian exports to the Maldives formed only 5% of the Maldives total imports as against 10-11% now. After Singapore and Sri Lanka, India is now (along with UAE), the third largest exporter to Maldives, accounting for about 11% of its global efforts. Statistics of the bilateral trade for the last few years are given below:

**Table 2.9: India Imports and Exports to Maldives (Figures in Rs. crores)**

<table>
<thead>
<tr>
<th>Year</th>
<th>Indian Exports</th>
<th>Indian Imports</th>
</tr>
</thead>
<tbody>
<tr>
<td>2000</td>
<td>168.4</td>
<td>1.10</td>
</tr>
<tr>
<td>2001</td>
<td>188.6</td>
<td>1.31</td>
</tr>
<tr>
<td>2002</td>
<td>193</td>
<td>0.55</td>
</tr>
<tr>
<td>2003</td>
<td>210.7</td>
<td>1.54</td>
</tr>
<tr>
<td>2004</td>
<td>289.5</td>
<td>2.00</td>
</tr>
<tr>
<td>2005</td>
<td>368.72</td>
<td>4.48</td>
</tr>
</tbody>
</table>


Indian imports from the Maldives primarily comprise cowries shells and red corals, Indian exports to the Maldives include agriculture and poultry produce, sugar, fruits, vegetables, spices, rice, flour, textiles, drugs and
medicines, a variety of engineering and industrial products, sand and aggregate, cement for building etc. Tuticorin Port in Tamil Nadu is mostly used for the Indian exports.

India-Maldives relations continue to remain close and friendly. India kept up assistance to the Maldives in its developmental efforts including in the area of Human Resource Development. There is regular interaction through the exchange of high level visits. These visits were also used for bilateral discussions. The India-Maldives relations continued to be close and friendly during the year 2004-2005. The warmth of these relations was kept up through regular meetings/ exchanges of visits. The External Affairs Minister met Mr. Fathulla Jameel, Foreign Minister of Maldives on July 2004 at Islamabad on the sidelines of the SAARC Council of Ministers Meetings and in January 2005 in Jakarta on the sidelines of ASEAN meeting on Tsunami Relief. Foreign Secretary paid a visit to Maldives from 18-19 October 2004. During this visit, Foreign Secretary held detailed discussion on the bilateral relations between the two countries and other areas of regional and international interests. Another important bilateral development was in the wake of recent Tsunami disaster. At the request of Maldivian Government, Indian ships, planes and helicopters with relief material, medical teams and specialized personnel were rushed to Maldives on 27 December 2004. Our personnel went ashore and helped to provide essential services, medical relief and assisted in search and rescue operations, transporting relief materials, repairing and restoring generators and communications. Prime Minister informed President Gayoom that Government of India has decided to earmark Rs. 5 crores for assisting in the programme of relief and rehabilitation for Maldives.
India-Afghanistan

On Nov. 11, 2005, Afghanistan was poised to become the eighth member of the South Asian Association for Regional Cooperation (SAARC) after a meeting of foreign secretaries on in Dhaka. In March 2005 Afghan President Hamid Karzai had expressed the desire that his country wanted to join the SAARC and become a link between the regional grouping and Central Asia. India closely monitored the continuing fratricidal conflict in Afghanistan, a country with which it has historical ties of friendship and cooperation. India maintained close contacts with various parties and groups within Afghanistan. India believes that there can be no military solution to the internecine war which is being fueled by foreign involvement, principally from across Afghanistan's southern borders. India continued to send humanitarian assistance to Afghanistan both bilaterally and through the UN. After the devastating earthquake in Afghanistan on May 30, 1998, a plane load of relief material was sent on June 11, 1998. A consignment of 30 tonnes of vegetable oil was sent through the UN in July 1998. A consignment of medical equipments, medical supplies and medicines worth Rs. 40 lakhs was sent to the Indira Gandhi Institute for Child Health, Kabul, in October 1998. More consignments of medicines, woollens and food items will be sent in the coming months.

India and Afghanistan have long history of friendship and cultural affinity. Bilateral relations between the two countries have attained a new level of intensity and cooperation. There were regular political interactions between the two countries. India has continued and built further upon its economic and financial assistance for Afghanistan's rehabilitation and reconstruction process. Prime Minister called on President Karzai on 21 September 2004 in New York, during his visit to New York for the UN General Assembly. The two leaders discussed bilateral issues, including Indian assistance to Afghanistan’s reconstruction as well as the presidential elections in Afghanistan. Prime Minister underlined India’s commitment to further strengthen bilateral relations between the two countries and also reiterated India’s support for the economic reconstruction effort in Afghanistan.
Expressing appreciation for India’s contribution to Afghanistan’s economic reconstruction and rehabilitation, President Karzai sought India’s continued cooperation in every sphere, including rebuilding of state institutions. India has continued with its assistance programmes/projects for the economic reconstruction of Afghanistan. India’s present commitments add up to US $400 million over the period 2002-2008, which is a substantial amount for a non-traditional donor. The breakup of the commitment is as under India had announced an assistance of US$ 100 million for Afghanistan at Tokyo Donors Conference in January 2002. Of this assistance, US$ 88.11 million have been operationalised/committed till date on various projects. India has announced food assistance of 1 million tons of wheat (equivalent to US$ 100 million) to Afghanistan. During the visit of President Karzai to India in February 2005 and that of Prime Minister Manmohan Singh to Afghanistan bilateral relations gained substantially. India contributed $550 million for projects in the areas of infrastructure, institutional and human resource development.