Chapter-IV

Indo-Nepal Relationship

4.1 Political Aspect.
4.2 Economic Aspect.
4.3 Trade and Transit Aspect.
4.4 Treaty of Friendship and Co-operation.
Geographically, socially, culturally and historically, the two countries are linked most intimately. Cultural ties between India and Nepal have existed since the dawn of civilization. The Pashupatinath temple, with four priests from South India still shines out as the most precious cultural link between the two. The king of Nepal enjoys exceptional privileges in the Puri and Rameshwaram temples in India. Lord Buddha was born at Lumbini in Nepal, but Sarnath from where he gave his first sermons, is considered the holiest of the holy places of Buddhistic interest. Nepal uses the Vikram Samvat for all official and non-official purposes. Nepali language's origin is traced from Sanskrit, like most of the Indian languages, and is written in Devnagari script. To quote a Nepalese author "there are possibly no two countries in the world whose histories, cultures and traditions have been so closely interlinked for such a long time." Nature seems to have ordained that Nepal and India live in amity sharing common problems of economic and social development. The strategic importance of Nepal is so vital for India that relations with Nepal, as also with Bhutan, constitute a critical variable in India's defence and security planning in the north eastern part of India. 

Yet, politically, Indo-Nepalese relations have experienced many ups and downs. Till about the eighteenth century Nepal was not treated as a separate entity in the Indian peninsula. It was only after Prithivi Naryan Shah had united under his way the area, which now constitute Nepal, aroused the people against the British, that there arose the concept of Nepal as a separate entity. Before, as well as during the Rana period, Nepal followed a policy of isolation and exclusion of foreigners, coupled with balance of power politics. In 1923 the British signed a treaty with Nepal under which Nepal recognized as a sovereign state, but in matters of foreign affairs and defence Nepal hardly had any independence. More or less on these lines a Treaty of Friendship was signed in 1950 and "Letters exchanged". By Article-2nd of the treaty the two countries agreed to inform each other of any serious frictions or misunderstanding with any neighboring country, likely to cause breach in friendly relations between the two countries. Another Treaty of Trade and Commerce was also concluded, under which Nepal was granted transit

Thus began the period of special relationship, which lasted till 1961. Meanwhile some vital changes had occurred in Nepal's domestic politics. The Rana rule ended in 1951 and King Tribhuvan assumed supremacy, with the active support of India. Till 1955 there was full cooperation in the foreign policies of the two countries. China also recognized the special relationship between India and Nepal. In 1955 King Mahendra succeeded and he initiated a process of diversification of Nepal's political and economic relations. Nepal opened diplomatic relations with a number of countries. From a policy of "special relationship" with India, Nepal shifted to "equal relationship" with both India and China. From 1955-62, there was decline in Indian leverage in Nepal, partly because of the change in Nepal's diplomacy, but also because of general decline in the prestige of India in the region. Nepal was successful in moving from a position of utter reliance and dependence upon India in matters of foreign policy to a position of relative freedom in manipulating foreign aid and policy matters. In 1959 a popular government under the leadership of B.P. Koirala, a participant in Indian struggle against the British, assumed office, and the improvement in Indo-Nepal relations was visible. But, the dismissal of Koirala Ministry was reacted to very sharply by India, the Nepali Congress of Koirala indulged in anti-king activities which were resented by King Mahendra, and all this affected adversely the relations between Kathmandu and New Delhi. In the Sino-Indian conflict of 1962 Nepal took a neutral position. Policy of balanced relationship now dictated that Nepal should remain sympathetic towards Indian security interests. India also was in an accommodating spirit. In 1965 they concluded an agreement under which Kathmandu undertook to obtain all its military equipment for India and to import additional ones, from third countries, with India's consent and through Indian military channels. Towards the close of the 1960s King Mahendra once again started highlighting Nepal's problems with India, particularly as threats to his regime appeared on the horizon. Nepal even demanded revision of the treaty of 1950 and the withdrawal of the Indian Military Group. Nepal's anti-Indian postures were essentially aimed at making India accept, without any reservation, the Royal supremacy in the Himalayan Kingdom, and forget about the political


This can be corroborated from the release of B.P. Koirala, a strong anti-monarchical agitation was launched in Nepal.

In 1971 came the Bangladesh war and India's emergence as the unchallenged pre-eminent power in South Asia. In 1972 King Mahendra died and King Birendra took over. In 1975 Sikkim was merged into the Indian Union. Earlier India conducted a peaceful nuclear explosion in 1974. All these were distinct reminders of India's increased capability, which heightened Nepal's urges to strengthen her independent status. Hence, in 1975 King Birendra proclaimed his famous proposal, that Nepal be declared a zone of peace.

The proposal was however, regarded in diplomatic circles, as Nepal's latter days answer to the 1950 Treaty of Peace and Friendship with India, and innovation by which that treaty could be superseded and undermined. Consequently, acceptance of the proposal would require remodeling of Indo-Nepalese relations and, therefore, even though Indian interests in the long run. Consequently, even though India has not rejected the proposal, but the response has been that of indifference. Even the Janata Government of India, during its three-year rule, did not accept the proposal. New Delhi's reaction is that the whole of South Asia should be declared a peace zone. Besides, in any case Indo-Nepalese relations and, therefore, it is erroneous to equate the two, as the proposal seems to be doing. In any case the Treaty of Friendship of 1950 is an assurance to Nepal, as far as India is concerned. Therefore, endorsement of the proposal is redundant.

Nepal has vast hydro electrical potential. It fulfils both the conditions for the development of water resources. It is estimated that Nepal has a potential of 83,000 MW of hydro power. Till 1991 about 42,000 M.W of this potential was assessed as economically feasible.

The availability of water resources and mountainous geography of Nepal is most suitable for construction of cheap hydropower projects. These projects can provide cheap electricity to all the neighbouring countries of South Asia. However, India’s willingness to co-operate in this field is much vital for any meaningful utilization of water resources in Nepal because “Nepal's capacity to do it alone is severely constrained by

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137 Sahrma Chandra Kant: Water and Energy Resources of The Himalyan Block (Pakistan, Nepal, Bhutan, Bangladesh and India), Kathmandu, 1983, PP 32.
Due to the lack of funds, technology and manpower\textsuperscript{138}. However, the two countries have, at times found it difficult to co-operate with each other. While Nepal needed India’s assistance, India was also eager to assist Nepal in her economic development. India’s used its aid to promote Nepal’s progress in Agriculture, communication, Industries, Power projects, Irrigation and community development schemes, to encourage political stability in Nepal, to minimize the influence of other powers, and to keep Nepal into India’s security orbit\textsuperscript{139}.

**Mahakali or Sharda Project**- In 1920 Nepal Government and British India signed the letters of exchange which provided for the construction of Sharda barrage for the benefit of irrigation and hydro power development by the British Government at their own cost. Nepal was to receive some land and limited amount of water for irrigation but no power.

**Kosi Project**- It was the first project undertaken by India. Kosi project agreement was signed by Governments of India and Nepal on the 25\textsuperscript{th} April 1954. A barrage was constructed at Bhimanagar (Bharda) near Indian border in Nepal. It was expected that after completion Kosi project would irrigate an area of 500 sq. miles of Morang delta and generate 900Mw power. A major portion of the project was constructed by 1960. But after that political differences led to delay in the construction. As a goodwill gesture India agreed to sign a revised agreement on the Kosi project on Dec 19, 1966 which made it more advantageous to Nepal.

**Gandak Project**- The idea to harness Gandak River for irrigation and hydroelectricity was mooted as early as 1951 but an agreement could be signed only on Dec 4, 1959 and work started. However Political differences delayed the progress.

**Karnali Project**- The negotiations for the karnali project had a tortuous course. In April 1972 Nepalese Prime Minister Kirti Nidhi Bista visited New Delhi and asked for assistance. India proposed the construction of a multi purpose project on the karnali (Called Ghaghra in India) and agreed to buy the surplus electricity generated by the project on commercial rates. It is expected to generate 32 Mw. of power when completed.

**Trisuli Hydel project**- Agreement for Trisuli Hydel project was signed in November 1958. The project includes a diversion channel, balancing

\textsuperscript{138} Gehendra L. Malla ĭ Regional Co-operation is south Asia- A Nepalese perspective, in strategic studies series, Katmandu, No 6 & 7, 1985-86, p.114

\textsuperscript{139} Ibid, P. 115.
Reservoir and a powerhouse along with transmission lines from Trishuli Bazar to Kathmandu. It was completed on November 17, 1971 and has maximum installed capacity of 21 Mw.

**Pokhara Hydel project** - It was designed to improve things in Katmandu valley. The Indian cooperation mission has completed hydel scheme which has a capacity of 1000 kw. On 18 May 1986 an agreement was signed for the construction of 33kw transmission line from Kosi hydel station in Rajbiraj and Biratnagar.

However, Indo-Nepal cooperation in harnessing the water resources of Nepal did not make much headway between 1960 and 1990. The reasons were more political than economic. After the royal coup of 1960 to Installation of popular government in Nepal in 1990 Indo-Nepalese relations remained more or less strained. From 1960 to 1990 Nepal behaved like a nagging wife, Nepal wanted India to be magnanimous, but international relations are conducted neither on the basis of magnanimity nor on treachery but on the basis of national interest. If two countries want to be friends they will have to accommodate each others national interests.

In 1990 a new Democratic constitution was adopted in Nepal. The democratically elected government gave priority to improving relations with India. Joint groups met and finalized many things including Karnali project. During the visit of G.P. Koirala, the Prime Minister of Nepal to India agreement was reached on a time frame for investigations, preparation of project reports etc. On the Karnali, Pancheshwar, Sapta, Koshi, Budhi Gandaki, Kamala and Bagmati projects as also on the installation of flood forecasting and warning system, the construction of flood protection embankments and on power exchange. Both the governments agreed to give priority to under take Pancheshwar and Budhi Gandak Projects. During G.P. Koirala’s visit second meeting of the indo Nepal joint commission met in New Delhi on 4-5 Dec 1991. India had constructed Tanakpur barrage on India territory on the Mahakali River, It was also decided that India would provide water from the Tanakpur Barrage to irrigate between 4000-5000 hectares of land on the Nepalese side and 20 million units electric power from the barrage would be supplied to Nepal annually, free of cost.

In Oct 1992 Indian Prime Minister P.V. Narsimha Rao visited Kathmandu. On this occasion on October 21, 1992 the joint communiqué

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Stated that five classifications were agreed upon or regarding the accord on the Tanakpur barrage. Firstly – The Nepalese west border “remains under the continued sovereignty and control of Nepal and Nepal is free to exercise all attendant rights there too” Secondly – The Barrage project “does not make any consumptive use of water”. Neither side was deprived of “its share in the storage projects” envisaged elsewhere. Thirdly – “The supply of up to 150 cusecs of water from the Tanakpur barrage to irrigate between 4000-5000 hectares of land on the Nepalese side shall be made on a perennial round the year basis as would be requested by Nepal”. Fourthly- 20 million units of electric power would be supplied to Nepal annually, free of cost from the barrage. Fifthly- Missing or dilapidated pillers on Nepal India border in the Tanakpur barrage area would be put in place or renovated.

It is unfortunate that agreement on Tanakpur Barrage and other schemes of cooperation in development of water resources have been caught in the whirlpool of Nepalese internal politics and the oppositions wants to nullify them through Article-126 of Nepalese constitution. Development of the water resources of the Indo-Nepal Rivers is a multi dimensional proposition. India-Nepal should accept the fact that these rivers join them and not separate them under development of water resource.

The mighty rivers of Nepal which flow into India are symbol of our interdependent ties based on mutual benefit. The possibilities of harnessing these natural resources are enormous and they can play a major role in uplifting socio-economic standard of the millions of people in both countries. The political and economic relations between Nepal and India as they are fortified by extensive people to people contact can be further consolidated on the basis of respect for each others aspirations, needs and priorities for over all national development.

Both countries have been enjoying cordial and friendly relations since time immemorial. That is why these relations have largely remained unaffected with the change of government in either country. The composite nature of the relations has been sustained and evolved.


\[143\] Gahendra L. Malla ‘Regional Co-operation is south Asia- A Nepalese perspective, in strategic studies series, Katmandu, p.117.

\[144\] Kamala Prasad ‘Development of Indo-Nepal water Resources, Institutional Constraints and possibilities presented in the workshop on cooperation Development of Indo- Nepal water Resources, Patna, May 1992.'
History and geography have guided the people in both countries to live in perpetual peace, harmony and understanding, the modern day economic imperatives have urged them to envision a collective endeavor for a common future. This is all the more true as they are preparing for the twenty first century with inter-dependence taking even deeper route.\footnote{145}

After restoration of democracy in Nepal, efforts have been made to bring the two peoples even closer. Nepal-India relations are strengthened and enriched not only by the efforts at the government level but also by the inputs of intellectuals, businessmen and industrialists and the honorable citizen of both countries. On the political front, the time-honoured principles of inter-state behavior emanated from fundamental norms of International Law, U.N. Charter, Non-alignment, Panchsheel, etc. have characterized the relations, as both countries have an abiding faith in them. And both have espoused these norms and principles as the hallmark of their foreign policies. Added to these are the natural instincts of the two peoples to be guided by goodwill, mutual understanding, and cooperation. These values and norms have been constantly nurtured over the years by the dynamic and visionary zeal of the political leaders of both countries. Today, Nepal-India relations are scaling a new height to reflect the genuine aspirations of the people of the two democracies. The new era is expected to open up more avenues for all round dynamic and meaningful cooperation. The new era has not only promised more constructive cooperation for a better economic future but also at the same time has liberated the process of political dialogue for the resolution of some crucial issues.

\footnote{145} Nepal and India an Enduring Partnership, Visit Nepal 98, L. B Associates Publishers, PP 23
4.2 Economic Aspects

No two countries in the world are as closely placed, geographically, culturally and strategically, as India and Nepal. It is, therefore, almost natural for them to have extremely intimate and extensive relationship with each other. In this part of the thesis an attempt is made to deal with Indo-Nepalese economic relationship in a historical perspective. The chief focus of the attention will be to show how the absence of and the presence for people oriented government specially in Nepal after 1991 democratic general elections, affected the state of economic relationship between the two countries.

Historically speaking, Nepal has had economic relationship with India since time immemorial, but there existed no agreement governing the trade between the two countries, till the conclusion of 1923 treaty. The trade between the two countries was governed by custom and convention till the early quarter of the present century. The Nepal-India treaty of 1923 was a treaty of friendship are out of its seven articles only two related to trade and allied matters. These provisions continued to govern trade relations between Nepal and India till 1950, when they were replaced by the India, Nepal treaty of trade and commerce. Article 5 of the 1923 Treaty provided for unrestricted import from and through British India of arms, machinery and war like materials and stores needed for the strength and warfare of Nepal. Article 6 stipulated that no custom duty would be levied at Indian ports, on goods imported by Nepal government for immediate transfer to Nepal, on presentation of a certificate from proper authority to customs officer at the port. The conclusion of this treaty was welcomed in Nepal with great enthusiasm. Undoubtedly, the treaty was commendable as it provided Nepal with unrestricted facility for importing from and through India arm, ammunitions, machinery and stores. Such facilities for the import of defence requirement were essential for preserving the independence and welfare of Nepal. Equally commendable was the treaty providing duty free transit, through India of goods bought by Nepal in other foreign countries and grant of full rebate of duty paid on commercial imports.

In the production of a certificate of their arrival at

It is an accepted fact that Indian joint ventures in Nepal are crucial for the economic development, employment creation, infusion of technology and the reducing of the trade gap between the two countries. In addition, there is a very strong need for regular monitoring of import and export between Nepal and India in terms of their concept, concession, tariffs and processes, in order to keep this trade in line with developments in both countries and with the rest of the world.

Activities directly related to the promotion of trade and joint ventures need a common platform where the private sector on both sides can come together with perspectives to resolve mutual issues. With these thoughts in mind, the Nepal-India Joint Economic Council (JEC) was formed in 1994. The basic objectives of the Nepal-India Joint Economic Council are as follows:

1. To consider the report of the Joint Task Force and take suitable action for implementation including commissioning of the special studies cited.
2. Identification of those industries and services where Nepal offers viable and sustainable competitive advantage for Indian investment.
3. Classification of such avenues in a desired manner and formulation of transparent processes and clear cut time bond guidelines by which such investment becomes possible at a fast pace.
4. Examine problems being faced by existing joint ventures in operating effectively and provide the necessary impetus for solutions and resolution with connected bodies on either side.
5. Investigate problems faced by both governments in terms of misuse of liberal policies.
6. Assist both governments in the formulation and pronouncement of guidelines and policies relating to goods and services in terms of their import and export between the two countries including matters relating to duty structures, taxation and others.

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148 See Nepal and India an Enduring Partnership, Visit Nepal 98, L. B. Associates Publishers, Delhi, p. 44.
The Nepal-India Joint Economic Council has certainly been an instrumental catalyst in further strengthening the enduring partnership between Nepal and India.

Nepal India Chamber of Commerce and Industry (NICCI) was established in 1994. Its mandate is to encourage and assist Nepalese and Indian investors and businessmen find ways to do industry oriented business in Nepal and also find markets in both India and Nepal. With the aim to attract foreign investment to Nepal, NICCI has established the following objectives:

1. To promote or arrange contacts for promotion and cooperation amongst industrialists, businessmen and other groups to promote industrial, trade, services and economic relations between India and Nepal by organizing visits.
2. To research fields of industry, commerce and economic, compile data on Nepal and India on trade, industry, economic cooperation, tourism etc., and publish printed material to establish an Information and Documentation Centre.
3. To provide representation in HMG/N (His Majesty of Nepal) agencies and other organisations so as to promote further economic relations between Nepal and India and protect the interest of Nepalese business and industries active in India.
4. To mediate or arrange mediation in trade or industrial disputes between Nepal and India and also try to advance industry, trade technology and joint ventures, by organizing conferences, symposia, trade fairs, exhibitions, etc.
5. To advise, help or provide legal counsel on matters relating to industrial, labour and fiscal laws in Nepal.\(^{149}\)

In order to encourage to Nepali investors and businessmen to come forward and join in the economic upliftment of the country, the government has set up certain trade promotional institutions. Of these the prominent ones are the trade promotion centre, the National Productivity and the Economic Development Centre is another of these institutions. The Nepal Industrial Development Corporation (NIDC) has an income generation potential. The Nepal Stock Exchange and the NIDC Capital Market Ltd are fairly recent institution helping promote the

\(^{149}\)see Nepal and India an Enduring Partnership,Visit Nepal 98, L. B. Associates Publishers, Delhi, p. 47.
All these bodies are intended to maintain a cordial atmosphere between traders, entrepreneurs and institutions, so that international trade links are firmly established. The Implementation of import management is also a part of this work and the following international trading practices in Nepal falls under its purview. Besides these general commitments, the Trade Promotion Centre is committed to build an export fund. This centre also undertakes the vital task of planning man power development through programmers, seminars, projects activities and contact meetings.

RITES (A Government of India Enterprise for Road and Transport), is playing a significant role in the development of transport infrastructure in Nepal. The Company is proud of its contribution in rendering consultancy services in Nepal which has cemented the traditional relationship between India and Nepal based on mutual understanding and trust. Being a land-locked country with hilly terrain, road transport plays a key role in the day to day life of the people and Nepal’s economy as a whole in this context, RITES has been privileged to be associated with a number of road projects in the country. RITES has extended its expertise in bridge consultancy services in the form of construction, supervision and project management. RITES, believes in sharing its experience and expertise with the client countries for a meaningful transfer of technology. Under the Indo-Nepal cooperation, RITES is committed to contribute its expertise in the transportation technology for the betterment of the people and economy of Nepal.

150 Ibid, PP. 50-51
The most recent and one of the persistent irritants in Indo-Nepalese relation and by far the most complicated, has been the issues relating to trade and transit facilities. As a land-locked country Nepal remains entirely dependent on India for access to and from sea. This makes her over anxious to have permanent and free transit rights through India. Since 1950 (earlier 1923) India agreed to extend this facility to Nepal. The 1950 Treaty was called "trade and commerce treaty". This was replaced in 1960 by the treaty of "trade and transit". Since Nepal was not satisfied with the arrangements, in 1964 India agreed to provide unrestricted transit facilities for goods being shipped from one part of Nepal to another via India. In 1966 India exempted Nepalese goods, in transit, through India, from Indian laws, and also provided a separate and self-contained space for Nepalese goods at Calcutta port. In 1970, when the treaty of 1960 was likely to expire the talks went on for almost a year as Nepal wanted to have unfettered transit facilities as per the UN convention\(^\text{151}\). Nepal also wanted to have two separate trade and transit treaties to which India did not agree. Finally, the treaty was revised in 1971\(^\text{152}\). With the coming to power of the Janata Government in India, which was interested in building good neighbourly relations, two separate treaties were signed in 1978. These treaties after being renewed in 1983 expired in March 1988.

While negotiating the renewal/revision of the Treaties, it was realized that unauthorized imports of third country goods from Nepal to India had increased due to the trade malpractices of Nepali business houses (including those manned by Marwaris of Indian origin) protected by powerful vested interests in the Panchayat system. In preparing the draft of the new Treaties, the Nepali side also assured India that unreasonable duties on some of the Indian goods will be reduced. This was not done in practice and to offend Indian sensitivities, duties on goods from other countries, including China, were reduced. India strongly reacted to this and as a consequence the Rajiv Gandhi government decided to revert back to the practice of having one comprehensive treaty on trade and transit instead of separate treaties.


According to Nepal, there was a deadlock between the two countries on this issue. Even after six months extensions when the deadlock could not be resolved, in March 1989 India closed all but two transit points.

This resulted in a lot of economic hardships to the common people of Nepal. There were shortages of essential commodities like salt, oil, petroleum products, baby food, medicines etc. The other issues, on which India was particularly worked up, included the imposition of duties on goods imported from India, import of anti-aircraft guns from China, and the imposition of the work permit system on all foreigners, including Indians, working in Nepal. This last measure was in violation of the 1950 Treaty. Anti-Indian feelings in Nepal mounted and there was a lot of propaganda that the arm-twisting policy of India was nothing short of imperialism of a big nation towards her small neighbours. With the political change in both India and Nepal in 1989-90, the general atmosphere improved. Meanwhile a revolutionary kind of political change took place in Nepal with the introduction of the parliamentary form of government. The new political leaders were appreciative of Indian sensitivities on matters affecting their security and strategic interests. In June 1990 therefore, the deadlock was finally resolved. India agreed to have two separate treaties covering trade and transit and, besides restoring all the traditional transit points allowed three more. Nepal in return also agreed not to import arms from China lower duties on Indian goods and relax the imposition of work permit system for Indian workers. There were general elections both in India and Nepal in 1991. While the Nepali Congress came to power in Kathmandu, the Congress (I) formed government in New Delhi. The Nepalese Prime Minister visited India in December 1991 and signed a few agreements including trade, transit and an agreement on water resource development. As Nepal has moved on to a multi-party democratic system, one vital source of strain in Indo-Nepalese relations has made an exit to the monarchical system of Nepal.

India’s democratic political system was a suspect. Whenever there was demand for democratic reforms in Nepal, it was invariably blamed on India as she was accused of destabilizing Nepalese regime. The democratically elected elites will not have that perception of India.

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153 Rawat P. C: ÊIndo- Nepal Economic Relationsû National Publishing House, Delhi, pp. 68-69
154 Ibid, pp 77.
Soon after the emergence of an independent and democratic India in 1947, she attempted to share her security concern, cultural values and historical experiences with Nepal. Accordingly, a new treaty of trade and commerce was concluded between the two countries in 1950. This treaty animated by a desire to facilitate and expand trade between Nepal and India contained 10 articles relating to matters of trade, transit, through India. This was a ten-year treaty with a provision of one more extension for another ten years unless terminated by either party by giving notice one year in advance. The first four articles of the treaty provided Nepal’s export and import to and from countries outside India through territories and parts of India as well as to the movement of Nepalese products from one place to another within Nepali territories through India. These transit facilities were available through five Indian railheads of Jogbani, Jai Nagar, Raxaul, Nautanava and Nepalgunj. Article V required Nepal to levy customs duty equal to India, on its exports and imports from countries outside India. It also required Nepal to levy duty on exports of its product to India at rates sufficient to prevent their sale in India at prices more favourable than Indian products, Article VI provided for mutual assistance by making available to each other commodities which one country needs for its economy from the other. Promotion of business contacts, use of economical routes and means of transport for exports and imports and civil aircrafts of one country to fly over the territory in accordance with normal international procedures were provided in article VII and VIII. Thus the treaty of 1950 provided many trade facilities to Nepal, but at the same time it generated unfavourable criticism also. According to Nepal’s first five year plan (1956-60), the treaty was outdated in its provisions relating to its imports and exports tariffs, customs administration, movements of goods, transit and foreign exchange earnings. It may be pointed out here that all the foreign exchanges earnings used to be pooled in foreign exchanges earnings of India and in Reserve Bank of India and licences for Nepal imports were given by India and this system was retained by this treaty. This treaty

India-Nepal Treaty of Trade and Commerce, 1960

As a result, another treaty of trade and transit was signed which came into force on November 1, 1960 for a period of five years in the first instance to be continued for a further period of five years there after unless terminated by either party by giving at least one year. The treaty was supplemented by a protocol, letters exchanged at the ministerial level and memorandum each laying down specific terms and conditions and procedural arrangements for the smooth working of the Treaty provisions. In this way the 1960 treaty secured for Nepal transit facility as well as a freedom to control its foreign exchange account. The treaty was an achievement for the Nepali congress government, which had taken over the reign of the country after the first ever held general elections in 1958. The treaty was well received by the trading community and general public of Nepal as it freed the foreign trade of Nepal from restrictions imposed by 1950 treaty. But hardly two month had past after the treaty coming in to effect, the Nepali Congress Government was overthrown by king Mahendra on December 15, 1960, and the whole scenario was changed. Which effected the basic spirit of the treaty. Thus the treaty signed during a period of relative trust and inspired by the spirit of co-operations between two democratic governments did not get a smooth beginning or peaceful termination due to differences between Nepal and India on political as well as economic objectives158.

India-Nepal Treaty of Trade and Commerce, 1971

However, on August 15, 1971 a new treaty came into force only after 10 month of the termination of the 1960 treaty. Under the 1971 treaty, the two countries abandoned the concept of a common market as envisaged in the 1960 treaty. Under this treaty India provided its market free of duties and customs to primary products of Nepal, provided they were produced in Nepal. Besides, the products of sixteen Nepalese industries were exempted from basic custom duties and quantitative restrictions. However, problems arose on the implementation of the treaty. As having separate transit treaty and unrestricted transit facilities

through India as a matter of right was all the time at the back of the mind of Nepal, the complaints related to the issues of traffic like delay in Calcutta port, shortage of railway wagons, complicated formalities and inadequate warehousing facilities. Another irritant in trade relations between the two countries and one of the major complaints of India was the Exports Exchange Entitlement scheme, popularly known as the bonus scheme, which allowed the exporter to import the luxury items against foreign exchange earning from exports up to a certain percentage of these earning\(^{159}\). As a result of the bonus system Nepal's productivity and production did not make any marks improvement. The third irritant that continued to sour the trade relations between the two countries till the continuation of this treaty up to March 1978 was the complaint of India about the Indian goods discriminated against by Nepal by levying higher import duties violating the treaty provisions. Finally resorting to the policy of expediency comes across in the history of Indo-Nepalese relationship, which hampered the basic motives of the treaty\(^ {160}\).

**Treaties and Agreement of, 1978**

Indo-Nepalese Treaty of trade and transit, 1971 though valid only until August 1975 was allowed to continue by mutual exchange of letters between the two countries until the three new agreements were arrived at and came into force on March 25, 1978. These were Treaty of Trade, Treaty of Transit and Agreement of co-operation to control unauthorised trade. The conclusion of the separate Treaty of Transit with India was a historic achievement for Nepal as it fulfilled its long cherished goal of having such a treaty, their decade’s long concerted efforts with success and satisfied its demand for “symbols of independence”. Under this treaty it was agreed that the exemption from customs duty quantitative restrictions on primary commodities produced in either country and marketed in the other countries would be effected on a reciprocal basis. Eleven items were identified in this category. The treaty further provided that industrial products of Nepal could have access to the Indian market free of basic custom duty and quantitative restrictions provided they contained not less than 80% of Nepalese raw materials or Nepalese and Indian raw materials. This percentage was 90 in the previous treaty. The categories of goods subject to quantitative restrictions by India were

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essential product such as coal, petrol, cement introduced quota system on yearly basis. The treaty specified fifteen routes for Nepal’s trade with third countries. The number of routes specified for trade with India was increased to 21 from 10 of 1971 treaty. The treaty provided for bulk cargo movement by both rail and road. Besides, India agreed to provide an overland route for Nepal’s trade with Bangladesh as well as third countries through Bangladesh. This was made possible through a short corridor of Indian Territory at Radhikapur. Further this provided Nepal with access to sea through the port of Chitgaon and challana in Bangladesh. The treaty of trade and Agreement of co-operation to control unauthorised Trade signed in 1978 and came into force on 25th March 1978 was operative for a period of 5 years. This treaty was renewed for a further period and was valid upto March 1988. The treaty of transit signed in 1978, valid for 7 years at a time, was not renewed for a further period, but continued to run by mutual consent of a period of 6 months and for 4 years including the previous six-month for another time. In between the extension and the expiry date of March 23, 1989, many factors had contributed not only for steady deterioration in indo-Nepalease relations. This led Nepal to a collision course with India. 

Indo-Nepal economic relations reached in a critical phase in March 1989, when the trade and transit treaties between the two countries expired on March 23, 1989. Negotiations went on through 1988 and both sides had almost agreed on the draft of a new treaty of trade but this understanding could not emerge in a concrete form due to a number of factors. This created a lot of hue and cry in both the countries. In brief, Nepal’s acquisition of arms from China and its failure to fulfill its commitment to provide preferential treatment to Indian goods over Chinese goods. On March 1, 1989, in a latter to Nepali commerce Ministry, the Indian Embassy stated that after expiration of the agreement on co-operation to control unauthorised trade on March 23 which also was the expiration date of the treaty of transit, fresh negotiation should be started on a single unified treaty of trade and transit and an agreement on unauthorised trade. India’s letter was interpreted in Nepalese circle as a step putting the hands of the clock eleven years back.

Responding to the Indian move, Nepal decided to trade with India on the most favoured nation (MFN) basis, which meant the replacement of a preferential with a non-preferential tariff regime. This would definitely lower the volume of bilateral trade between the two countries but it was judged that while the most favoured nation regime would hurt Nepali trade regime in the short term, from a longer perspective it would work out well, as Nepali product would enter the same competitive market. Such a rosy picture, however, was not practicable for Nepal as its exports were mostly raw materials and semi process goods, which constituted 90 percentage goods of its total exports to India. In the case of transit matter Nepal sought the revival of lapsed treaty of transit and made it clear its intension to have this treaty of transit, when it told the press that if there was to be one treaty. There were too many exchanges of letters between the two countries indicating their willingness to settle the differences through dialogue but Nepal was quite active to tell international community that the treaties were terminated by India unilaterally and India imposed an economic blockade on Nepal.

Shailendra Kumar Upadhyay had urged “unqualified recognition of the inherent right of the land locked countries to free access to and from the sea and freedom of transit. The very survival of the land locked countries would be seriously effected if actions taken by transit countries result in the denial or delay of unrestricted transit of good and services of such nations”. Nepal also raised its trade and transit disputes with India at the world for a like World Bank and International Monetary Fund. While India liked to have discussion on entire gamut of relations “to continue relationship with Nepal on the basis of sovereignty, mutual trust, mutual benefit and safeguarding each other’s interests and concerns”. The impasse in Indo-Nepal economic relations-trade, transit and control to unauthorised trade continued for a long period of 15 months. In the meantime, a complete new set up of leadership emerged in both the countries. In India the National Front took over the charge of administration after the defeat of Prime Minister Rajiv Gandhi and his congress party in the parliamentary elections held in 1989. In Nepal too, a violent movement took place under the leadership of Nepali congress and the left parties to established the multiparty democracy in the country. The success of the movement replaced the panchayat system in April, 1990. The interim government formed after the collapse of the

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165 R. P. Rajbahak, Nepal- India upper, borders 103). Addressing the U.N. General Assembly the them foreign minister of Nepal,
To the initiative to normalise relations, reverting to the status of March 23, 1989 in bilateral economic relations 166.

**Treaty of Trade and Transit, 1991**

In the wake of these Political changes, the Indo-Nepalese crisis was almost automatically resolved. Nepal’s new Prime Minister Mr. G.P. Koirala paid an official visit to India on December 5, 1991. Talks between the Prime Minister of India and Nepal began soon after his arrival. Both the Prime Minister agreed on the modalities of co-operations in economic matters, in curbing terrorist activities across the border and showed awareness of each other political sensitivities. On December 6, 1991 India and Nepal signed two treaties pertaining to trade and transit apart from several other agreements and memoranda of understandings encompassing water resources, agricultures, industrial development and providing and to various projects in the kingdom. The new bilateral treaty on trade was for a period of 5 years and took effect immediately. It included all the elements contained in the earlier trade treaty signed in June 1990 167. Several new facilities and concessions for Nepalese trade were incorporated in the fresh treaty. These pertained to reduction in duty and quota entry of Nepalese manufactured goods to India for 65% to 55% time-bound proforma clearance for Nepalese export with a 4-month time limit increasing the validity of such clearance from two years to five years and acceptance of Nepalese labour content for duty-quota free entry subject to a negative list of products being prepared by the two governments. The far-reaching transit treaty was for a period of seven years and incorporated simplified customs and other procedures to help Nepalese importers and exporters. An agreement was also reached in controlling an unauthorised trade with validity for 5 years. Both sides were committed to work in close concert aimed at controlling this growing scourge which had an adverse impact on the Indian economy. In bilateral cooperation in the sphere of water resource development, the two sides took several decisions in respect of Karnali, Pancheswara and Saptakoshi Hydel, multipurpose projects, the medium size Burhi Gandhaki flood forecasting and flood protection schemes and exchange of power. Further, India agreed to undertake investigations of road connecting the Tanakpur barrage in accordance with the agreement reached during the discussion India would take immediate construction of the left influx bund of the Tanakpur barrage to prevent any inundation

When the barrage was commissioned. An MOU (Memorandum of Understanding) on cooperation in agriculture was concluded. It covered cooperation in agricultural science and technology, research, processing of each crops and agro based industries. Both the Governments decided to set up an India-Nepal foundation in the name of Nepalese patriot and the former Prime Minister Bishweshwar Prasad Koirala. An MOU in this regard outlined the functions of the foundation. It would not only promote educational and cultural exchanges but also provide an added impetus to mutually beneficial cooperation in science and technology and other development orientated fields. This exercise was the culmination of the contacts in the last two years beginning with the visit of the former Prime Minister of Nepal, Mr. K. P. Bhattarai, and the talks with his counterpart of the day, Mr. V. P. Singh. The resultant cordiality deepened when Mr. Chandra Shekhar was at the helm of affairs. His close personal equation with the Nepali congress leaders, including Mr. Bhattarai, helped remove the irritants in economic cooperation between the two countries. As a result, the two Governments approached the diverse issues trade, transit water resources development communication in an atmosphere that was by and large free from polemics and rhetorics. Thus the forgoing account shows that there has been gain of a very valuable experience that can prove to be an asset for the future endeavour to be undertaken to develop mutually beneficial relationship of interdependence without compromising each other’s honours and interests. The prospect of such an endeavour has brightened because of the restoration of a political system where majority have the way and the minority have the say in Nepal.

With an area of 1,45,302sq. kilometers and a population of 15.02 million, Nepal is one of the hard core least developed countries. That Nepal is one of the poorest and economically weakest even among the least developed countries is revealed from United Nations. This disappointing over-all performance of the domestic economy has led a World Bank mission to Nepal in May/June 1979 to sound note of warning. The report says: By indication then, Nepal has reached a critical.

170 "Nepal in a Nutshell" (Department of Information, Ministry of Communications, HMG, Kathmandu, 1978)
Rising Nepal, 8 February 1982.
The country is caught in a vicious circle of poverty, in which the ability to raise investment and per capita incomes is constrained by the thin natural resource base, scarcity of trained manpower, limited domestic resource mobilization prospects, and consumption demands of the rapidly growing population itself. The dynamics of these forces are such that as difficult as it is to break this circle, the next five to ten years may represent Nepal's last chance to do so without having to become completely dependent upon the good will of the aid donors.\textsuperscript{171}

Moreover, on the issue of transit routes the choices open to Nepal are extremely limited. A look at the relative location of two Asian land-locked countries, Nepal and Afghanistan brings out the glaring differences existing between them in terms of their access to the sea. Nepal has no option in the choice of transit routes. China's ports and main production and consumption centers are far removed being several hundred miles away from Nepal, while the Indian ports are relatively nearer. Even the construction of the Arniko Rajmarg which connects Kathmandu, with the Tibetan region of the people's Republic of China, did not prove viable from the standpoint of trade and transit. Despite the link provided by this road between Kathmandu and the Tibetan border, it is more profitable for commercial traffic between Nepal and China to pass through the Indian sea port at Calcutta. Thus, Nepal's is, as the Nepalese frequently observe, for obvious reasons, 'India-looked.'

The compulsion of Nepal's size faces the obstacle of its location. For Nepal is not only land-locked but historically had access to the sea only through India. In the past she has had to buy and sell with the world at large only via India. Even the building of the Kodari Road gave the economy only more effective access to the Tibetan market. It did not add an alternative transit route for the enormous distance to any Chinese part from Nepal means that Calcutta remains the only viable part of economic access to the rest of the world. This monopoly over transit facilities enjoyed by one neighbor has been to Nepal's peculiar disadvantage.\textsuperscript{172}

Nepal's trade performance in the past has been characterised by unfavourable terms of trade with India and the rest of the countries of the world, decline in exports and ever growing trade deficits. This dismal performance in the foreign trade sector was, no doubt, due to the

\textsuperscript{171} B.N. Banerjee, "India's Aid to Its neighbouring countries" (Select Books, New Delhi, 1982), p. 594.

source base, the low productivity in agriculture, its slow rate of industrial expansion, its land-locked geographical situation and poorly developed transport system.

Nepal’s basic trade problems form a huge commodity concentration and a high geographic centralization in its export trade. A close look at the direction of trade position reveals that in the first fourteen years of planning, that is from 1956-57 to 1969-70, India had a dominant share in Nepal’s foreign trade. During the Third Plan (1965-70), India absorbed 94.7 per cent of total foreign trade of Nepal and the rest of the world accounted for only 5.3 per cent. By the end of the Fifth Plan, that is by the year 1979-80 India’s share in Nepal’s total exports came down to 41.26 per cent of total imports from 56-70 per cent. According to the last Economic Survey presented to the Rashtriya Panchayat on 6 July 1983 by the then Finance Minister, Y. P. Pant, India still continues to be Nepal’s major trading partner accounting for 73.2 per cent of the total exports and 4.5 per cent of the total imports of Nepal during the first nine months of financial year 1982-83.\(^\text{173}\)

During the last part of the British rule in India Nepal-India trade relations were governed by the Treaty of 1923. Following India’s independence, Nepal and India decided to regulate the traditional trade principles and procedures and with this objective signed a treaty of trade and commerce in 1950. However, by 1960 both Nepal and India became convinced that the existing treaty provisions were inadequate and hence a new treaty was signed on 18 September 1960 with a view to removing the unequal and disadvantageous position of Nepal vis-à-vis India in their mutual trade relations. On the expiry of this treaty, a fresh treaty of trade and transit was concluded between the two countries in 1971 for a five year period\(^\text{174}\).

Though the 1971 treaty of Trade and Transit had lapsed in 1976, it was kept in operation till 1978 because of continuing deadlock in trade negotiations between Nepal and India. It was a longstanding Nepalese demand to have two separate treaties on trade and transit. The objective behind the demand was Nepal’s desire to de-link the problems of her trade with India from her general overseas trade that had to go through India in transit because of Nepal’s land-locked position. The Janata Government which came to power in India in 1977 resolved to improve the country’s relations with the immediate neighbors in accordance with


policy objective of beneficial bilateralism. Morarji Desai's visit to Kathmandu in December 1978, Ultimately, on 17 March 1978 two separate treaties on trade and transit and an agreement on cooperation in controlling unauthorized trade on the border were signed which came into operation with effect from 25 March 1978 replacing the 1972 composite treaty of trade and transit.

In accordance with the Treaty on Trade, India agreed to enlarge the market for Nepal's manufactured products in India in order to assist in the industrial development of Nepal. The two governments also agreed to make necessary arrangements to maintain supplies of essential commodities needed by each other, and preferential treatment was to be accorded to primary products on a reciprocal basis. The goods manufactured in Nepal would have access to the Indian market free of basic customs duty and quantitative restrictions.\footnote{Banerjee, B. N.: \textit{India's Aid to Its neighbouring countries} (Select Books, New Delhi, 1982), p. 594.}

An important policy instrument to diversify Nepal's trade was the “Exporters Exchange Entitlement Scheme” initiated in the year 1960.\footnote{Banskota N.P.: Indo-Nepal trade and economic relations (B.R. Publishing Co., Delhi, 1981), p.98.} The objective behind this scheme was to increase exports to third countries rather than India through the provision of generous incentives for exports to third countries. Though the “Exporters Exchange Entitlement Scheme” gave a fillip to trade with overseas countries, for obvious reasons the policy failed to yield the desired results. The scheme stressed only the geographical aspect of diversification without consideration to commodity diversification. The incentives thus granted to the industries exporting to countries other than India also led to a distortion in the country’s allocation of resources in a very uniform way.
4.4 Treaty of friendship and co-operation 1950

Nepal’s geopolitical constraints have determined a unique relationship with India. Evolved over centuries was formalized through the 1950 Treaty of Peace and Friendship. The treaty determined the mutual security concerns of India and Nepal, mutual relationship on the basis of looking after each other’s interest; another dimension was regarding the socio-cultural and economic interaction between the two peoples of both countries. Thereby conveying to the world the strength of unity of purpose between the two nations. As for India, it had sought to strengthen its second frontier at the same time prevent communist influence from spilling over, it concluded three treaties of peace and friendship with the three small neighboring kingdoms Nepal, Bhutan and Sikkim. The 1950 treaty with Nepal was concluded at a time when the Indian rulers were preoccupied with the changed geopolitical reality following the communist revolution in China. Prime Minister Nehru had said that since the Himalayas have “Provided us with a magnificent frontier. We cannot allow anything to go wrong in Nepal or permit that barrier to be crossed or we awakened because that would also be a risk to our security.”

The treaty recognized fully the sovereignty, territorial integrity and independence of the other. The security provisions of the treaty obligated the government of Nepal and India to consult each other in devising affective counter measures to meet a security threat to either of the two countries emerging out of foreign accession. The treaty also stipulates that the two governments must inform each other in any serious friction or misunderstanding with any neighbouring country that may be likely to adversely affect the friendly ties between India and Nepal.

Similarly, a structured economic relationship between India and Nepal goes back to the Treaty of Trade and Commerce of 1950, a watershed in Indo-Nepali economic relations. Article 5 of the treaty states, “The Government of Nepal agree to levy at rates not lower than

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178 Government of India, Loksabha Debates, 6 December, 1950

179 Lok Raj Baral, ‘Nepal’s Relations with South Asian Countries,’ Ed., Political Dimensions of so with asian cooperation,
those for the time being in India, custom duties on imports from, and exports to countries outside India. The government of Nepal also agrees to levy on goods produced or manufactured in Nepal which are subject to central excise duty”. The 1960 Treaty of Trade and which was concluded subsequently, removed the obstructionist policies, which paved the way for opening a new chapter in the diversification.

The assertion of Chinese authority on Tibet in 1950 posed a threat to the territorial integrity of Nepal. What made the “Ranacracy” vulnerable was the threat of Communism from the north in the absence of the protective colonial umbrella and independent India’s natural dislike for the anachronistic political system. So Nepal’s India policy from 1947 to 1950 was exclusively aimed at winning over the Indian government’s sympathy for the Rana rule. To achieve this end, the Rana’s repeatedly pleaded with New Delhi that they would always remain friendly and loyal to the new government in India as they had been to the British. To demonstrate their credibility on this respect they accepted the Indian advice on some modest political reforms in Nepal.

Apart from this, in view of the Communist danger in the north and the very narrow social base of Rana power, India seemed it necessary to ensure stability in this important frontier state. While accepting the complete independence and sovereignty of Nepal, India also sought to bind Nepal down to its own strategic and foreign policy needs more than ever before. After prolonged negotiation, two very important treaties were concluded on 31 July 1950. The Treaty of peace and Friendship, which is still the cornerstone of Indo-Nepalese relations, was almost a defence pact between two countries.

The letters exchanged following the signing of the Treaty also circumscribed the freedom of Nepal to import arms and ammunition from third countries though India as per Article V of the 1950 Treaty. It was agreed by both the contracting parties that any arms, ammunition or warlike materials and equipment necessary for the security of Nepal that the Government on Nepal may import through the territory of India, the Government of India will take steps for the smooth and expeditious transport of such arms and ammunition through India. Another important provision the letters referred to an agreement by the two governments not to employ any foreigner whose activity may be prejudicial to the

180 D.C. Rawat,: Indo-Nepal Economic Relations, National Publishing House, New Delhi, 1974, P.70

Any analysis of the Treaty of Peace and Friendship concluded with Nepal in 1950 clearly reveals that the Government of India successfully attempted to incorporate Nepal into India’s security system. This was a major landmark in evolving the pattern of security relations of the Himalayan Kingdom with independent India and as such constituted a major triumph for Indian diplomacy.

India’s security structure and the corresponding political approach towards the Himalayan Kingdom were backed by a programme of economic assistance. Under this programme, India stimulated aspirations for prosperity and progress and assured that it was willing to provide necessary economic and technical assistance to help her realise these aspirations. India’s programme of economic assistance to Nepal clearly underlined the developmental as well as security needs of the region. The greatest emphasis was laid on improving transport and communication facilities. India started its economic activity in Nepal by undertaking the constructions of strategic highways linking the capital with Indian border towns. The Government of India was not enthusiastic in helping the Kingdom develop similar roads and communication links towards the north. Most of the roads and air-fields were constructed by the Indian Army engineers and the projects were completed with remarkable speed and efficiency. This economic programme had some indirect implications for its security-structure.

The other pillars of mutual security arrangements between India and Nepal took the form of the establishment of the military check posts on the northern borders of Nepal; with a view to checkmating the growing menace of incursions of communism from the north. Soon after the treaty in August 1950, India’s Intelligence Bureau prepared notes regarding the defence of Nepal, Bhutan and Sikkim. Elaborate proposals were formulated on these notes by a special committee called North and Northern Border Defence Committee. The Committee advised the Indian government to establish military checkpoints so as to safeguard the passes between Tibet on one side and Bhutan and Nepal on the other.

Immediately after the revolution of 1950, some reactionary forces tried to create political unrest in Nepal as a protest against ‘Delhi Settlement.’ In January 1952, Kathmandu was in the grip of serious rebellion led by Dr. K.I. Singh and aided by the Communists. The situation reached its climax when on 21 January 1952 Nepal witnessed a

\[182\quad\text{Narasimha Rao. P.V. Loksabha speech on 26 April, 1989, see No. 3, P.989}\]
A dramatic and unsuccessful coup deal known as the Raksha Dal revolt. Dr. K.I. Singh led the Raksha Dal to seize the Singh Darbar, the Treasury, the government Arsenal, the airport, the broadcasting station and the Post and Telegraph Offices. Telegraphic communication between India and Nepal was completely disrupted. A rival government was proclaimed and an unsuccessful attempt was made to seize the ministers who took refuge in the royal palace. Though the coup could not sustain itself, it exposed the vulnerability of the Nepalese government.

These incidents impressed upon the government the need for having a well-trained army for the maintenance of law and order in the country. The Nepalese government requested India to assist in the organization and training of the Royal Nepalese Army. India sent a delegation to Kathmandu on January 1951 for discussion and subsequently they reported that...the defence of the northern frontiers assumed increased importance after the Raksha Dal revolt in January 1952 and when it was learnt that the leader of the revolt was seeking shelter in Tibet and possibly plotting for a better organised rebellion, the Government of Nepal were induced to take urgent measures towards reorganization and training or their army on modern lines.

An agreement was reached between the two governments and the Indian Military Mission (IMM) consisting of twenty officers and men in the first instance, headed by a Major General of the Indian Army left for Kathmandu on 27 February 1952. In December 1953, the strength of the mission was raised to 197.

The Indian Military Mission was originally expected to stay in Nepal for one year; but in spite of persistent criticism from political parties and in the press, as also due resentment of some of the Nepali Ministers, particularly after King Mahendra’s coming to power, six years were to pass before it was finally withdrawn in 1958. The gap thus created was filled in by a comparatively less powerful and comprehensive arrangement known as ‘Indian Military Advisory Group.’

According to the 1950 Treaty of Peace and Friendship it had been agreed by the two governments that India would be the sole supplier of arms to Nepal, and in case it failed to supply them, then, with the prior approval of India, Nepal would be free to seek assistance from other countries. In 1960s Nepal took a number of steps against the spirit of the Indo-Nepalese Treaty of Peace and Friendship (1950) and the exchange of letters accompanied it, without openly repudiating the provisions made in the letters for mutual consolation and joint actions in case of an emergency.
During the 1969-70 period developments in Indo-Nepali security relations began to move in new and dangerous direction. The move was largely due to the political climate which emerged as a result of the policies adopted by the two countries after the Sino-Indian Conflict. The conflict tilted the Sino-Indian bilateral equilibrium to China’s advantage and it also raised serious doubt about India’s capacity to protect Nepal. Nepal took undue advantage of India’s preoccupation with the Chinese menace and tried to play China against India.\(^\text{183}\)

While conceding Kathmandu’s demands for withdrawal of Indian personnel and the Indian Military Liaison Group, New Delhi asserted its right to close, as a security measure, the traditionally open southern border. New Delhi made it amply clear that the issue of withdrawal could not be used as a bargaining lever for wresting further concessions.

However, after prolonged negotiations through diplomatic channels agreement was reached. The Government of India withdraws its technicians posted on the border check posts and the Military Liaison Group by August 1970. Nepal on its part, quietly withdrew its objections on the 1950 Treaty and the 1965 Agreement. In addition, as a substitute of the Indian technicians and the Military Liaison Group, Nepal agreed to

(i) Exchange military information with India on developments harmful to each other, and

(ii) Permit India to post military personnel at its Embassy in Kathmandu for an agreed period and job.

However, Nepalese politicians suspicious on Indian imperialism have frequently culminated against India. Extreme sensitive to Indian domination generates strong anti-India feeling in Nepal. But despite the feeling of suspicion of the common man’s mind which was exploited by the political parties having vested interests, the two governments had come nearer to each other during this period. The Government of Nepal remained thankful to the Government of India which helped it in the period of crisis and trouble.

The treaty and other procedures were adopted which carried provisions for controlling trade defection. A bold attempt was made in the Treaty of Trade and Transit, to establish what amounted to a common

This grand vision was not realized not because it was unrealistic or over-ambitious, but because of domestic political changes in Nepal\(^{184}\).

In particular, the foreign policy of the Nepal in respect to the two super powers and other big or small powers was directed by such considerations as economic development, guarantee of the national security and political independence and promotion of Nepal's prestige in the international field. Similarly, Lok Raj Baral reasoned that the 1950 treaty was concluded on a different setting with different objective. The 1950 context is no longer relevant to the 1980 more so in the 1990s because of Nepal's cordial relationship with both china and India.

In spite of these arrangements, it could not prevent the development of irritation in relations between the two countries. Many changes have taken place in both Nepal and India since the conclusion of the 1950 treaty. India accused Nepal of violating the letter and spirit of the treaty, which was meant to guide the relations between the two countries. Narasimha Rao accused Nepal of eroding over the years the vision of the 1950 treaty when he said, “Its spirit has been weakened, its content whittled away practically in every sphere of the Indo-Nepal relationship.” While Nepal insisted that the treaty was outmoded. Former foreign Minister Rishikesh Shaha had argued for the revision of the 1950 treaty”. The CPN (Maoist) group forcibly demanding to review the Treaty of friendship 1950 into changing global scenario.