

RISING INDIA: THE POLITICAL AND ECONOMIC EFFECTS  
ON THE FUTURE OF NEPAL

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fulfillment of the requirements for the  
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Strategy,

by

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The opinions and conclusions expressed herein are those of the student author and do not necessarily represent the views of the US Army Command and General Staff College or any other governmental agency. (References to this study should include the foregoing statement.)

## ABSTRACT

RISING INDIA: THE POLITICAL AND ECONOMIC EFFECTS ON THE FUTURE OF NEPAL, by Manoj Thapa, 127 pages.

This paper argues that the rise of India will have a positive effect on nearby Nepal, allowing Kathmandu to foster a more prosperous and democratic state. India, the second most populous country in the world, is rapidly advancing as a regional and international power. New Delhi's sustained growth, which has included almost a 9 percent increase in GDP over the past few years, and rising strategic influence, brings a new dimension to regional and global affairs. India's rise as a major power will create new political and economic life in South Asia and ultimately provide tremendous opportunities to region's domestic political and economic systems. Nepal, a small country located between India and China, will be significantly affected by India's future status as an economic and political power. India's willingness and capacity to assume a position of global leadership will facilitate to the development of Nepal's democratic institutes and political processes. New Delhi's economic progress will positively affect Nepal's own industries, such as the development of hydropower and tourism. Nepal's vast water resources provide enormous potential to produce hydroelectricity, which could foster a valuable commodity for export to India, and the increasing purchasing power of citizens of India would contribute to promote the Nepal's essential tourism trade. Finally, Nepal has the potential to become a transit point for goods between India and China to facilitate their growing trade and this opportunity could assist Kathmandu to become a part of the trade arrangements between two economies.

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## ACRONYMS

|         |                                                                                |
|---------|--------------------------------------------------------------------------------|
| ASEAN   | Association of Southeast Asian Nations                                         |
| AWACS   | Airborne Warning and Control System                                            |
| BIMSTEK | Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation |
| CPN     | Unified Communist Party of Nepal (Maoist)                                      |
| DIME    | Diplomatic, Information, Military and Economic (elements of national power)    |
| FDI     | Foreign Direct Investment                                                      |
| FTA     | Free Trade Agreement                                                           |
| GDP     | Gross Domestic Product                                                         |
| GW      | Gigawatt                                                                       |
| ICG     | International Crisis Group                                                     |
| IDSA    | Institute for Defense Studies and Analysis                                     |
| IJT     | Intermediate Jet Trainer                                                       |
| IPCS    | Institute of Peace and Conflict Studies                                        |
| ISI     | Directorate for Inter-Services Intelligence (Pakistan)                         |
| LDC     | Least Developed Countries                                                      |
| LTTE    | Liberation of Tigers Talim Ealem (Tamil Tigers)                                |
| MW      | Megawatt                                                                       |
| SAARC   | South Asian Association for Regional Cooperation                               |
| SAFTA   | South Asian Free Trade Agreement                                               |
| SJVN    | Sutlej Jal Vidyut Nigam (India's state-owned power company)                    |
| ULFA    | United Liberation Front of Assam                                               |
| WTO     | World Trade Organization                                                       |

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## CHAPTER 1

### INTRODUCTION

Nepal, a small country bordering China to the north and bounded by India on the east, south and west, is desperately concerned with the current strategic and economic progress of India. The rise of India, particularly in global politics and economy, might greatly assist to transform Nepal into a democratic and prosperous country. In this regard, it is imperative to study India's rise and the effects on its neighbors, such as the tiny land-locked country of Nepal.



Figure 1. Map of India and South Asia

Source: Central Intelligence Agency World Factbook, "Map of India and South Asia," [https://www.cia.gov/library/publications/the-world-factbook/maps/maptemplate\\_in.html](https://www.cia.gov/library/publications/the-world-factbook/maps/maptemplate_in.html) (accessed 20 May 2010)

The Republic of India is the world's most-populous democracy and has one of the fastest economic growth rates in the world.<sup>1</sup> As a regional power and potential superpower, India has the world's fourth largest defense forces and fourth largest economy. As Denise Coleman notes, "New Delhi's capital inflows remain strong, and with a comfortably financed current deficit, gross international reserves have grown from US\$151.6 billion in 2005 from US\$141.5 billion in 2004."<sup>2</sup>

New Delhi has also expanded its political and diplomatic influences from regional affairs to global issues, enhancing its position to engage in major regional and world affairs. Several factors are shaping India as a political, economic and military power. These include its emerging nuclear capabilities, growing population, expanding middle class (which in itself is the second largest market in the world), robust military establishment, acquisition of advanced weapons such as an aircraft carrier and its increasing sophistication in high technology.

### India's Diplomatic Approaches and Relationships

India's relations with its neighbors are guided by two distinct diplomatic approaches. The first approach (*traditional approach*) is one that India has applied since its independence and has been characterized by active political "interference" in neighboring countries' domestic matters, which has been seen as controversial within the region. India has been accused of interfering into the Tamil issue of Sri Lanka,

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<sup>1</sup>India's GDP was 6.5 percent in 2009 and 9 percent in 2008, the second-fastest growing major economy in the world after China.

<sup>2</sup>Denise Youngblood Coleman, ed., *India Review 2009* (Houston: Country Watch, 2009), 102.

influencing regime change in Bangladesh, has been blamed for meddling in Nepal's political processes in 1951, 1991 and 2006. In Nepal, India was heavily involved in the political movement of 1951, which resulted in the overthrow of the Rana regime.<sup>3</sup> During this crisis, India forced both the regime and the Nepali Congress (the political party which was responsible for the movement), to accept the agreement devised by New Delhi. Similarly, India continued to use its diplomatic resources to influence the political changes in 1991<sup>4</sup> and 2006 and thereafter<sup>5</sup>.

The second is often referred to as the *new approach*, and includes a policy of non-interference characterized by positive and welcomed diplomatic actions without requirements for reciprocal actions. This second approach has been observed gradually since 1991 and has been concurrent with changes in the regional and global strategic environment. Over the past few years, India's leaders acknowledged that the "traditional approach" failed to achieve New Delhi's national objectives in the region. This has resulted in the emergence of the anti-Indian sentiments throughout the entire region and

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<sup>3</sup>The Rana regime was an autocratic and extended family rule in Nepal from 1846 to 1951, in which the actual kings of Nepal were effectively hostages of the Ranas' palace guard. The political revolution of November 1950 ended this autocratic regime. Beginning in 1951, Nepal experienced a "dawn of democracy".

<sup>4</sup>In 1991, political changes occurred which ended the thirty years of autocratic political system, and introduced the multiparty democratic system in Nepal. During this time, the king had absolute power and the political parties were restricted in how they conducted political activities.

<sup>5</sup>The people's movement of 2006 ended the direct rule of the king (King Gyanendra). The subsequent governments initiated several steps to cut off the monarch's power and changed Nepal from a Hindu state to a secular one. The election for the Constituent Assembly to draft new constitution was held in 2008, which also abolished the monarchy and declared Nepal as a Federal Republic.

has facilitated China's increased role in regional affairs.<sup>6</sup> One recent example was India's choice to remain uninvolved in the Sri Lankan military's suppression of the Liberation of Tigers Talim Ealem (LTTE) group.

New Delhi's policy of non-reciprocity has been steadily implemented in recent instances of economic cooperation. The *Revised Trade Treaty of 2009* between Nepal and India has considerably embraced the spirit of this policy in which Nepal has been allowed to export many commercial items to India with limited tariffs or trade barriers. India is also concerned with the geopolitical situation of Nepal, which plays a significant role to ensure the security interests of India. The India-Nepal Treaty of Peace and Friendship<sup>7</sup> (1950) has kept Nepal under the security umbrella of India, despite the fact that the treaty lacks popular support from many within Nepal itself. India's roles in abolishing the Rana regime in 1951, bringing multiparty democracy in 1991 and abolishing the monarchy in May 2008 were directed towards safeguarding New Delhi's diplomatic and security interests in Nepal rather than efforts to nurture Kathmandu's democracy and security.

India is also monitoring recent political activities by the new Nepalese Republic, which is in the process of drafting a new constitution and transforming the country into a conglomeration of federal states. India's hand in changing Nepal into a republic was

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<sup>6</sup>Oliver Housden, "A New Dawn in India-Nepal Relations? Prachanda's visit to India," (Institute of Peace and Conflict Studies, October 2008), [www.ipcs.org/article-details.php?article No=2703](http://www.ipcs.org/article-details.php?article%20No=2703) (accessed 5 November 2009).

<sup>7</sup>The Indo-Nepal Treaty of Peace and Friendship of 1950 is a bilateral treaty between Nepal and India establishing a strategic relationship between the two neighbors. The treaty was signed on July 31, 1950 during the Rana dynasty. The treaty allows for the free movement of people and goods between the two nations and a close relationship and cooperation on defense and foreign issues. While India views the treaty as preventing the influence of China, the treaty has been condemned by many in Nepal, who believe it questions Kathmandu's sovereignty.

apparent in the signing of the *12 Points Understanding*. This agreement was made between Nepal's Maoist party and seven other political parties, which were previously struggling to militarily eliminate each other.<sup>8</sup> New Delhi could continue to attempt to influence Nepal's constitution making process as India intends to safeguard its interests in Kathmandu. This has spurred popular resentment from the people of Nepal, creating anti-Indian sentiments, which are serious challenges to India. Additionally, many Indian scholars and political leaders have criticized involvement of their own government in the frequent change of government in Kathmandu.<sup>9</sup>

### China's Influence

China's growing influence in Nepal is another important consideration. From India's point of view, New Delhi has a special relationship with Nepal, which it wants to protect from interference from other countries, especially China. This strategic mindset of the Indian establishment, which is to influence and interfere with its neighbors diplomatically and politically, has been opposed by the Nepalese people, which have been manifested in calls for ending the *Peace and Friendship Treaty of 1950* (shown in Annex 2). However, many Indian intellectuals and scholars believe that the rise of India as a major power and growing trade partner with China would undoubtedly compel its

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<sup>8</sup>The *12 Points Understanding* is an agreement signed between the seven political parties and the Communist Party of Nepal (Maoist) on November 22, 2005 in New Delhi to conduct peaceful action against the direct rule of the king. The spirit of the understanding was to both end the autocracy and the Maoist armed insurgency in Nepal. The details of this agreement are in Appendix A.

<sup>9</sup>S. D. Muni, "India's Chessboard Politics is no Longer Relevant in Nepal," [http://www.ekantipur.com/news/news-detail.php?news\\_id=300260](http://www.ekantipur.com/news/news-detail.php?news_id=300260) (accessed 23 December 2009).

leadership to understand and have better relations with its neighbors. Furthermore, anti-Indian sentiments might increase the likelihood of Chinese presence within the region and instability may increase the influence of extremists (particularly the radical Muslim in Nepal) which could result in a serious threat to security of India.

### Nepal and India's Economic Rise

India's emphasis on strong bilateral relations, particularly in continuing the mutual security obligations under the 1950 treaty, could be adjusted to provide Nepalese with a new sense of national status.<sup>10</sup> By taking this *new approach*, India could signal its willingness to accommodate its neighbors to win the trust and confidence of the region, which would certainly strengthen India's own national security. New Delhi is prepared to provide economic and technology cooperation for a new, more supportive and collaborative relationship with neighbors.<sup>11</sup> In this respect, the effect of the rise of India on Nepal could be a stabilizing and nurturing influence on both the politics and democracy and could potentially help bolster the political rights and democratic power of the Nepalese people.

India's rise could significantly influence the economic progress of Nepal, especially in the area of the emerging potential of hydropower. This viable economic resource can be used to obtain a reliable source of income as Nepal could produce almost 83,000 megawatts of hydroelectricity that could be supplied to the power-deficient states

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<sup>10</sup>Lok Raj Baral, "India-Nepal Relations: Continuity and Change," *Asian Survey*, no. 9 (September 1992): 814.

<sup>11</sup>Bhabani Sen Gupta, "India in the Twenty-First Century," *International Affairs* 73, no 2 (April 1997): 314.

of northern India. New Delhi views Nepal as an essential source of hydroelectricity, which could cater to growing domestic demand in India.<sup>12</sup> Donor agencies, to include large private financial companies in India, have shown significant levels of interest in funding these types of energy projects in Nepal.

Nepalese tourism is another potential area that can benefit from the rise of India. Nepal has been recognized throughout the world for its unique natural beauty and cultural diversity and the flow of Indian tourists for both religious pilgrimages and sightseeing increases each year. Tourist sector development directly benefits and improves the quality of the lives of Nepalese people inhabiting remote areas.

Finally, Nepal could potentially become an economic bridge between India and China, as both emerging economies are interdependent for economic progress. China provides a huge market for India's software production and India is an important consumer of Chinese electronic goods. China remains interested in Nepal as a transportation link to India and other nations in the region. This situation could have immeasurable impacts on the economic development of Nepal and opportunities to participate in the trade activities of these two economically powerful nations.

#### Security Implications

India will continue to strengthen its military might to counter security challenges that may arise from its two conventional rivals - China and Pakistan. New Delhi will also continue to increase its defense budget and ties to the United States and its allies will invariably provide opportunities to modernize its military capability with sophisticated

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<sup>12</sup>Oliver Housden, "A New Dawn in India-Nepal relations? Prachanda's Visit to India."

weapons. A US-India partnership raises issues of future weapon purchases, technology transfer and basing and over flight rights.<sup>13</sup> Nevertheless, because of increasingly positive diplomatic and trade relations between India and China, the possibility of conflict between these two nations remains minimal. Both will continue to invest heavily to strengthen their military capabilities to maintain security, along with regional and global influence. As long as trade dominates the relationship between China and India, increases in the military capabilities of these two nations would have limited effects on Nepal.

India's overall security concerns involve threats emerging from Pakistan and Muslim extremism. The possibility of Muslim extremists using Nepalese territory to carry out terrorist activities in India exists and this situation may persuade Nepal to join India in an alliance to fight against terrorists attempting to destabilize the region. India has pressured Nepal to stop the alleged activities of Pakistan's ISI (Inter-Services Intelligence) organization.<sup>14</sup> India continues to express concern over increasingly active radical Muslim bases in Nepal linked to terrorist activities in India and the possibility of a deteriorating political, economic and security environment.

New Delhi has already recognized the Maoist insurgency in India as another security challenge, which is gradually spreading to many states. Many believe that Indian Maoists have ideological and working relationships with the Nepalese Maoists despite the latter's participation in Nepal's peaceful political process. This situation may again

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<sup>13</sup>Stephen F Burgess, *India's Emerging Security Strategy, Missile Defense, and Arms Control* (Colorado: USAF Academy, 2004) [http://www.nti.org/e\\_research/official\\_docs/other\\_us/INSSJune.pdf](http://www.nti.org/e_research/official_docs/other_us/INSSJune.pdf) (accessed 24 September 2009).

<sup>14</sup>The ISI is one of Pakistan's intelligence agencies and suspected of covertly carrying out radical Muslim activities in Nepal to undermine the security of India.

bring destabilization to Nepal if the growing influence of Maoists in India are allowed to continue and the ideological and working relationships between the Maoist groups of Nepal and India are not interdicted.

Significant numbers of people residing in southern Nepal have a common identity with the people of India and are willing to work together for greater political, economical and social rights from Kathmandu. The Nepalese in this region want the federal division to be enacted based on geography to make all of southern Nepal a single state. People residing in other parts of the country believe this demand will disintegrate Nepal.

Additionally, India is concerned with the demands of the southern Nepalese who reside along its 800 km of open border. Many regional Nepalese political parties and armed groups active in this region have working relations with similar organizations in India and may eventually invite New Delhi to again play an influential role in the politics of Nepal. Stability in the region requires that Kathmandu's focus remains security and economic prosperity for the Nepalese while India requires mutually beneficial relations with its neighbors. Both of these conditions are essential for both India and Nepal to achieve their own national objectives of peace and prosperity.

### Research Questions

This paper will address the following primary research question: How will the rise of India as a world power affect Nepal politically and economically? The secondary research questions are: (1) What will be the political situation of Nepal with the rise of India as a major power? and (2) How will Nepal benefit from India's booming economy?

### Assumptions

This paper assumes India will continue to carry out its current rate of economic development at the average rate of 8 percent of GDP (gross domestic product). Additionally, it assumes that Nepal and India will begin to work together in new strategic environment for mutual benefit and welfare of people of both the countries. The final assumption is that the Himalayan Republic (Nepal) would complete its historical political transformation to a democratic republic as scheduled and focus on strengthening the political gains and economic development.

### Definitions

A *major power* is a nation or state that has the capability to wield its influence on a global scale. As Nayar and Paul observe, a major power has the military and economic capabilities to “chose and shape the structure of global security and political economy within which other states have to operate.”<sup>15</sup> It typically holds economic, military, diplomatic, and cultural power, and may force other smaller countries to consider its views of before taking their own action. A major power also exhibits structural power and possesses the capacity to threaten, defend, deny or increase the security of other states from violence; controls the system of goods and services; determines the structure of financial institutions; and exerts the highest influence over the acquisition and dissemination of knowledge.<sup>16</sup>

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<sup>15</sup>Baldev Raj Nayar and T.V. Paul, *India in the World Order* (Cambridge: Cambridge University Press, 2003), 31.

<sup>16</sup>*Ibid.*

The *Gujral Doctrine* is a set of five principles intended to direct the conduct of India's foreign relations with its immediate neighbors and initiated by the former Prime Minister of India I.K. Gujral in the mid-1990s. These five principles originate from the conviction that India's standing and strength cannot be isolated from the quality of its relations with its neighbors and focuses on positive relations with neighboring countries. These principles are:

1. India does not ask for reciprocity, but gives and accommodates what it can in good faith and trust.
2. No South Asian country should allow its territory to be used against the interest of another country of the region.
3. No country should interfere in the internal affairs of another.
4. All South Asian countries must respect each other's territorial integrity and sovereignty.
5. All disputes should be settled through peaceful bilateral negotiations.<sup>17</sup>

#### Limitations

The focus of research on the topic will be the political and economic effect of Nepal due to rise of India as a major power. Sources for this research include material available in the US Army's Combined Arms Research Library (CARL), journal articles, speeches, policy statements, and the author's own experiences. Moreover, all research on India and Nepal has been conducted using "open source" (unclassified) material and depends on a mix of both primary and secondary sources.

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<sup>17</sup>C. R. Mohan, *Crossing the Rubicon* (New York: Macmillan, 2004), 241.

### Delimitations

This paper discusses the India's strategic goals through 2020. In addition, this research is focused on analyzing the effects of India's rise on Nepal's political and economic systems. The study is not intended to analyze the roles of other major Asian powers and their strategic to bring the change to the regional and international political system.

### Significance of the Study

India's rise in the contemporary world and relationship with the current major powers has changed the overall dynamics of global affairs. In the coming years, India's progressing economic and military might facilitate New Delhi to achieve status as an influential global decision-maker. The economic and political progress of India will have tremendous strategic effects on Kathmandu and it is essential that the Nepalese government understands India position in global affairs. This will assist the Nepalese in formulating their own foreign and security policy and enhance their capability to adjust to changes in the strategic environment of the region.

Beyond Nepal, this study demonstrates the policy challenges of small state relationships with regional powers, as well as their relationships with superpowers. Most smaller states forge political, security and economic alliances with a regional power to establish their own political and economic security. This research paper helps to understand how difficult it is for small states to maintain political independence and neutrality a regional power. Moreover, it helps to understand why and how the smaller states create an economic symbiosis and dependent relationships with regional powers.

### Summary and Conclusion

As India emerges as a world power, its influence on the political and economic system of Nepal will be profound. India's diplomatic influence will shape the democratic system of the Himalayan Republic. New Delhi's involvement in the political system of its tiny neighbor will most likely be acceptable to the Nepalese public as long as it positively supports Nepal's ongoing peace process and historic political transformation. Nepal has struggled to achieve economic prosperity and has numerous economic opportunities associated with the global and economic rise of its southern neighbor. India's peaceful rise could potentially bring political and economic betterment in its neighbors, including Nepal, which remains geostrategically significant to India's overall security.

## CHAPTER 2

### LITERATURE REVIEW

This chapter provides a review of available literature and both primary and secondary sources regarding India's rise and the effects on Nepal. Government policies and reports, white papers, speeches by government leaders and other high-ranking officials are the primary sources, which have provided very reliable and current data on both Nepal and India. A number of books written on the roles, capabilities and interests of India in region and world and its effects on neighboring states by political, economic and strategic thinkers constitute the secondary sources on the subject. The various analyses conducted by independent strategic study groups and think tank observations on policies of India and their implications particularly on Nepal provide objective and precise analysis of the topic. This chapter will subcategorize each of the sources mentioned above in order to more accurately classify, organize, and depict the existing information on the topics of current and future effects on Nepal due to India's progress.

#### Speeches by Government Leaders, Policies and Programs

Policy speeches comprise a large portion of the primary sources for this research. The government of Nepal's *Annual Policy Program* (2009-2010) focuses on the economic development and establishing a favorable environment for foreign investment in hydropower, tourism and infrastructure development.<sup>18</sup> It also notes that necessary policy reforms will be made to increase investment opportunities provided by trading

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<sup>18</sup>Government of Nepal, "Policy and Program," <http://www.opmcm.gov.np/> (accessed 12 December 2009).

groups such as the South Asian Free Trade Agreement (SAFTA), Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEK) and World Trade Organization (WTO). This program also identifies actions that would be taken immediately to allow for more investment from Indian companies, which now constitute the largest group of foreign investors in Nepal. The *Annual Policy Program* also states that Nepali government priority for constructing roads linking the north and south borders of Nepal would help facilitate turning the country into a “link state” between its two neighbors (China and India).<sup>19</sup>

In August 2009, the prime minister of commented that Indian executives should consider investing money in hydropower development, tourism sector, agro-processing and finance services in Nepal. He also stated that the government of Nepal would make every effort needed in order to create an atmosphere that is conducive for promoting Indian investment in Nepal.<sup>20</sup> Additionally, a joint statement issued during the visit of the prime minister of Nepal to India in 2006 provided the foundations for work on long-term mega-infrastructure projects such as road construction, railway linkages, water resources and special economic zones in Nepal.<sup>21</sup> Similarly, various statements, remarks and speeches given during the other official visits to India have emphasized new diplomatic and economic policies in reaction to the changing strategic environment of the region.

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<sup>19</sup>Ibid.

<sup>20</sup>Madhav Kumar Nepal (addressing business community of Mumbai on 21 August 2009), <http://www.mofa.gov.np/news/metadata.php?NewsID=450&bread=Speeches> (accessed 23 October 2009).

<sup>21</sup>A Joint Statement issued during the visit of the Prime Minister of Nepal to India in 2006, <http://www.mofa.gov.np/news/metadata.php?ID=307&bread=Speeches/Statements> (accessed 12 December 2009).

Likewise, the speeches given by the prime ministers and other foreign officials of India provide sufficient framework on how New Delhi hopes to achieve its desire to become a major power. These statements clearly describe India's plans for future economic and diplomatic programs and New Delhi's proposed relationships with its neighbors to protect its national interests. On a number of occasions, they have opined that political stability and economic development for Nepal is significant for the preservation of security interests of India. India's Prime Minister Man Mohan Singh delivered in 2009 at the India Economic Summit provided a road map of India's efforts to become an influential country in global affairs.<sup>22</sup> His speeches also describe the significance of India's relationship with its neighbors and responsibilities to provide economic and political assistance as a regional power. The Prime Minister emphasized regional peace and stability as a requirement for India's security and prosperity.<sup>23</sup>

Journalist interviews with the Prime Minister of India also provide insight into India's plans to maintain its economic growth rate of 8-9 percent per annum, intended relations with neighbors and within the region to increase the socio-economic conditions for the people of South Asia.<sup>24</sup> Additionally, Indian leaders have identified the connections between progress, the security of India and its relationships with neighbors.

The Foreign Secretary of India (S. Menon) stated that India's foreign policy is now

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<sup>22</sup>Office of Prime Minister of India, "PM's speeches," <http://pmindia.nic.in/speeches.htm> (accessed 18 December 2009).

<sup>23</sup>M.M. Singh, "PM's address at Hindustan Times Leadership Summit," 30 October 2009, <http://pmindia.nic.in/speech/content.asp?id=838> (accessed 18 December 2009).

<sup>24</sup>M.M. Singh, Interview by Charlie Rose, <http://pmindia.nic.in/interviews.htm> (accessed 18 December 2009).

focused on the growth of its economy to meet its own aspirations and to bring peace and prosperity to the region. His lecture entitled “The Challenges Ahead for India’s Foreign Policy” describes India’s current foreign policy and future strategies to face political, economical, energy and security issues.<sup>25</sup> This speech also provides insight to India’s new foreign policy paradigm in dealing with weak neighbors based on cooperation and non-reciprocity. Moreover, speeches by former Indian officials to include Defense Minister Pranab Mukherjee, Foreign Secretary Shyam Sharan and Foreign Secretary of India Sibal Kanwal help explain India’s foreign policy and future security strategy. These officials also describe how the Indian government can play a significant role in South Asia through new diplomatic approaches in support of the rise of India.<sup>26</sup>

These primary sources provide insight into India’s national security strategy in the 21st century and how New Delhi intends to achieve major power status to secure its strategic position in global affairs. The sources clearly indicate that India is willing to play significant political and economic roles in global affairs through its focus on many sectors to include political, diplomatic, economic, social, information, infrastructure, energy and military. Furthermore, they help explain that India acknowledges a

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<sup>25</sup>S. Menon, “The Challenges Ahead for India’s Foreign Policy.” (Speech by Foreign Secretary, Shri Shivshankar Menon at the Observer Research Foundation, New Delhi, 10 April 2007), [http://www.carnegieendowment.org/newsletters/SAP/pdf/april07/challenges\\_india.pdf](http://www.carnegieendowment.org/newsletters/SAP/pdf/april07/challenges_india.pdf) (accessed 4 October 2009).

<sup>26</sup>Kanwal Sibal, “Indian Foreign Policy: Challenges and Prospects,” (Geneva Forum: 23 January 2003), [www.geneva-forum.org/Reports/20030123.pdf](http://www.geneva-forum.org/Reports/20030123.pdf) (accessed 5 October 2009); Pranab Mukherji, “India’s Strategic Prospective,” Washington DC, June 2005, [http://www.carnegieendowment.org/files/Mukherjee\\_Transcript\\_06-27-051.pdf](http://www.carnegieendowment.org/files/Mukherjee_Transcript_06-27-051.pdf) (accessed 12 December 2009); Shyam Sharan, “Present Dimensions on Indian Foreign Policy,” [http://www.indianembassy.org/press\\_release/2006/Jan/2.asp](http://www.indianembassy.org/press_release/2006/Jan/2.asp) (accessed 12 December).

responsibility to include entire region into its progress in hopes of bringing peace, stability and prosperity in South Asia. The leaders of India seem to have accepted the geostrategic importance of their neighbors to their national security and have made plans to bolster the political and economic systems of the region, to include those within Nepal. Similarly, Nepalese leaders have stated their intention to work together with New Delhi to create a favorable atmosphere for Indian investors in areas such as hydropower and tourism, which could result in positive economic development for Nepal.

### Books

Secondary sources for this research included a number of influential books by both regional and international policy analysts. Many of these focused on India's role both within the region and at the international level. C. Raja Mohan's book, *Crossing the Rubicon: The Shaping of India's New Foreign Policy*, provides a clear picture of the India's new foreign policy in the 21st century in relation to its growing engagement role in South Asia.<sup>27</sup> Mohan explores the necessity of India's refined approach to foreign policy in the region, changes in the global environment and conducts an analysis of India's foreign policy. He noted that the *traditional approach* does not work for India if it aims to undertake growing responsibilities as a potential power and to protect its interests in the region. Mohan also argues that the *new approach* based on the Gujral Doctrine should be implemented to improve the security and socio-economic problems of South Asia, which could potentially preserve the security interests of India and pave the way for major power status. This book provides an excellent description of India's future

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<sup>27</sup>C Raja Mohan, *Crossing the Rubicon: The Shaping of India's New Foreign Policy* (New Delhi: Palgrave Macmillan, 2005), 237-259.

relationship with its neighbors, based on the policy of mutual respect, accommodation and inclusion into India's own growing economy, ultimately providing greater opportunities for smaller states such as Nepal.

Baldev Raj Nayar and T.V. Paul investigate India's relationship with major powers and New Delhi's own search for a significant role within the global system.<sup>28</sup> Their book explains the principal limitations at the international, national and perceptual level that India has faced in this effort and provides a comprehensive comparison of India's power capabilities. Nayar and Paul argue that India requires significant systematic and domestic changes to achieve its national objectives. The book details India's modern diplomatic, economic and military achievements but unfortunately fails to address the importance of India's potential influential political and economic role in South Asia, which could be an essential requirement for its efforts to emerge as a major power.

Stephen J. Blank commented on India's rising power, capabilities and strategic rationale behind its participation in US-India strategic partnership efforts in *Natural Allies? Regional Security in Asia and Prospects for Indo-American Cooperation*.<sup>29</sup> He also focused on the advancement of India's diplomatic and strategic reach to the Persian Gulf, Central Asia and South East Asia and its future ramifications in the context of New Delhi's desire to become a major power. In this text, Blank outlines the significance of US-India strategic partnership and areas of cooperation for security of Asia between the two countries, which helps to understand India's endeavors to make economic and

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<sup>28</sup>Baldev Raj Nayar and T. V. Paul, *India in the World Order* (Cambridge: Cambridge University Press, 2003), 27-64.

<sup>29</sup>Stephen J Blank, *Natural Allies? Regional Security in Asia and Prospects for Indo-American Cooperation* (Carlisle: U.S. Army War College, 2005).

security alliances with greater states to ensure its own future as a major power. Another key text, *International Relations of Asia*, provides the current and definitive analysis available of Asia's relationships and assesses the role of leading external and regional powers including India. The essay titled, "The Rise of India in Asia," explicitly explores the political, economic and military role of India in Asia and the implications of its growing economic and security ties with the key actors.<sup>30</sup>

Kalam and Rajan's *India 2020 a Vision for the New Millennium* attempts to explain India's economic and scientific policies and plan to achieve "developed" status by 2020.<sup>31</sup> This book has also given very important strategic economic plans that India needs to adopt for at least next twenty years to achieve its strategic aspirations. It does not cover other elements of national power such as diplomacy and politics. Additionally, Kalam and Pillai's book *Envisioning an Empowered Nation* examines the importance of technology for India to achieve its strategic interests focusing on how the technology can be used in agriculture, healthcare, economy and strategic sectors.<sup>32</sup> Namita Bhandare's edited volume *India the Next Global Super Power?* also discusses areas of progress in diplomacy and economy of India, focused on efforts after 1990. Bhandare and the other authors note that some Indian leaders and intellectuals fail to understand India's

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<sup>30</sup>David Shambaugh and Michael Yahuda, ed., *International Relations in Asia*, (Lanham: Rowman & Littlefield Publishers, Inc., 2008), 150-169).

<sup>31</sup>A.P.J. Abdul Kalam and Y.S. Rajan, *India 2020 a Vision for the New Millennium* (New Delhi: Penguin Books India Pvt Ltd, 1998).

<sup>32</sup>A.P.J. Abdul Kalam and A. Sivasthanu Pillai, *Envisioning an Empowered Nation* (New Delhi: Tata McGraw-Hill Publishing Company Ltd, 2004).

achievements and aspirations and often overlook the challenges that India is facing today.<sup>33</sup>

The book *Defending India* explains recommended measures India should consider to maintain its national security interests by using the “DIME” framework (policies based on the analysis of the diplomatic, information, military, and economic aspects of society). The significance of this book is the critical analysis of India’s policy weaknesses, especially in leadership, diplomacy and defense expenditures.<sup>34</sup> Finally, Stephen F. Burgess’ *India’s Emerging Security Strategy, Missile Defense, and Arms Control*, describes India’s attempts to formulate a security strategy and notes that New Delhi is gradually heading towards a new international partnership focused on defense capabilities.<sup>35</sup> Burgess identifies both weaknesses and drawbacks of India’s security strategy and military preparedness and recommends use of New Delhi’s strategic capabilities to influence the international system.

Texts focused on Nepal’s relationship with India and the South Asian region were also reviewed. In the book *India and Nepal*, Shriman Narayan provides a glimpse of diplomatic relationship between India and Nepal in the 1970s and significance of the geostrategic location of Nepal for the security of India.<sup>36</sup> Narayan criticizes India’s leaders for their attitudes towards Nepal’s efforts towards sovereignty and independence.

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<sup>33</sup>Namita Bhandare, ed., *India: The Next Global Power?* (New Delhi: Lotus Collection, 2008).

<sup>34</sup>Jasawant Singh, *Defending India* (Chennai: Macmillan India Ltd, 1999).

<sup>35</sup>Burgess.

<sup>36</sup>Shriman Narayan, *India and Nepal* (Delhi: Hind Books, 1971).

Although his analysis of China's efforts for friendly relations with Nepal, to include Beijing's economic presence within the Himalayan country, he does seem to demonstrate bias towards Chinese, intentions (often interpreted as part of Beijing's gradual strategy to control the neighboring countries).

Rajan Bhattarai vividly explains the contemporary realities of Nepal in terms of human security in the context of changing environment in South Asia particularly the improving relations between India and China.<sup>37</sup> His essay advocates both neighbors want peace, prosperity and development in Nepal, which could contribute to protect the national interests of both giants and views that both giants would not take any strategy in the region to escalate tension. The message unfolded in the book point out that the future relations between the two Asian giants would benefit the entire region. The essay does not touch upon the issue of growing influences of both neighbors to protect their interests and its implications on the domestic affairs of Nepal.

#### Articles, Essays and Current News Sources

Other secondary sources for this research included a number of important policy-focused articles, essays and current news sources, both in print and online. Articles discussing the India-Nepal relationship included Ashok K. Mehta's "India's Strategic Role in Nepal" which commented on India's special interests in Nepal and argued that instability in Nepal threatens peace and stability in India. He also cautioned the government of India to carefully consider the potential damage of overt use of diplomatic

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<sup>37</sup>Rajan Bhattarai, "The Concept of Human Security and Changing Security Dynamics in Nepal," in *Changing Security Dynamics in Nepal*, ed. Rajan Bhattarai and Rosy Cave (Kathmandu: Nepal Institute for Policies Studies, 2009), 13-38.

power to bring changes in Kathmandu. Additionally, Mehta suggested that India should prevent the political parties of Nepal (which lack a commitment to democracy) from trying to establish an authoritarian regime within the government.<sup>38</sup>

While S. D. Muni opined that India should adopt a *new approach* in dealing with Nepal, free of interference and identified past Indian diplomatic errors with Nepal,<sup>39</sup> Chandan Sapkota's article, "Growth Strategies for Nepal," suggested Nepal should change its economic and foreign policy. Additionally, Sapkota suggests that Kathmandu take advantage of the booming Indo-China trade relationship and notes that Nepal should focus on foreign direct investment to spur the development of infrastructure, hydropower and tourism.<sup>40</sup> Another paper by Madhukar S.J. Rana, "Indo-Nepal Strategic Partnership for the Asian Century," discusses the reality of the Indo-Nepal relationship, which has historically revolved around the paradigm of dependency, with Nepal fulfilling the role of a buffer state for the last sixty years.<sup>41</sup> Rana argues that the relationship should be transformed and based on interdependency. He identified Nepal as a critical transit state and criticized India's dominating diplomatic power which has, on several occasions, hindered the political and economic development of countries like Nepal.

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<sup>38</sup>Ashok Mehta, "India's Strategic Roles in Nepal," *The Pioneer*, August 2009, <http://www.dailypioneer.com/196694/India%E2%80%99s-strategic-role-in-Nepal.html>, (accessed 12 December 2009).

<sup>39</sup>S. D. Muni, "India's Chessboard Politics is no Longer Relevant in Nepal."

<sup>40</sup>Chandan Sapkota, "Growth Strategies of Nepal," 27 Apr 2009, [www.myrepublica.com/portal/index.php?action=news](http://www.myrepublica.com/portal/index.php?action=news) (accessed 13 September 2009).

<sup>41</sup>Madhukar Shamser JBR, "Indo-Nepal Strategic Partnership for Asian Century," August 2007, [www.telegraphnepal.com/news\\_det.php?news\\_id=1746](http://www.telegraphnepal.com/news_det.php?news_id=1746) (accessed 10 September 2009).

Another key article was Singh's "Nepal: the Ticking Time-Bomb."<sup>42</sup> This article analyzes the current volatile and unstable political and security situation of Nepal and the consequences it can have in the future and concludes that unity of Nepal is critical to India. Surya P. Subedi's "India-Nepal Security Relations and the 1950 Treaty: Time for New Perspectives," describes the political background of current Indo-Nepal relation and circumstances that facilitated to sign *Peace and Friendship Treaty* (1950) between two nations giving India a right to look after Nepal's foreign and defense affairs.<sup>43</sup> Subedi advocates the necessity of reviewing the treaty in the changing regional and global scenario and suggests both the countries need to bring new treaty envisioning the vision of India of new century to accommodate its neighbors. Finally, "India-Nepal relations: Continuity and Change," discusses the importance of peaceful and friendly relation between two nations to protect the strategic interests of India and Nepal.<sup>44</sup> In this article, Lok Raj Baral advocates new thinking on India's regional economic and security policies in order for India to achieve its national aspirations.

Several sources discuss India's role as a potential global power to include Bhabani Sen Gupta's text, which argues India's global economic and political position in the 21<sup>st</sup> century will be vastly different. Gupta states that India should continue to expand its political links with major powers to resolve long-standing security issues with its

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<sup>42</sup>R. S. N. Singh, "Nepal: The Ticking Time-Bomb." *India Defense Review*, no. 2 (May 2009). <http://www.indiandefencereview.com/2009/05/nepal-the-ticking-time-bomb.html> (accessed 12 October 2009).

<sup>43</sup>Surya P. Subedi, "India-Nepal Relations and the 1950 Treaty," *Asian Survey* no. 3 (1994): 273-284.

<sup>44</sup>Lok Raj Baral, "India-Nepal Relations: Continuity and Change," *Asian Survey* 32, no. 9 (1992): 815-829.

neighbors.<sup>45</sup> He also emphasizes the importance of the Gujral Doctrine and criticizes the India's policies of not accommodating its weaker neighbors. Walter Ladwig's "India and the Balance of Power in the Asia-Pacific" analyzes India's growing strategic reach in the ASEAN (Association of Southeast Asian Nations) and Asia-Pacific region as part of its global influence and capability to harness rising economic opportunities.<sup>46</sup> Hiro's "The Sole Superpower in Decline: The Rise of a Multipolar World," discusses the possibility of emergence of multipolar world with reduced United States' influence and hints that India could be one of the countries to rise within the international system.<sup>47</sup> Additionally, "India's Strategic Thinking and its National Security Policy," explains the factors determining the India's grand strategy, challenges to India's regional dominance and its investment on defense capability.<sup>48</sup> The paper has also pointed out that India needs to have significant military power to project its national identity as a great power in world affairs.

Finally, a number of articles published Nepal's major newspapers on are also key secondary sources of literature for this thesis. Many of the articles published in Nepali and English on internet sites such as [www.ekantipur.com](http://www.ekantipur.com), [www.myrepublica.com](http://www.myrepublica.com), [www.nepalnews.com](http://www.nepalnews.com), and [www.telegraphnepal.com](http://www.telegraphnepal.com) on the current issues of Nepal's

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<sup>45</sup>Bhabani Sen Gupta, "India in the Twenty First Century," *International Affairs*, no. 2 (April 1997).

<sup>46</sup>Walter C. Ladwig, "India and the Balance of Power in the Asia-Pacific," *Joint Force Quarterly*, 57 (2nd Quarter 2010): 111-119.

<sup>47</sup>Shri Dilip Hiro, "The Sole Superpower in Decline: The Rise of a Multipolar World," *Military Review* (June 2008): 140-144.

<sup>48</sup>A.Z. Hilali, "India's Strategic Thinking and Its National Security Policy." *Asian Survey*, no. 5 (2001): 737-764.

diplomatic and economic relations primarily with India are analytical, logical and relevant, although others lack neutrality and facts. Yet these internet news articles do provide opinions and recommendations to the government of Nepal and help identify appropriate diplomatic and economic policies focused on Nepal's relations within the region.

### Analysis by Independent Study Groups

Independent study groups and “think tanks” provide other sources of valuable information on the current and projected Nepal-India relationship within South Asia. The Institute of Peace and Conflict Studies (IPCS) published an analysis of the changing Indo-Nepal relations in an article entitled “A New Dawn in India-Nepal Relation? Prachanda Visit to Nepal.” This analysis discusses diplomatic and economic options for India in relation to Nepal and recommends India realign this relationship to include greater liberty for Nepal to choose its own foreign and defense policy.<sup>49</sup> The IPCS suggests that India should reassess the *Peace and Friendship Treaty* (1950), and provide economic assistance to Nepal in areas such as water resources, tourism and infrastructure development. Additionally, the New Delhi-based Institute for Defense Studies and Analysis (IDSA) has produced several reports on China's growing influence in Nepal and its implication for India.<sup>50</sup> These include analysis of India's role in limiting Chinese

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<sup>49</sup>Housden, “A new dawn in India-Nepal relations? Prachanda's visit to India.”

<sup>50</sup>Nihar Nayak, “Nepal: New ‘Strategic Partner’ of China?” (IDSA: March 2009), [www.idsa.in/idsastrategiccomments/NepalNewStrategicPartnerofChina\\_NNayak\\_300309](http://www.idsa.in/idsastrategiccomments/NepalNewStrategicPartnerofChina_NNayak_300309) (accessed 9 October 2009); Abanti Bhattacharya, “China's Inroads into Nepal: India's Concerns” (IDSA: May 2009), [www.idsa.in/idsastrategiccomments/NepalNewStrategicPartnerofChina\\_NNayak\\_300309](http://www.idsa.in/idsastrategiccomments/NepalNewStrategicPartnerofChina_NNayak_300309) (accessed 9 October 2009).

presence, discussion of India's inability to accept the failure of *traditional approach* in dealing with Nepal, and the identification of the risks to India if it fails to re-evaluate its foreign policy towards Nepal. Unfortunately, this Indian Defense Ministry-sponsored analysis group sometimes is biased on its reports and analysis. This organization habitually views China's activities in Nepal as negative and jeopardizing to Nepal-India relations, ignoring the potential benefits to Nepal of Chinese economic cooperation.

The Conflict Study Center, a think-tank based in Kathmandu, issued a report entitled "Nepal-India Relations: Open Secret Diplomacy," which describes the major "secret" events that occurred between Nepal and India in the past that have shaped their relations.<sup>51</sup> This analysis notes that these clandestine events do not address the needs of the Nepalese and recommends India change diplomatic approach to protect its role and limit China's influence in regional affairs. Regrettably, the Conflict Study Center analysis focuses on the negative effects of the relationship between Nepal and India and overlooks the weaknesses of Nepalese leadership in diplomacy, particularly in the signing of the treaties concerning natural resources with India.<sup>52</sup>

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<sup>51</sup>Bishnu Pathak, "Nepal-India Relations: Open Secret Diplomacy," 25 May 2009, <http://www.transnational-perspectives.org/transnational/articles/article492.pdf> (accessed 12 December 2009).

<sup>52</sup>The treaties between Nepal and India primarily on water resources have been always been a matter of controversy. The treaty concerning the Koshi, one of the biggest rivers in Nepal and which merges into India's Ganges River, provides rights and authority for regulating the water benefiting India, which uses it for irrigation and hydropower. Similarly, the treaties of Gandaki, Mahakali, and Tanakpur rivers have provided more advantageous to India than Nepal and the latter's leadership is often blamed for the unequal treatment the Nepalese experience when dealing with India on these critical issues.

The International Crisis Group (ICG) evaluated Nepal's current and future political and security situation and noted that India's role in fostering peace and stability is very significant. It also proposed that New Delhi's intervention-focused diplomatic attitudes should be more influential in safeguarding India's presence in Kathmandu.<sup>53</sup> The ICG also accuses India of not cooperating with Nepal to implement the peace process, although critics of this report contend that it merely covers views identified by the Communist Party of Nepal (CPN, also referred to as "the Maoists") in regards to both the peace process and Nepal-India relations.

Finally, the German Institute for International and Security Affairs (SWP) issued report titled "Promotion and Democracy and Foreign Policy in India," provides an objective analysis of India's governmental system and New Delhi's role in promoting democracy in South Asia.<sup>54</sup> The SWP argues that India's actions in the region for promoting democracy are based on promoting national interests. It comments that past Indian interventions have been characterized by the desire for political stability rather than to support or establish democratic systems of government. The SWP also notes that India has been putting more emphasis on economic and development cooperation since the mid-nineties and has taken sporadic measures for the promotion of democracy. The report concludes that it may take time for New Delhi to shift into this new role of

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<sup>53</sup>International Crisis Group, "Nepal's Future: In Whose Hand?" 13 August 2009, [http://www.crisisgroup.org/~media/Files/asia/south-asia/nepal/173\\_nepals\\_future\\_in\\_whose\\_hands](http://www.crisisgroup.org/~media/Files/asia/south-asia/nepal/173_nepals_future_in_whose_hands) (accessed 10 January 2010).

<sup>54</sup>Christian Wagner, "Promotion of Democracy and Foreign Policy in India," 2009, [swp-berlin.org/en/produkte/swp\\_studie.php?id=11401](http://swp-berlin.org/en/produkte/swp_studie.php?id=11401); 12 (accessed 8 December 2009).

promoting democracy without expectations of reciprocity, this new policy option is worth pursuing.

### Summary and Conclusion

This chapter discussed the primary and secondary sources used during this research on India's rise and the effects on Nepal. Almost all of these acknowledge that the strategic and economic progress of India in this century has been unprecedented and could potentially facilitate India's efforts to gain influence and respect as a regional power and possibly even achieve the status of major power. India intends to create new a new atmosphere in South Asia, which could potentially provide significant political and economic benefits to its neighbors. These resources provide an all-encompassing view of the current political, economic, and security relations within the South Asian region, which is essential for the any analysis of India's rise.

## CHAPTER 3

### RESEARCH METHODOLOGY

This chapter outlines the research methodology used to collect information and data on the India-Nepal relationship and methods used in analysis. The study is a combination of critical analysis and estimation of the future implications of the rise of India and its effects on Nepal. The basic method for answering the research question is to analyze the potential effects on politics and economy of Nepal due to the recent progress of India from both a regional and global perspective. The research principally encompasses the effects on two of Nepal's instruments of national power: the political (diplomatic) and economic.<sup>55</sup> The research also touches the other elements of national power under the DIME concept (both military and information) which are related to Nepal's political and economic systems.

The information and data have been collected from both primary and secondary sources while the study consists of academic research. The method used for data collection method is document-based research. This is a *descriptive study* as it attempts to focus on creating a detailed picture by describing and analyzing available documents, public records, government policy, concept papers and other views on the research topic. The study uses qualitative analysis methodology to describe the available literature viewed primarily through political and economic attributes.

The analysis of the effects of India's rise on Nepal, from a political and economic standpoint, has been carried out by separating policy actions into two categories: the

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<sup>55</sup>This analysis is based on the "DIME" approach to describe elements of national power.

*traditional approach* and the *new approach*. The *traditional approach* constitutes actions and techniques that India has been applying since it achieved independence and is a policy of domination and interference. The *new approach*, advocated by many modern Indian scholars and policymakers, is based on a diplomatic policy of non-reciprocity and cooperation. The concept of the *traditional approach* emphasizes reciprocity, recognition of India as a dominating state and dependence on India as a regional power. The *new approach* involves efforts to assist neighboring states to stand as independent nations with India playing the role of regional benefactor, not concerned with acquiring “favors in kind”.

One of the critical instruments of national power analyzed in this research is political power. India has been playing active role to shape the political system of the Nepal, especially during major political upheavals, since 1947. India’s historic diplomatic maneuverings have been criticized to include its actions during the Second Political Movement, and in relation to Nepal’s ongoing political transformation. India’s future diplomatic involvement by India in the Nepalese political system could potentially continue and could potentially have negative effects on the future of Nepal’s government. In this research paper, India’s effects on Nepal’s political system have been reviewed and analyzed.

The other instrument of Nepal’s national power, which could be greatly affected by the rising India, is the *economy*. India’s effect on Nepal’s economy could potentially be significant as India economy has an average annual GDP increasing at a rate of 8 percent with the potential to become one of the world’s largest economies by 2020. Nepal desperately depends on India to improve its socio-economic problems and would be

influenced by the rapid economic growth of its southern neighbor. A strong economy is critical for political stability, social justice and security of a country such as Nepal, which has been engulfed in internal conflict for the past decade. Additionally, this research covers the economic impacts of Nepal's development of hydropower, tourism, and infrastructures and potential to become an economic trade link between India and China. Economic progress for Nepal would strengthen both the political and security relationships between Nepal and India, an essential ingredient for stability within the region.

The methodology of the thesis will be based on framework of a "DIME" approach to national power.<sup>56</sup> The study will specifically analyze how India mobilizes its diplomatic power and economic resources to shape the underdeveloped states within the region, focusing on Nepal. The effects of India's rise on Nepal's political system are analyzed through qualitative methods whereas the effects on economic activities would be analyzed using both qualitative and quantitative methods. The research has been conducted in five steps as shown below.

#### Step 1: History of Nepal--India Relations

The history of the Nepal - India relationship is discussed and analyzed by reviewing India's mobilization of its diplomatic, economic and military instruments of national power in order to shape the political and economic power of Nepal. This part of the thesis addresses the direction, control, influence and outcomes of the use of these

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<sup>56</sup>See David A. Anderson, "The Economic Instrument of National Power and Military Operations: A Focus on Iraq," *Military Review* (September-October, 2007) for an example of the use of DIME to analyze economic and political effects at the national level.

three instruments of national power of India. The employment of diplomatic power to direct the political and administrative system of Nepal was extreme resulted in major political changes. Between 1951 and 1960, India controlled and influenced the nascent democracy and governing system of Nepal. India attempted to use economic power to influence Nepal by helping to develop areas such as road construction, airports, irrigation, power, water supply, education, industry and health services.<sup>57</sup> India's military power was influential immediately after Nepal was freed from the Rana Dynasty in 1951 and aimed to establish security and reorganize the security forces of the Himalayan country.

The modern Nepal-India relationship began when India was freed from being a British colony in 1947. India applied the same policy to Nepal as India had been subjected to under British rule. India has historically played an active and influential role during Nepal's political changes in 1951, 1990 and 2006 during periods of significant upheaval. Additionally, India's political role in Nepal was intended to fulfill New Delhi's own national interests rather than to help a less stable country, like Nepal, to advance its own political and economic systems. Economic assistance to Nepal did occur, but was normally provided with connections to security issues.

### Step 2: Rise of India

This second step of the analysis explains and analyzes how India has focused on progress within all its instruments of national power (DIME). The "diplomatic" power involves negotiating with other nations (major powers) to strengthen one's global

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<sup>57</sup>Shriman Narayan, *India and Nepal* (Delhi: Hind Books, 1971), 72.

position. New Delhi has made remarkable progress in employing its diplomatic power to occupy a position as an influential participant in global affairs. India has worked to increase strategic relations with global powers such as the US, Russia, European Union and Japan to adequately address strategic and global issues. Additionally, India continues to work towards becoming a permanent member of the Security Council of the United Nations.

India's "information" capabilities (as part of DIME) include efforts to enhance technological power in support of efforts in strategic communication, public diplomacy and intelligence gathering against potential adversaries. India's progress in the area of information technology has set it apart as a dominant producer in the world market as its software manufacturing is the second largest after the United States. India's successful launching of satellites to contribute to its communication, economy, security, meteorological capabilities also facilitate advances in the information sector.

India's "military" instrument of national power includes efforts to strengthen defense capabilities to counter both internal and external threats. India has the fourth largest armed forces in the world and has established itself as a nuclear-capable state. Additionally, New Delhi has begun to invest greatly to modernize its armed forces to prepare for modern state-level and unconventional threats.

The "economic" component involves India's efforts to transform itself into a modern and prosperous country. India's economic progress has the potential to make New Delhi an international hub of economic activity by 2020. India's service sector investments and automobile production of vehicles that meet world-class standards have been a key focal point of economic activities within Asia. Within the realm of scientific

research, India rivals both the US and Russia evidenced by its continuous process of launching numerous satellites into space. Therefore, India's ability to increase its economic status, its most significant instrument of national power, could invariably facilitate efforts to become one of the major powers.

### Step 3: Projected Effects on Nepal

Projecting the effects of India's rise on Nepal is the principal focus of this research. India's progress in strategic and economic areas would most likely influence neighboring states (such as Nepal), especially in the areas of both diplomatic (economic) and political power. Although India probably will continue to mobilize its diplomatic power to shape the political system of Nepal, it could potentially shift focus to "nurture" Nepal's new democracy and foster political stability. India's role may be instrumental in Nepal's ongoing political process of change, efforts to end the Nepal's decade-long internal political conflict, constitution drafting process and restructuring of Kathmandu's state mechanisms.

The rise of India would also affect the economic activities of Nepal and the ability of Kathmandu to take advantage of India's phenomenal progress in trade and production. India's booming economy requires energy and Nepal's need for international investment in its hydroelectricity infrastructure provide mutual opportunities. India's one billion potential travelers for pilgrimages and sight-seeing could also provide great opportunities for Nepal's tourism industry.

This section will also describe the effects on other instruments of national power. For example, from a security viewpoint New Delhi has claimed that Muslim fundamentalists use Nepal as a staging base to conduct terrorist activities against India.

Conversely, there has been surprising growth in the Maoist insurgency in some of the states of India sharing borders with the Himalayan state, which also pose security threats to Nepal itself.

#### Step 4: Conclusion and Recommendations

Finally, the thesis would make conclusions and recommendations based on the above evaluation and analysis. The recommendations would focus on Nepal's efforts formulate appropriate policy to take advantage of the emerging economic opportunities due to India's rise. Nepal shares a similar cultural and social background with India. Both nations have similar aspirations of stability and security and Nepal will attempt to transform itself into a prosperous, stable and democratic country while maintaining friendly and peaceful relations with the neighbors.

## CHAPTER 4

### ANALYSIS

#### History of Nepal-India Relations

The founder-king of Nepal, Prithvi Narayan Shah, called his nation a “Yam between two boulders indicating the sandwiched position between the two Asian giants, China to the north and India to the south.”<sup>58</sup> Due to its position as a buffer state between China and India, Nepal is forced to maintain a precarious diplomatic balance in handling its relationships between these two giant neighbors. Because of its geographical location and connections to Tibet and China, Nepal has always been strategically important for India.<sup>59</sup>

Even after achieving independence in 1947, India applied the same policy to Nepal as India had been subjected to under British rule. New Delhi has historically assumed that it should take responsibility to provide security to Nepal from external aggression. This is evident from Prime Minister Nehru’s statement in 1950, which noted that an invasion of Nepal would inevitably threaten the safety of India.<sup>60</sup>

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<sup>58</sup>Prithvi Narayan Shah (1723-1775) founded the modern state of Nepal during the Shah dynasty from Gorkha (now one of the districts in western Nepal) principality. He united ten divided principalities, including the kingdoms of Kathmandu valley, paving the way for the further unification of Nepal. During his reign, he also led the defeat of British forces and forced them to disengage from operations within Nepal. M. R. Josse, “Nepal’s Strategic Balance,” (January-March 2004), [http://southasiamedia.net/magazine/journal/nepal/nepal\\_strategi.htm](http://southasiamedia.net/magazine/journal/nepal/nepal_strategi.htm) (accessed 12 December 2009).

<sup>59</sup>Christian Wagner, “Promotion of Democracy and Foreign Policy in India,” 2009, [swp-berlin.org/en/produkte/swp\\_studie.php?id=11401](http://swp-berlin.org/en/produkte/swp_studie.php?id=11401); 12 (accessed 8 December 2009).

<sup>60</sup>Jaswant Singh, *Defending India* (Chennai: Macmillan India Ltd, 1999), 54.

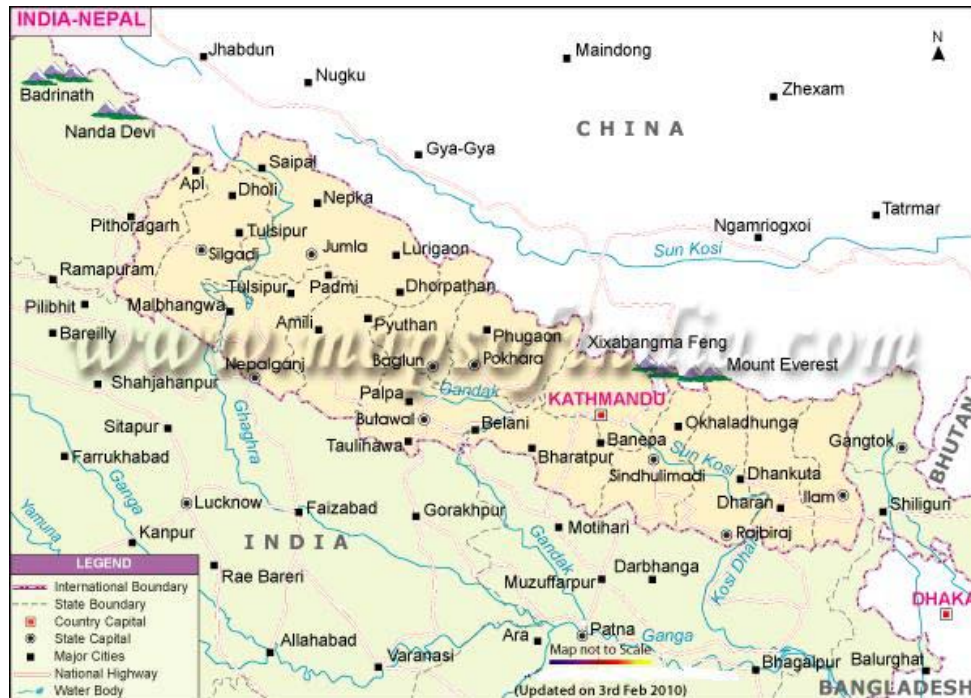


Figure 2. Map of India and Nepal

Source: Maps of India, “India-Nepal Map,” <http://www.mapsofindia.com/neighbouring-countries-maps/india-nepal-map.html> (accessed 21 May 2010)

Nepal and India signed the *Peace and Friendship Treaty* in 1950, which allowed India to play an influential role in Nepal’s defense and foreign affairs. Although the 1950 treaty with Nepal was concluded with the head of the oligarchic Rana regime in its last days in power, it has survived to this day.<sup>61</sup> Christian Wagner noted that because of this treaty, India gained control over the arms sales of the Nepalese Army and was given priority for the allocation of development projects.<sup>62</sup> From the beginning, India worried that Nepal would “lean” towards China and eventually would pose a security threat to

<sup>61</sup>Surya P Subedi, “India-Nepal Relations and the 1950 Treaty,” *Asian Survey* no. 3 (March 1994): 274.

<sup>62</sup>Christian Wagner, “Promotion of Democracy and Foreign Policy in India.”

India. To mitigate this threat, India became intimately involved in Nepal's 1951 political movement in an effort to cultivate a political and socio-economic system favorable to New Delhi.

India's influence was manifested in its efforts to pressure the political movement of 1951 and to bring the Rana monarchy and the Nepali Congress to an agreement ending the 104-year-old Rana dynasty reign. India negotiated a compromise (the Delhi Settlement) between the monarchy and the political parties.<sup>63</sup> The role played by India during the movement was criticized by charges that New Delhi was consolidating its influence to protect India's national interests in Nepal. Wagner also observed that during India's negotiation efforts, New Delhi was more focused on the internal stability of Nepal than on democratic development.<sup>64</sup> Moreover, India's continuous involvement in the political, economic and security system of Nepal after 1950 had been criticized by some of the major political parties of Nepal condemning India as an intervening force.<sup>65</sup>

The relations between India and Nepal deteriorated in the 1950s as India continued hegemonic efforts to compel Nepal to make policy choices in India's best interests. The establishment of an Indian military mission in 1952 and forced signing of a memorandum for the joint coordination of foreign policy in 1954 were instances of

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<sup>63</sup>Ibid.

<sup>64</sup>Ibid.

<sup>65</sup>Bishnu Pathak, "Nepal-India Relations: Open Secret Diplomacy," 25 May 2009, <http://www.transnational-perspectives.org/transnational/articles/article492.pdf> (accessed 12 December 2009).

India's growing attitude of domination towards Nepal.<sup>66</sup> In the first half of the 1950s, India used her ambassador in Kathmandu and advisor in the royal palace to influence Nepalese politics.<sup>67</sup> Nepal could not control the activities of Indian diplomatic personnel who were concerned with ensuring the fragile government of Kathmandu conformed to New Delhi's intentions.

India's activities in Nepal were dampened considerably when King Mahendra staged a coup in 1960 dissolving the elected government and parliament.<sup>68</sup> The government of India criticized this move, while the official Nepalese response was that the Indian reaction was considered an uninvited intervention into the internal matters of New Delhi. Although the coup was controversial within Nepal itself, this linkage between domestic and foreign policy was to have a long-term effect on Nepal politics and its relationship with India.<sup>69</sup> Moreover, King Mahendra pursued diplomatic initiatives to achieve closer ties with China, although this move was also opposed by India. The new

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<sup>66</sup>India sent a group of almost 600 military personnel in 1952 at the request of the Government of Nepal to train and reorganize the Royal Nepalese Army. The mission gradually began to become involved in the civil service and police force and began to monitor the Nepal-China border. The Government of Nepal saw this final action as undermining the relationship between Nepal and China and the mission was subsequently withdrawn in 1969. In 1954, India forced Nepal to sign a memorandum between the two countries, which effectively allowed India to establish security posts near the northern border in Nepal (contrary to the "cooperative" spirit of the agreement).

<sup>67</sup>Christian Wagner, "Promotion of Democracy and Foreign Policy in India."

<sup>68</sup>Mahendra was the King of Nepal from 1955 to 1972. He staged a coup in 1960 dissolving the elected government and parliament and started his direct rule over Nepal for a decade. During his rule, Mahendra tactfully maintained balanced relations with both China and India and took several positive steps to implement various developmental programs in Nepal.

<sup>69</sup>Lok Raj Baral, "Nepal's Security Policy and South Asian regionalism," *Asian Survey* no. 11 (November 1986): 814.

monarch normalized relations with Tibet and the People's Republic of China and on September 20, 1956 concluded a trade agreement with Beijing.<sup>70</sup> One output of the relationship between Nepal and China was the 1967 completion of a 104-kilometer long highway connecting Kathmandu and Lhasa (Tibet). This provided both a transit route for Nepal to China and a strategic avenue for China to reach the Nepalese-Indian border.<sup>71</sup> In the following years, Nepal continued to expand its ties with China through actions, such as accepting economic assistance from Beijing, which served to balance India's influence within the region.

In the early 1960s, India supported anti-monarchial political activities conducted from both India and Nepal. India ignored repeated requests from Nepal to cease its “anti-king movement” efforts to which compelled the king of Nepal to further “tilt” towards China. King Mahendra held absolute state power and banned political factions, which were attempting to steer Nepal towards Indian influence. Commenting on foreign policy of Nepal at that time, the political scientist Lok Raj Baral observed,

During this era, Nepal's China policy was significant in two important respects: first, it considerably reduced India's political influence in Nepal's domestic and foreign policies; and second, it created awareness in Nepal that it should not go too far in exploiting the difference between China and India because such an expedient policy might backfire if there was a slight error of judgment.<sup>72</sup>

Nepal remained neutral during Indo-China War of 1962 although India wanted Nepal to support New Delhi, at least in spirit. Nepal's decision to remain neutral ensured

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<sup>70</sup>Christian Wagner, “Promotion of Democracy and Foreign Policy in India.”

<sup>71</sup>Lok Raj Baral, “Nepal's Security Policy and South Asian regionalism,” 1210.

<sup>72</sup>Ibid.

it did not enter the conflict against either of its powerful neighbors and King Mahendra even offered to mediate the conflict, although this proposal was declined by India.

In 1975, when King Birendra Bir Bikram Shah Dev<sup>73</sup> proposed that Nepal be recognized internationally as a “zone of peace,” he received support from China and Pakistan.<sup>74</sup> India did not endorse the proposal which New Delhi felt was introduced primarily to undermine India’s security interests in Nepal. As Khaled Ahmed observed,

In New Delhi’s view, if the king’s proposal did not contradict the 1950 Treaty and merely an extension of non-alignment, it was unnecessary; if it was a repudiation of the special relation, it represented a possible threat to India’s security and could not be endorsed.<sup>75</sup>

In fact, Nepal’s actions resulted in decreasing India’s influence demonstrated that New Delhi had the ability to establish ties with other geostrategic allies. The “zone of peace” proposal was immediately endorsed by China, Pakistan and several western countries.

Kathmandu also depends on India for both trade and transit due to Nepal’s landlocked position and mountainous barrier to the north. This vulnerability of Nepal has been historically exploited by New Delhi to support its national objectives within the region. For example in 1989, India conducted an economic blockade in response to Nepal’s alleged violation of the *Peace and Friendship Treaty* of 1950 and other

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<sup>73</sup>Birendra Bir Bikram Shah Dev (1945–2001), the son of King Mahendra, whom he succeeded in 1972, reigned until his death in the 2001 Nepalese royal massacre. He is the most internationally well-known Nepalese king in modern history.

<sup>74</sup>Khaled Ahmed, “South Asia’s Unresolved Disputes,” *South Asian Journal*, no. 7 (January–March 2005), [http://www.southasianmedia.net/Magazine/Journal/7\\_unresolved-disputes.htm](http://www.southasianmedia.net/Magazine/Journal/7_unresolved-disputes.htm) (accessed 16 October 2009).

<sup>75</sup>*Ibid.* In fact, India viewed the “zone of peace” proposal as intended to prevent Indian influence in Nepal and to increase the Chinese and other countries’ presence in the Himalayan countries. This was seen by India as a security threat.

agreements, which included Nepal within India's security zone and precluded arms purchases without India's approval. New Delhi charged that Nepal's initiatives to strengthen ties with China politically and economically and the purchase of Chinese weapons were "an indication of Kathmandu's intent to build a military relationship with Beijing."<sup>76</sup> India feared the possibility of China using Nepalese territory to pose threats to the strategic security of India. Poor relations between the king of Nepal with Indian Prime Ministers Indira Gandhi and Rajiv Gandhi, along with other factors, created suspicions and dislike between the two countries ultimately leading to confrontational diplomatic relations in 1980s.<sup>77</sup> The relationship between the two countries improved in 1990 with the introduction of a new democratic political system in Nepal and a change of government in India.

Between 1996 and 2006, Nepal was engulfed in a military conflict with an active Maoist armed insurgency.<sup>78</sup> The role of India during this period of insurgency in Nepal was mixed as it provided various levels of assistance to the government of Nepal. This support included military hardware and support to Nepalese efforts to defeat the armed-insurgents whose objective was to depose both the monarchy and multi-party democracy. Yet some scholars argue that India provided safe haven for Maoist leaders and allowed

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<sup>76</sup>Ibid.

<sup>77</sup>Krishna V Rajan, "Nepal-India Relations," *South Asian Journal*, no. 7 (January-March 2005), [http://www.southasianmedia.net/Magazine/Journal/7\\_nepal-india\\_relations.htm](http://www.southasianmedia.net/Magazine/Journal/7_nepal-india_relations.htm) (accessed 16 October 2009).

<sup>78</sup>The Communist Party of Nepal (Maoist) carried out armed insurgency from 1996 to 2006 to establish communist regime in Nepal. The armed insurgency ended in 2006 with the acceptance of the Maoists into Nepal's multi-party democratic system. During this period, almost 13,000 people were killed.

for a continuous flow of arms from India to insurgent forces in Nepal. Some Nepalese intellectuals contend that India's hidden strategy was to foster instability in Nepal, ultimately providing room for New Delhi to expand its influence.<sup>79</sup>

The end of the insurgency resulted in the *12 Points Understanding*, an agreement between the seven political parties and the Communist Party of Nepal (Maoist) designed by the Indian establishment to abolish the monarchy, which had been seen often by India as adopting initiatives to limit Indian influence in Nepal.<sup>80</sup> Madhukar Shamser J.B.R. observed that India was concerned that Nepal's king would embrace closer ties with China, Pakistan and the US with the aim of establishing "non-alignment" in its dealings with New Delhi.<sup>81</sup> In 2005, the former king proposed China be admitted as an observer to the SAARC (South Asian Association for Regional Cooperation), a move which India viewed as the monarch's attempt to weaken the Indian roles and influence in the region. Subsequently, India supported the Second People's Movement of 2006, which ultimately paved the way to abolish the monarchy.

More recently, India seems to be abandoning the *traditional approach* in dealing with Nepal and is making efforts to implement the Gujral Doctrine, which is considered by many to be a positive sign for Nepal-India relations. The government of Nepal hopes

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<sup>79</sup>Phanindra Nepal, "Nepal-China Relations through Indian Eyes," 8 April 2010, [http://www.peoplesreview.com.np/index.php?option=com\\_content&view=article&id=3894:nepal](http://www.peoplesreview.com.np/index.php?option=com_content&view=article&id=3894:nepal) (accessed 10 May 2010).

<sup>80</sup>The proposal of King Gyanendra to include China as an observer in the SAARC was viewed negatively by India. India considered this initiative as another Nepali attempt to limit Indian influence while allowing for an increased Chinese role in the region.

<sup>81</sup>Madhukar Shamser J.B.R., "Indo-Nepal Strategic Partnership for Asian Century," August 2007, [www.telegraphnepal.com/news\\_det.php?news\\_id=1746](http://www.telegraphnepal.com/news_det.php?news_id=1746) (accessed 10 September 2009).

that India will gradually become more concerned with strengthening democracy in Nepal, which could ultimately bring peace, prosperity and stability to Kathmandu. The change in the regional and global strategic environment, emergence of new leadership in India, fear of anti-Indian sentiments and New Delhi's desire to become a major power have persuaded India to adopt the *new approach* in its dealings with Nepal. India is still active in Nepal's domestic politics and continues to apply diplomatic pressure to influence Kathmandu's ongoing political transformation. Yet the majority of the people of Himalayan Republic are optimistic that India, as a rising power, will respect the norms, values and sentiments of Nepal in the future.

### The Rise of India

Iftekhar Ahmed Chowdhury commented, "India, on the 'rise', is most blessed in South Asia in terms of size, population, resources and military power."<sup>82</sup> India is in the process achieving economic prosperity and social justice for its people and is willing to play a key role in the global economy. More than one billion Indians with diverse identities are part of the world's largest democracy and India is determined to safeguard itself from both internal and external threats. Over the last two decades, India has improved its global political position in hopes of achieving strategic aspirations to include hegemony over the region, good relations with China (focused on a policy of containment), and an established relationship with the West, particularly with the United

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<sup>82</sup>Iftekhar Ahmed Chowdhury, "Hasina's India Visit," Institute of Peace and Conflict Studies, 8 January 2010, <http://ipcs.org/article/bangladesh/hasinas-india-visit-3039.html> (accessed 2 February 2010).

States. The following paragraphs discuss both the characteristics of and issues surrounding India's rise.

### Political and Diplomatic Influence over South Asia

New Delhi recognizes that a peaceful and prosperous periphery with secure relations protects its national interests in the region. India's Prime Minister M.M. Singh noted that India seeks to live in peace with its neighbors and with the world at large.<sup>83</sup> In that light, India has officially committed to work together with the countries of South Asia on economic progress partnerships, economic and technological capabilities improvements and the development of cross border infrastructure projects in hopes of achieving a stable "periphery" of states. India's Foreign Secretary S. Menon echoed this policy by stating that India should "accord the highest priority to closer political, economic and cultural ties with its neighbors and is committed to building strong and enduring partnerships with all its neighbors."<sup>84</sup> India's expanding economy has facilitated its own efforts to provide help to its neighbors based on non-reciprocity. Additionally, India has taken steps to build positive economic inter-dependencies with the region, which are crucial for integration of neighboring economies, political stability and regional prosperity. New Delhi perceives that its affirmative engagement to promote democracy and economy within the region serves to deter anti-Indian sentiments in these same neighboring countries.

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<sup>83</sup>M.M. Singh, "PM's address at Hindustan Times Leadership Summit."

<sup>84</sup>S. Menon, "The Challenges Ahead for India's Foreign Policy."

India retains significant diplomatic influence over Nepal, particularly in the area of politics. New Delhi's strategic interest in Nepal is to create an atmosphere of positive relations and to persuade Nepalese politicians to limit the influence of other major powers on the domestic affairs of Himalayan republic. As Nihar Nayak observed, "Any foreign presence in Nepal is a concern for India."<sup>85</sup> The previous unwillingness of the Nepalese monarch to accept India's hegemony in the region through diplomatic actions associated with the South Asian Association for Regional Cooperation (SAARC) influenced India to initiate actions that ultimately led to the Nepalese monarchy's downfall.<sup>86</sup> As previously discussed, Nepal support of the inclusion of China in 2005 as a SAARC observer was problematic for India and perceived as an effort to contain Indian influence within the region. As Mana Ranjan Josse observed,

When India maintained it could not accept the proposal that China be associated with SAARC, Nepal's position was that while she did not have any problem accepting Afghanistan's application for membership or that of granting observer status to Japan, she could not accept that if her proposal to grant China association in SAARC was turned down.<sup>87</sup>

India's influence has many additional facets, to include almost four million ethnic Indians who have settled in southern Nepal in recent years. Additionally, political efforts to abolish Nepal's monarchy, the emphasis on the establishment of a federal republic in

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<sup>85</sup>Nihar Nayak, "Nepal: New 'Strategic Partner' of China?" 30 March 2009, [www.idsa.in/idsastrategiccomments/ NepalNewStrategicPartnerofChina\\_NNayak\\_300309](http://www.idsa.in/idsastrategiccomments/NepalNewStrategicPartnerofChina_NNayak_300309) (accessed 9 October 2009).

<sup>86</sup>N.P. Upadhyaya, "Eight Blunders of King Gyanendra," 2 May 2008, [http://telegraphnepal.com/news\\_det.php?news\\_id=3452](http://telegraphnepal.com/news_det.php?news_id=3452) (accessed 20 November 2009).

<sup>87</sup>Mana Ranjan Josse, "China's Winning Observer Status: SAARC," March 2007, [www.telegraphnepal.com/news\\_det.php?news\\_id=425&PHPSESSID](http://www.telegraphnepal.com/news_det.php?news_id=425&PHPSESSID) (accessed 15 October 2009).

Nepal and formation of coalition governments may have been the result of New Delhi's efforts. India has an interest in solving its own Maoist insurgency problems and the peaceful integration of the Nepalese Maoists into the political mainstream offers opportunities for India. India may also go as far as attempting covert influence on Nepalese politics during the current constitution formation process to achieve results acceptable to New Delhi. The government of India recognizes the importance of Nepal's water resources and remains engaged diplomatically in water-related issues to meet its energy demands.

Aside from Nepal, many of India's other neighbors are also in the process of historic domestic political transformations. For example, India signed the *India-Bhutan Friendship Treaty* (2007) to replace the earlier one of 1949 and updating the legal basis of their bilateral relations.<sup>88</sup> Bhutan's future will likely include a constitutional monarchy with guidance from India and cooperative projects with India on its hydropower infrastructure in hopes of generating electricity demanded by India's booming economy.

India views a democratic, stable and prosperous Bangladesh as essential India's own security and stability. Yet in recent years, the relationship between these two countries has been characterized by mistrust and suspicion. This situation dramatically changed with the January 2009 arrival of Bangladesh's new Sheikh Hasina government.<sup>89</sup> Additionally, a more recent visit by Bangladeshi Prime Minister to India in January 2010

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<sup>88</sup>Ibid.

<sup>89</sup>Harun ur Rashid, "Hasina's Visit: Nothing Concrete on Burning Issues," Institute of Peace and Conflict Studies, 18 January 2010, <http://ipcs.org/article/bangladesh/hasinas-visit-nothing-concrete-on-burning-issues-3046.html> (accessed 2 February 2010).

and India's assurance to implement joint communiqué to strengthen economic relation might also contribute to relations that are more positive. New Delhi remains concerned with growing diplomatic and security ties between Bangladesh and China and the possibility of Muslim extremists also using Bangladesh territory as bases for terrorist activities in India.<sup>90</sup> Bangladeshi efforts to eliminate Muslim extremists and militants have led some groups, to include prominent United Liberation Front of Assam (ULFA)<sup>91</sup> leaders in northeast India, to surrender to government security forces. Moreover, New Delhi hopes to counter China's growing influence in Bangladesh through increased diplomatic visits and Indian assurances of support for the Bangladeshi economy.

India is also concerned with the Tamil (LTTE) issues in Sri Lanka despite the recent LTTE rebels' defeat. New Delhi has officially stressed the importance of a negotiated political settlement that is acceptable to all of Sri Lankan society. In fact, the India Foreign Secretary stated, "India will work to enable the people of Sri Lanka, and the Tamil community in particular, to return to normal democratic life and economic reconstruction and development."<sup>92</sup> Despite its reluctance to play an overt role as the paramount power in the region, India continues to monitor the activities by the

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<sup>90</sup>Bruce Vaughn, "Islamist extremism in Bangladesh," 31 January 2007, <http://www.fas.org/sgp/crs/row/RS22591.pdf> (accessed 20 November 2009).

<sup>91</sup>The ULFA is one of the armed insurgent groups fighting in India to liberate the Indian province of Assam from New Delhi. Many of this group's leaders and combatants often seek shelter in neighboring Bangladesh.

<sup>92</sup>S. Menon, "India's Foreign Policy," (IFRI, Paris, 4 February 2009), [http://www.indembassy.be/speeches\\_statements/february/feb04.html](http://www.indembassy.be/speeches_statements/february/feb04.html) (accessed 4 October 2009).

government of Sri Lanka.<sup>93</sup> The government of India was considerably relieved when the Sri Lankan armed forces killed the leader of the LTTE and brought an end to the civil war without the involvement of external military forces.

In Pakistan's case, India is focusing on peaceful diplomatic dialogue, which has contributed to new and positive expectations throughout the entire Indian sub-continent. In October 2009, India's Prime Minister stated, "We sincerely wish to resolve all outstanding issues with our neighbors through dialogue and in the spirit of partnership and friendship that should rightly characterize our relations."<sup>94</sup> Diplomatic entities such as the Composite Dialogue, Joint Commission and Joint Anti-terrorism Mechanism have provided a structured framework within which major issues are discussed.<sup>95</sup> The Indian government's position remains focused on successful peace negotiations that require commitments to stop terrorists' use of Pakistan for activities in India.

India's evolving attitude towards Pakistan has eased tension between these nations as India wants to see a prosperous Pakistan develop as a moderate Islamic state.<sup>96</sup> For example, Pakistan has already taken some important steps to bring the terrorists involved in the Mumbai bombings to justice.<sup>97</sup> For India, this is significant step and

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<sup>93</sup>Satish Nambiar, "India's Strategic Interests," *South Asian Journal*, no. 3 (January-March 2004), <http://www.southasianmedia.net/Magazine/Journal/indiastrategic-interests.htm> (accessed 16 October 2009).

<sup>94</sup>M.M. Singh, "PM's address at Hindustan Times Leadership Summit."

<sup>95</sup>S. Menon, "The Challenges Ahead for India's Foreign Policy."

<sup>96</sup>M.M. Singh, "Interview by Charlie Rose," New Delhi, 27 February 2006, <http://www.charlierose.com/view/interview/522> (accessed 12 September 2009).

<sup>97</sup>On 26 November 2008, terrorists from a Pakistani based extremist group attacked the Taj Hotel in Mumbai, killing more than 125 people. The attackers were

signals Pakistan's efforts to create a new, more secure, environment in the region. India's is persistent in its efforts to move Pakistan away from the influence of Muslim extremism and this type of diplomatic dialogue might eventually allow both nations to solve the historic Jammu-Kashmir issue.

In addition to these types of bilateral relationships, India views the SAARC as a key institution contributing to its goal of building a peaceful and prosperous periphery.<sup>98</sup> This regional organization often integrates multilateral organizations during negotiations and has settled issues on water rights, environmental issues, energy and food security.<sup>99</sup> By working through SAARC, India hopes to retain its status as an influential regional power. India also desires to further influence the region by developing an atmosphere of prosperity in South Asia based on enhanced economic, trade and investment linkages and sustainable social and economic development. For example, the Indian-sponsored South Asia Free Trade Agreement has played a vital role in providing opportunities for states within the region.<sup>100</sup>

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subsequently captured and brought to justice by the government of Pakistan. This move has been welcomed by India contributing for the resumption of stalled peaceful negotiation between the two countries on various issues including the Jammu-Kashmir dispute.

<sup>98</sup>S. Menon, "The Challenges Ahead for India's Foreign Policy."

<sup>99</sup>Ibid.

<sup>100</sup>The South Asia Free Trade Agreement is an arrangement between the SAARC member countries for the establishment of a free trade area in the region and went into effect on January 1, 2006. Under this agreement, SAARC members decreased their trade duties by 20 per cent in 2007. Namita Bhandare, ed., *India: The Next Global Power?* (New Delhi: Lotus Collection), 114.

## Relations with China

Chinese efforts to establish strategic alliances in South Asia are seen by India as a destabilizing factor.<sup>101</sup> As a result, the government of India has attempted to limit China's involvement in regional matters and hopes that positive diplomacy and friendly trade relations will solidify India's role as the lead nation in the region. India and China share a number of similar characteristics: both are among the fastest growing economies in the world; both are the two largest "developing" countries; and both are considered major Asian powers with a recognized capacity to shape the future of the continent.<sup>102</sup> In November 2006, Chinese President Hu Jintao visited India and "strengthened the process of sustained comprehensive development of India-China relations."<sup>103</sup> India's Prime Minister addressed the significance of relations between both giants by commenting, "It is India's belief that there is enough space for both [nations] to grow."<sup>104</sup>

With increasing India-China trade relations, New Delhi also hopes to find a peaceful resolution to ongoing border issues. India hopes that by working with China as a partner, instead of in a competitive or "rival" framework, it can convince China that India is a legitimized rising power capable of leading South Asia. Both nations have realized that they should continue to work together to successfully take advantage of the vast

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<sup>101</sup>R. Hariharan, "Coming to Terms with China's Presence in South Asia," 8 October 2009, <http://www.southasiaanalysis.org/%5Cpaper3447.html> (accessed 12 May 2010).

<sup>102</sup>Kanwal Sibal, "Indian Foreign Policy: Challenges and Prospects," Geneva Forum: 23 January 2003, [www.geneva-forum.org/Reports/20030123.pdf](http://www.geneva-forum.org/Reports/20030123.pdf) (accessed 5 October 2009).

<sup>103</sup>S. Menon, "The Challenges Ahead for India's Foreign Policy."

<sup>104</sup>*Ibid.*

economic opportunities arising within the region. As India's Foreign Secretary observed, China is now India's largest trading partner, and noting the relationship between these two nations stated, "There is increasing congruence in India's views on global issues."<sup>105</sup>

Research showed that India seems to be addressing its foreign and defense policy relationships through multi-lateral approaches and recognition of the effects of globalization rather than a Cold War "balance of power" view of the world. The changing policies of India's leaders and efforts to work together with its neighbors economically and diplomatically support India's growing role within in the region and could ultimately deter China's involvement in South Asia.

#### Improving Relations with Rest of the World

India is eager to consolidate its political, diplomatic and economic ties with the US, European Union, Russia, Japan, Africa, Israel, Australia and other developed states. India's relationship with the United States has seen significant changes over the past few years, and according to S. Menon,

India's relations with the United States have been substantially transformed in the past few years resulting in wide-ranging engagement across many fields including defense and security issues, counterterrorism, science & technology, health, trade, space, energy, agriculture, maritime cooperation and the environment.<sup>106</sup>

The US decision to assist India in civil nuclear energy was a significant milestone in Indo-US relations. The bilateral trade of two countries has grown ten-fold since 1991 and has doubled in last four years. In 2009, Indian exports to the US were USD\$12 billion and the US exports to India were USD\$10 billion and this trade volume is

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<sup>105</sup>S. Menon, "India's Foreign Policy."

<sup>106</sup>S. Menon, "The Challenges Ahead for India's Foreign Policy."

expected to increase in the future.<sup>107</sup> Stable relations with the US are important to India because of the positive effect this relationship has with India's trade relations with the rest of the world, and on the United States' "access to markets, high technology and resources crucial to future economic growth and development."<sup>108</sup> India hopes to eventually advance as a key participant in global political and strategic affairs along with the US and other major powers.

India has succeeded in making the EU, Russia and Japan strategic partners, which represents a significant step for India to achieve its global aspirations. New Delhi has "developed a strong partnership with EU covering a wide range of areas including trade and investment, culture, science and technology."<sup>109</sup> Additionally in September 2008, India signed a historic agreement with France on civil nuclear cooperation, a clear indication of their strategic partnership.<sup>110</sup> Similarly, India signed a nuclear agreement with Russia in December 2009, which paves the way for uninterrupted uranium fuel supplies for India's atomic reactors and allows for the transfer of civilian nuclear technology between these nations.

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<sup>107</sup>Meera Shankar, "India's Relations with the U.S. and Perspectives on Challenges to Stability in South and Central Asia," Brookings Institute, 9 December 2009, [www.indianembassy.org/newsite/press\\_release/2009/Dec/10.asp](http://www.indianembassy.org/newsite/press_release/2009/Dec/10.asp) (accessed 17 January 2010).

<sup>108</sup>S. Menon, "The Challenges Ahead for India's Foreign Policy."

<sup>109</sup>*Ibid.*

<sup>110</sup>*Rediff India Abroad*, "India, France ink landmark nuclear deal," September 2008, <http://www.rediff.com/news/2008/sep/30ndea3.htm> (accessed 13 February 2010).

### The Economic Rise

India has promised its one billion people that their quality of life will improve in tandem with its rapid economic progress. Since 1990, India has emerged as one of the wealthiest economies in the developing world accompanied by increases in life expectancy, literacy rates and improvements to food security.<sup>111</sup> S. Menon noted that as a result of twenty-five years of 6 percent average annual economic growth and foreign policy reforms, “India is today in a position to engage with the world in an unprecedented manner.”<sup>112</sup> New Delhi plans to maintain its current rate of economic growth in the future and expand its economy, which already enjoys strong trade relations with Europe and North America. India’s engagement with the global economy is growing rapidly, with annual trade in goods and services now exceeding US\$330 billion.<sup>113</sup> As M.M. Singh observed, “The integration of the Indian economy with the rest of the world has undoubtedly created new opportunities.”<sup>114</sup>

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<sup>111</sup>Food security exists when individuals within a society have “physical and economic access to sufficient, safe and nutritious food to meet their dietary needs and food preferences for an active and healthy life.” United Nations Food and Agriculture Organization, “Rome Declaration on World Food Security and World Food Summit Plan of Action,” FAO Corporate Document Repository, <http://www.fao.org/docrep/003/w3613e/w3613e00.HTM> (accessed 20 May 2010).

<sup>112</sup>S. Menon, “India’s Foreign Policy.”

<sup>113</sup>*Ibid.*

<sup>114</sup>M.M. Singh, “PM’s address at the inauguration of India Economic Summit,” November 8, 2009, <http://www.pib.nic.in/release/release.asp?relid=53939> (accessed 18 December 2009).

India anticipates its economy will grow at 8.5 percent during fiscal year 2010-2011<sup>115</sup> with the GDP over USD\$1 trillion.<sup>116</sup> As the Prime Minister M.M. Singh disclosed in Indian Economic Summit in 2008 that the domestic savings rate is now as high as 35 percent of the GDP, which is “eminently a feasible target.”<sup>117</sup> The government of India has shown a willingness to share its wealth with the 260 million of its citizens classified as “poor” and generate revenue to decrease its fiscal deficit. Fareed Zakaria commented that over the next 50 years, India would be the fastest-growing of the world's major economies, partially because of a relatively young work force. By 2050, India will be five times the size of Japan's with per capita incomes increasing to 35 times its current level.<sup>118</sup> India's business and financial companies are achieving global economic status with profits expanding at a rate of 20 percent per year. For example, the Tata Group, India's largest business conglomerate, produces a variety of items from cars and steel to software and consulting systems.<sup>119</sup>

Today's India possesses two remarkable assets: trained workers and scientific technology capabilities. India's trained work force is the second largest in the world only after the US, with over 300 million young working-age individuals, a unique “core

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<sup>115</sup>Pranab Mukherjee, “GDP to grow at 8.5% in 2010-2011,” *The Times of India*, 23 March 2010, <http://www.timesofindia.indiatimes.com/biz/india-business/GDP-to-grow-at-85-in-2010-11-says-Pranab/articleshow/5714174.cms> (accessed 10 May 2010).

<sup>116</sup>Central Intelligence Agency, “The World Fact Book,” <http://www.cia.gov/library/public/the-world-factbook/geos/in.html> (accessed 10 December 2009).

<sup>117</sup>*Ibid.*

<sup>118</sup>Fareed Zakaria, “India: Asia's Other Superpower Breaks Out,” March 2006, <http://www.newsweek.com/id/47261> (accessed 15 September 2009).

<sup>119</sup>*Ibid.*

strength” for the nation.<sup>120</sup> Former President of India A.P.J. Abdul Kalam observed that the number of Indians working within the field of information technology (IT) is expected to exceed 2 million by the end of 2010 and it has the potential to develop its own super-computers and nuclear fuel cycle facilities and is already launching their own satellites in orbit.<sup>121</sup>

By 2010, the IT sector is expected to contribute USD\$17 billion annually to the national economy. India is obtaining new scientific technology from the most advanced countries and developing its own new expertise, which benefits India’s economy and agriculture sectors. India has now reached self-sufficiency in food and produces 200 million tons of food annually, and plans to realize production of at least 360 million tons of food grains annually within the next two decades.<sup>122</sup> New Delhi also continues to make progress in other scientific sectors such as biotechnology, biogenetics and pharmaceuticals. Finally, India has begun to lead developing countries in international forums, such as the World Trade Organization, by raising the issues related to developing member states and has made progress in addressing the issues of unfair international agricultural trade practices in that forum.

#### Advanced Strategic Industries and Technologies

Over the past two decades, India has progressed tremendously in areas of progress, which affect India’s overall strategic capabilities. India’s achievements in these

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<sup>120</sup>A.P.J. Abdul Kalam and A Sivasthanu Pillai, *Envisioning an Empowered Nation* (New Delhi: Tata McGraw-Hill Publishing Company Ltd, 2004), 187.

<sup>121</sup>Ibid.

<sup>122</sup>Ibid., 52.

sectors include space technology development and missions (such as India's Geosynchronous Satellite Launch Vehicle), strategic and cruise missiles, aeronautical systems (to include the Tejas light combat aircraft), the Intermediate Jet Trainer (IJT), and the Advanced Light Helicopter.<sup>123</sup> India's Defense Research and Development Organization also undertook major programs during the last decade such as the production of Arjun main battle tank, the Prithivi, Agni and BrahMos missiles, the Lakshya pilot-less target aircraft and many others.<sup>124</sup>

This progress in the strategic sector has contributed to significant collateral benefits for India's economic and military sectors. Over the past two decades, these developments have played key roles in improving education and healthcare, agriculture and agro-food processing, information technology, infrastructure and industries, which have assisted in strengthening the economy and the country's overall security. India hopes to grow its GDP by 8 percent annually and, with the induction of significant technologies in major sectors, it aims to eliminate poverty. The Indian government's crucial "five areas of development" (information and communication technology, education and healthcare, infrastructure including energy, agriculture and agro-food processing and strategic industries) are closely interlinked and improving these areas will ultimately lead to national food, economic, and strategic security.<sup>125</sup>

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<sup>123</sup>A.P.J. Abdul Kalam and A Sivasthanu Pillai, *Envisioning an Empowered Nation*, 22.

<sup>124</sup>*Ibid.*

<sup>125</sup>*Ibid.*, 23.

### Military Power

India's military establishment is the second facet of New Delhi's rise as a regional and global power.<sup>126</sup> As the world's fourth largest military power, India is adopting strategic measures and military preparedness to secure its regional and global interests and national security requirements. India believes that a reliable military capability should contain versatile conventional and nuclear weapons, which should be able to deter all threats expected to emerge within the region. The security think tank Satish Nambiar observed that India's military capabilities should permit it to conduct both defensive and offensive warfare.<sup>127</sup> India has given priority to missiles and other unmanned air vehicles used for both military combat and psychological operations and has taken several initiatives to transition its defensive and reactive security measures to offensive and proactive capabilities. As Prime Minister Singh commented, "The government of India is fully committed to the modernization of Armed Forces and ensuring their military superiority and technological edge."<sup>128</sup> To this end, and to project a credible military capability, a number of measures have been instituted or are under consideration.

The first relates to the command and control of joint military operations within the armed forces and India's creation of the Headquarters Integrated Defense Staff.<sup>129</sup>

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<sup>126</sup>Yevgeny Bendersky, "India: A Rising Power," [http://www.atimes.com/atimes/South\\_Asia/FH21Df04.html](http://www.atimes.com/atimes/South_Asia/FH21Df04.html) (accessed 12 October 2009).

<sup>127</sup>Satish Nambiar, "India's Strategic Interests."

<sup>128</sup>M.M. Singh, "PM Address at Combined Commander's Conference," 20 October 2009, <http://pmindia.nic.in/speech/content4print.asp?id=831> (accessed 18 December 2009).

<sup>129</sup>Nambiar, "India's Strategic Interests."

Additionally, maritime security requirements, particularly in the India Ocean, required the establishment of a tri-service regional headquarters in the Andaman and Nicobar Islands constituting a major step forward in the enhancement of India's maritime capability.<sup>130</sup> Additionally, India has established its “Strategic Command” to manage and control its nuclear assets and capabilities. The government of India is also in the process of developing or procuring high-tech strategic weapons and equipment such as early warning and control systems, conventional and nuclear missiles and credible electronic warfare. For example, the Indian Air Force recently purchased three Airborne Warning and Control System (AWACS) from Israel.<sup>131</sup> This system can detect aircraft more than 250 miles beyond the horizon - and well out of range of surface to air missiles. Yevgeny Bendersky observed, “India’s air power not only includes twice as many aircraft as Pakistan's, but also is qualitatively better than the much-bigger Chinese air force.”<sup>132</sup> India’s leaders have recognized the necessity of strategic airlift capability to enhance the efficiency and capabilities of India’s armed forces to react to crisis incidents such as terrorism. New Delhi government has already taken several steps to acquire these types of systems, as Harun Ur Rashid observes, “India is buying armaments that major powers like the United States use to operate far from home: aircraft carriers, giant C-130J transport planes and airborne refueling tankers.”<sup>133</sup> Moreover, these types of qualitative

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<sup>130</sup>Ibid.

<sup>131</sup>“AWACS will Enhance India's Military Power Tremendously,” 2 September 2009, [expertscolumn.com/.../awacs-will-enhance-indias-military-power-tremendously](http://expertscolumn.com/.../awacs-will-enhance-indias-military-power-tremendously) (accessed 9 November 2009).

<sup>132</sup>Yevgeny Bendersky, “India: A Rising Power.”

improvements in military capabilities would identify India as more militarily capable, visible and aggressive.

India is also engaged in joint weapons production ventures with other countries, often with the goal of international arms sales. In cooperation with Russia, India has developed the BrahMos, a supersonic cruise missile that travels three times faster than the US subsonic Tomahawk cruise missile. Brazil, Chile and South Africa have shown interest in the shore- and ship-based version of the missile.<sup>134</sup> Aside from generating revenue, these efforts could also serve to facilitate strategic security partnerships with other countries.

### Energy Acquisition

Jaswant Singh, India's former foreign minister observed, "Energy is security; deficiencies in this critical strategic sector compromise national security."<sup>135</sup> However, the India relies heavily on external sources of oil to meet its energy requirements and maintain its booming economy.<sup>136</sup> India imports 70 percent of its crude oil and its demand for oil is likely to increase by 6 percent per annum if its economic growth continues to increase by 8 percent each year. Moreover, India's proven reserves of

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<sup>133</sup>Harun Ur Rashid, "India's growing military power," 1 November 2008, [www.thedailystar.net/pf\\_story.php?nid=61246](http://www.thedailystar.net/pf_story.php?nid=61246) (accessed 6 September 2009).

<sup>134</sup>"Second phase of BrahMos missile programme to be launched Feb 10," 31 January 2009, [http://www.thaindian.com/newsportal/india-news/second-phase-of-brahmos-missile-programme-to-be-launched-feb-10\\_100149520.html](http://www.thaindian.com/newsportal/india-news/second-phase-of-brahmos-missile-programme-to-be-launched-feb-10_100149520.html) (accessed 9 November 2009).

<sup>135</sup>Jaswant Singh, *Defending India*, 278.

<sup>136</sup>Nambiar, "India's Strategic Interests."

hydrocarbons are very small, accounting for less than 0.6 percent of the global reserves, as shown in Table 1. Considering these challenges in energy security, Indian planners have considered a number of measures that India could pursue to meet its energy requirements.

Table 1. Proven Energy Reserves

| Hydrocarbons | Unit | India | World         | India percent |
|--------------|------|-------|---------------|---------------|
| Coal         | bmt  | 64.9  | 1,078.1       | 6             |
| Oil          | bbb  | 5.87  | 1,000.9       | 0.59          |
| Natural Gas  | tem  | 0.735 | 124.0         | 0.59          |
| Hydropower   | mw   | 94000 | not available | -             |

Source: Jaswant Singh, *Defending India* (Bangalore: Macmillan India, 1999), 279.

India perceives the Persian Gulf region as critical for Indian energy security and continuous secured access to the area's oil markets of the Gulf and secure sea lanes are vital for long-term Indian economic growth. In addition to efforts to establish relationships with the Gulf states, India is in the process of establishing strategic relations with the countries of Central Asia, which also possess abundant oil reserves. As Satish Nambiar observed, "India intends to exploit its own oil resources to the extent feasible, but more importantly, to reduce its dependence on fossil fuels, and exploit other abundant renewable sources of energy."<sup>137</sup> Another energy alternative, exploiting the abundant

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<sup>137</sup>Satish Nambiar, "India's Strategic Interests."

Himalayan water resources for power remains an option and India continues to pursue efforts to acquire hydropower from both Nepal and Bhutan.<sup>138</sup>

New Delhi's recent agreements with the US, Russia and France for civilian nuclear cooperation represent new opportunities for nuclear power in India. New Delhi's current efforts to build a 200 GW nuclear power reactor, if successful, would be an unprecedented achievement and supports India's overall energy security objectives.<sup>139</sup> Additionally, India has the largest reserves of thorium<sup>140</sup> in the world and has the potential to develop thorium-based thermal and fast-breeding technology in the near term. In addition, renewable energy technologies can play a very important role in reducing India's dependence on imported fossil fuels. For example, India has the potential of generating 48,561 MW from wind power, 14,291 MW from hydropower, 19,500 MW from biomass and 3,836 MW from urban and industrial wastes. Power generation systems based on renewable energy to produce 5,000 MW have already been installed.<sup>141</sup>

### The Changing Paradigms of India's Regional Relationships

India's leaders have made gradual policy changes in recent years due to the new regional political environment, which emerged in the 1990s. India's 1991 policy changes

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<sup>138</sup>Vladislav Vucetic and Venkataraman Krishnaswamy, "How can South Asia Promote Energy Trade," <http://siteresources.worldbank.org/SOUTHASIAEXT/Resources/223546-1171488994713/3455847-117509> (accessed 10 November 2009).

<sup>139</sup>Namita Bhandare, ed., *India: The Next Global Power*, 116.

<sup>140</sup>Thorium is a naturally occurring metal that can be used in nuclear reactors, similar to uranium.

<sup>141</sup>Central Statistical Organization, Government of India, "Energy Statistics 2008," [http://mospi.nic.in/es08\\_main.htm](http://mospi.nic.in/es08_main.htm) (accessed 10 November 2009).

in economic liberalization demonstrated a “marked shift in their traditional foreign policy behavior.”<sup>142</sup> Since that time, India has pursued much more active engagement with its neighbors, demonstrated by actions such as successive government efforts to improve relations with Pakistan, or the border related confidence building measures with China, free trade agreements with neighbors (which began with Sri Lanka in 1998), and the Ganges Waters Treaty with Bangladesh.<sup>143</sup>

India has been steadily changing its foreign policy in order to promote a peaceful, stable and prosperous regional environment that supports New Delhi’s efforts to protect its national interests. India is steadily abandoning its *traditional approach* to foreign relations, which has previously been characterized by intervention and is now adopting a more accommodative approach based on non-reciprocity and non-interference. Several factors compelled India to change its policy towards its neighbors as described below.

#### Emergence of New Leaders

Beginning in the 1990s, Indian leaders envisioned a new role for India based on the changed political environment of South Asia. Focused on spurring India to evolve into a peaceful and prosperous regional and global power, New Delhi recognizes that a peaceful and prosperous periphery would preserve the national interests of India. This

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<sup>142</sup>Rajan Bhattarai, “The Concept of Human Security and Changing Security Dynamics in Nepal,” in *Changing Security Dynamics in Nepal*, ed. Rajan Bhattarai and Rosy Cave (Kathmandu: Nepal Institute for Policies Studies, 2009), 30.

<sup>143</sup>S. Menon, “India’s Foreign Policy” (Lecture, Delhi University, New Delhi: 19 January 2009), <http://www.du.ac.in/du/Indias%20Foreign%20Policy.pdf> (accessed 12 November 2009).

new vision and attitude of India's contemporary leaders could potentially bring positive changes to the political and economical life of the region for countries such as Nepal.

The architect of India's economic success, its current Prime Minister Manamohan Singh, has repeatedly stressed the significance of progress and stability of neighboring countries to achieve India national goals.<sup>144</sup> Between 1996 and 1998, Former Prime Minister I. K. Gujral, enacted policies regarding foreign relations to be later know as the "Gujral Doctrine" which were principally based on the concept of non-reciprocity – now "India was willing to make greater concessions to the neighboring states in the case of bilateral conflicts."<sup>145</sup> The Gujral Doctrine replaced a previous policy (the Indira Doctrine) which focused on both military strength and an interventionist foreign policy.<sup>146</sup> Many of India's intellectuals, diplomats and scholars also support a foreign policy based on the Gujral Doctrine<sup>147</sup>. For example, former Indian ambassador to Nepal has publically stated that he believes that the 1950 *Peace and Friendship Treaty* does not promote continued friendly relations between Nepal and India.<sup>148</sup>

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<sup>144</sup>The Times of India, "India's fate linked with that of its neighbors: PM," 31 October 2009, <http://timesofindia.indiatimes.com/india/Indias-fate-linked-with-that-of-its-neighbors-PM/articleshow/5181670.cms> (accessed 10 November 2009).

<sup>145</sup>Christian Wagner, "Promotion of Democracy and Foreign Policy in India."

<sup>146</sup>Ibid.

<sup>147</sup> Ravi Sundaralingam, "In pursuit of the Gujral Doctrine – Amid the Militarised, Unconstitutional neighborhood," 26 November 2007, <http://www.southasiaanalysis.org/%5Cpapers25%5Cpaper2478.html> (accessed 10 November 2009).

<sup>148</sup>K.V. Rajan, "Emerging Situation in Nepal and Implications for India," in India – Seminar Report, 2 October 2008, [www.ipcs.org/seminar/india/emerging-situation-in-nepal-and-implications-for-india-618.html](http://www.ipcs.org/seminar/india/emerging-situation-in-nepal-and-implications-for-india-618.html) (accessed 13 October 2009).

### Threat of Anti-Indian Sentiments

New Delhi remains concerned about anti-India sentiments within the region because of its history of “hegemonic”-style intervention. Incidents such as India’s forced involvement in Sri Lanka’s Tamil conflict, interference into the domestic politics of Nepal and Bangladesh, and conflict with Pakistan has immensely contributed to create an anti-Indian atmosphere. India is threatened by extremist groups with anti-Indian elements and radical religious ideologies, which pose a threat to its national security. Fear of such sentiments in region has steadily persuaded India to abandon its *traditional policy* towards smaller states like Nepal and, as Padmaja Murthy noted, “India needs to understand the wishes of the people of Nepal and tailor its policy accordingly.”<sup>149</sup>

### Growing Chinese Influence

India seeks to prevent other powers in South Asia, especially China, from becoming influential within the region. India envisions its efforts to boost neighboring state economies and strengthen emerging democratic forces could help prevent China’s own rise in South Asian affairs. Referring India’s growing concerns, Oliver Housden comments, “China’s growing influence in Nepal has become an important consideration for India which see these efforts as undermining its strategic security goals for the region.”<sup>150</sup> To improve relations, India’s government has now officially agreed to review the *Peace and Friendship Treaty* 1950 and has recently concluded agreements to allow

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<sup>149</sup>Padmaja Murthy, “Time to reassess Indo-Nepal relations,” September 2009, <http://www.ipcs.org/article/south-asia/time-to-reassess-indo-nepal-relations-2965.html> (accessed 24 November 2009).

<sup>150</sup>Oliver Housden, “A new dawn in India-Nepal relations? Prachanda’s visit to India.”

Nepalese commodities to enter into India without tariff due to a trade treaty that was revised in 2009.<sup>151</sup> New Delhi's endeavors to control Chinese influence in South Asia through improved relations with small states such as Nepal remain vital to prevent nations such as Nepal from "slipping into China's hands" completely.<sup>152</sup> Alternatively, Housden observed that India should assume that Nepal would be always under its influence and should be ready to adjust its relations in accordance changes in the environment.<sup>153</sup>

### India's Efforts to Become a Major Power

India's strategic aspiration by 2020 is to achieve "major power" status. New Delhi is eager to play an influential role in support of political and socio-economic progress in South Asia. Yet India's own poverty, instability, insecurity and violence on its periphery could be the basis for the international community to question New Delhi's ability to lead the region, which may delegitimize its efforts to become a major power. As C. Raja Mohan observed, India has acknowledged "a growing recognition in India that New Delhi's aspirations for a global political role would remain unrealized so long as it was mired in intractable regional conflict."<sup>154</sup> New Delhi seems to be concerned that failure to

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<sup>151</sup>Nepal and India signed a revised trade treaty in last year (the 2009 India-Nepal Treaty of Trade and Agreement of Cooperation to Control Unauthorized Trade). The new treaty includes a number of measures which benefit both Nepal and India and increase the potential for overall trade between these two states.

<sup>152</sup>Oliver Housden, "A new dawn in India-Nepal relations? Prachanda's visit to India."

<sup>153</sup>Ibid.

<sup>154</sup>Raja Mohan, *Crossing the Rubicon*, 242.

lead the region to peace and prosperity would impede its efforts to achieve major power status. Therefore, India is wholly concerned with the overall economic and political progress of South Asia.

### Effects on Nepal's Political System

Nepal has a history of social, cultural and economic ties to India. Its future remains intertwined with the strategic and economic progress of New Delhi and it will be significantly affected by India's rise. Historically, India's government has played an active diplomatic role to influence the domestic politics of Nepal since Kathmandu achieved independence in 1947. As Arun Sahgal observed, India's constructive engagement with the Nepali government is essential.<sup>155</sup> Yet, New Delhi's roles and activities in Nepal have received mixed responses of both welcome and protest. India's actions, especially after 1991, have been gradually shifting towards a policy of political sensitivity towards Kathmandu and New Delhi's current leaders have been working to foster a more mature democratic system that includes a stable and peaceful Nepal. The following paragraphs discuss some of these major political effects, which Nepal may experience due to India's future rise.

#### Strengthened Democratic System

The Indian government acknowledges that the existence of democratic governments on its immediate periphery helps protect New Delhi's national interests. India's current leaders believe that democratic systems in South Asia would bring

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<sup>155</sup> Arun Sahgal, "Emerging Situation in Nepal and Implications for India," October 2008, <http://www.ipcs.org/article/nepal/emerging-situation-in-nepal-and-implications-for-india-2694.html> (accessed 7 December 2009).

stability, prosperity and security to India. Moreover, India's improved relations with Western democracies, particularly with the United States after 1990s, have compelled it to be more committed to the promotion of South Asian democracy. As India's Prime Minister announced, "India wishes to see democracy take deep roots in all these countries so that the people of South Asia are truly empowered to take their destiny into their own hands."<sup>156</sup>

India is moving beyond its "Cold War" mentality<sup>157</sup> in foreign relations and understands the implications and risks of its *traditional approach* towards diplomacy. India has recognized that support to democratic governments could eventually safeguard India's influence in South Asia and New Delhi is now receiving global support for efforts to strengthen democratic forces and peaceful political processes. As India's Prime Minister Singh observed, "in both Nepal and Sri Lanka, the US has supported India's approach in strengthening peace and stability by supporting democratic forces, constitutional forces and political dialogue."<sup>158</sup> India's efforts to assist Bhutan's gradual change towards a democracy are another example of how India is assisting its neighbors to establish and mature democratic systems.<sup>159</sup>

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<sup>156</sup>M.M. Singh, "PM's address at Hindustan Times Leadership Summit."

<sup>157</sup>During the Cold War era, India's foreign policy was guided by Indo-Soviet relations and strained relations with the West. With neighboring countries, India followed its *traditional approach* and focused on its national interests neglecting efforts to foster prosperity, stability and democracy in the region.

<sup>158</sup>M.M. Singh, "India and the U.S.: Towards a New Partnership," September 2004, [http:// www.indianembassy.org/pic/pm/pm\\_cfr\\_sep\\_24\\_04.htm](http://www.indianembassy.org/pic/pm/pm_cfr_sep_24_04.htm) (accessed 18 December 2009).

<sup>159</sup>Bhutan, like Nepal, is a small Himalayan country also residing between India and China and is transforming from absolute monarchy to constitutional monarchy.

India recognizes that much of its strategic security depends on a stable and democratic Nepal. In 1960 for example, India opposed the dissolution of the first-ever elected parliament and the establishment of the Panchayati regime by late King Mahendra.<sup>160</sup> Additionally, when the Nepalese King declared a state of emergency in 2005, India imposed a series of sanctions to support the democratic forces to end the king's regime.<sup>161</sup> India played a positive role in persuading political factions to include Nepal's Seven Parties Alliance and the CPN (Maoists)<sup>162</sup> to sign the *12 Points Understanding* bringing both parties into a unified democratic government and ending Nepal's decade-long insurgency. India also applied diplomatic pressure to Nepal's government to hold constituent assembly elections in 2008. At the same time, India supported Nepal's efforts to enact a new constitution by May 2010. India has also been playing a significant role in attempts bring the CPN into Nepal's political mainstream of Nepal, an effort which could help mature Kathmandu's democratic institutions.

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Bhutan's rulers presented a new constitution in 2005 and parliamentary elections were held in both December 2007 and March 2008, signaling the acceptance of democracy. Historically, India has been influential in Bhutan's foreign and defense affairs. *New World Encyclopedia*, "Bhutan," <http://www.newworldencyclopedia.org/entry/Bhutan>, (accessed 21 May 2010).

<sup>160</sup>Gopal Siwakoti 'Chintan', "Nepal: Under big neighbor's shadow," *South Asian Journal*, no. 1 (August-September 2003), [http://www.southasianmedia.net/Magazine/Journal/1\\_nepal-neighborssshadow.htm](http://www.southasianmedia.net/Magazine/Journal/1_nepal-neighborssshadow.htm) (accessed 16 October 2009).

<sup>161</sup>Christian Wagner, "Promotion of Democracy and Foreign Policy in India."

<sup>162</sup>The Communist Party of Nepal is an active political party in Nepal with roots in Maoist ideology. This group carried out an armed insurgency in the Nepal from 1996 to 2006 and eventually joined the mainstream political process after peace was established in 2006. At this time, Nepal's monarch was forced to relinquish state power to Nepal's political parties.

In Nepal's 2008 elections, Maoists attained the highest number of seats in the Constituent Assembly and India applauded this event, which seemed to follow democratic norms and values. India also assumed that Nepal's Maoist-led government would make efforts to achieve a national consensus among Nepal's major political parties to complete the peace process and political transformation. However, the Maoists soon began efforts to marginalize the other political parties, a move which was seen by India and other nations as the CPN's attempt to establish another autocratic government. India's diplomatic efforts were instrumental in preventing the Maoists from dismantling the Nepal's fragile democratic mechanisms favor of an authoritative communist regime.<sup>163</sup> Additionally, India supports other institutions within Nepal seen as important to maintaining stability and democracy, such as the role of the Nepalese Army, which plays an important role "in order to provide a counter-balance to the Maoists' power."<sup>164</sup>

While India supports integration of former Maoist combatants into the Nepalese Army, it *does not* agree that it should be conducted per the Maoist's strategy (mass integration without regards to levels of training or professionalism).<sup>165</sup> In fact, India has suggested that the integration should be undertaken with broader consensus among the major political parties emphasizing social and economic integration rather than military

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<sup>163</sup>The Indian ambassador in Kathmandu was very active in dealing with the Maoist-led government and conveyed India's concerns on CPN efforts to reform the media, judiciary and administrative system based on communist political philosophy. On several occasions, the ambassador cautioned the CPN not undermine the stability and democracy of Nepal and this served to dampen the Maoists efforts at reform.

<sup>164</sup>Oliver Housden, "Nepal on Brink Again," May 2009, [www.ipcs.org/article/nepal/nepal-on-brink-again-2869.html](http://www.ipcs.org/article/nepal/nepal-on-brink-again-2869.html) (accessed 12 October 2009).

<sup>165</sup>Ibid.

integration. India views the incorporation of politically indoctrinated Maoist ex-combatants into the Nepalese Army could put the apolitical nature of that institution in peril.<sup>166</sup> Finally, India contends that the Maoist integration might result in the use of the Nepalese Army in attempts to fulfill their authoritative political agenda.

In regards to Nepal's efforts as an emerging democracy, India seems to be committed to help Nepal complete its political transformation into a republic with a new constitution and federal system. New Delhi has been advocating consensus among the political parties to complete the peace process and mobilizing its diplomatic resources relentlessly to establish consensus among key stakeholders. Recent visits by Indian Foreign Minister S. M. Krishna and Foreign Secretary Nirupa Roy have focused on bringing Nepal's political parties together to strengthen the democratic process and to prevent the Maoists from derailing the peace process.

Therefore, India will remain active in Nepal to safeguard Kathmandu's fledgling democratic system. New Delhi firmly believes that a stable Nepalese democratic government would bring stability, peace and prosperity locally and ultimately preserve the interests of India. Nevertheless, any excessive diplomatic involvement in Nepal political activities could be seen as overt interference and might serve to impede India's efforts and goals in the region.

### Stability

Democracy and stability are essential requirements for Nepal's own peace and prosperity and a vital security requirement for both of its neighbors, India and China.

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<sup>166</sup>Ibid.

Stability in Nepal requires an established political and economic system, which would provide greater opportunity for the Nepalese to continue transforming their nation. Any Indian efforts to hinder the functioning processes of Nepal's political and economic institutions might cause instability, jeopardizing the overall security of Nepal. In Nepal's case, frequent political changes by rival parties in efforts gain more power could cause instability. This could potentially interfere with the regular functions of the Kathmandu government and cause detrimental effects on the political, economical and social functions of Nepal, leading to conflict. For example, the period after 1990 (when Nepal initially attempted a multi-party democracy) was an unstable political period characterized by elements anarchy, uncertainty and confusion in national politics, ultimately facilitating the rise of the Maoist armed insurgency.

As Arun Sahgal noted, "Nepal should be politically stable and maintain strong political, economic and social ties with India."<sup>167</sup> Within the region, both India and China believe that instability in Nepal would provide opportunities for anti-Indian or anti-Chinese factions to carry out their activities within Nepal. New Delhi is also concerned that Muslim fundamentalists from Pakistan might use Nepal as a safe haven to carry out terrorists attacks within India. A historic precedent for this exists as demonstrated by the 1999 hijacking of Indian Airlines flight IC 814 (immediately after takeoff from Kathmandu) by the Harkat-ul-Mujahideen, a Pakistani-based radical Muslim group. This and similar incidents related to Muslim extremists' use of Nepalese territory continues to concern its neighbors. The open border between India and Nepal remains an issue of

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<sup>167</sup> Arun Sahgal, "Nepal: Continuing Imbroglio," 2006, [http://www.idsa.in/strategicanalysis/NepalTheContinuingImbroglio\\_asahgal\\_0106](http://www.idsa.in/strategicanalysis/NepalTheContinuingImbroglio_asahgal_0106) (accessed 7 December 2009).

concern as it potentially provides an unguarded doorway for terrorist groups to use Nepal to enter India to conduct attacks.

Thus, Kathmandu looks to India to mobilize its abundant diplomatic, political and economic resources to bring stability in Nepal. India does seem to be supporting political parties committed to processes based on democracy, freedom of speech, human rights and rule of law. For example, India strongly opposed the Maoist's unilateral move to sack the Nepalese Chief of the Army Staff General Rukmangad Katawal in May 2009 without the consensus of other political parties, believing that action would bring instability to the political process. In this case, the Indian government concluded that the Maoists' efforts to remove General Katawal were a scheme to destabilize the one of Nepal's the most stable institutions (the military) which supports Kathmandu's ongoing democratic transition.<sup>168</sup>

Despite the positive aspects of India's engagement with Nepal, New Delhi's historic involvement in the political activities of Nepal has also caused political instability. Among India's new leaders, intellectuals, diplomats and scholars there is a consensus that the *traditional approach* in dealing with the neighbors (interference) provides no advantages in the current regional and global environment. As a result, India's government policy has been refocused on efforts to safeguard democracy and foster stability.

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<sup>168</sup>Nihar Nayak, "Nepal: Precarious Peace Process," <http://www.idsa.in/.../stratcomments/NiharNayak/40509.htm> (accessed 7 December 2009).

## Security

Security in Nepal is essential to strengthen Nepal-India relations and New Delhi recognizes that its absence would pose a critical threat to India. Padmaja Murthy observed that India needs to reassess its relations with Nepal “with whom its security is closely linked.”<sup>169</sup>

The open border between the two countries remains an issue, as there are many armed groups in the Terai (the southern part of Nepal)<sup>170</sup> and is rife with criminal activities. Additionally, armed groups in eastern Nepal have also been observed, serving to undermine the security of the region. Increases in criminal and terrorist activity were observed in these areas immediately after the Maoists agreed to join the peace process. This trend has deteriorated the security situation of the region and provided greater spaces for unwanted groups to conduct criminal and terrorist actions.

Instability in Nepal unquestionably affects India. As Ashok Mehta observed, “any internal strife in Nepal is likely to have spill-over effect in India.”<sup>171</sup> India is wary of the tremendous possibilities that insecurity and lack of law and order in Nepal could help anti-Indian elements thrive within Nepal. Criminal activities that affect both New Delhi

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<sup>169</sup>Padmaja Murthy, “Time to Reassess Indo-Nepal relations.”

<sup>170</sup>The Terai region is the southern part of Nepal, which shares border with India. Nepal has to depend heavily on India for imports and exports, which transit through the plains of Terai to Kathmandu and other areas in Nepal.

<sup>171</sup>Ashok Mehta, “Book Discussion – Armed Conflicts in South Asia 2009,” January 2010, <http://www.ipcs.org/event-details/book-discussion-armed-conflicts-in-south-asia-2009-819.html> (accessed 29 January 2010).

and Kathmandu are evidenced by events such as the counterfeiting of Indian currency in Nepal, recently discovered by Nepalese government security personnel.<sup>172</sup>

Many of the armed groups active in the Terai are believed to be connected with Indian political parties and religious organizations. Potentially, the Indian government could mobilize diplomatic resources to support bringing these armed groups into the political dialogue in Nepal. Additionally, India could play a significant role in the negotiation to end the Terai conflict<sup>173</sup> peacefully fulfilling their political and legitimized demands. Both India and Nepal have are concerned with the open border and are committed to finding a solution to regulate the border areas. Additionally, New Delhi has committed to support the government of Nepal in efforts to train and upgrade the professionalism of the Nepalese police forces to control the criminal activities in the Terai region. Additionally, the intelligence agencies of both the countries are working together to share information in attempts to interdict these types of activities.<sup>174</sup>

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<sup>172</sup>The Himalayan Times, “Millions in counterfeit seized in a year,” 3 May 2010, <http://www.thehimalayetimes.com/fullNews.php?headline=Millions+seized+in+a+year&NewsID=242519> (accessed 15 May 2010).

<sup>173</sup>After the end of the Maoists armed insurgency, many armed groups (more than 30,) emerged in the Terai region with conflicting political, administrative, and social demands. Many within this group have become involved in criminal activities not related to political objectives. Many of the people involved in the Terai conflict are ethnic Indians with connections to political and social groups in India.

<sup>174</sup>Subhash Kapila, “European Union - India Strategic Partnership Reviewed,” *South Asia Analysis Group*: 7 April 2008, [www.southasiaanalysis.org/%5Cpapers27%5Cpaper2661.html](http://www.southasiaanalysis.org/%5Cpapers27%5Cpaper2661.html) (accessed 10 January 2010).

### Effects on Nepal's Economic Activities

India is not only concerned with its own economy but also eager to improve the economy of the entire South Asia region. India's Prime Minister commented that he would like to assist the countries within South Asia to "develop and wipe out poverty and overcome burden of history and we would like to work with them to achieve these goals."<sup>175</sup> There are clear indications that India's neighbors are benefitting from New Delhi's booming economy. For example, Bhutan was one of the least developed countries in the region just a decade ago. Now Bhutan is now exporting a vast amount of electricity to India, providing a significant economic boost to that landlocked Himalayan kingdom. In Sri Lanka, India has emerged as the fourth largest investor and in 2005, bilateral trade between these two states reached US\$2.025 billion.<sup>176</sup> As Christian Wagner commented, "From now on, economic issues, rather than the security considerations that had characterized the relations between the neighboring states in Indira Gandhi's time, were to be the determining factor in bilateral relations."<sup>177</sup>

Nepal could also benefit from India's developmental efforts through the integration of these two economies through mechanisms such as a free trade arrangement. Nepal has the potential to export goods to the 362 million customers living in India's states along the Nepalese border. Additionally, as A.K. Chaturvedi observed, "Nepal has

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<sup>175</sup>M.M. Singh, "PM's address at Hindustan Times Leadership Summit."

<sup>176</sup>Hari Bansh Jha, "Better Opportunities Lie with India than China," December 2009, [www. myrepublica.com/portal/index.php?action=news\\_details&news\\_id=12811](http://www.myrepublica.com/portal/index.php?action=news_details&news_id=12811) (accessed 15 January 2009).

<sup>177</sup>Christian Wagner, "Promotion of Democracy and Foreign Policy in India."

an enormous hydro-electric capacity and that it is an attractive tourist destination because of its physical geography means that it is a huge source of potential investment.”<sup>178</sup>

### Development in Hydroelectricity

Nepal is abundant with water resources and has the second largest (after Brazil) capability to potentially produce hydroelectric power with “83,000 MW in total, out of which 42,000 MW is financially and technically feasible.”<sup>179</sup> Nepal also has more than 6,000 rivers and rivulets with an overall annual run of 225 billion cubic meters of water.<sup>180</sup> As Rakesh Tiwari observes, “Major rivers of Nepal such as the Mahakali, Karnali, Sapta Gandaki and Sapta Koshi originate from Trans-Himalayan region, cross Nepal and flow southwards to join the Ganges in India.”<sup>181</sup>

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<sup>178</sup>A.K. Chaturvedi, “Emerging Situation in Nepal and Implications for India,” October 2008, <http://ipcs.org/seminar/india/emerging-situation-in-nepal-and-implications-for-india-618.htm> (accessed 7 December 2009).

<sup>179</sup>B. H. Nepal, “Managing Nepalese Waters,” *South Asian Journal*, no. 8 (April-June 2005), [www.southasianmedia.net/Magazine/Journal/8\\_nepalese\\_water.htm](http://www.southasianmedia.net/Magazine/Journal/8_nepalese_water.htm) (accessed 16 October 2009).

<sup>180</sup>Anil Keshary Shah, “Banker’s Prospectives on Hydropower Development in Nepal: Problems and Prospects,” <http://www.nepjol-info/index.php/HN/article/ViewFile?1153/1168> (accessed 18 January 2010).

<sup>181</sup>Rakesh Tiwari, “Indo-Nepal Water Resource Negotiation: Deepening Divide over Border Project,” *South Asian Journal*, no. 11 (January-March 2006), [http://www.southasianmedia.net/Magazine/Journal/11\\_indo-nepal\\_water.htm](http://www.southasianmedia.net/Magazine/Journal/11_indo-nepal_water.htm) (accessed 16 October 2009).



Figure 3. Map of the Rivers of Nepal

Source: Nepal Vista, “Rivers of Nepal,” <http://www.nepalvista.com/features/rivers-of-nepal.php#map> (accessed 21 May 2010)

Hydropower, which can be generated by the rivers of Nepal, is a relatively cheap source of power and could provide a prominent advantage for Nepal to begin rapid industrialization.<sup>182</sup> Moreover, the effects of hydropower development are not limited to Nepal alone, but can also immensely contribute to the regional development of South Asia.<sup>183</sup>

Fortunately, Nepal has India as a neighbor with a high demand for power to support its booming economy. India’s current peak demand for power is 105,000 MW

<sup>182</sup>Asia Trade Hub, “Hydro-Electric Power,” [www.asiatraderhub.com/Nepal/power.asp](http://www.asiatraderhub.com/Nepal/power.asp) (accessed 5 February 2010).

<sup>183</sup>Damodar Bhattarai, “Multi-purpose Projects,” in *The Nepal-India Water Relationship: Challenges*, ed. Dwarka N. Dhungel and Santa B. Pun (Netherlands: Springer, 2009), 69, [www.springerlink.com/content/u460w070n584jn7/](http://www.springerlink.com/content/u460w070n584jn7/) (accessed 18 December 2009).

and peak availability is only 86,000 MW.<sup>184</sup> Moreover, the demand for power in India is increasing at 8-9 percent per annum due to its booming economy. Nepal's potential to export its hydroelectricity to power-hungry states, such as India, could tremendously contribute to continue the economic and industrial activities of these nations. New Delhi's need for electricity and Nepal's enormous potential to provide power could spur Nepal to work with the international community to gain this capability and the resulting revenue.

Acknowledging these possibilities, both countries have begun to work together to produce hydropower from the rivers of Nepal. Waterpower projects such as the Upper Karnali, Arun III, West Seti and Upper Tamakoshi have already attracted national and international financial companies to invest in Nepal for hydropower projects and GMR, an Indian large-scale construction company, signed an agreement in 2008 to develop a 309 MW hydropower project in Nepal.<sup>185</sup> According to Massie Santos Mallon, "Nepal will receive 12 percent free energy, approximately 36 MW, and 27 percent free equity in the project."<sup>186</sup> In addition, the company will pay USD\$2,500 per MW for the project survey and USD\$12,500 per MW as deposit before starting construction with plans to complete the project within 8 years.<sup>187</sup> Similarly, the government of Nepal has signed an

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<sup>184</sup>Anil Keshary Shah, "Banker's Prospectives on Hydropower Development in Nepal: Problems and Prospects."

<sup>185</sup>Massie Santos Ballon, "GMR Group awarded hydropower project in Nepal," 2008, <http://cleantech.com/news/2359/hydropower-project-in-nepal> (accessed 15 January 2010).

<sup>186</sup>Ibid.

<sup>187</sup>Ibid.

agreement with India's state owned Sutlej Jal Vidyut Nigam (SJVN) to generate hydropower equal to 402 MW from Arun III. The agreement states, "The SJVN will have to provide 21.9 percent of power (88 MW) to Nepal free of any charge and Nepal will also get 7.5 percent as royalty and 0.5 percent as export tax of SJVN's total income."<sup>188</sup>

The West Seti Hydro Project is another large hydroelectricity project and has the capacity to generate 750 MW. This project is sponsored by Chinese and Australian investors and will include plans for 90 percent of the electricity produced will be exported to India. As per the agreement, the project will provide 10 percent of the hydropower to Nepal free for 30 years, and Nepal will get the ownership of the project after that.<sup>189</sup> Moreover, the agreement states, "The project will have to pay 2 percent of the total revenue as royalty over the first 15 years and 10 percent thereafter, capacity royalty of \$ 1.4 /KW per year for the first 15 years and \$ 14 /KW for thereafter and export duty of 0.05 percent."<sup>190</sup>

Negotiations between India and Nepal are ongoing for other river projects and these present significant economic opportunities for Kathmandu. In fact, Nepal could potentially earn US\$2.9 billion by exporting 10,000 MW of electricity annually to

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<sup>188</sup>"India and Nepal Sign MoU for Arun III Hydropower Project," 2008, [http://www.thaindian.com/newsportal/south-asia/india-nepal-sign-mou-for-arun-iii-hudropower-project\\_10023484.html](http://www.thaindian.com/newsportal/south-asia/india-nepal-sign-mou-for-arun-iii-hudropower-project_10023484.html) (accessed 16 January 2010)

<sup>189</sup>"Chinese Company Agrees to Invest West Seti Hydro Project," December 2009, [www.nepalnews.com/main/index.php/news-archive/3-business-a-economy/3138-chinee-company-agrees-to-invest-51percent-in-west-seti-hydro-project.html](http://www.nepalnews.com/main/index.php/news-archive/3-business-a-economy/3138-chinee-company-agrees-to-invest-51percent-in-west-seti-hydro-project.html) (accessed 10 February 2010).

<sup>190</sup>West Seti Hydro, "Project Benefits," [www.wsh.com.np/project-benefits](http://www.wsh.com.np/project-benefits) (accessed 15 December 2009).

India.<sup>191</sup> While the revenue from hydropower would benefit Nepal's economic development, it would also provide power for Kathmandu's industrial and could also assist with road transport and communication infrastructure development projects. Finally, the initiation of hydro-projects in various parts of Nepal would support rural development, providing opportunities for local employment and markets for locally produced goods.

### Tourism

Nepal is famous throughout the world for its beautiful scenery, natural environment and unique cultural attributes. Tourists flock to visit Nepal's beautiful Himalayan landscape, mountainous terrain, diverse vegetation, unique birds and animals, religious shrines and temples, and its distinctive cultural diversity. Many people also regularly visit Nepal for other activities to include religious pilgrimages, mountain climbing, trekking, jungle safaris, mountain flights, rafting and paragliding.

Tourism has long been one of the largest industries and a reliable source of income for Nepal. This industry has is a source for needed foreign currency, generating employment and contributing to the overall development of rural areas. Nepal has been taking several initiatives to promote the tourism in the country for a long time and recently, its government has initiated a three-year planning effort to develop the scope of tourist activities. This plan is focused on tourism infrastructure, conservation of heritage sites, management of mountaineering activities and air transport to Nepal's mountainous

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<sup>191</sup>Nepali Perspectives, "Nepal's Hydropower – Deconstructing a Few Myths," 12 August 2008, <http://nepaliperspectives.blogspot.com/2008/08/nepals-hydropower-deconstructing-few.html> (accessed 12 November 2009).

areas. Moreover, Kathmandu has declared the year 2011 as the “Nepal Tourism Year,” which could help accelerate the flow of tourists into Nepal.

India will invariably contribute to the further development of Nepal’s tourist industry. Many Indians visit Nepal every year, especially for pilgrimage and entertainment purposes, and a significant number visit places such as Pashupati Nath Temple in Kathmandu.<sup>192</sup> These visits are extremely important to Hindus and many make the pilgrimage as a personal act of faith. Additionally, many newly married Indian couples choose to spend their honeymoons in Nepal, which is considered a popular destination. The people of India believe that visiting Nepal is comfortable, easy, inexpensive, entertaining and safe and their numbers are increasing each year. According to Ministry of Culture, Tourism and Civil Aviation, “In 2007 alone, almost 100,000 India tourists vacationed in Nepal, 18.2 percent of overall total of all visitors.”<sup>193</sup> The open borders between these two states and cultural similarities have also made many Indians strive to visit Nepal at least once during their lifetimes. As a result, Indians have become the most significant factor in bolstering the scope and success of Nepal’s tourist trade.

#### Transit Point

Geographically located in between two Asian giants, Nepal shares an open international border with India spanning 1,750 kilometers. Additionally, Nepal and Tibet have a common international border that is 1,414 kilometers long and consisting of the

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<sup>192</sup>The Pashupati Nath Temple in Kathmandu is one of the most popular Hindu temples on the Indian sub-continent. Pilgrims from India and elsewhere travel far to visit this site, dedicated to the Hindu god Shiva.

<sup>193</sup>Ministry of Culture, Tourism and Civil Aviation, “Tourism Statistics, 2007,” <http://www.tourism.gov.np/tourismstatistics.php> (accessed 26 January 2010).

high Himalayan or Trans-Himalayan ranges, and including “more than 40 important passes through which Nepal-Tibet trade used to be traditionally conducted on foot.”<sup>194</sup>

Nepal’s geographic location provides opportunities for India and China, whose own economic development efforts have gained worldwide attention. Trade between India and China is growing at more than 50 percent year-on-year and is expected to exceed USD\$100 billion by 2011.<sup>195</sup> Ameet Dhakal observed, “China and India are poised to become the world’s largest and second largest economies by 2050, they will need each other’s market more than ever.”<sup>196</sup> India needs Chinese markets for its software products, service sectors, pharmaceuticals and agricultural products and China needs Indian markets for its manufacturing goods.

Nepal is could facilitate Sino-Indian cooperation and an opportunity exists for Kathmandu to provide transit routes between these two Asian powers.<sup>197</sup> Nepal contains the shortest of all available trade routes between these two countries and development as a transit point would generation both trade and employment opportunities for Kathmandu.<sup>198</sup> Nepal’s infrastructure development would also benefit from revenue

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<sup>194</sup>Dilli Prasad Bhattarai, “Nepal at the First and second Cross-roads: Opportunities for a Win Win in the Development Context,” [www.ifa.org.np/pdf/new1.pdf](http://www.ifa.org.np/pdf/new1.pdf) (accessed 22 January 2010).

<sup>195</sup>*The Economic Times*, “Trade between India and China to cross the \$100 bn mark: study,” <http://www.economictimes.indiatimes.com/articleshow/2905591.cms> (accessed 12 May 2010).

<sup>196</sup>Ameet Dhakal, “India-Nepal-China,” August 2009, [www.myrepublica.com/portal/printable\\_news.php?news\\_id=9803](http://www.myrepublica.com/portal/printable_news.php?news_id=9803) (accessed 15 December 2009).

<sup>197</sup>*Ibid.*

<sup>198</sup>Keshav Raj Jha, “Transit Economy: An Opportunity to Revive Past Glory,” <http://www.ifa.org.np/pdf/new2.pdf> (accessed 22 January 2010).

created by the movement of goods between India and China and through Kathmandu's own exports to both countries.

Fortunately, both India and China have initiated trade talks on these issues and China is seriously considering a Nepal request for credit and exclusion of duty on exports.<sup>199</sup> As a result of this process, Beijing has agreed to remove export duties on 497 different goods.<sup>200</sup> The 2009 Revised Trade Treaty between Nepal and India, and China's official commitment decrease tariffs on Nepalese commodities could considerably increase the trade of Nepal to both of these giant economies.

Both India and China are dedicated to infrastructure development for Nepal's border areas to establish transit route use. The completion of a road transportation network and railway to connect the seven counties of Tibet adjoining Nepal to the major trade centers of southwest China, would invariably contribute to Nepal's role as a transit route.<sup>201</sup> The recently constructed a 1,142 kilometer long Golmund-Lhasa railway line connects Tibet with mainland of China, which would eventually participate in Nepal's trade with Tibet and India. Furthermore, China is planning to extend this railway line from Lhasa to Dali in Yunnan province of China and Lhasa to Tatopani in the Tibet-Nepal border.<sup>202</sup>

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<sup>199</sup> Editorial, "Trade Treaty with India," August 2009, [www.myrepublica.com/portal/portal/printable\\_news.php?news\\_id=8575](http://www.myrepublica.com/portal/portal/printable_news.php?news_id=8575) (accessed 15 December 2009).

<sup>200</sup> Ibid.

<sup>201</sup> Dilli Prasad Bhattarai, "Nepal at the First and second Cross-roads: Opportunities for a Win Win in the Development Context."

<sup>202</sup> Ibid.

Similarly, India has an extensive highway and railway network adjacent to the Nepal-India border. With the increased possibility of Nepal becoming a transit route, India is now converting narrow-gauge railways to broad-gauge ones in areas close to Nepal to better accommodate the movement of goods. While addressing in the 15<sup>th</sup> SAARC Summit, the Prime Minister of India stated, “India has upgraded its railway connection to broad gauge at the Raxaul-Birgunj and Jogbani-Biratnagar and work is underway to upgrade infrastructure along its border with other neighbors.”<sup>203</sup> More importantly, several important roads of India connect at least 22 border points in Nepal-India border to facilitate the movement of goods from Nepal.<sup>204</sup> Moreover, the government of Nepal has proposed construction of seven highways connecting its southern and northern borders and an electric railway line from Birgunj to Tatopani via Kathmandu. This railway line could potentially connect to the Indian railway network at Birgunj border and with the Chinese railway network at Tatopani border.<sup>205</sup> The construction of Rasuwagadhi-Syafru highway, which would be the second link road between India and China, is underway. These developments of railway lines and highways will undoubtedly facilitate increased trade between Nepal, India and China.

The ability of Nepal to link the booming economies of these two powerful states could also facilitate Kathmandu’s efforts to achieve a stable economy.<sup>206</sup> Nepal’s

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<sup>203</sup>M.M. Singh, “PM’s address at 15th SAARC Summit,” 2 August 2009, <http://pmindia.nic.in/speeches.htm>; Internet (accessed 18 December 2009).

<sup>204</sup>Dilli Prasad Bhattarai, “Nepal at the First and second Cross-roads: Opportunities for a Win Win in the Development Context.”

<sup>205</sup>Ibid.

<sup>206</sup>Keshav Raj Jha, “Transit Economy: An Opportunity to Revive Past Glory.”

transformation into a transit point would also increase Nepal's own export to both countries and provide Kathmandu the opportunities to become a viable partner in regional trade and business activities.

### Increase in Nepalese Exports

India's rise as a major economy would positively affect Nepal's trade balance with New Delhi. In regards to the relationship between Indian and Nepalese markets, Chandan Sapkota observed that within India, the "Nepalese market is the most integrated among all other markets, which provides a huge potential for Nepalese exporters."<sup>207</sup> The potential Indian market is staggering – up to one billion people could become consumers of Nepalese products. Chandan Sapkota noted that "There are more than 300 million potential customers in the bordering states that Nepalese exporters could cater to, provided that they produce goods based on taste, preferences and purchasing power of the customers."<sup>208</sup>

India has recently adopted more liberal economic approaches toward its neighbors to increase the trade of South Asian manufactured goods. In its efforts to assist neighbors, India has granted "zero duty" access in 2008 to its markets to least developed countries (LDC) members like Nepal, Bhutan and Bangladesh.<sup>209</sup> India's contemporary leaders are enthusiastic in their efforts to integrate South Asian nations, to include LDC members, in

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<sup>207</sup>Chandan Sapkota, "Regional Integration and Growth," December 2009, [www.myrepublica.com/portal/printable\\_news.php?news\\_id=12434](http://www.myrepublica.com/portal/printable_news.php?news_id=12434) (accessed 15 January 2010)

<sup>208</sup>Ibid.

<sup>209</sup>M.M. Singh, "PM's address at 15th SAARC Summit."

New Delhi's economic activities. In the case of Nepal, India has been more understanding of Kathmandu's economic challenges and has taken several initiatives to facilitate the trade of Nepalese goods.

In 2009, India revised its trade treaty with Nepal. In this revised treaty, New Delhi has agreed to help Nepal substantially through bilateral economic cooperation, allowing Kathmandu to accelerate the growth of its exports to India.<sup>210</sup> India has also agreed to exempt Nepalese exports from many non-tariff barriers and other additional duties.<sup>211</sup> Indian Minister for Commerce and Industries Ananda Sharma stated that his country was ready to observe prosperity in the region and the Revised Trade Treaty was a move to help hasten economic progress in Nepal.<sup>212</sup> An important achievement of the new treaty is the scrapping of the "duty refundable" process, which has allowed Nepalese traders to import goods from India in Indian currency at par with trade in convertible currency. This requires no excise duty to India and lowers the price of the Indian goods in the domestic market in Nepal providing lower priced goods to consumers.<sup>213</sup>

Moreover, the treaty eliminates any additional duties over those previously established, a significant achievement for Nepal.<sup>214</sup> As a result, new Nepalese exports

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<sup>210</sup>Bishwambher Pyakuryal, "Revised Indo-Nepal Trade Treaty," October 2009, [www.myrepublica.com/portal/index.php?action=news\\_details&news\\_id=11158](http://www.myrepublica.com/portal/index.php?action=news_details&news_id=11158) (accessed 15 December 2009).

<sup>211</sup>Editorial, "Trade Treaty with India."

<sup>212</sup>Dr Hari Bansh Jha, "Trade Treaty: A Paradigm Shift by," November 2009, [www.myrepublica.com/portal/index.php?action=news\\_details&news\\_id=12164](http://www.myrepublica.com/portal/index.php?action=news_details&news_id=12164) published in November 2009 (accessed 15 December 2009).

<sup>213</sup>Ibid.

<sup>214</sup>Ibid.

have been added to the duty-free list of products sold to India, to include floriculture, wheat flour, bran, husk, bristles, herbs, stone aggregates, boulder, sand and gravel.<sup>215</sup> According to economist Bishwamber Pyakuryal, “Exports to India [from Nepal] rose by 6.2 percent in 2008-09 as against a decline of 7.6 percent in the previous year.”<sup>216</sup> Nepal expects its trade activities will rapidly increase in future due to the revised treaty.

### Foreign Direct Investment

Foreign direct investment (FDI) is a part of economic liberalization and globalization, which leads to the integration of international capital markets. Over the past two decades, Indian investors have been investing their capital substantially in various global economic sectors. In fact, the “outflow” of India foreign direct investment in 2009 was larger than the “inflow” of total foreign direct investment in India.<sup>217</sup> Foreign direct investment provides Nepal with significant economic opportunities and India’s rapid economic developments create favorable conditions for Nepal to pursue FDI. Currently, annual India-Nepal trade is close to USD\$3 billion and India’s investment in over 400 projects make up 44 percent of the total FDI in Nepal (totaling approximately USD\$648 million).<sup>218</sup>

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<sup>215</sup>Ibid.

<sup>216</sup>Bishwambher Pyakuryal, “Revised Indo-Nepal Trade Treaty.”

<sup>217</sup>Madhav Kumar Nepal addressing a business community of Mumbai.

<sup>218</sup>Bishwambher Pyakuryal, “Revised Indo-Nepal Trade Treaty.”

In 2009, Nepal's Prime Minister Madhav Kumar top priority during his visit to India was to increase FDI activities in Nepal. While addressing the business communities in Mumbai, the prime minister stated,

The efforts made by the Government of Nepal to further liberalize the industrial policy and investment regime, various institutional and strategic reforms made in that connection, as well as the growing Indian capabilities to make foreign investment all encourage us to call the Indian business and industrial communities for more investment in Nepal.<sup>219</sup>

Prime Minister Kumar requested investment in hydropower development, the tourism sector, agro-processing, information technology, light manufacturing, finance services, health and education. As a result, some Indian financial and business companies signed to invest in Arun III and Upper Karnali hydroelectricity projects. India's recent commitment to invest to generate power over 10,000 MW of hydropower and cooperate to set up "Special Economic Zones" to encourage foreign investment in Nepal could pay substantial dividends for the economic development of Nepal.<sup>220</sup>

Increased FDI in Nepal by Indian executives would also help to create a favorable market and business environment in Nepal for investors from other parts of the world. In 2010, China agreed to increase its own investment in the hydropower and banking sectors. During a January 2010 visit to China by Nepal's prime minister, the two countries issued a joint statement announcing, "The Chinese side will provide necessary support and assistance to the Nepalese side in hydropower construction, infrastructure

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<sup>219</sup>Madhav Kumar Nepal addressing a business community of Mumbai.

<sup>220</sup>Oliver Housden, "A new dawn in India-Nepal relations? Prachanda's visit to India."

development, health, education, human resource development and other fields.”<sup>221</sup>

Immediately after the announcement, a Chinese state owned company, China National Machinery Import and Export Company, agreed to provide 51 percent of the cost of the 750 MW West Seti Hydro-project which is worth almost USD\$1.6 billion.<sup>222</sup> This type of FDI in Nepal fosters an economic environment that would undoubtedly result in development and infrastructure improvements.

### Summary and Conclusion

India’s increasing strategic and economic reach in global affairs will be an inevitable force in the coming years. The South Asian giant’s economic progress and strategic role in global political and diplomatic issues will invariably bring new changes to regional affairs. New Delhi’s changing foreign policy focused on accommodating its neighbors based on non-interference and non-reciprocity provide new opportunities for the countries of South Asia, particularly Nepal.

India’s rise will certainly affect Nepal, whose political and economic fate is directly linked to India’s rapidly progressing efforts to lead the region and influence world affairs. India can support Nepal’s emerging multi-party democratic system and could help with efforts to ensure inclusive democratic practices for people living Nepal’s remote mountains and villages. Similarly, India’s booming economy could persuade the people of both nations to work together for advances in hydropower, tourism, trade,

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<sup>221</sup>“Chinese Company Agrees to Invest West Seti Hydro Project,” December 2009, [www.nepalnews.com/main/index.php/news-archive/3-business-a-economy/3138-chinee-company-agrees-to-invest-51percent-in-west-seti-hydro-project.html](http://www.nepalnews.com/main/index.php/news-archive/3-business-a-economy/3138-chinee-company-agrees-to-invest-51percent-in-west-seti-hydro-project.html) (accessed 10 February 2010).

<sup>222</sup>Ibid.

infrastructure development, agriculture and many other areas, which could open the door for permanent peace, stability and prosperity for Nepal.

## CHAPTER 5

### RECOMMENDATIONS AND CONCLUSIONS

India's rise as a major power provides an opportunities for the political and economical systems of the entire South Asia region to include tiny land-lock countries such as Nepal. Nepal's future is inextricably linked to India's new strategic position and Kathmandu's efforts to institutionalize a democratic system will be certainly affected by the India's progress as the world's largest democracy. India's recent efforts to strengthen the democratic systems on its periphery would undoubtedly help Nepal's own new environment of nascent democracy and freedom. Nepal's desire to flourish as an inclusive and participatory democracy for individuals at all levels, even those in remote areas, could potentially be realized with India's positive influence.

Nepal's economic progress will be significantly influenced by India's efforts to improve its own economy. India seeks a stable and prosperous regional environment and could provide significant opportunities for Nepal to develop economically, particularly in hydropower and tourism. New Delhi's increasing demand for energy to sustain its growing economy would compel Nepal to establish its own infrastructure to generate hydroelectricity from its massive water resources. Additionally, the historic and cultural affinity between these two countries and ever increasing purchasing power of India's one billion people could have a positive impact on Nepalese tourism. Furthermore, the growing trade relations between the two Asian powers (India and China) could help convert Nepal into a transit point, creating more economic and trade opportunities and revenue for Kathmandu.

### Recommendations

For Nepal, seizing on the advantages generated by the rise of India creates a unique challenge. Nepal requires political stability, and appropriate foreign economic and trade policies to participate in the new regional environment resulting from New Delhi's progress. India's *new approach* to foreign relations, which includes its neighbors India's "road map" for the future is also an influential factor for Nepal and will likely bring new developments to Kathmandu's political and economic systems. The *relationship* between India and Nepal is the most decisive factor in efforts for both countries to seize these opportunities. The following sections include recommendations for both countries, focused on India's rise and the effects on Nepal.

#### Nepal: Political Recommendations

Nepal's recent governmental changes and establishment of a multi-party democracy are important influencing factors for future political and socio-economic development. Nepal's leaders should come to a consensus on a new constitution, which embraces the inclusive and participatory multiparty democratic system, freedom, pluralism and human rights.<sup>223</sup> Additionally, the political parties of Nepal should accept the concept of coalition government and recognize that co-existence and cooperation among themselves would result in political stability. Nepal's politicians should also

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<sup>223</sup>Nepal is in the historic process of making a new constitution. There are some dilemmas among the key political parties on fundamental issues such as pluralism, human rights, press freedom and legal rights. The CPN continues attempts to introduce communist concepts into Nepal's constitution, which conflict ideologically with democratic values and norms. This may delay the political process and bring instability to the process and even to Nepal. Therefore, consensus is necessary among the political parties of Nepal if Kathmandu hopes to achieve its political objectives of establishing a modern democratic system.

acknowledge that political stability is a critical condition for economic development. Finally, for all members of Nepalese society, democratic values and rights should be enforced and practiced, especially for those living in remote areas away from Kathmandu.

### Nepal: Diplomatic Issues

Nepal should continue to foster positive diplomatic and economic relationships with both India and China. Kathmandu's political leaders should take into consideration Nepal's precarious geopolitical situation of Nepal in their actions and prevent the use of its territory to conduct political or military actions against either of these neighboring states. The Himalayan republic should also adopt a policy of economic diplomacy to attract regional and international foreign direct investment to support trade and industry activities in the country.

In addition, the government of Nepal should take an active role in monitoring the growing influence of both neighbors into the internal matters of Nepal. Kathmandu should urge the governments of India and China to conduct actions for the betterment of the people of Nepal and limit external interference into the domestic matters of the country. The political leaders should understand that the practice of Nepalese seeking foreign assistance to gain domestic power and run the government is harmful to Nepal. Nepal should mobilize able, efficient and professional diplomatic personnel to address regional political issues, particularly with Beijing and New Delhi. Lastly, Nepal should continue to follow its foreign policy of friendly relations, non-interference, non-alignment and co-existence within the region, which would facilitate friendly relations with both India and China.

### Nepal: Economic Issues

Nepal should mobilize instruments of its national power (political, diplomatic and economic) to take advantage of the economic opportunities which have emerged in the region, especially due to the rise of the Indian economy. Kathmandu also should be committed to a liberal economic policy that creates a favorable economic atmosphere for foreign direct investment, particularly from the Indian and Chinese business communities. Nepal's economic development should be focused primarily on its vast water resources. Kathmandu's water resource policies should be formulated to carry out systematic and planned development on this sector. Additionally, regional treaties and agreements encompassing the natural resources should be enacted with greater consensus among the stakeholders to ensure complete implementation of such efforts.

Nepal must actively pursue regional economic partnerships (such as the Free Trade Agreement) with neighboring countries, particularly with India, to further participate in the trade activities of the region. Tourism, one of the largest and most lucrative industries in Nepal, should get substantial attention from the government and key stakeholders. The government and private sectors should invest adequate resources to develop travel infrastructure and adopt necessary measures to turn Nepal into a comfortable and secure international tourist destination. Finally, the government of Nepal should continue to engage India and China to implement their commitment to change the land-locked republic into a viable transit point for their growing trade relations.

### Nepal: Security Issues

The government of Nepal should mobilize its security apparatus to take necessary measures to improve the law and order and create a safe and stable environment. The

government of Nepal should also initiate talks with armed groups (in the Terai region and eastern Nepal) who accept the sovereignty and integrity of Nepal and acknowledge the multi-party democratic system. Groups not accepting these conditions should be brought to justice through the effective mobilization of security agencies. Additionally, there is a growing concern about the security for Nepal's industrial and business sectors as armed and criminal groups are engaged in extortion and intimidation to these types of businesses. Therefore, it is very important to apply comprehensive security and administrative measures to stop these types of illegal activities. In addition, the frequent strikes and protests undermining the interests of people, and crippling down the financial and industrial activities, should be controlled within the boundaries of Nepalese law.

Additionally, the open border between Nepal and India provides a means of entry for criminal and illegal activities such as human trafficking, illicit arms trade and money laundering. Nepal should work together with India to monitor and regulate the border to prevent these types of illegal activities. Moreover, Nepal should adopt necessary security measures to decrease the influence and activities of extremists groups who use Nepalese territory to conduct terrorist activities within India.

#### India: Political/Diplomatic Issues

India's neighbors remain engulfed in various types of turmoil and many of the problems could be solved with New Delhi's leadership, which would ultimately legitimize India as a major power. India should play a responsible role to spur positive change in the political, economic and social condition of entire region, which would ultimately help stabilize smaller states such as Nepal. India's revised foreign policy for political and economic progress based on non-reciprocity provides a new and hopeful

atmosphere for states within the region. India should continue this “new approach” policy as it would effectively consolidate the political and economic position of India and lessen anti-Indian sentiments in the region as well. New Delhi’s non-reciprocity policy allows its political and diplomatic arms to play an affirmative role to strengthen the political and economic systems in states such as Nepal. India’s influence in Nepal could help bring desired changes in the relatively new political system of Kathmandu and New Delhi should encourage all political parties to strengthen the multiparty democratic system and support both the current political transformation and ongoing peace process.

India is sometimes perceived as interfering in the domestic politics of its neighbors. As a South Asian power, India needs to establish an environment in which regional members are allied, not based on fear of domination, but by sincere bonds of friendship and cooperation. As Nischal Nath Pandey noted, these types of relationships “can only happen when it stops taking sides and having ‘preferences’ in internal political dynamics of these countries.”<sup>224</sup> The people of South Asia should feel that positive relations with India provide opportunities and, as a result, the SAARC could potentially become a supporter of India’s efforts for permanent inclusion of the United Nations Security Council.<sup>225</sup> India should not also take sides in Nepal’s internal political affairs, but rather should strive to play a constructive role to break impasses among the parties. Stability in Nepal is extremely important for New Delhi and decisions concerning

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<sup>224</sup>Nischal Nath Pandey, “Rising India: A View from Nepal,” April 2007, [http://www.nepalnews.com/archive/2007/others/guestcolumn/may/guest\\_columns\\_03.php](http://www.nepalnews.com/archive/2007/others/guestcolumn/may/guest_columns_03.php) (accessed 10 January 2010).

<sup>225</sup>*Ibid.*

ongoing political transformation in the Kathmandu are best left to the Nepalese people.<sup>226</sup>

New Delhi's role as a neutral supporter of change and honest facilitator to persuade the various factions to achieve consensus could potentially help Nepal address its complex and controversial differences. Nihar Nayak observed, "Existing contentious treaties, border disputes, encroachment issues and the Indian Embassy's alleged support to certain groups in the southern Nepal and personnel level support to some political parties are major irritants in Nepal-India relations."<sup>227</sup>

India needs to establish a clear policy and resolve these issues with the goal of establishing a "new era of friendship between the two countries."<sup>228</sup>

#### India: Economic Issues

New Delhi's policy of non-reciprocity focuses on the economic benefits to its neighbors. India should acknowledge that economic prosperity is vital for stability and peace within the region, which is also linked to India's overall national security. Economic assistance to Nepal should focus on the socio-economic development programs and these should be enhanced and directed towards projects which benefit the Nepalese people directly.<sup>229</sup>

India should continue to tear down trade barriers imposed on imported Nepalese goods, as this would facilitate to increase overall trade between these countries. The

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<sup>226</sup>Nischal Nath Pandey, "Rising India: A View from Nepal."

<sup>227</sup>Nihar Nayak, "Maoists Rhetoric on India-Nepal Relations."

<sup>228</sup>Ibid.

<sup>229</sup>Ibid.

Revised Trade Treaty of 2009 and subsequent agreements provide excellent examples of actions that can be taken to remove such barriers. The government of India should encourage the public and private sectors to invest in hydropower, tourism, infrastructure development, agro-processing sectors of its tiny neighbor. As India's FDI is the largest in Nepal, the continuation and increase in amounts of investment and diversification of chosen trade areas would invariably bring unprecedented economic benefits to Nepal. Additionally, India should work to persuade Nepal to enter into the Free Trade Agreement (similar to the actions taken by Sri Lanka) to provide more opportunities for the Nepalese as a result of India's economic success. Finally, New Delhi should continue to support efforts to change Nepal into a transit point between India and China.

#### India: Security Issues

The strategic location of Nepal is critical to the security of India and New Delhi remains concerned about Kathmandu's possible "tilt" towards China. India needs to recognize that a neutral Nepal will not likely undermine Nepal-India relations. India would benefit from diplomatic negotiations with Nepal and China if it perceives Kathmandu's relations with Beijing could potentially pose a threat to India's security. Additionally, instability, insecurity and uncertainty in Nepal would pose significant threats to the national security of India. India has identified that the "spillover" of the Maoist insurgency from Nepal to India as one of its biggest security concerns. Therefore, it is important for India to work together with the Nepalese government to bring stability, peace and security to Nepal. India can play a constructive role to bring armed groups in the southern part of Nepal into the peace process.

Money laundering, arms and human trafficking, kidnapping, murder, and extortion have become serious problems in areas along the Nepal-India border. India has also charged that Muslim extremists have exploited the porous border region to conduct terrorist attacks in India. As a result, India needs to work together with Nepal to upgrade and modernize border security and to set up reliable mechanisms for monitoring and regulation. Finally, criminal and armed groups being harbored in India should be either captured or extradited to Nepal to improve the security situation in Nepal.

### Conclusion

Nepal's leaders should recognize that the new emerging situation in South Asia can help them achieve peace, stability and prosperity within their country. A lack of democratic institutions has historically plagued Nepal and through political consensus, enhanced internal security and efficient diplomatic maneuvers, the people of Nepal can achieve a new era of political and economic life. The Nepalese should acknowledge the vital strategic importance of their resources and geostrategic location, which can be used successfully to attain political and economic development.

India's realization that peace, stability and prosperity within South Asia constitute an essential part of its efforts to protect its security interests within the region. Both nations are capable of working together to attain prosperity and stability. The regional situation and India's rise provides significant advantages for Nepal but progress will only be realized through unity, hard work and the effective diplomatic capability of its people.

## APPENDIX A

### 12 Points Understanding

The long struggle between absolute monarchy and democracy in Nepal has now reached a very grave and new turn. Establishing peace by resolving the 10-year old armed conflict through a forward-looking political outlet has become the need of today. Therefore, implementing the concept of absolute democracy through a forward-looking restructuring of the state has become an inevitable need to solve the problems related to class, caste, gender, region etc of all sectors including political, economic, social and cultural, bringing autocratic monarchy to an end and establishing absolute democracy. We make public that, against this existing backdrop and reference in the country, the following understanding has been reached between the seven parliamentary parties and the CPN (Maoist) through different methods of talks.

#### Points of Understanding

1. Today, democracy, peace, prosperity, social advancement and a free and sovereign Nepal is the chief wish of all Nepalese. We completely agree that autocratic monarchy is the main hurdle in (realizing) this. It is our clear view that without establishing absolute democracy by ending autocratic monarchy, there is no possibility of peace, progress and prosperity in the country. Therefore, an understanding has been reached to establish absolute democracy by ending autocratic monarchy, with all forces against the autocratic monarchy centralizing their assault against autocratic monarchy from their respective positions, thereby creating a nationwide storm of democratic protests.

2. The seven agitating parties are fully committed to the fact that only by establishing absolute democracy through the restoration of the Parliament with the force of agitation, forming an all-party government with complete authority, holding elections to a constituent assembly through dialogue and understanding with the Maoists, can the existing conflict in the country be

resolved and sovereignty and state power completely transferred to the people. It is the view and commitment of the CPN (Maoist) that the above mentioned goal can be achieved by holding a national political conference of the agitating democratic forces, and through its decision, forming an interim government to hold constituent assembly elections. An understanding has been reached between the agitating seven parties and the CPN (Maoist) to continue dialogue on this procedural work-list and find a common understanding. It has been agreed that the force of people's movement is the only alternative to achieve this.

3. Today, the country has demanded the establishment of permanent peace along with a positive solution to the armed conflict. Therefore, we are committed to ending autocratic monarchy and the existing armed conflict, and establishing permanent peace in the country through constituent assembly elections and forward-looking political outlet. The CPN (Maoist) expresses its commitment to move along the new peaceful political stream through this process. In this very context, an understanding has been reached to keep, during the holding of constituent assembly elections after ending autocratic monarchy, the armed Maoist force and the royal army under the supervision of the United Nations or any other reliable international supervision, to conclude the elections in a free and fair manner and accept the result of the elections. We expect reliable international mediation even during the dialogue process.

4. Expressing clearly and making public institutional commitment to the democratic norms and values like the competitive multiparty system of governance, civil liberties, human rights, the concept of the rule of law, fundamental rights etc, the CPN (Maoist) has expressed commitment to move forward its activities accordingly.

5. The CPN (Maoist) has expressed its commitment to create an environment allowing the political activists of other democratic parties displaced during the course of the armed conflict to return to their former localities and live there with dignity, return their home, land and property seized in an unjust manner and carry out their activities without let or hindrance.

6. Undertaking self criticism and self evaluation of past mistakes, the CPN (Maoist) has expressed commitment not to repeat such mistakes in future.

7. The seven political parties, undertaking self evaluation, have expressed commitment not to repeat the mistakes of the past which were committed while in parliament and in government.

8. In the context of moving the peace process forward, commitment has been expressed to fully respect the norms and values of human rights and press freedom and move ahead accordingly.

9. As the announcement of municipal polls pushed forward with the ill-motive of deluding the people and the international community and giving continuity to the autocratic and illegitimate rule of the King, and the talk of elections to Parliament are a crafty ploy, we announce to actively boycott them and call upon the general public to make such elections a failure.

10. The people and their representative political parties are the real guardians of nationality. Therefore, we are firmly committed to protecting the independence, sovereignty, geographical integrity of the country and national unity. Based on the principle of peaceful co-existence, it is our common obligation to maintain friendly relations with all countries of the world and good-neighbor relationship with neighboring countries, especially India and China. But we request the patriotic masses to be cautious against the false attempt by the King and (his) loyalists to prolong his autocratic and illegitimate rule and delude the patriotic people by projecting the illusory "Mandale" nationalism and questioning the patriotism of the political parties, and appeal to the international powers and the people to support, in every possible way, the democratic movement against autocratic monarchy in Nepal.

11. We call upon the civil society, professional organizations, various wings of parties, people of all communities and regions, press and intellectuals to actively participate in the

peaceful movement launched on the basis of these understandings centered on democracy, peace, prosperity, forward-looking social change and the country's independence, sovereignty, and pride.

12. Regarding the inappropriate conducts that took place between the parties in the past, a common commitment has been expressed to investigate any objection raised by any party over such incidents, take action if found guilty, and to make the action public. An understanding has been reached to settle any problem emerging between the parties through peaceful dialogue at the concerned level or at the leadership level.

*Source:* Government of Nepal, “Agreements and Understandings on Peace Negotiation of Nepal,” [www.peace.gov.np/admin/doc/cover% 20and%20con.pdf](http://www.peace.gov.np/admin/doc/cover%20and%20con.pdf) (accessed 24 May 2010).

## APPENDIX B

### TREATY OF PEACE AND FRIENDSHIP 1950 BETWEEN NEPAL AND INDIA

The Government of India and the Government of Nepal recognizing the ancient ties which have happily existed between the two countries for centuries;

Desiring still further to strengthen and develop these ties and to perpetuate peace between the two countries;

Have resolved therefore to enter into a Treaty of Peace and Friendship with each other, and have, for this purpose, appointed as their plenipotentiaries the following persons, namely, THE GOVERNMENT OF INDIA, HIS EXCELLENCY SHRI CHANDRESHWAR PRASAD NARAIN SINGH, Ambassador of India in Nepal; THE GOVERNMENT OF NEPAL, MOHAN SHAMSHER JANGBAHADUR RANA, Maharaja, Prime Minister and Supreme-Commander-in-Chief of Nepal, who having examined each other's credentials and found them good and in due form have agreed as follows:

#### ARTICLE 1

There shall be everlasting peace and friendship between the Government of India and the Government of Nepal. The two Governments agree mutually to acknowledge and respect the complete sovereignty, territorial integrity and independence of each other.

#### ARTICLE 2

The two Governments hereby undertake to inform each other of any serious friction or misunderstanding with any neighboring State likely to cause any breach in the friendly relations subsisting between the two Governments.

#### ARTICLE 3

In order to establish and maintain the relations referred to in Article 1 the two Governments agree to continue diplomatic relations with each other by means of representatives

with such staff as is necessary for the due performance of their functions. The representatives and such of their staff as many be agreed upon shall enjoy such diplomatic privileges and immunities as are customarily granted by international law on a reciprocal basis: Provided that in no case shall these be less than those granted to persons of a similar status of any other State having diplomatic relations with either Government.

#### ARTICLE 4

The two Governments agree to appoint Consuls-General, Consuls; Vice-Consuls and other consular agents, who shall reside in towns, ports, and other places in each other's territory as may be agreed to. Consuls-General, Consuls, Vice-Consuls and consular agents shall be provided with exequaturs or other valid authorization of their appointment. Such exequatur or authorization is liable to be withdrawn by the country which issued it, if considered necessary. The reasons for the withdrawal shall be indicated wherever possible. The persons mentioned above shall enjoy on a reciprocal basis all the rights, privileges, exemptions and immunities that are accorded to persons of corresponding status of any other State.

#### ARTICLE 5

The Government of Nepal shall be free to import, from the territory of India, arms, ammunition or warlike material and equipment necessary for the security of Nepal. The procedure for giving effect to this arrangement shall be worked out by the two Governments acting in consultation.

#### ARTICLE 6

Each Government undertakes, in token of the neighborly friendship between India and Nepal, to give to the nationals of the other, in its territory, national treatment with regard to participation in industrial and economic development of such territory and to the grant of concessions and contracts relating to such development.

#### ARTICLE 7

The Governments of India and Nepal agree to grant, on a reciprocal basis, to the nationals of one country in the territories of the other the same privilege in the matter of residence, ownership of property, participation in trade and commerce, movement and privileges of a similar nature.

#### ARTICLE 8

So far as matters dealt with herein are concerned, this Treaty cancels all previous treaties, agreements, and engagements entered into on behalf of India between the British Government and the Government of Nepal.

#### ARTICLE 9

This Treaty shall come into force from the date of signature by both Governments.

#### ARTICLE 10

The Treaty shall remain in force until it is terminated by either party by giving one year's notice. Done in duplicate at Kathmandu this 31st day of July, 1950.

(Signed)  
CHANDRESSWAR PRASAD  
NARAIN SINGH  
For the Government of India

(Signed)  
MOHAN-SHAMSHER  
JANG BAHADUR RANA  
For the Government of Nepal

*Source:* United Nations, "United Nations Treaty Collection," [http://untreaty.un.org/unts/1\\_60000/3/9/00004432.pdf](http://untreaty.un.org/unts/1_60000/3/9/00004432.pdf) (accessed 24 May 2010)

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