

# **INDIA'S AID DIPLOMACY IN SOUTH ASIA**

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**VANDANA ABROL**

**DIPLOMATIC STUDIES DIVISION  
CENTER FOR STUDIES IN DIPLOMACY, INTERNATIONAL LAW AND ECONOMICS  
SCHOOL OF INTERNATIONAL STUDIES  
JAWAHARLAL NEHRU UNIVERSITY  
NEW DELHI-110067, INDIA  
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A C R O N Y M S

AID	Agency for International Development.
ADB	Asian Development Bank.
ASEAN	Association of South east Asian Nations.
CSIR	Council for Scientific and Industrial Research.
DC	Developed Countries.
FAO	Food and Agricultural Organization.
ECDC	Economic Cooperation among Developing Countries.
EPIL	Engineering Projects India Ltd.
GNP	Gross National Product.
IBRD	International Bank for Reconstruction and Development.
IDBI	Industrial Development Bank of India.
LDC	Least Developing Countries.
NRDC	National Research Development Corporation.
OECD	Organization for Economic Cooperation and Development.
SARC	South Asian Association for Regional Cooperation.
UNCTAD	United Nations Conference on Trade and Development.
UNDP	United Nations Development Programme.
UNIDO	United Nations Industrial Development Organization.
UNO	United Nations Organization.

## PREFACE

Economic factors have an important role in present international affairs. Aid and economic sanctions have become a tools of diplomacy in Asia and Africa. However, most of the developing countries of Asia, Africa and Latin America have become victims to forces of neo-colonialism in its various manifestations. The developed countries used aid as an instrument in coalition-making and coalition-frustrating diplomacy in the struggle for power in order to achieve political and economic objectives. The developing countries of the Third world were in dire need of aid to launch the process of development. Foreign economic aid has not only been growingly used as an instrument of diplomacy to achieve foreign policy objectives, it has equally become an important tool of neo-colonialism. It signified indirect control of donor over the recipient. It is not only the big powers but also the small powers are involved in this process. India it is argued, no exception in this regard. It is alleged that being a big country large in size and more powerful as compared to other South Asian countries, India is using aid as a weapon to exploit small neighbours in South Asia. An attempt has been made here to study whether India has used aid diplomacy for influence or for economic cooperation.

The study gives due weightage to India's bilateral aid to South Asian countries. In order to make it more precise and specific, multilateral aid (under Colombo Plan) is not taken into consideration. The transfer of finance, resources and technology to South Asian countries by India (as the most developed among the developing countries) is an event of far reaching importance in international economic relations as also the areas to which India is extending aid are the ones which have largely lagged behind in the race of technological developments. This study is convinced that soon after attaining independence, India started giving aid to South Asian countries as its geographical position demanded it. An attempt has been made to bring into the orbit of this study till the formation of SARC (South Asian Regional Cooperation).

The present study is based on primary and secondary source material such as Annual Reports by the Ministry of External Affairs, World Development Reports, World Bank Country Study, Memoirs, Newspaper clippings, books, journals etc. It consists of five chapters.

The first chapter deals with international economic inequality, meaning of foreign aid and its approaches and aid diplomacy — a prop of foreign policy of both super and lesser powers. The second chapter focusses on India's

geographical location in South Asia and its foreign policy aims and objectives and also the new challenges and opportunities in the region. In the third chapter, an attempt has been made to study countrywise aid to South Asian countries by India. Reasons behind India's aid diplomacy are discussed in the fourth chapter. This chapter also deals with the evaluation of India's aid diplomacy concerning <sup>with</sup> the impact of India's aid diplomacy in the South Asian countries and efficacy of her aid diplomacy in the region. The concluding chapter highlights the major findings.

I express my gratitude to Dr.K.D.Kapur for his supervision and guidance in the completion of this work. I am very thankful to Dr.D.C.Vohra for his encouragement and valuable suggestions. Thanks are also due to Professor Satish Kumar, Dr.Pushpesh Pant and Mr.V.K.H.Jambholkar of Diplomatic Studies Division of the School of International Studies, Jawaharlal Nehru University. I also express my thanks to the library staff of the Jawaharlal Nehru University, Delhi University, Indian Council of World Affairs, Sapru House; Central Secretariat, Shastri Bhawan; Nehru Memorial Museum and Library, Teen Murti House; and Institute of Defence Studies and Analysis, Sapru House

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Vandana Abrol  
21-7-87  
VANDANA ABROL

## CHAPTER I

### AID DIPLOMACY THEORY AND PRACTICE

Since the end of world war II, the international system is characterised by a great divide between the nations as East and West and the rich and the poor or the developed and the developing (North South). The developed and developing countries nexus is one of dominance and dependence or centre periphery relations. The former enjoy high prosperity and standard of living as they have undergone the "revolution of modernization". The latter are newly independent countries and confronted with the problem of absolute poverty and trying to fulfil the rising expectations of people.<sup>1</sup> Indeed our world is cleft into two on material basis with permanent unequal division. The North is rich in resources capital and technical know-how with less population. The South is poor in resources, capital and

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1. Barbara Jackson, The rich and poor nations (New York, 1962), p.36.



technical know-how except population.<sup>2</sup>

A cursory glance at the statistics of world income distribution would reveal an enormous gap existing between the North and the South. For instance, in the industrially developed country of North, the per capital G.N.P. (Gross Nation Product) is about \$ 3000, where it is only \$ 300 in the developing South- (The Third World). The significant fact is that the G.N.P. gap tends to widen both in absolute and relative terms. The industrialized west increased its G.N.P. by about 4.8 percent per annum, as compared the developing ones, which was about 5 percent per annum. This little increase in G.N.P. was neutralised by the fact that whereas the population increase in the developed countries is about 1.3 percent, it is 2.6 percent in the developing countries. Thus, the annual per capita income increase amount to say 3.5 percent or \$ 70 in the developed and 2.4 percent or less than \$4 in the developing countries. Moreover among

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2. " For instance the vast amount of grain fed to cattle in the United States is estimated to be sufficient to feed 1.2 billion starving humans in poor nations." See for details article by N.D.Karunaratne, "Foreign aid and new economic order and basic needs" in a book edited by Pradip K.Ghosh, New International Economic Order; Third World Perspective (U.S.A., Greenwood Press, 1984), p.136.
  3. Shah M.Bijli, Development Aid (New Delhi, Shree Publishing House, 1979), p. 66.

the developing countries expenditure on research and development amount to about 0.1 to 0.5 percent of G.N.P. compared with 3.2 percent for the United States and 1 to 2 percent for the European states.<sup>4</sup>

After the world war II, the basic features of the new international system may be summarised as :

- (a) The attempts of the Great Powers mainly the U.S.A. and the western Europe to keep their dominant positions and their aspirations to get maximum advantage and perpetuate the gap between the rich and poor.
- (b) The challenge of underdevelopment faced by the developing countries and therefore, the need of these countries to get capital and technology from the developed countries.
- (c) Interdependence of national societies; politically economically and technologically.

As early as 1958 Jawaharlal Nehru, the Prime Minister of India observed :

The essential cleavage in the world today lies not between communist and anti-communist states but between the nations enjoying a highly developed

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4. David H.Blake and Robert S.Walters,The Politics of Global Economic Relations (New Jersey, U.S.A., Englewood Cliffs, 1978), p.143.

industrial economy and underdeveloped nations struggling to survive.(5)

The developing countries right from the beginning were conscious that the mobilization of economic resources was absolutely essential to meet the challenge of <sup>under</sup> development. That is why first at Bretton Woods and finally at the new United Nations they attempted to modify the progress and plans of North to incorporate the goal of economic development.<sup>6</sup> It is almost certain that economic resources generally are not available in sufficient measure within the developing countries at the beginning of the development process. So to cater to their developmental needs they are compelled to rely on foreign aid. In their perspective foreign aid is an important instrument to bridge the gap between the rich and the poor. However, contrary to it the developed countries have tended to use aid as an instrument to achieve their own economic and political objectives to maintain their position of political domination and expand their economics. They consider aid

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5. M.Bedjaoui, Towards a New International Economic Order (New Delhi, JBH Publisher, 1983), p.34.

6. Joan Edelman Spero, The Politics of International Economic Relations (UK, George Allen and Unwin, 1982), p.147.

as a diplomatic device to influence or maintain their presence in the newly independent countries of the South.

#### Meaning of Foreign Economic Aid

Although international flow of economic assistance is not new. The forms and purposes of aid in the present international system have assumed new dimensions. The use of finance in diplomacy has long history. Some transactions that find their way into aid are little different from their earlier counterparts (such as reparation).<sup>7</sup> The new element today is the active participation by government in support of areas for which they have no direct political responsibility. Besides this, aid in the form of direct transfer of funds from one independent government to another with the intention of helping the recipient country is new.

Foreign economic aid constitutes transfer of capital goods, services and technical know-how from one country to another on concessional terms i.e. more favourable terms than those obtaining concurrently in world capital market stock. Economic aid according to A.J.P. Arnold

The flow of resources from the industrialised countries to less developed countries - on one extreme, it is narrowly interpreted to mean grants

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7. J.M.D.Little and J.M.Clifford, International Aid (London, Allen and Unwin, 1965), p.21.

and long term loans for economic purpose. But at another extreme, aid is defined as including virtually all aspects of economic relations between the developed and the developing countries, not only grants but also investment and trade.(8)

Foreign economic aid is defined as concessionary transfer of resources from one government to another. It can take the form of goods (equipment and food) or financial funds or technological expertise on concessionary terms.<sup>9</sup> It is a part of the total resource inflow into an economy. It is called aid because it is not determined by the same principles which govern the autonomous flow of trade and capital. Foreign economic aid is different from private trade and private foreign investments which are based on market incentives rather than concessionary terms and often don't involve government as actors.

Aid and trade are both apparently economic variables.<sup>1</sup>  
Aid reveals the thrust of the donor into new political -

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8. A.J.P.Arnold, Aid for Development - A Political and Economic Study (London, 1968), p.7.
  9. Klaus Knorr, The Political Economy of International Relations (New York, 1975), p.168.
  10. Richard Van Atta and Dale B.Robertson, "An Analysis of Soviet Economic Behaviour from the Perspective of Social Field Theory" in a book edited by Satish Raicher and Craig Liske, The Politics of Aid, Trade and Investment (New York, 1976), p.17.

diplomatic sphere and it constitutes an unrequited transfer. But trade transforms domestic resources into exports, foreign exchange and imported foreign resources. Though both are instruments for exercising power internationally, but there is difference between the two. While the aid seems to provide funds to attain specific growth target which generally fails to materialise. Consequently the debt of developing countries keep mounting at an exponent. rate. Trade, on the other hand with a growing capacity to substitute domestic production for imports enables the developing countries to grow without the help of concessional finance.<sup>11</sup>

#### Forms of Economic Aid

Foreign economic aid is not sufficiently homogenous to be dealt with in a single category of allocation, It can be of various forms. The word aid or assistance refers to flows which qualify as official development assistance i.e. grants and loans :

- (a) Undertaken by the official sector,
- (b) For promotion of economic development with welfare as a main objective, and
- (c) at concessional financial terms (of a loan at least 25 percent of which is a grant element).

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11. Lester B. Pearson, Partners in Development (New York, 1969), p.80.

In addition to financial flows aid also includes technical cooperation. It comprises grants (and a very small amount of loans) to nationals of the developing countries, receiving education and training at home or abroad and to defray the cost of teachers, advisers, administrators and similar personnel serving in the developing countries.<sup>12</sup>

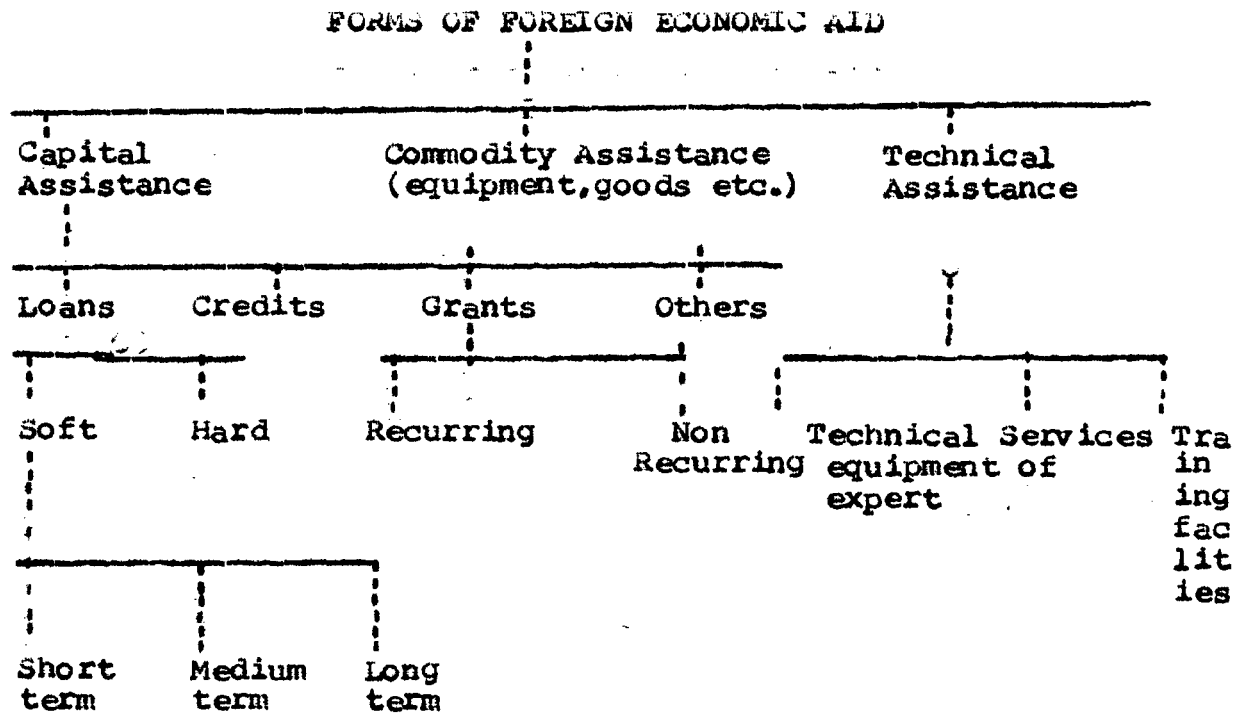
The fundamental aim of all such assistance is to strengthen the power position of the donor and also to raise the level of output by changing and improving the methods of production in the recipient country. Morgenthau has classified aid under six categories i.e. humanitarian foreign aid, subsistence foreign aid, bribery foreign aid, prestige foreign aid, military foreign aid and foreign aid for economic development.<sup>13</sup>

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12. Desmond D. McNeil, Contradictions of Foreign Aid (London, Groom Helm, 1981), p.9.

13. B.J.B. Krupadanam, Food Diplomacy (Delhi, Lancers, 1985), p.20 and also see Hans Morgenthau, in George Lyka The New Statecraft (Chicago, Aldine Publishing Company, 1966), p.IX.

Irrespective of its nature, aid can be of various forms as shown below :



### Objectives of Foreign Economic Aid

The principle aim of foreign economic aid is achieved to three broad objectives (1) to supplement domestic savings of the recipients, (2) to make available additional supplies of foreign exchange and (3) to facilitate transfer of technologies. The receipt of economic assistance, help the developing countries obtain the necessary tempo of their economic development. But at the same time the developed countries also derive certain advantages which are by no means less significant.



To the latter aid is an embodiment of economic power. However, the supply of foreign economics aid provides a useful channel between the developed and developing countries whereby both the transacting parties seem to gain. The basic objectives of foreign economic aid can be divided into short term pay offs and longer terms pay offs<sup>14</sup> which are as :

Short Term Payoffs

- (a) To stimulate additional commercial exports,
- (b) to get rid of burdensome surpluses,
- (c) to stimulate the foreign production of raw materials.
- (d) to preserve abroad a favourable attitude toward foreign private investment or to promote the development of public overhead capital that encourages such investment,
- (e) to compete for political influence in the donor or against rival states,
- (f) to gain the friendship of the donor state,
- (g) to consolidate the position of a government or regime that is subject to economic pressure, whose preservation is politically favourable,
- (h) to project internationally the image of a country that cares about world poverty.

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14. Klaus Knorr, n.8, pp.169-170.

### Longer Term Payoffs

(a) As poor countries become economically more developed they will offer richer export markets and more attractive fields of foreign private investment.

(b) Similarly as the economic capacity of the poor countries steadily improves, their governments and regimes become more secure domestically and their own capability to resist external aggression is enhanced.

In addition, however, long term expectations also involve benefits in terms of the entire international system which are given below :

(1) As poor countries become economically well off, their behaviour will become less disruptive and more stable and peaceful.

(2) The economic growth of the destitute countries is also expected to produce a more congenial world environments in terms of institutions and policies.

Thus, foreign economic aid has given a new dimension to the economic and political relations between the developed and developing countries. It has become an issue of maintaining international diplomacy, national prestige and political expediency.<sup>15</sup>

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15. Bepin Behari, Facets of Foreign Aid (Bombay, Vora, 1963), p. 34.

### Approaches of Aid

Foreign economic aid never have come into the world without its appeal to both national and transnational interests. During the later years of World War II, economic content of national interest emerged prominently and foreign aid was being used as an operative substitute of total war by the Super Power. The function of aid is visualized to strengthen and increase power position of the super powers. Moreover, the newly independent Afro - Asian countries with severe problems of underdevelopment or due to emergence of economic nationalism in these countries perceived aid to fulfil their basic needs and aspirations to get rid of the vicious circle of poverty by modernising their economies and societies. As Holsti puts it:

Economic growth and technological progress are among the main national objectives of developing countries not only because they are necessary to sustain increasing population but also because they are symbols of modernity and nationhood. (16)

There is a controversy over the real function of aid. Some are of the view that aid will lead to development while others consider that it will lead to dependency. However, the concept of development itself has been variedly interpreted and defined. Generally, development is seen in

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16. Quoted from Sushila Agarwal, Super Powers and the Third World (Jaipur, Aalekh Publishers, 1985), p.2

the developing countries as the economic continuation of the political struggle for independence. For them it is an important means of creating a new national identity or breaking up of old restrictive ties.<sup>17</sup> The concept of dependence originated as a critique of development.

The Brazilian social scientist, Dos Santos has affirmed that

By dependency, we mean a situation in which the economy of certain countries is conditioned by the development and expansion of another economy to which the former is subjected. (18).

Thus, taking into account these concepts of development and dependency one could talk of two approaches to the study of Aid which of course have different implications for functions, scope and meaning of aid. They are

- (a) The liberal approach
- (b) The non-liberal or Marxist approach
  - i) The Classical Marxist approach ; and
  - ii) The Neo-Marxist approach

#### The Liberal Approach

According to the liberal approach, the cause of underdevelopment of the periphery (South) is primarily the internal economic stagnation on account of inefficiency,

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17. Lester B. Pearson, n.10, p.5.

18. Chilcote, Theories of Comparative Politics: The Search for a Paradigm (USA, Westview Press, 1981), p.296.

incompetence and disorganization. Its exponents argue that the process of economic growth is restrained by low rates of production, inadequate savings or foreign exchange and insufficient capital investment. Lack of technology and social wastage etc. are also held responsible for it. External financial assistance, it is felt will fill this resource gap and make growth possible. Capital assistance and technical help<sup>are</sup> to improve the use of both domestic and external capital or resources in the recipient countries. It will also enable to create the conditions for self sustaining economic growth.

To liberal economic analyst, self-sustained growth implies that sustained growth can be achieved for a time with concessionary assistance, but not necessarily without it. It might also mean that without concessionary aid, growth could be maintained but at a very low rate.<sup>19</sup> To them, aid consisting of transfer of capital and technical know-how on concessionary or easy terms is development assistance. The exact nature of the development assistance package depends on the conditions in each recipient country.

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19. Raymond F. Mikesell, The Economics of Foreign Aid and Self-Sustaining Development (USA, Westview, 1983), p.55.

They consider that development is a linear process in which every country's economy passes through certain stages. For instance, Rostow's familiar historical stage development hypothesis envisaged the following stages :

(1) The traditional Society; (2) The long period during which economic and social preconditions for growth are evolved; (3) the relatively short period of the take-off into self-sustaining growth; (4) the rapid rise to maturity; and (5) the era of high mass consumption or alternatively high social investment in military and space machinery.<sup>20</sup>

The important thing in Rostow's approach is to be found in her third concept of take off as a unique stage in a historical development which requires three related conditions :

- (a) a rise in productive investment ;
- (b) the development of manufacturing sector with a high rate growth; and
- (c) the existence or rapid emergence of a political, social and institutional framework with a capacity to mobilize capital from domestic sources.

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20. Rostow's original formulation appeared in "The Take Off of Self-sustained Growth", Economic Journal, March 1956, pp.25-48.

Thus the third concept is essential for the growth process which is hampered by a shortage of capital, resources and low productivity of output. Rostow, thus suggested that domestic savings or shortage of capital during the take off period could be supplemented by capital imports as to increase the level of investment required for the increase in the growth rate.

The Chenery Strout model became popular and was broadly used as the base for both the administration of foreign aid programmes in individual countries and the estimation of global aid necessity. It combined three concepts (a) the skill limitation (the capital absorptive capacity); (b) the gap between domestic investment required to achieve a given rate of economic growth and domestic savings; and (c) the gap between foreign exchange requirements to sustain the prescribed level of domestic investment and the country's foreign exchange earnings.<sup>21</sup>

A country's progress towards the goal of self-sustaining growth at given target could be constrained by three factors (a) the skill limitation; (b) the saving limitation; and (c) the foreign exchange limitation. It was argued that foreign aid could play a role in alleviating

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21. Chenery Strout, "Foreign Assistance and Economic Development", American Economic Review, Sept., 1966, pp. 679-723.

these constraints and could promote the level of investment necessary to achieve eventual self-sustaining growth. In addition, countries would need to take appropriate measures with the help of foreign assistance to remove internal obstacles for raising investment to the required level.

Besides self sustaining economic growth, there is another approach of aid known as the "basic human needs". The basic elements of this approach are (a) greater emphasis on increasing agricultural output in rural sector; (b) the adoption of technologies that increase employment; (c) more equitable distribution of social progress; and (d) an increase in education and training with special attention to opportunities for the poor.<sup>22</sup>

It is neither an anti-growth approach nor simply a welfare programme because its objective is to increase employment and productivity in the poorest sectors of the economy. The liberals consider economies of developed countries as service oriented. Increase in production and employment in their view lead to economic growth. This is likely to have important political consequences by providing a constructive outlet for nationalism, encourage social progress, develop political leadership and encourage confidence in the democratic process.

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22. Raymond F. Mikesell, n.19, p.28.



The liberals even emphasize international political economy and accept that multinational corporations have created linkages among nations and they generate a specific theory of international development. The mechanism of transfer of capital and technology is the same but the actors here are multinationals instead of governments. To the liberals the role of foreign aid is to bring out change from economic stagnation to self-sustaining growth in the developing countries. They hold that the cause of the underdevelopment of periphery is mainly because of internal stagnation or sluggishness and its cure is outside help from the developed states in the form of concessionary aid which is an instrument to speed up the process of development of the developing countries of the Third World.

To conclude this discussion of relative roles of external capital and domestic policies in development progress one is tempted to quote from an article by Gustav Ranis, the former Chief of the Bureau for Programme and Policy Coordination of AID

But perhaps the most important among the not so subtle changes in less developed countries (LDC) policy attitudes is the growing recognition of what increased participation in the world economy via trade, capital and technology imports, can and cannot be. Such participation can and give substantial help to any development effort.... it provides a system with additional

options, resources and flexibility.... but the basic issue of whether society's development goals will be attained is likely to be decided at home. If an effort is being made to alter the domestic parameters, foreign capital can of course be helpful in effecting the often painful transition; it can also help enable this system to preserve on the old tracks a bit longer. Either way, the impact is marginal; there are strict limits on what the rest of world can do to affect the performance of typical world economy. After years of overselling impact of foreign aid and foreign capital; everyone now has a healthier more realistic view of the problems and limitations.(23)

### Marxist Approach

Marxist approach is just opposite to the liberal one. It considers foreign aid and technical assistance as nothing but mechanisms of the developed west to extract wealth of the developing countries. Aid giving has originated for the so-called purpose of promoting economic growth in the developing countries in order to make themselves self-reliant. However, in retrospect, aid has made the recipient less developed and more dependent on the

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23. Ibid., p.22.

developed donor countries. It is generally known as dependency approach and can be divided into two (a) classical Marxist approach; and (b) Neo-Marxist approach.

#### Classical Marxist Approach

Marx believed that the penetration of capitalist modes of production into the Third World is a historical progressive process as it represented a clear, social and economic advance over feudal and other pre-capitalist modes of production which it swept aside. The core proposition of Lenin's theory is that the pressure to expand overseas which led to "grab of colonies" was an expression of the economic imperatives of mature capitalism. According to Lenin "Imperialism is quite simply the highest stage of capitalism". The inevitable crisis of capitalism arise out of the tendency for productive capacity of industrial capital to outstrip the capacity for consumption of the mass of the population- this being limited by low wages. The problem of 'excess capacity or surplus capital' arise and can be resolved by exporting this capital to the so-called backward countries. This also necessitated political protection for the new foreign markets, investment and raw material sources. Colonial annexation served the purpose. While keeping rivals out and thereby



make these colonies dependent upon capitalist system".<sup>24</sup>

The Radical Marxist believe that the western countries had development not by the laws of market but by a particular sequence of world conquest and land occupation. The radical theory of development fundamentally disagrees with the conventional (liberal) view regarding both the cause and cure of underdevelopment. To them, the cause is international exploitation by the developed friends and cure is a fundamental change in international relations.<sup>25</sup> Radical theorist claim that the causes of underdevelopment are external in origin. According to them, the developing countries sell raw materials to the developed countries and purchase manufactured goods in return. The prices of primary products don't rise to the extent as the prices of industrial goods have gone up. When the unfavourable balance of trade is on increase the third world countries have to depend on the developed countries and the dependence is perpetuated.

Radical critics contend that aid cannot encourage development because it is designed to perpetuate and increase under-development. In their view aid stunts

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24. Andrew Mack, David Platt and Ursula Doyle, Imperialism Intervention Development (London, Croom Helm, 1979), pp.6-7.

25. S. Rosen and W. Jones, "The Radical Theory of Development", in a book edited by Andrew Mack, David Platt and Ursula Doyle, Imperialism, Intervention and Development (London, Croom Helm, 1979), pp.246-248.

agriculture, encourages trade, and investment and reinforces the dominance of exploitative southern elites. For instance, industrial development is dependent on exports (which generate currency to buy capital goods). Exports of the developing countries are controlled by the capitalist elites which in turn is tied to foreign capital (as they remit their capital abroad) and controls the marketing of exported products. Thus foreign aid does not lead to social welfare rather seem to increase the unequal distribution of income in the developing countries. National income gets concentrated in the hands of few. They stress that "The development of capitalism in the Third World is impossible except as a distorted and feeble caricature of the western capitalism". In their view the net flow of resources is not from rich to poor but from poor to rich. The Third World countries given economic aid to the west and not vice versa. The radicals consider that foreign aid greatly accelerates the development in the developed countries.<sup>26</sup>

According to the structuralist approach, international political economy is gearing the structures of dependency and dominance. The economies of the 'periphery' have evolved in such a way that they can meet the demands of the 'centre'.<sup>27</sup>

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26. Andrew Mack and Richard Leaver "Radical Theories of underdevelopment. An assessment in a book edited by Andrew Mack, David Plant and Ursula Doyle, "Imperialism Intervention and development (London, 1979), p.258.

27. Sushilla Agarwal, n.16, p.14.

The underdeveloped areas were suppressed and controlled by the 'centre' thereby reduced to the supplier of cheap raw materials for the industries of the centre i.e. developed countries.

The structuralist thinkers consider that aid does not transform the South and therefore has little impact on North-South relations. Rather aid simply becomes a new feature of economic dependence. Under which economic decisions are taken beyond the developing country's boundary and thus outside its control.<sup>28</sup> So the dependent countries are unable to exert any substantial influence on the basic decisions affecting their national economy. According to Furtado -

Initially dependency relations were based on the international divisions of labour in which the dominant centres reserved for themselves the economic activities leading to the concentration of technological progress. (29)

Furtado's emphasis is on the need to study the structures of the world economy as entirely within which the developing countries are sub-systems. No doubt, in the years following world war II, dependence has been maintained

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28. R.Mack and R.Lever, "Radical Theories of Development" in a book ed. by Andrew Mack, David Plant and Ursule Doyle, Imperialism, Intervention and Development (London, Croom Helm, 1979), pp.260-261.
29. Sunil Kumar Sahu, "A Critique of the Theory of Dependency", in Man and Development (Chandigarh), vol.7, no.4, Dec., 1985, p.135.

by controlling the assimilation of new technologies through the establishment of productive activities within the dependent developing countries, all under the control of groups incorporated into the dominant economics. All Marxist either radical or structuralist view that aid creates a state of dependency.

#### Neo-Marxist Approach

Neo-Marxism adds another dimension to the structural dependence approach; application of the Marxist class analysis to contemporary capitalist imperialism. Neo-Marxism is that subject of Marxists thought which attempted mainly since 1945 to come to terms with the now notorious paradox of Marxism's practical success in underdeveloped areas. Neo-Marxism is that Marxism which represents 'the absorption and adaptation of Marxists principles to the concrete and specific problems of the hundred-odd countries of the Third World.'<sup>30</sup>

According to Neo-Marxist, neo-colonialism is a adaptation of colonialism to a period without formal empires. Under Neo-colonialism, most Third world nations have become dependent on the international economic system

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30. S.Kubalkova, International Inequality, Chapter III The Third World Dependency and the new International Economic Order (London, 1981), pp.101-104.

dominated by the western capitalist powers for markets, technology, financing and even basic food stuffs to such a point that these less developed countries may be called 'hooked'. They cannot do without their dependence, but just as well, they cannot do without it.<sup>31</sup>

A great theorist Palma quotes :

One (permanent in Marx's and Engles writings) involves plunder (of wealth and slaves) and export of capitalist manufacturers to the peripheral countries. The second (uppermost in Lenin's writings) involves export of capital, competition for supplies of raw material and growth of monopoly. The Third involves more complex post-colonial dependency (32).

Neo-Marxist hold that the cause of underdevelopment could variously be attributed to the world capitalist economy i.e. modern capitalist imperialism. It comprises "a complex of private corporate policies, supplemented by induced governmental support, seeking to develop or secure sources of raw materials and food, secure markets for manufacturers and secure outlets for both portfolio and direct capitalist investment".<sup>33</sup> The expanding and deepening of world capitalist economy will lead to slow down and to control the development of underdeveloped country.

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31. Tony Smith, Anti-colonial Nationalism and Western Response in a book edited by Andrew Mack, David Plant and Ursula Doyle, Imperialism, Intervention and Development (London, 1979), p.30.

32. P.W. Preston, Theories of Development (London 1982), p.212.

33. A Kublakova, n.30, pp.101-104.



Baran, the first ever Marxist, who attempted a full examination of the effects of capitalism on underdeveloped countries said :

The imperialist powers protect a feudal mercantile order, therefore, the wealthy classes in the peripheral countries are prevented from developing into a middle class industrial bourgeoisie, which could create local national capitalism. The resulting social order tends to come under the control of a coalition of wealthy compradors' and large landowners who together with educated salariat, from the part of structure through which the bulk of surplus is assured to the transferred to the 'centres' even after the colonial rule is over. (34)

The Neo-Marxist consider multinationals as an instrument to extract huge profit from the developing countries. They create a satellite class in the receiving country by giving higher wages and salaries to a few persons who are tied to multinationals. These companies thwart all local enterprises which perpetuates dependence on the developed country.

That the dependence inhibits the development of the developing countries has been one of the main points of agreement between the Marxist<sup>t</sup> and Neo-Marxist theorists. They view that aid is ineffective as an instrument of development. Rather it is a new form of dependence on the developed countries. It creates a stage of indebtedness in the developing countries as they are continuously having

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34. Sunil Kumar Sahu, n.29, p.139.

a deficit balance of payment because of unfavourable balance of trade. Their capacity, to save is also very little. Economic imperialism nurses its ugly head in the guise of aid. Teresa Hayter remarks :

Aid has never been unconditional transfer of resources and usually conditions attached to aid are clearly and directly intended to serve the interests of governments providing it. (35)

In spite of disagreements between the liberal and Marxist approaches about the cause of underdevelopment of the periphery or South, both agree that development is needed in South (Third world countries). Political realist Hans J Morgenthau accepts that aid is used in different circumstances in different forms but the basic function of all types of aid is political.<sup>36</sup> Edward S. Mason, accept the fact that foreign aid is an instrument of foreign policy. He observes :

It is hard to find any developed country which gives aid to developing country with a purely disinterested desire to help the less developed countries. Aid is useless unless it can be assumed there is a strong community of interest between aid giving and aid receiving countries.<sup>37</sup>

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35. Teresa Hayter, Aid as Imperialism (London, 1971), p.4.
36. Hans Morgenthau in George Liska's The New Statecraft (Chicago, Aldine Publishing Company, 1966), p.IX.
37. Edward S. Mason, Foreign Aid and Foreign Policy (New York, Harper and Row, 1964), p.4.

Whereas developing countries need aid because of their internal and external compulsions, internal stagnation, lack of technical know how and their exploitation by capitalist countries for the donor countries, it is aimed at to improve their position in the global balance of power.

#### Aid Diplomacy as an Instrument of Foreign Policy

Foreign policy a series of actions and inputs that a nation state makes use of for influencing the behaviour of other states and also for the protection of its perceived goals. The economic instruments including aid serve as a powerful tool in the achievement of these goals. Aid diplomacy comprises a whole range of activities involving use of material and human resources for the achievement of the ends of foreign policy of the donor country. The donor exercises 'leverage' so as to induce the recipients to act in certain way favourable to donor's interest.<sup>38</sup>

Aid has also been used as an outlet for surplus goods and has invariably been used by the donor states for putting pressure on the recipients or for building up strength vis-a-vis its opponents. Foreign policy decisions of economic dependencies or recipients constitute what Rosenau calls "adaptative behaviour" i.e. adaptative to

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38. Desmond D. McNeil Contradictions of Foreign Aid (London, Croom Helm, 1981), p. 27.

pressure exercised by forces within and without policy.<sup>39</sup> It is very difficult for the developing countries to achieve independent economic development by getting rid of economic subordination. National policies of donor countries with respect to foreign aid differs considerably as they are rooted in political policies and historical relationships. Aid as an instrument of foreign policy implies that foreign aid programmes are shaped with the interests of both the recipient and donor countries. The attempt of donor to promote material advance by the supply of external resources tends to influence values and indeed the developmet process of the recipients.<sup>40</sup>

Aid involves much more than economics, since it is an important instrument of foreign policy. For the donor countries aid presents subsidised markets in the recipient countries. Its prospects and provisions have undoubtedly influenced them. The recipients may or may not have wished to adopt such policies (supported by donors) in the absence of foreign aid. But in order to avoid donor's influence, the receiving countries prefer to obtain assistance from several sources rather than excessively dependent on one.

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39. N.R.Richardson, Foreign Policy and Economic Dependency (New York, Texas, 1964), p.4.

40. B.Ward and P.T.Bauer, Two Views on Aid to Developing Countries (Bombay, Vora, 1968), p.53.

It is unrealistic to expect that the donor offers aid purely on humanitarian basis (however one cannot rule out the existence of humanitarianism as an element). It may perform a political function in the sense that it is likely to influence the attitude of the recipient country towards donor either for worse and better. Moreover, foreign aid doctrine in the recipient countries while often broadly in accord, with the immediate objective of the donor is usually based on entirely different philosophy of aid from that held by the donor. Recipients may regard aid as an obligation of the rich countries and a right of the poor countries.<sup>41</sup> In fact they often consider aid as the compensation paid by the former colonial power for exploitation of their resources. No doubt, the recipients have suspicion and resentment towards aid diplomacy of the donor countries but still they are accepting aid in order to fulfil their immediate requirements.

Aid bears a double stigma i.e. the stigma of charity and suspicion. The selfish interests of the donors may be just as much economic and political. While the

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41 Raymond E. Mikesell, The Economics of Foreign Aid (London, Weidenfeld Nicolson, 1958), p.1.

recipients of aid are certain to approach its utilization with political and economic considerations in mind. Aid as an instrument of foreign policy exists because the governments of the developing countries think they cannot achieve economic development of their own whereas the developed countries think they can dominate over these developing countries by giving aid. In principle, however relatively little effort has been made in donor countries to analyse the relationship between foreign aid and foreign policy. But still old maxim has much validity : "He who pays the piper calls the tune".<sup>42</sup>

Foreign aid has always been a bulwark of diplomatic effort. It is by and large now agreed among scholars of international relations that aid is a vehicle for the ends of the donors who must gear their aid programs to pursue foreign policy goals even though the superficial objective might be self-abnegation or self abandonment. It may be pouched in phrases such as "service of humanity", helping mankind or sharing "economic benefits".<sup>43</sup> etc. but its real objective could be entirely different. Aid for recipients has become a new feature of economic dependence and a symbol of economic weakness because aid has altered neither

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42. T.A. Bailey, The Art of Diplomacy: The American Experience (New York, 1968), p.199.

43. Dewan Chand Vohra, India's Aid Diplomacy in the Third World (New Delhi, Vikas Publishing House, 1980), p.2.

the distribution of wealth and nor even lead to growth. However, the social-economic climate of international arena has made aid an instrument attractive to donors as well as recipients.

#### Aid Diplomacy by Big and Middle Powers

Aid diplomacy has been practised extensively by superpowers, middle powers and lesser powers depending on their natural resources and level of economic development in order to promote their national interest and keep their influence, status and prestige in the world. Aid has become an instrument of influence ever since the cold war started between the USA and the Soviet Union soon after World War II. Both the USA and the USSR perceived aid as an instrument of influencing the underdeveloped economies of the Third world which are either friendly to their ideology, or atleast not friendly to other side. Though both of them want to save the world from hunger, want and destitution, neither is prepared to act accordingly. They have defined all issues in accordance with their ideological, strategic and politico-economic interests. While most of the colonial structure crashed after World War II, the developing countries are determined to throw off the remaining shackles of economic stagnation by transforming their traditional economies into modern one. Consequently,

the revolution of rising expectations is taking place.

Paul G. Hoffman has rightly analysed

...in all probability there was always something smouldering unrest but it did not burst into flames until the advent of world war II. (44)

From the mid 1950's the less developed countries are becoming more numerous and outspoken and somewhat more united and specific in their demands for international economic reform. The Northern countries accept their demands when the developed market economies begin to perceive a threat to their traditional position of political dominance and security in the developing and the least developed countries. Moreover the USA has expanded its security interests to certain parts of the South, particularly to the bordering states of the Soviet Union and the Peoples Republic of China and to certain Middle East countries. They also began a fairly significant assistance programme to the Southern countries.

The link between development and national security as a part of American foreign policy emerge only when Soviet Union pose a threat to the Third world. As Khrushchev announced that competition with the West was to be expanded to less developed countries. In 1956 Khrushchev announced a new Soviet Policy in the Third world i.e.

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44. Quoted from Sushila Agarwal, n.16,p.19.



These countries although did not belong to the socialist world system, can draw on its achievements in building an independent national economy and in raising their people's living standards. Today they need not go begging to their former oppressor for modern equipment. They can get it in the socialist countries, free from any political and military obligations. (45)

In the super power view, however, the question has not been whether developing countries will be able to induce economic growth; rather it is what political and economic measures will be undertaken to ensure growth.

#### American Aid Aims

At the end of World War II, the USA found itself in a historically unique situation as it was much better off economically than at the beginning of war. However, at this time the economy of European countries was in bad shape. The USA provided economic assistance to the countries of Western Europe to reconstruct their war devastated economies under Marshall plan. This was considered essential to contain communism. Later on, under Truman's point four programmes ( the policy of the US to aid the efforts of the people of economically underdeveloped areas to develop their resources and improve their living conditions) - developing countries were also included in order to contain communism from Asia.<sup>46</sup>

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45. Joan Eldeman Spero, n.6, p.154.

46. Goran Ohlin, "Foreign Aid and Policies Reconsidered (Development Centre of the Organisation for Economic Cooperation and Development (OECD) Paris, Feb., 1966), pp.15-16.

As the Korean war brought Asia into sharper focus. So ideological it may be contended that the political and strategic considerations shaped US aid policy in the Third World. Soviet entrance into the field of foreign aid as competitor of the USA was startling and worrisome for many American officials. American conviction that the Soviet Union could not compete in the field of aid was shaken. Thus competition with the Soviet Union became a new and an important inference of American aid.

Communism as a manifestation of equality of status became an alternative for the people of the Third World countries who are trying to speed up the process of nation state building and also economic development. To the American officials however, aid as an instrument of foreign policy is best adopted to promote economic development. Development is not an end in itself but it is a critical element in the American foreign policy i.e. in most countries some progress in the economic sphere is essential to the maintenance and growth of free non-communist bloc. President

Kennedy said in 1961 that

Foreign aid is a method by which the United States takes a position of influence and control around the world and sustains a good many countries which would definitely collapse, or pass into the communist bloc. (47)

The USA invariably gives aid to the private sector. In doing so it is aimed at spreading the ideology of democratic institutions and capitalism. It also aims to influence the process of political and economic development of the Third World. President Ronald Reagan in his state of the Union address to the Joint session of Congress on 26 January 1982 said :

When radical forces threaten our friends, when economic misfortune creates conditions of instability, when strategically vital powers of the world face under the shadow of Soviet power, our response can make difference between peaceful change or disorder and violence. That is why we have laid stress not only over defence but on our vital foreign assistance programme. Your recent passage of foreign assistance act as a sequel to the world that America would not shrink from making investments necessary for both peace and security. (48)

#### Soviet Aid Aims

The Soviet Union hopes through aid to create a world which is predominantly pro-communist, Pro-USSR and anti-western in its mode of thought, behaviour and

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47. Quoted from book, Sushila Agarwal, n.16, p.21.

48. Murlidhar Dharmdasani, Political Economy of Foreign Aid in the Third world (Varanasi, 1984), p.19.

obligations. It considers foreign aid as a means to strengthen international communist unity and for that it has virtually become an active contender with the USA for mastering the support of the Third World countries. It is the pursuit of this objective that terms of aid are quite soft as it is repaid in local currency. Moreover the Soviet Union mainly gives aid to public sector. V. Panov in her book The Economic Weapons of Neo-Colonialism, puts it as

Development of the state sector exerts a beneficial effect not only on the economy but, also on the political life of the developing countries. The growth frustrates the neo-colonialist plans, restrict domestic private capital enterprise and exerts a favourable impact on the alignment of class forces in the country. As national industry develops, the ranks of the proletariat grow and rally the progressive forces of the nation, checking the onslaught of internal and external reaction. (49)

The Soviet, is motivated by her urge to draw the less developed countries away from the hold of the capitalistic bloc. It also helps them to live and develop independently along with the non-capitalist path. Soviet aid programmes are so planned that in the long run, the class structure of the recipient countries is bound to change and structural changes in the international system are also envisaged. The Soviets want to strengthen their

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49. V. Panov, The Economic Weapons of Neo-Colonialism (Moscow, 1972), pp. 100-101.

position by preventing Third world dependence on the western bloc. Again Panov says :

Friendly economic ties existing between the socialist and developing countries play an important part in the struggle, the latter are waging against the neo-colonialists for their national economic independence. (50)

The Soviet economic assistance appears to be related for more to support ideologically compatible allies, the search for strategic benefits and building up the foundations for future political influence. The point was cleared by the Soviet leader Leonard Brezhnev. He said

The Soviet Union will strive to help the people of the newly independent countries to solve the problems of their economic development. Assistance of the kind lessens the dependence of the young state on imperialism, monopolies and furthers the consolidation of the anti-imperialist front. (51)

Both the USA and the USSR hope that economic aid will condition international environment by making it conducive to their respective concepts of desirable social political and economic progress. when viewed in terms of long range motivations both the Soviet and American aid

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50. Ibid., p.104.

51. Dharamdasani, n.47, p.20.

diplomacy essentially efforts in pursuit of milieu goals.<sup>52</sup> Such a policy involves an attempt by a state to change the international environment or to increase the likelihood of its own interest being attained efficaciously.<sup>53</sup> The emergence of a well articulated opposition to colonialism in the overt forms has prompted the leading big powers to rely on aid and other subtle and sophisticated means of influence on the less developed countries - George Léska said :

Rivals in open war and secret diplomacy seek to control specific acts of trade and transport for immediate military ends. The rivals of today seek to influence the still mysterious process which shape the economic and political institutions of Third world in indefinite future. (54)

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52. Aid as an instrument in the attainment of milieu goals sequences neither a complete compatibility of interests between the donor and recipient, not a relationship of dependency. Milieu goals as used here is a concept of Arnold wolfers presented in Discord and Collobration (Baltimore, John Hopkins Press, 1962), pp.73-74.
53. Robert S.walters, American and Sovied Aid - a comparative study (USA; Pittsburg, 1970), p.49.
54. George Liska, The New State Craft (USA; Chicago Press, 1960.), p.5.

Aid diplomacy should not be understood only in terms of developed countries relation with the developing countries but also in terms of intra-developing countries relationship. One of the basic feature of the international system from 1943 onwards is the interdependence of national societies. Conscious of the increasing importance of economic factor and interdependence of the countries. India has consistently worked towards strengthening its relations with both the developed and the underdeveloped countries.

India has paid special attention to its neighbours in the South Asian region who are non-aligned. It shares with them the need for cooperation for mutual benefit and development. Aid diplomacy in our times, it may be pointed out covers cases where a relatively more developed country shares her experience and expertise with a less developed country for mutual benefit. The level of India's aid diplomacy in South Asia reflects the extent to which it has developed itself in the field of science and technology. The question which usually arises is whether India has used aid diplomacy for economic cooperation or for influence in South Asia. In spite of being the recipient of massive assistance itself, India on its own part is giving aid to South Asian countries for

geographical and strategic reasons.

Although India's aid programme is small when compared to more affluent countries, yet it acquires importance in view of her economic limitations. Its foreign economic aid can usefully be applied to the growth of South Asian development as India shares hopes and aspirations of South Asian countries for better living standards. Accordingly, the conduct of aid diplomacy by middle powers such as India has assumed significance in the South Asia region.



## CHAPTER II

## INDIA AND SOUTH ASIA

South Asia is a remarkable region for the desperate foreign policies and international linkages of all its component states. It is a region with unequal and different levels of economic development, within the broad and divergent framework of pre-capitalist or capitalist modes of production with varying degree of dependency on western capitalism, a profusion of bilateral conflicts and last but not least. India's predominance in size, population, resources and economic capabilities India takes itself the status of great power in South Asia. India's geographical location somehow gives her a central position. Moreover, its advanced industrial output, technical know-how, skill and manpower demand India to play a dominant role in the region. A scholar of Indian foreign policy has observed

Geopolitical consideration, which often are basic to state's foreign policy, indicated the rationality of an independent and important role in world affairs on the part of India. Emerging as the seventh largest state with second largest population in the world, with a relatively large stock of natural resources, India in 1947 had the power potential necessary for influencing, to some extent, the course of contemporary world politics.(1)

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1. J.Bandopadhyaya, Nehru and non-alignment in B.R.Nanda, ed. Indian Foreign Policy: The Nehru years (Delhi, 1976), p.171.

The chapter "India and South Asia" for the sake of convenience can be divided into five sub-sections (a) India's position in South Asia, (b) India's foreign policy aims (c) India's foreign policy in South Asia- New challenges and opportunities; and (d) India's capability to play a dominant role in south Asia.

(A) India's Position in South Asia :

South Asia is a compact area of geographically proximate states interacting with each other and sharing common bonds of history and culture. Though the region is comparable to Europe in size and population but it is economically backward. South Asia has one of the highest population densities- about a quarter of world's population lives here on only 3.3 percent of world's surface land. With its population of 830 million and one fifth of world's total, South Asia is a thickly populated region.<sup>2</sup>

South Asia is bordered by sea on three sides (the Indian ocean, the Arabian sea and the sea of West Bengal) and has a natural barrier in the north in the high altitude

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2. P.G.Salvi, India in World Affairs (New Delhi, D.K. Publisher, 1985), p.61 and Pran Chopra, "South Asia and Strategic Environment", USI Journal (New Delhi), July-Sept. 1977, pp.201-202.

mountainous ranges of the Himalayas and the Hindukush. It is separated from West Asia by the massive Korakoram Himalayan ranges. Its location places it at almost as a midway Junction between the middle east and the South east Asian regions. It adds significance because the northern borders of the five countries of South Asia (India, Pakistan, Nepal, Bhutan and Bangladesh) touch the southern borders of the two major powers of the world i.e. the USSR and Peoples Republic of China.

At present, the South Asian region is only a geographical area unlike the other recognised groupings of countries such as ASEAN (Association of South east Asian Nations) and covers the political divisions which lie south of the Himalayas and north of the equator. One common factor which links all these South Asian countries is that they are geographically contiguous with common land frontiers or common economic exploitation zones of sea which are more or less clearly demarcated and accepted by all South Asian countries through bilateral agreements.<sup>3</sup>

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3. V.D.Chopra, Pakistan and Asian Peace (New Delhi, Patriot, 1985), p.109.

South Asia presently comprises seven states - India, Pakistan, Bangladesh, Nepal, Bhutan, Sri Lanka and Maldives. Traditionally, the South Asian sub-system includes countries of the Indian subcontinent from Afghanistan in the west to Burma in the east. Both Burma and Afghanistan are 'borderline' cases in that they belong to South east Asia and South west Asia respectively. South Asia became a reality in 1947. Although, Sikkim as one of the constituent countries of South Asia, became a part of India in 1975 by thirty sixth constitutional amendment and Bangladesh, previously an east wing of Pakistan, emerged in 1971 as a sovereign independent country. With the formation of South Asian regional cooperation in 1983, the problem of identifying the countries of South Asia has become simpler. South Asian states ever since their emergence as independent members of international community present a mixed scenario of social, economic and political dynamics. South Asia is a strange admixture of liberal democracy (India), Presidential system (Sri Lanka), Military dictatorship (Pakistan and Bangladesh), absolute monarchy under the cloak of panchayat democracy (Nepal), constitutional monarchy (Bhutan) and Republican monarchy (Maldives).<sup>4</sup>

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4. Pramod Kumar Misra, South Asia in International Politics (New Delhi, U.D.H., 1984), p.187.

Populous, underdeveloped, abounding in inner conflicts and external interference, pressures and threats, the nations of the South Asia<sub>h</sub> region are the poorest in the world. The basic characteristic common to all countries in the region is that they are predominantly agricultural. Their rate of population growth is high with low per capita income of \$70 to 100 which is the lowest in the world.<sup>5</sup> The significance of the region is that about 20 percent of the global population lives in South Asia and they account for 27 percent of the population of the developing countries in the world.<sup>6</sup> People in the region are economically backward, using obsolete methods of production which consume more capital percent per unit output. Labour efficiency is low though major industries are labour intensive indicating that they are technically backward.

South Asia, more widely known as the Indian peninsula has a long heritage of its own. India having the largest territorial area, is a country of a subcontinent vastness and variety. It is a landmass, stretching approximately

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5. Pran Chopra, "South Asia and its Strategic Environment", USI Journal (Delhi), July-Sept., 1977, p. 202.
  6. National Herald (New Delhi) 9 Jan., 1984.

3000 miles from North to South and 2,500 miles from east to west. With all South Asian actors lying on its geographical periphery, India has 3,500 miles of coastline, 9900 miles of land frontiers and 1.26 million miles of land area. It is approximately thirteen times as large as the U.K., eight times of the size of Japan and a third of the size of Canada and one seventh that of the Soviet Union.<sup>7</sup>

The predominant characteristics of the South Asian region are (a) South Asia is an Indo-centric region; and (b) the power structure in South Asia is asymmetric.<sup>8</sup>

South Asia is an Indo-centric region i.e. India is central to the region geographically and also in terms of socio-cultural and economic infrastructure of the region. India towers her neighbours in South Asia in size, population resources and levels of technology in a way no superpower does. Neither the USA nor the Soviet Union nor even China so completely dominates its neighbours in the way as

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7. Peter Lyon, "India's Foreign Policy", South Asian Studies (Rajasthan) vol.4, no.1, Jan.1969, pp.4-5.

8. S.D.Muni, "India and Regionalism in South Asia", in Bimal Prasad, ed., India's Foreign Policy: Studies in Continuity and Change (New Delhi, Vikas, 1979), p.107.

India does. The countries of the region have common border with India. India is the only state in the region whose boundaries touch the territories of six states in the region, four by common land borders (Nepal, Bhutan, Pakistan, and Bangladesh) and two by maritime borders (Sri Lanka and Maldives). They are also related to India separately and individually in terms of their cultural identities, economic patterns, philosophical trends and historical experience. Conversely there is a bit of India in every other country of South Asia. There is also hardly anything of significance apart from India which may be said to be common between one of India's neighbours and another. India is the only common link among various countries of South Asia.<sup>9</sup> A result of this Indo-centric nature of South Asia is that no step

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9. "The emergence of Bangladesh in 1971 altered the situation a little, but the identities between Pakistan and Bangladesh fall within the overall Indo-centric nature of the region. Particularly notable in this respect is the fact that Islam as professed in Bangladesh and Pakistan is of Indo-Islamic cultural stock". See for details S.D.Muni, "India and Regionalism in South Asia", International Studies (New Delhi), Jan.-March, 1978, p.485.

towards cooperation can be taken in the region without India acquiring the central place in the scheme of things.

South Asia has an unbalanced and asymmetric power structure. Despite this imbalance and asymmetry, India stands as a dominant power in the region. It dominates in terms of size, population, resources, potential for economic growth, military strength and viability of the constitutional and political system. India is far superior to any of the neighbours. In South Asia, India comprises 73.2 percent of the total area and 76.7 percent of the total population, 76 percent of gross national product and 63 percent of net national product of South Asia. It has major concentration of mineral resources and is equally rich in energy potential.<sup>10</sup>

Data relating to India's dominant position in comparison to other South Asian countries is given below :

Table I

Country	(Land in million hectares)			
	Total Area in sq.km 000	Arable Land	Irrigated land	Population (mid 1981 millions)
Bangladesh	14.4	9.4	1.4	90.7
Bhutan	47	0.1	-	1.3
India	3,2,88	168.9	34.4	690
Nepal	141	2.0	0.2	15.0
Pakistan	804	19.4	13.6	84.5
Sri Lanka	66	2.0	0.5	15.0

10. Tribune (New Delhi), 5 Feb. 1985.



Source: FAO Production Yearbook, 1977, vol.31, pp.50-52.

The atmosphere in the South Asian region is more sour than sweet is best indicated by the state of relations of the biggest country with its small neighbours. India which constitutes core of the South Asian region- not only in geographical but in every other sense, thus, confronts what may be called an assertion of national identities by the neighbouring states. There is lurking suspicion in the minds of the small South Asian states about the possibility of being dominated by the so called "big brother" in the region. South Asia is a region where peace is still vitiated by unresolved bilateral issues. The national boundaries of this region have not in all cases, been accepted by all countries of the area.<sup>11</sup>

India being a dominant country in the region has to play a positive role in promoting the stability, economic and political development of these countries. Change in its position in South Asia cannot be acceptable to India. India's first Prime Minister, Jawaharlal Nehru said in

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11. Patriot, 1 August 1983.

the course of a speech in the constituent Assembly on  
8 March, 1949 :

The Indian Union is an infant state, infant free state, a year and a half old, but remember that India is not an infant country. India is very ancient country with millennial of history behind her - a history in which she has played a vital part not only with her own vast boundaries but in the world and in Asia in particular. India now, in the last year or more emerges again into the main trend of human affairs. Now that is something of great historical significance...and India now comes, I think into the forefronts of national events and world affairs. One of the major questions of the day is the readjustment of relations between Asia and Europe. When we talk of Asia, remember that India not because of any ambitions of her but because of the force of circumstances, because of geography, history and because of many other things, inevitably has to play a very important part in Asia. And not only that, India becomes a meeting ground between what might be called East and West. (12)

India's predominant position in South Asia puts it in a sort of dilemma and inevitable task of striking a balance between two extremes of high and low profile. It will have to show greater appreciation and accommodation for its neighbours aspirations, requirements and susceptibilities. India cannot aspire to play a major role in international politics without securing firm friendship and following of her neighbours in the South Asian region.<sup>13</sup>

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12. Quoted from Raj Kumar Jha, The Himalayan Kingdom in Indian Foreign Policy (Ranchi, Maitrayee Publishers, 1986), p. 21.
13. S.P. Verma, "South Asia as a Region" : South Asian Studies (Jaipur), vol. I, No. I, Oct., 1965.

India's special position in the South Asian region burdens it with responsibility of keeping South Asia aloof from the cold war and realising its ultimate goal of peace and stability in the region. Indian diplomacy has to perform the great task of keeping away extra-regional influence and also make itself strong and self-reliant economy. India's major concerns in the region have been two fold: to build strategic harmony and encourage moves towards economic and social development. They are the bare necessities of India's quest for self preservation and progress.

(B) Foreign Policy Aims of India

The making of foreign policy is essentially an exercise in the choice of ends and means on the part of a nation state in an international setting, it can be said that for giving direction to her behaviour at the international level each nation adopts a set of principles as rational guide - the foreign policy. It is through her foreign policy that a nation formulates, adopts and attempts to secure the goals of national interest. The concept of national interest or a goal of foreign policy is universal and static, but the actual national interest of any particular state is both specific and dynamic. The

essential components of national interest of any nation are security, national development and world order.<sup>14</sup>

National interest is best understood by examining three basic units i.e. strategic position, economic condition and prestige bearing.

The behaviour of each nation as such is conditioned by her foreign policy. No foreign policy can afford to be indifferent to its national interest which covers desires on the part of sovereign state and these desires vary enormously from state to state and from time to time. Two passages from Jawaharlal Nehru's speeches on the subject are relevant in this connection.

Whether a country is imperialistic or socialist or communist, its foreign minister thinks primarily of the interest of that country. But there is a difference, of course. Some people may think of the interests of their country regardless of other consequences, or take a short-distance view. Others may think that in the long term policy, the interest of another country is as important to them as that of their own country. The interest of peace is more important, because if war comes everyone suffers, so that in the long distance view, self-interest may itself demand a policy of cooperation with other nations, goodwill for other nations, as indeed it does demand.

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14. See for details, J. Bandyopadhyaya, The Making of India's Foreign Policy (New Delhi, Allied, 1984), pp.1-18.

Every intelligent person can see that if we have a narrow national policy it may excite the multitude for the moment, just as the communal cry has done, but it is bad for the nation and it is bad internationally, because we lose sight of the ultimate good and thereby endanger our good. Therefore, we propose to look after India's interests in the context of world cooperation and world peace, in so far as world peace can be preserved. (15)

To a question, which is to be preferred when there is a conflict between India's interest and the interests of other nations, Jawaharlal Nehru's answer was clear -

If our view point is different, you cannot expect me to give up our viewpoint on the results that we have arrived at because some other nations think differently. I just would not know that. I don't understand long and repeated arguments about this. I am on my country's side and nobody else's. (16).

Independent India began to lay stress on certain basic goals and principles of Indian foreign policy. These are: (1) Promotion of International Peace and Security; (2) Peaceful Co-existence; (3) Peaceful settlement of disputes; (4) Anti-colonialism and anti-racialism; (5) Just international economic order and economic development; and (6) Non-alignment.

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15. A Appadorai and M. S. Rajan, India's Foreign Policy and Relations (New Delhi, Sterling, 1985), p.33.

16. Ibid., p.33.

On September 26, 1946 at a press conference, Pt. Nehru issued following statement that clearly lists the principles of Indian foreign policy.

In the sphere of foreign affairs India will follow an independent policy, keep away from the power politics of groups aligned one against another. She will uphold the principles of freedom for dependent peoples and will oppose racial discrimination wherever it may occur. She will work with other peace loving nations for international cooperation and goodwill without exploitation of one by another. It is necessary that, with the attainment of her full international status India should establish contact with all great nations of the world and that her relations with neighbouring countries of Asia should become still closer. (17)

The cornerstone of India's foreign policy in the world is to respect the forces of peace, progress, democracy, independence and non-alignment. Soon after independence India's policies towards South Asia \*in particular and Asia in general followed two main trends. One represented India's urge to retain the newly won freedom in the practice of foreign policy based on non-alignment. The second trend shows the application of these principles to the problems of Asia.<sup>18</sup> The major

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17. Quoted from R.Ghai, Foreign Policy of India (New Delhi, New Academic, 1984), p.27.

18. Colombo Conference and Bundung Conference are indicative of the trend.

aims of India's foreign policy in South Asia are (a) Preservation of national security and national interests; (b) to promote economic progress in the region ; and (c) to encourage political stability in the region.<sup>19</sup>

India has always believed that its national interest would be best served by pursuing two inter-related goals in the region, namely promotion of stability within the countries of the region and peaceful co-existence between them. These goals have been sought to be pursued through the method of bilateral peaceful negotiations. India continues to stress on the principle of bilateralism which expects the two sides to settle their disputes without seeking third party's intervention.<sup>20</sup> Thus the primary objective of India's foreign policy has been the erection of a stable inner balance on the subcontinent in which India as a principle power would play an integrative role. Nehru fashioned the ambiguous role of non-alignment with a view to maintaining the autonomy of Indian diplomacy in a world polarised between the two mutually hostile blocs.

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19. Brhendra Nath Banerjee, India's Aid to Neighbouring Countries (New Delhi ,Select Books,1982),pp.54-55.

20. B.S.Gupta, "Towards Good Neighbourliness", International Studies (New Delhi), vol.17, no.1, Jan-March 1975, p. 469.

Although the smaller countries of South Asia accepted non-alignment as a conceptual guideline of their external relations, Pakistan's adherence to the alliance system made it difficult for India to play an integrative role in the subcontinent. As time passed, the competitive influence building or the interventionist thrust of the USA and the USSR and also China made the subcontinent as one of the most intransigent geostrategic region in the world.<sup>21</sup> Thus India's foreign policy towards its neighbours in South Asia is directed to achieve one objective: to promote cooperation and goodwill among South Asia countries. In a speech at the University of Columbia Pt. Nehru stated that -

The basic tenents of India's foreign policy are as such :

The main objectives of that policy: the pursuit of peace not through alignment with any major group or power but through an independent approach to each controversial or disputed issue, the liberation of subjected people, the maintenance of freedom, both national and individuals the elimination of racial discrimination and eradication of want, disease, ignorance, which afflict the greater part of world's population.(22)

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21. Times of India (Delhi) 4 August, 1983.

22. Jawaharlal Nehru, India's Foreign Policy, Selected Speeches, 1949-53 (New Delhi), p.401.



Fostering economic cooperation among the developing countries has been the basic aim of India's foreign policy since independence which arose from India's desire to play an influential role specially in South Asia and generally in Asia. India's economic cooperation with other developing countries occurs at two levels, one directed by the economic imperatives of its own internal development and other by the mechanism of foreign economic policy.

India's relations with other developing countries in South Asia are based upon her own development experience. It is feasible that India's ties with the neighbouring countries in South Asia may gradually change her dependence on industrial countries and possibly provide the Indian state with greater world autonomy. India's relations with the developed countries are essentially of dependency which has important bearing, upon her relations with less developed countries. Yet dependency is not primary determinant of India's foreign policy.<sup>23</sup>

The countries of South Asia have a tendency to adopt a sort of love-hate relationship with India. There are occasions when an earnest desire to help by India tends to raise feelings of bitterness and resentment among

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23. Sri Kant Dutt, India in the Third World (London, 7ed. Book, 1984), p.2.

the South Asian countries. Since it is more often mistaken for an arrogant display of superiority and obverbearing patronage.<sup>24</sup> Indian government made it clear that India has and wishes to have only friends and no satellites and it sticks to panchasheel, the five principles of peace and none of her neighbours need have fears. Indeed one of the threads running through India's foreign policy since independence has been to give a helping hand to the countries around her to live and feel as equals of other nations.<sup>25</sup> India has no intention of dictating any path of socio-economic development of the South Asian countries. Mrs. Indira Gandhi, the Prime Minister of India said on 1 August, 1983 that "we want to be friends with all on equal footing of equality. But we should be ever vigilant against attempt of external powers to influence our functioning."<sup>26</sup>

No doubt it is a difficult task for a big country like India to develop and sustain mutually beneficial relations with its smaller neighbours, even in best of

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24. The Hindu (New Delhi), 17 July 1983.

25. National Herald (New Delhi), 28 June, 1983.

26. Tribune (New Delhi), 2 August, 1983.

times but much more so when there are other great powers bent on sowing the seeds of discord and exploiting their differences. The country's diplomacy towards its neighbours in South Asia should serve as an integral part of its regional policies which in turn form the very bases of foreign policy. It is not possible for India to play an effective role unless it is able to establish closer bilateral relations with the neighbouring countries of South Asia.

(C) India's Foreign Policy in South Asia  
New Challenges and Opportunities

There is no region in the world in which a single country appears so large as India does in South Asia. As early as 1949, the first Prime Minister Pt. Jawaharlal Nehru recognised the central position of countries bordering India by land and sea in its foreign policy saying "the neighbouring countries had the first place in our minds".<sup>27</sup> South Asia minus India has two types of powers i.e. Pakistan and the smaller states consisting of Nepal, Bhutan, Bangladesh (emerged in 1971, previously a wing of East Pakistan), Sikkim (became twenty/second state of India in 1975 by thirty sixth constitutional amendment); Sri Lanka and Maldives. While the former one can limit India's aspirations the later ones have bargaining power, to restrict India's major role in South Asia, which it desires to play.

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27. Quoted from V.P. Dutt, India's Foreign Policy  
(Delhi: Vikas, 1984) p. 126

India took on itself the status of great power in South Asia in 1947. At the time of first Asian Relations Conference held in New Delhi (March 1947) South Asia, did not have Pakistan as an independent state. India was partitioned in August 1947 to create two independent states i.e. India and Pakistan. Pakistan constituted the only major country/state in 1947 (as other powers were small and weak) which could upset an Indian sponsored order in South Asia. Since independence, Pakistan is a major factor in influencing India's role in South Asia. The basic principles of its foreign policy which India adopted happened to be just opposite to that of the foreign policy principles adopted by Pakistan. India regarded opposition to cold war and security alliances as the right and first course of action. It felt that non-alignment with power blocs and non-involvement in the cold war is the best means for securing international peace and the national interests of India. Pakistan on the other hand felt that the best way to secure its national interest-military parity with India and opposition to India- was to align itself with Western security system and to receive the much wanted military weapons and hard ware. Moreover, Pakistan's urge for standing on the same mountain top as India and its continuing crisis of identity lent a

particularly explosive dimension to the two neighbours' mutual dealings.

The other smaller powers of South Asia are not in a happy position as Pakistan is. Historical and cultural ties made them (small states of South Asia) accept the Indian formula (strategic frontier-zone policy) adopted earlier by British responsibility for the security of the smaller states.<sup>28</sup> (India pursued the goal of evolving what may be termed as multilateral strategic community on the subcontinent. As India concluded bilateral treaties of peace and friendship with Bhutan, Nepal and Sikkim). In case of Sri Lanka, the logic worked in a more or less similar manner. The three Himalayan states of Nepal, Sikkim, and Bhutan had more to fear from China than India. This situation along with the rationale of non-alignment helped India to evolve a concept of order in South Asia which would inevitably be revolving around the relatively superior power viz. India.

The defeat of India in 1962 war with China had serious repercussion on India's attempt at seeking recognition in South Asia. Pakistan by moving closer to

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28. Sri Kant Baranjpe, India and South Asia since 1971 (Delhi, Radiant, 1985), p.20.

China was able to defy India's attempt at going back to 1947 model and also claimed a status of parity with India.<sup>29</sup> Moreover, the Indo-Pak war of 1965 was initiated to take advantage of the Indian situation. The small powers also started the slow but inevitable swing away from total dependence on India. Sri Lanka did not brand China as the aggressor in the Sino-Indian border war of 1962. In the Colombo Conference, over Sino-Indian border war, Sri Lanka showed its eagerness to balance India and China by declaring its desire to maintain impartiality. In fact it initiated the Colombo powers conference to assume the role of a mediator.<sup>30</sup> Nepal also started to talk more in terms of independent policy postures. It practised the politics of equidistance and balancing one against the other. India was set on a course of regaining the lost glory in South Asia. Thus focus of

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29. The concept of parity between India and any South Asian neighbours is a ridiculous proposition. This means no disrespect for the people of these countries but a recognition of the realities of the international situation". V.P.Dutt "India's Approach to Neighbours", Mainstream, (New Delhi), 15 August, 1981, pp.11-12.

30. For final communique see, Foreign Policy of India, Text of Document 1947-65, pp.546-549.

Indian approach shifted from a generalistic Pan Asian African regionalism to a bilateral policy of a specific nature particularly in South Asia where serious efforts to restore bilateral ties were made. By late sixties the situation started to change rapidly in South Asia. The east Pakistan agitation that began as an attempt to gain more autonomy within the federation of Pakistan transferred itself into a demand for independence. But West Pakistani leaders followed a suppressive campaign in East Pakistan. Further, when the big influx of refugees from East Pakistan into India took place in the post-March 1970 period India found herself burdened with the responsibility of looking after the primary needs of these refugees. The situation finally climaxed when India decided to aid the liberation of East Pakistan, which soon developed into a Indo-Pak war. The war ended with a decisive victory for India while Pakistan was cut down in size and strength. Bangladesh emerged as a sovereign independent Republic in 1971. From a big Islamic state trying to secure a parity with India, Pakistan was reduced to the status of a small state. India emerged as a strong and powerful nation in South Asia. Its status as a South Asian regional power was established. Pakistan's acceptance of this status was implicit in the signing of Simla agreement in 1972.<sup>31</sup>

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31. Sri Kant Paranjpe, n.29,p.22.

India's enhanced status had also not gone unnoticed abroad and the reference made to India by President Nixon in particular is pertinent. In his annual report to the United States Congress on 3 May, 1973, President Nixon referred to India :

India emerged from the 1971 crisis with new confidence, power and responsibilities. This fact in itself was a new political reality for the subcontinent and for all nations concerned in South Asia's future. For nations of that region, the question was how India would use its powers. For Nations outside the region, the question was what the relationship of the power would be to that of other powers in the world.... The United States respects India as a major country with its new stature and responsibilities, on the basis of reciprocity. Because India is a major country, her actions on the world stage necessarily affect us and our interests. (32)

Earlier in the course of her speech delivered to the Nepal Council of World Affairs, Kathmandu on 9 February, 1973, Prime Minister Indira Gandhi anticipated President Nixon's reference to world's power potential. She said :

I should like to assure that India has neither the desire nor the inclination to be a power---big, small or of any kind---not to interfere with

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32. Richard Nixon, President of the United States, "US Foreign Policy for the 1970's: Shaping a Durable Peace: A Report to the Congress, 3 May, 1973 in Department of state bulletin, vol.LXVIII, no.1749, 4 June, 1973, pp. 791-92.



her neighbours in any way....it is in our own interests that our neighbours are strong and stable and therefore we can help them we shall be glad to do so even though we ourselves are absorbed in our own problems. (33)

This revealed that India had not changed its posture, nor did it feel that need to, despite its enhanced prestige after 1971. Even as India's role in the fostering of friendly and harmonious relations in the subcontinent was commended, it was suspected that India was gradually losing the status that it had gained after Bangladesh war. Criticism was specially directed at India's seeming inability to take a firmer stand during negotiations with Pakistan. India's willingness to give more than take, was interpreted as growing weakness on India's part. It was also argued that Pakistan had increasingly moved to a position of strength by gaining sympathy of the USA, China and many Muslim countries.

The explosion of India's first nuclear device on 18 May 1974 in the deserts of Rajasthan was a proud achievement of India's nuclear scientists and boosted

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33. A.Appadorai and M.S.Rajan, n.16,p.565.

the nation's morale. The explosion, it was pointed out, formed an integral part of India's foreign policy "carrying out research and development into meaningful applications of nuclear energy for economic development" and was an important step in the country's search for alternative sources of energy. Speaking in the Lok Sabha on 22 July 1974, Prime Minister Indira Gandhi said :

I have repeatedly reaffirmed our policy of using nuclear energy for peaceful purposes and have specifically stated that we have no intention of developing nuclear weapons...Our Atomic Energy Commission has been reviewing the progress in this technology from the theoretical and experimental angles. This intention was not kept secret and was made known to the world. (34)

Despite all assurances, India's sincerity was questioned by many. It was also suspected that India's foreign policy would now tend to take on a more belligerent approach. It created opposition at global level and particularly anti-India propaganda in the South Asian neighbourhood against India's nuclear policy. The explosion had its impact on the nuclear advanced countries which expressed the need to strengthen the existing non-proliferation machinery by developing new safeguards and securing

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34. Ibid., p.578.

strict adherence to them. The USA alleged that Indian nuclear policy is not an attempt to develop nuclear technology for peaceful purposes because India has not signed the non-proliferation treaty.

In the South Asian region, particularly three countries, Pakistan, Sri Lanka and Nepal did not favour India's peaceful nuclear explosion. The Prime Minister of Pakistan Zulfikar Ali Bhutto argued that "the testing of nuclear devices is no different from the detonation of a nuclear weapon". Further he charged that the Indian explosion had been carried out at a time when "India was rapidly developing its defence capabilities . Besides, assurances could be changed or ignored in subsequent years, but "the acquisition of a capability, which has direct and immediate military consequences, becomes a permanent factor to be dealt with". Pakistan's interests in developing its own nuclear programme is the byproduct of the Indian explosion. Pakistan secured in a clandestine manner the technology to enrich uranium for making nuclear weapons.<sup>35</sup>

Moreover, merger of Sikkim (previously a protectorate state of India) with the India union<sup>36</sup> as its twenty second

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35. R.Ghai, Foreign Policy of India (New Delhi, 1984), p.234.

36. Sikkim's integration was a matter of time in 1975 and it was accomplished in 1978.

state on 16 May 1975 created distrust and suspicion in the South Asian neighbourhood. Not only Pakistan but also other neighbouring states Nepal and Bhutan protested against it. Pakistan's Prime Minister, Z.A. Bhutto said that his government would continue to render "resolute support" to the people of Sikkim and other peoples in South Asia in their struggle against hegemony and expansionism. The accession of Sikkim to India had been a source of disturbance for both Nepal and Bhutan. The students staged a protest demonstration in Kathmandu, condemning Indian "colonialism" in Sikkim. Moreover India which was considered the beacon light of democracy and freedom fell under the prevailing authoritarian wind in 1975. A question mark overhanged regarding the image of India in the South Asian region.

Two sets of challenges confronted India's foreign policy during 1975. The one set of challenges arose from the developments at home and the other in the subcontinent. First, the policy was sustained by the strength of the domestic, political and economic foundations. But what worried India the most, however, was the implications of

developments in Bangladesh<sup>37</sup>. There was the possibility of Pakistan using the events in Bangladesh to malign India in South Asia. Besides, there were clear indications that outside powers (the USA and China) have acquired interest in Bangladesh to India's disadvantage.

The change of government<sup>38</sup> in India was of great significance for other South Asian countries. The governments of the countries in the South Asian region promptly moved to establish contacts with the new government in New Delhi and assess if any significant change in India's foreign policy towards them is coming up. It is interesting that despite the Janata Government's bent in favour of democratic and liberal values, it soon learnt to live comfortably with authoritarian and autocratic regimes in South Asia. In the course of a debate

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37. "After Mujib's assassination in August 1975, bilateral relations with Dacca became an urgent issue for India". See for details J. Bannerjee "India's Foreign Policy in 1970's", Political Science Review (Jaipur) Jan-March, April-June 1978, vol. XII, p.98.

38. "The Janata Party", replaced Congress party from power in March 1977 General Elections" see for details India and Foreign Review (New Delhi) 1 Nov., 1977, p.112.

on foreign affairs on 18 April 1978 in Lok Sabha, India's Foreign Minister, Atal Behari Vajpayee stated that :

The subcontinent was pulsating with a new desire for and confidence in peace and cooperation. He asserted that we have moved a long way to foster peace, cooperation and vision of regional stability than anyone thought was possible to avert the cause of suspicion. The neighbourhood diplomacy" was aimed primarily at promoting and enriching relations with the neighbouring countries, as a means not only to resolving inherited problems but also to create a climate of confidence and mutual goodwill/trust in the region, so that harmonious and beneficial relations, economic, political, cultural might be promoted in the true spirit of peaceful co-existence. (39)

Much of discussion of Janata Party's foreign policy had been conducted within "change and continuity parameters". No doubt, the Janata Government had emphasised "beneficial bilateralism" as an operational guide of Indian foreign policy and had three important dimensions viz. (a) personal rapport; (b) economic accommodation; and (c) political neutrality and non-interference in internal affairs.<sup>40</sup> This guideline

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39. Nancy Jetley, "Major development in India's foreign Policy and Relations", International Studies (New Delhi) Jan-March 1978, vol.18, p.353.

40. S.D.Muni, "India's beneficial bilateralism in South Asia", India Quarterly (New Delhi) October-December, 1979, pp. 418-430.

calls for the development of mutually beneficial relations with all countries irrespective of their political beliefs and philosophy. Moreover, the Janata government emphasised on giving 'top priority' or 'first priority' to improving its relations with the neighbouring countries of South Asia.<sup>41</sup>

Again the importance given to personal high level contact should not be undermined. While Indian Prime Minister Morarji Desai was able to visit Nepal, Bangladesh and Sri Lanka (the later two had undergone a change of government) the Indian foreign minister undertook extensive tours of countries in the region. The purpose of these visits was to reassure the different governments of India's sincerity to promote bilateral relations on the basis of equal and mutual interests. The long drawn issue on sharing of the Ganga waters at Farakka between India and Bangladesh was partly resolved by a mutual agreement signed between the two countries in Dacca on 5 November 1972.<sup>42</sup>

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41. "Janata Party's manifesto underlined with reference to the South Asian region that party will promote a good neighbourly policy and resolve all outstanding issues with some of India's neighbour". See Article S.Ganguly, "Continuity and Change in India's foreign policy", India Quarterly, Jan-March, 1978, p.55.

42. R.Ghai, n.18, p.275.

Some progress was also made in India's relations with Pakistan on the construction of design of the Salal Hydro-Electric Plant- an important and most difficult problem which has been bedeviling the two countries.<sup>43</sup>

The Janata government rule was of short duration. In 1980 general elections when Mrs. Indira Gandhi came to power again, doubts and suspicion arose in South Asia due to her pragmatic external policy. Moreover, the loss of US base facilities in Iran and the Soviet intervention in Afghanistan, in late 1979 influenced American strategic interests and prompted Washington to build up Pakistan as a checkmate to further Soviet expansion by supplying a large quantity of military hardware and weapons to Pakistan. On 15 September 1981 Pakistan entered into immediate consultations with India for the purpose of exchanging mutual guarantee of non-aggression and non use of force in the spirit of Simla agreement - a no-war pact. A successful establishment of South Asian Regional Cooperation (SARC) initially proposed by Bangladesh in 1980 but approved by all countries of South Asia in August 1983 indicated a new trend in the region, which is

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43. Asian Recorder, 7 May-13 May, 1978, vol. XXII, p.14299.



not yet clearly defined but its thrust is clear.<sup>44</sup>

The promotion of the South Asian regional cooperation (SARC) not only requires the resolution of bilateral problems but also an adjustments of various perceptions and views. India has to think more deeply about its policy towards South Asia- an area of immediate concern. After all, foreign policy begins nearer home. It is in India's national interest and security to make a success of SARC in order to have its effective position in the region by showing greater maturity and flexibility in its dealings with its neighbours in South Asia. Points of difference between neighbouring countries are inevitable. There is a need of mutual trust instead of an environment of suspicion to sort out these differences. So India has to adopt soft and not arrogant attitude towards its neighbours in South Asia in order to win their confidence but strict

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44. "SARC is still in an embryonic stage and needs careful nurturing by all seven members. It may have small beginning which go a long way. It has a future which can prove beneficial to all South Asian countries". For details see, an article by H.K.Dua, "South Asian Realities", Indian Express (New Delhi) 4 July, 1984.

enough to protect its own national interests.

(D) Is India capable to play a dominant role  
in South Asia

No doubt, controversy regarding India's capabilities to play a dominant role in the region arises due to paradox in the nature of her own economy and also due to differences in the economic infrastructures of the other South Asian countries. India's development has been uneven as inflation, mounting unemployment, poverty etc. reflected an overall crisis. But simultaneously India has also emerged as an alternative source of modern technology. Moreover, the economies of the South Asian countries are not quite complementary to each other and no country has a monopoly of a special raw material on which others can depend.

Economically the people of the South Asian countries pursue agriculture and its allied activities as the major occupation which contributes maximum to the G.N.P.(Gross National Product). They are trying to develop economically through planned industrialisation of varying intensity. As at the time of their independence, the major countries of South Asia inherited a stagnant and undeveloped industrial

structure.<sup>45</sup>

The structure of production among different sectors of the economy in South Asian countries in 1978 was as follows :

Table II  
PERCENTAGE DISTRIBUTION OF G.D.P.  
(Gross Domestic Product)

Countries	Agriculture	Industry	Manufacturing	Services
Bangladesh	57	13	8	30
India	40	26	17	34
Nepal	62	12	10	26
Pakistan	32	24	16	44
Sri Lanka	35	31	23	34

Source : World Development Report 1980- world Bank, Table 3, p.114

The balance of advantage in the sectoral contribution to G.D.P. in the above Table II appears to be in favour of Sri Lanka followed by Pakistan and India as indicated by

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45. S.V.S.Sharma, "Industrial Development of South Asian countries", ed. by K.Satyamurthy, South Asian Regional Cooperation (Hyderabad, Institute of Asian Studies, 1981), p.163.

the equitable contributions by different sectors. But the scrutiny of the "Manufacturing" sector comprises of mining, construction, electricity, water and gas which are infrastructure may develop faster in India because her stock of mineral resources and their variety is much larger than that of the other countries. Besides, India is far ahead of its six nations in technology and skilled manpower. India has acquired considerable expertise both as a generator and supplier of technology in the third world. More than 200 appropriate technologies are available from N.R.D.C. (Natural Research Development Corporation) of India,<sup>46</sup> It is in a better position to offer its services to entrepreneurs of developing countries both in small and medium sectors.

Moreover, India's trade with other countries of South Asia as shown in Table III and total of imports and exports of the South Asian countries as shown in Table IIIA, indicate the balance of trade or commodity account is heavily in India's favour. This may be due to diversification in the imports and exports of India than those of other countries in the region.

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46. R.B.Rao, "India's Opportunities for Regional Cooperation in Technology Transfer among South Asian Countries" in K.Satyamurthy, ed., n.46, pp. 131-144.

Table III

## INDIA'S TRADE WITH OTHER COUNTRIES OF SOUTH ASIA

Countries	India's Import (in rupees)		India's exports (in rupees)	
	1977-78	1978-79	1977-78	1978-79
Bangladesh	12042756	17730104	516070243	525706629
Nepal	197693537	138062501	585876988	568886291
Pakistan	239022831	127733214	421198254	194506601
Sri Lanka	22709505	50710955	543080397	805261191

Source : Monthly Statistics of Foreign Trade of India, vol.I

Table III-A

Countries	TOTAL OF IMPORTS AND EXPORTS (in 000 US \$) 1977
	Bangladesh
India	12,412,562
Pakistan	3,628,996
Sri Lanka	1,471,430

Source: 1978 Yearbook on International Trade Statistics, vol.I, United Nations, New York.

The economy of the countries in the South Asian region is gloomy as shown in Table IV. In spite of high per capita income and annual growth rate both GDP and GNP (Gross domestic product and Gross national product)

Sri Lanka suffers from high unemployment, food shortage and inflation, as its inflation rate in the South Asian region is the highest i.e. 14.1 percent during 1973-83. Besides this, the economy of Pakistan is vastly dependent on the U.S. foreign aid. Actually in Pakistan a dependent or peripheral capitalist mode of production is grafted on to a modified feudalism which imposes a structural imperative on the state to follow certain directions in the making of public policy which has helped more in sustaining the economy than in its development.<sup>47</sup> That is why despite high annual growth rate and per capita income, the inflation rate is high next to Sri Lanka in the region i.e. 11.1 percent during 1973-83. The other countries like Nepal and Bangladesh have higher rate of inflation i.e. 8.1 percent and 9.1 percent during 1973-83 respectively. India's position in this aspect has been quite satisfactory. It has the lowest inflation rate despite high population growth. There are slight variations in this rate in comparison to Nepal and Bangladesh. Inflation rates of Nepal and Bangladesh are only 0.3 percent and 1.9 percent respectively

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47. B.M.Bhatia: Pakistan's economic development 1948-78, (New Delhi, Vikas Publishing House), pp.26-27.

higher to that of India's inflation rate but at the same time these countries have less per capita income and lower average annual growth. Thus, it can be said that although India itself is not free from economic problems but still its position is somewhat better in comparison to other South Asian countries.

Table IV  
SARC COUNTRIES SELECTED MACRO ECONOMIC  
INDICATORS

Countries	Per capita G.N.P. (US \$)		Average annual growth rate (percent) G.N.P.		Population (percent)	Average annual growth of inflation (percent)
	1982	1983	1973-83	1973-83	1973-83	1973-83
Bangladesh	140	130	5.2	0.5	2.4	9.6
Bhutan	109*	-	-	-	1.9	-
India	260	260	4.0	1.5	2.3	7.7
Maldives	320*	-	-	-	-	-
Nepal	170	170	3.0	0.1	2.6	8.1
Pakistan	380	390	5.6	2.5	3.0	11.1
Sri Lanka	320	330	5.2	2.9	1.7	14.1

\* Per capita GNP for 1981, resource UNCTAD (1985)

Sources: World Development Report 1984 and 1985 (World Bank) expect for 1982 per capita GNP data which are taken from World Bank Atlas, 1985, 18th edition.

India's external relations are a reflection of a state which despite internal weakness has played moderately influential role in the international affairs and more particularly in South Asia. India is a large subcontinental economy with enough natural resources, manpower and market potential. This potentiality of India's power and its strategic location (as mentioned earlier) are the compelling perennial reasons for it to play a dominant role in South Asia. Besides this, her economic development and technological capabilities forced India to play an influential role in the region. It is undisputed that during the last decade the country has made significant progress in the economic field.

Since independence India has taken great strides towards development through a programme of planned development,<sup>48</sup> which has brought a significant change in the industrial structure of India from a traditional to modern one leading to tremendous expansion in modern industries-metallurgical, mechanical, chemical, electrical engineering and allied industries. As a result of

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48. Brojendra Nath Banerjee, India's Aid to Neighbouring Countries, (New Delhi, Select Books, 1982), p.164.



modernization in the field of industry, India has acquired a considerable amount of experience and expertise and has now reached a level of competence where it is in a position to share the fruits of its development with other countries. Moreover, Indian agriculture has been greatly stabilized by the adoption of modern technology in farming and developing its irrigation system. India, thus, stands out as a Third World country which has achieved self-sufficiency in foodgrains despite its rapidly galloping population.

India at present ranks among the first ten industrialized countries of the world. A major achievement of planning in India has been the expansion and diversification of India's industrial capability. The country is now self-sufficient in all consumer goods and almost so in basic commodities like steel, cement, Aluminium and the capacity of other core industries like fertilizer is rapidly expanding. The electronics industry in India has rapidly grown towards self-reliance. Indigenous technology has been developed in important electronics system as-mass communication, navigation aids, medical electronic equipment and industrial electronics, etc. In the field of heavy, medium and small scale industries, India has established physical

and institutional infrastructure which has become a positive support for future industrial development. India has also developed capabilities in a variety of fields extending from heavy engineering to consumer items. India's largest industrial sector the third largest in the Third World after Brazil and Mexico- has been pushing up growth.<sup>49</sup>

India has emerged as an alternative source of technology, expertise and modern technology which is more suitable to the needs of developing countries. India today has the third largest pool of scientists, engineers and doctors i.e. reservoir of technical and scientific manpower. India's technologists are next only to that of Soviet Union and the United States.<sup>50</sup> The Council of Industrial and Scientific Research (CSIR) has made major contribution in developing indigenous technology with a vast network of 30 research establishments and four regional laboratories spread all over the country. On its part India is prepared to lend all assistance, be it technical know how, capital goods or setting of turnkey projects.

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49. Ibid., p.189.

50. P.G.Salvi, n.2, p.4.

projects.

India is the first among the developing countries and fourth among all the countries supplying experts to UNIDO for assignments in other developing countries.<sup>51</sup> Apart from industrial project and engineering services, Indian consultancy services are also available for the entire range of infrastructural activities such as power generation, transmission and distribution and construction of railways roads, etc. The cost of Indian technical manpower is relatively less expensive than of developed countries. India is thus able to offer its know-how at very competitive price to developing countries.<sup>52</sup>

India is one of the most advanced countries in the developing world having its own highly developed atomic power projects, space satellite programmes. Nuclear test in 1974 is a landmark in the history of science for the nation. Nuclear power has substantially contributed towards electricity generation in India. The Minister of State for Atomic Energy, Space, Electronic and Ocean Development, V.Shivraj Patil stated in the Lok Sabha

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51. Banerjee, n.48, p.168.

52. B.Singh, "Technological Transformation in India", Mainstream (New Delhi) 23 July 1983, pp.30-31.

on May 1983 :

The reserves of major atomic minerals are uranium 67,500 tonnes of  $U_3O_8$ ; thorium 3,63,000 tonnes of  $ThO_2$  and Zircon 1,10,00,000 tonnes. (53)

Dr. Raja Ramanna an eminent nuclear physicist and former Chairman of Atomic Energy Commission has pointed out that the present nuclear potential of India is 10,000 Megawatts.<sup>53-A</sup> No doubt, India is gradually attaining self-reliance in nuclear science and engineering skills. The execution of both Kalpakkam and Narora power stations (including design, construction, commissioning and operation) is being borne by Indian engineers and scientists.

India has also achieved tremendous progress in space technology from experimental satellite to remote sensing satellites and now to communication satellites. Today India ranks sixth in the world for a project launching of satellites into earth orbit. The ninth, India's designed satellite INSAT-JB put into space in 1983 is

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53. Asian Recorder, 25 June-1 July 1983, vol. XXIX, No. 26, p. 17238.

53.A. Asian Records, 30 Sept-6 October 1984, vol. XXX, No. 40, p. 17965.

of great assistance to the nationwide television links, educational programmes and forecast of weather. The later one can be useful to agricultural sector and can also be helpful in increasing crop yields of rice, wheat and cereals to a considerable extent.

The renowned economist Nicholas Lord Kaldir said :

India has succeeded by a steady and cautious policy of economic planning to make remarkable progress in both agriculture and industry.(54)

To sum up, although India exhibits all characteristics of an underdeveloped economy, yet it is no longer stagnant. A wide gulf still divides India from countries like the USA, UK, other European countries and Japan. But there is no doubt that the process of economic development has started. There is nothing wrong to describe the Indian economy as a developing economy as India is the most developed country among the developing Third world and specially in the South Asian region.

Due to India's predominance because of its strategic-geopolitical location, power potential, industrial and technological capabilities in the South Asian region, it is essential that India should play an

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54. Quoted from P.G.Salvi, India in world Affairs (New Delhi, 1985), p.5.

influential and effective role in this region. Then only, it can maintain the status of regional power if not a great power in the world. Regarding India's role in South Asia, L. Richard stated :

Looking at the size of the country and its natural human resources, one would wonder if there is any alternative role that India can ever choose. It is almost impossible for her to become a mirror image....of any other power.(55)

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55. Manorma Kohli, "Foreign Policy of Janata Government, Asian Survey (California) Dec., 1977, vol.17, no.12, p.159.

## CHAPTER III

## INDIA'S AID TO SOUTH ASIAN COUNTRIES

In spite of being a recipient of massive assistance India has developed economically to reach a stage of semi-industrialized and perhaps an effective middle power. India as a donor to least developing countries in South Asia acquires importance in view of its economic compulsions and limitations. India's aid programme can, in fact be viewed as the operational side of its foreign policy. Nehru's perception of the world system made him visualise the increasing importance of the Third world and its impact on the politico-economic power structure of the region. In fact, it is in view of India's future role as an emerging power which made it imperative for Nehru to follow the path of development diplomacy. However, national security and development were no more confined to national boundaries. India's own challenge of poverty made him sensitive to the need of international cooperation to remove it at the global level.<sup>1</sup> Consequently, India started giving aid to other less developing

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1 Murlidhar Dharamdasani, Political Economy of Foreign Aid in the Third world : A Case Study of Nepal (Varanasi, 1984), p.31.

countries specially of South Asia, in the late forties and early fifties. In an address delivered at Columbia University on 17 October 1949, the Indian Prime Minister, Jawaharlal Nehru said

the elimination of want, disease and ignorance affecting the greater part of the world's population is one of India's foreign policy objective.(2)

India being nerve centre of South Asia evokes both respect and fear amongst her neighbours, which is the by product of social, economic and cultural linkages that transcend the national frontiers. The dilemma of India's foreign policy in South Asia has been constant i.e. how to treat its neighbour's sensitiveness gently without appearing to be too weak to protect its own interests. In the conduct of foreign policy, the external affairs ministry has been putting emphasis on India's economic and technical relations, particularly with the South Asian countries.

Most of India's subcontinental economic cooperation with the Himalayan kingdom countries - Sikkim (till it became one of Indian state in 1975), Nepal and Bhutan and

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2. V.F.Belfiglio, "Economic Aid to Bhutan and Sikkim", International Studies (New Delhi), vol.13, 1974, p.94.



also later on Bangladesh is in the shape of bilateral aid and is one sided. The grant element in India's aid to these countries is larger. In case of Bangladesh, however, later on it was reduced to virtual nominal. At the same time countries like Sri Lanka and Maldives are the recipient of lesser amount of aid in the form of credits, soft loans and technical assistance. With Pakistan, however, India has only limited trade relations.

#### Nature of Indian Aid

India is the only country which is neither too sophisticated nor too expensive in technology. It can also provide skilled manpower and capital resources among the South Asian countries. The important feature of Indian aid is that credits are provided on easy terms, and they are repaid through exports. The loans are also soft as they are repayable over a long period of time at a nominal rate of interest.<sup>3</sup> Indian aid to the South Asian countries does not involve any military and political commitments and is based on the principle of mutual benefits. For

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3 Brojendra Nath Banerjee, India's Aid to Neighbouring Countries (New Delhi, Select Books, 1982), pp.116-117.

instance, India's aid has been given to built infrastructure in Nepal which is important for Nepal's economic development. It also ensure security to India against potential Chinese threat.

India with scarce resources, incidentally finds technical aid as the most ideal for meeting its policy objectives of aid with a very low cost and with a potential of wide impact.

The variety of Indian aid is clear from the fact that while in Nepal and Bhutan her aid is aimed at creating infrastructure, at the same time in Bangladesh it is designed to restructure a war ravaged economy.<sup>4</sup> The main forms of Indian aid in South Asia are grants, soft term loans, credits, projects aid, deputation of experts, training facilities and technical and scientific information. It has been estimated that about 65 percent of total Indian technical assistance finds its way in South Asia accurately called the sheet-anchor of India's aid programme.<sup>5</sup> India's bilateral aid programme includes her exclusive assistance to neighbouring countries in South Asia.

4. Dewan Chand Vohra, India's Aid Diplomacy in the Third World (New Delhi, Vikas, 1980), p.73.
5. Srikant Dutt, "India's Aid to Co-developing Countries", Mainstream (New Delhi), 5 April 1980, p.672.

Indian Aid to Sikkim

Sikkim was the protectorate of India. In Sikkim, India's aid programme has its origins in early 1950 following a peace treaty on 5 December 1950.<sup>6</sup> In pursuance of the peace treaty, the Government of India extended a grant of Rs.50,000 in 1950 to Sikkim and later on the Government of India contributed the whole amount of first four plan's outlay as grants. The amount given by India during plan period of Sikkim is given in the following Table. Moreover, technically qualified deputations from

Table I

INDIA'S DEVELOPMENT ASSISTANCE TO SIKKIM  
DURING 1954-55/1975-76

Plan and Period	(Rs. in lakhs)
	Amount
First (1954-61)	324.00
Second(1961-66)	813.00
Third (1966-71)	900.00
Fourth(1971-76)	1850.00

Source : Ministry of External Affairs Annual Reports.

6. Foreign Policy of India : Text of Documents, 1947-59 (New Delhi, Lok Sabha Secretariat, 1959), p.38.

India continued to play their role in implementing the development projects in Sikkim, until it became twenty-second state of India.<sup>7</sup>

#### Indian Aid to Nepal

Nepal is a landlocked country. It has no competing access to sea and its access to sea is only through India. Since the revolution of 1950 the Government of Nepal has been eager to seek foreign capital and technology to meet the growing demands of its people.<sup>8</sup> Her strategic location attracted a number of donors. Nepal is located at a very strategic place as it is on the edge of Sino-Soviet border and sandwiched between India and China. Several world powers diametrically opposed to each other have lent a purposeful hand in the uplift of this nation. Being a sovereign state, Nepal is accepting large volume of aid in order to keep up several alternatives to avoid dominance of anyone. She, indeed, provides a fascinating

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7. For details see V.T.Belfrage, n.2, pp.94-99 and also Ministry of External Affairs Annual Reports.
8. Nepal's social structure and economy as inherited from the Rana times, was feudal to the core. Though nominally independent, her condition was worse than a colony because Ranas kept her secluded in their own interests. Ramakant, "Foreign and Economic Growth and Political Development in Nepal", India Quarterly (New Delhi) July-Sept., 1983, pp.250-251.

example of a recipient who gets economic assistance from diverse sources — communist, non-communist, aligned, non-aligned, developed and underdeveloped. In the race of aiding Nepal, India never wishes to lag behind.

Immediately after independence, India regarded Nepal as her most trusted friend and always stood by her side in any event of distress. On 6 December 1949, Indian Prime Minister, Jawaharlal Nehru said: "We have desired not only to continue our old friendship but to put it on a still firmer footing."<sup>9</sup>

The decision to extend technical and economic assistance to Nepal is not born out of a new diplomatic process but is simply the extension<sup>of</sup> British policy to maintain special relations with the Himalayan states. New Delhi's approach has been brought out clearly in the treaty of peace and friendship of 31 July 1950.<sup>10</sup>

New Delhi is cautious that no inimical power should get an upper hand by providing economic aid to Nepal, which would undermine its basic interests in the kingdom.

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9. Jawaharlal Nehru, India's Foreign Policy : Selected Speeches, 1949-53, p.571.

10. Foreign Policy of India : Text of Documents, 1947-59 (New Delhi, Lok Sabha Secretariat, 1959), p.31.

Moreover, in order to assert its special position in the context of aid as well as in conformity with provisions of the treaty, India does not relish any other country assisting Nepal without its prior approval and it also affirms that it will not interfere in Nepal's internal affairs. When the Indian Prime Minister, Nehru visited Nepal, he gave a hint while addressing a public meeting by remarking:

If you seek our help in say technical or other sphere, we will do our utmost to be useful to you, but we never want to interfere.(11)

India has vital politico-security interests in Nepal. After the annexation of Tibet by China, it has ceased to remain a natural buffer between India and China. Consequently, Nepal, thus emerged as a very important buffer between the two giants. It is an area of immense strategic importance to India and is generally described as "India's northern gateway".<sup>12</sup>

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11 The Statesman (Calcutta), 17 June 1951.

12 "If Nepal falls under the influence of any unfriendly power such as China the entire Gangetic plain would be exposed", see for details, Mahendra P. Lama, The Economics of Indo-Nepalese Cooperation, (New Delhi, 1984), pp.1-2.

India's cooperation with Nepal began in 1951 with the building of an airstrip in Nepal. In January 1952 M.P.Koirala, the then Nepalese Prime Minister, came to India to seek assistance on a large scale. India, being relatively more developed in assets, skills and technical advancement readily extended its hand of cooperation to Nepal. The construction of Tribhuvan Rajpath (1956) and Gaucher airport were the first two projects successfully undertaken by India. Moreover, for the expedient implementation of aid projects, India set up Indian aid mission in Kathmandu in 1954 which was later on renamed as Indian cooperation mission in 1966. It marked a new phased in Indo-Nepalese cooperation.<sup>13</sup>

Nepal started its development programme in 1956 and followed the Indian pattern of planning for development. But India's active involvement and assistance in Nepal began as the latter became free from Rana oligarchy. Even before launching of its first five year plan in 1956 India gave Rs.442.00 lakhs to Nepal for development purposes. During first three plans, there was a tendency of increasing India's aid to Nepal but in the

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13 "Earlier India gave assistance to Nepal on ad hoc basis and no systematic planning was there", See for details, Ibid., p.101.

the fourth plan, there was decline in India's aid as India gave much of its assistance to Bangladesh to reconstruct its war ravaged economy. But after fourth plan, India's aid share in Nepal's development has increased. It revealed an increase of 31.2 percent in the fifth plan and an increase of 52.4 percent in the sixth plan. The decline in India aid in the fourth plan period, 1971-76, was relative and not absolute as there was an overall increase in the size of Nepal's five year plan. India's aid to Nepal's five year plans is given in the following table.

Table - II

INDIAN AID TO NEPAL'S FIVE YEAR PLANS

Five Year Plans and Period	Aid amounted (Rs.in lakhs)	Percentage of increase or decrease
1951-56	442.00	-
First 1956-61	552.00	+ 24.8
Second 1961-66	2065.00	+274.09
Third 1966-71	5049.00	+144.50
Fourth 1971-76	4422.00	- 12.4
Fifth 1976-81	5802.00	+ 31.2
Sixth 1981-86 *	12284.00	+ 52.4

Source: Mahendra P.Lama, The Economies of Indo-Nepal-  
lese Cooperation (New Delhi, 1985), Table V, p.126.

\* Annual Reports by Ministry of External Affairs from 1981 to 1986.



India's economic assistance to Nepal is comprehensive and designed to bring about all round development of Nepal. India's assistance to Nepal covers each and every sphere of later's economy such as transport and communications, post and telecommunication, health and social welfare, rural development, industrial development and technical facilities, etc.

#### Transport and Communications

More than 50 percent of India's assistance to Nepal has been allocated for the development of transport and communications that covers mostly roads, railways, civil aviation or airfields. Nepal remained a fragmented economy with embryonic internal transportation system as roads were non-existent before 1950. The major step in the direction of developing a transport system in Nepal was taken by India when it agreed to collaborate with USA for this purpose. This had become essential as Nepal had started cultivating relations with China against the wishes of both India and the USA.<sup>14</sup> This

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14. "Both India and the USA along with Nepal agreed to launch a tripartite agreement of road construction in 1956 which was to be implemented by Joint Regional Transport Organization. See for details, Ministry of External Affairs, Annual Reports 1957-1958, p.14.

collaboration, however, could not work and India on its part, agreed to finance construction of two roads, Kathmandu-Trisuli and Sonauli-Pokhara at a cost of Rs.14.5 crores.<sup>15</sup>

The significant and major venture undertaken by India in this field was the construction of "East-West Highway" known as Mahendra Rajmarg (which is divided into three sectors — Eastern, Central and Western), India had taken up the construction of both eastern as well as western sector of road which cover 410 miles out of the entire stretch of 640 miles.<sup>16</sup> Besides this, Kathmandu Trisuli road, Tripureshwar-Thankot road, Janakpur town road, Dakshinakali road, Hanuman Nagar Rajbiraj road, Kosi Gandak area roads and Kathmandu Godavari roads were also constructed with Indian assistance.<sup>17</sup>

India had also embarked upon the construction of air fields and railways in different parts of Nepal. Apart

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15. Murlidhar Dharamdasani, n.l, p.44.

16. The Hindu (Madras), 8 March 1976.

17. Economic Times (Delhi), 20 Dec., 1983.

from the Gaucher airport, India has so far completed work on airports namely Bhairwa, Birathnagar, Janakpur, Pokhara and Simra at a cost of Rupees one crore.<sup>18</sup> Moreover, India also contributed to the railways network of Nepal by providing expert services for surveying the 60 kms. Raxaul-Amlekhganj rail link.

#### Posts and Telecommunications

India has also provided assistance for modernising Nepalese postal services. It extended an aid of Rs.1.2 million for the construction of Kathmandu's General Post Office. In 1968, a teleprinter link between Kathmandu and Calcutta was also set up. In 1970 direct teleprinter circuit was installed between Kathmandu and New Delhi and in the same year Kathmandu-Raxaul telephone line was also commissioned with Indian assistance. Till 1985, India had given assistance for various services to Nepal.<sup>18a</sup>

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18. The Motherland (Kathmandu), 21 Dec., 1966.

18a. For details for various services, like direct telephone, telegraph, telex circuit and microwave link, etc. See M.P.Lama, n.12, p.108.

### Education and Social Welfare

India has directed its assistance in the field of education in order to effect general social change and political consciousness in Nepal. More than ninety percent of Nepalese experts have been trained in India. Besides, setting of Tribhuvan University in 1960, India had also extended aid for the construction of various buildings for science block, research centre, a library, etc. An artistic edifice for National Archives was also constructed with Indian assistance at a cost of rupees six crores.<sup>19</sup>

India's assistance in the field of social welfare, including medical and health service has been significant. Aid has been extended to the 'Propkar Shri Panch Indra Rajya Laxmi Devi Maternity Home' at Kathmandu not only by providing medical personnel, construction of additional buildings but also of meeting its running expenses and the cost of medicines. India has been cooperating with the Nepalese government in the implementation of various projects for the supply of drinking water in a number of places. The cost of the water supply scheme undertaken

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19. Times of India (Delhi), 8 Feb. 1984.

was Rs.1.3 crores which included sizeable schemes for Kathmandu, Biratnagar, Pokhara, Birganj, Janakpur and Rajbiraj.<sup>20</sup>

### Rural Development

India has also embarked upon the rural and development programme with a view to improving the economic and social condition of Nepal. A programme of village development was chalked out and India agreed to provide Rupees four crores initially for utilisation during 1959-61. The scheme envisaged economic and social development of the rural areas through village development blocks by increasing agricultural production and development of horticulture etc. In addition, three intensive valley schemes were also taken up to meet the all-round development needs of the Pokhara, Lalitpur and Palung valleys. Recently a high level Indian delegation has identified areas where fruits and vegetables can be grown on a commercial scale and the team favoured an integrated approach to production, storage and processing.<sup>21</sup>

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20 Dharamdasani, n.l, pp.51-52.

21 Times of India (Delhi), 18 July 1983.

### Industrial Development

Indian aid to Nepal is also significant in the field of industrialization. Its assistance of Rs.17.4 lakhs in this field started in the form of building an industrial estate at Patan, the first phase of which was inaugurated in 1963 by the King of Nepal. Apart from it India had also given its aid for the construction of two industrial estates in Dharan and Nepalganj at a cost of Rs.2.8 million and Rs.5.14 million respectively in 1975. A memorandum of understanding was signed on 16 September 1978 between Nepal and India for further collaboration in the industrial development of Nepal and Rs.180 crores is to be invested jointly in various industrial projects. This includes a rupees eighty crore cement plant at Udaipur in Nepal and rupees sixty crore paper plant for western Nepal.<sup>22</sup> Feasibility studies for the industrial estate of Rajbiraj and the expansion of the Butwal industrial estate had been completed and its construction had started in 1985.<sup>23</sup>

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22. The Statesman (Delhi), 27 Sept. 1978 and Times of India (Delhi), 25 Sept. 1982.

23. Ministry of External Affairs, Annual Reports 1983-84, pp.6-7.

Project Aid For Power Development

Nepal's three rivers, Kosi, Gandak and Karnali and their major tributaries provide virtually unlimited potential for the generation of power. These rivers after being harnessed will provide protection against floods. They will also provide water for irrigation and power, for both India and Nepal. Among different major projects undertaken by the joint efforts of the two countries are the Kosi and the Gandak project, in the field of multi-purpose river valley projects and Trisuli, Pokhara, Devighat project in the field of hydro-electricity are worth mentioning.<sup>24</sup> A green signal has been given by India to three projects, the Pancheswar, the Rapti and Karnali in Nepal. India is presently assisting Nepal in the extension of pumped canal of Saptari and the distribution system of the western Kosi canal at a cost of rupees 12.5 crores.<sup>25</sup> In 1985-86 eight new projects worth about rupees thirty crores will be taken up for phased implementation, which include

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24. Lama, n.12, pp.115-120.

25. The Statesman (Delhi), 5 Feb., 1983.

rural electrification of seventy-six villages of North-west of Kathmandu.<sup>26</sup>

### Technical Assistance

India continued to make a major contribution towards development of technical manpower in Nepal by giving training to Nepalese and providing facilities for higher education. Deputations from India include planners, engineers, architects, teachers and professors etc. for educational institutions mainly in the Tribhuvan University.<sup>27</sup> India set up three training institutions in Nepal viz. the Rural Institute at Patan, Engineering School at Kathmandu and Forest Research Institute at Hitauda. Indian technical assistance is aimed at increasing the domestic stock of skills and productivity and to strengthen and supplement Nepal's capacity to produce new states.

The table below shows India's aid commitments to Nepal from 1951 to 1986. It may be marked that upto 1970 India's aid to Nepal was progressively increasing as India undertook a number of projects in Nepal. The

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26. Asian Recorder, 1985, vol.31, p.18396.

27. Vohra, n.4, p.83.



Table - III

## YEARWISE AID COMMITMENT BY INDIA TO NEPAL

Period/Year	Amount (Rs.in lakhs)	Percentage of total assistance
1951-56	442.00	1.44
1956-61	452.00	1.80
1961-66	2065.00	6.73
1966-67	837.00	2.73
1967-68	881.00	2.87
1968-69	1098.00	3.58
1969-70	1197.00	3.90
1970-71	936.00	3.05
1971-72	912.00	2.97
1972-73	803.00	2.61
1973-74	834.00	2.72
1974-75	897.80	2.93
1975-76	976.51	3.18
1976-77	1056.44	3.44
1977-78	924.39	3.01
1978-79	1104.19	3.60
1979-80	1460.34	4.76
1980-81	1421.60	4.63
1981-82	1575.00	5.13
1982-83	4841.45	15.79
1983-84	1788.47	5.83
1984-85	1341.50	4.37
1985-86	2739.87	8.92
<b>Total</b>	<b>30684.57</b>	<b>100</b>

Source: Ministry of External Affairs, Annual Reports.

sudden fall in India's aid contribution during 1971-75 was mainly because of India's active involvement in the reconstruction work in the war ravaged economy of Bangladesh. However, the deep variation in aid commitment in 1960 and comparatively smaller variation in 1970 can be attributed to the fact that in the latter decade most of the Indian assistance to Nepal was in the form of maintenance aid as against the earlier which was mainly infrastructural aid.

After 1975 India's aid commitment to Nepal has been showing constant rise except the year 1977-78. This year the decline was only marginal i.e. decline of 0.43 percent than previous year. In the year 1982-83 India's aid commitment to Nepal was 15.79 percent because Nepal's sixth plan started in 1981-82 under which India had sanctioned aid for various development purposes in Nepal. Besides this, loan element was very small. Out of the total Indian assistance to Nepal, the total amount of utilized loans by Nepal was only Rs.28.45 crores. At the same time the utilised grants element in Indian aid to Nepal was approximately nine times greater than that of loans.<sup>28</sup> In September 1985 the

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28 See Appendix 12.

King of Nepal voiced the feelings of both countries by saying on his return to Nepal from India:

We are happy to note that the growing understanding between Nepal and India which has found a further fillip ... has given us cause for satisfaction.(29)

### Indian Aid to Bhutan

Since Bhutan constitutes a crucial link in Sino-India relations in the Himalayas, the kingdom has tremendous importance for India,<sup>30</sup> Bhutan, however, was the late entrant in India's aid list despite the fact that India and Bhutan were first to sign a friendship treaty on 8 August 1949, one year before the Indo-Nepal friendship treaty.<sup>31</sup> Indian aid to Bhutan flowed much later than it did in the case of Nepal not because there was any lack of interest by India in Bhutan, but because of Bhutan's refusal to accept any aid lest it

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29. Ministry of External Affairs, Annual Reports, 1985-86, p.6.

30. Bhutan is a landlocked state lodged on the southern side by the great Himalayan range. It is bounded on the north by Tibet and West by Indian state of Sikkim and on the east and south by the Indian states of Assam and West Bengal.

31. Foreign Policy of India : Text of Documents 1947-59 (New Delhi, Lok Sabha Secretariat, 1950), p.17.

interfered with its national prestige. In 1955, significantly at a time when India's policies of non-alignment and panchsheel were at their zenith, Bhutan refused aid when offered at the time of the visit of R.K.Nehru, a high official in the foreign office.<sup>32</sup>

Prime Minister Nehru, during his visit to Bhutan in 1958 allayed the fears of the Bhutanese rulers when he said on 24 September 1958:

Some may think that since India is a great and powerful country and Bhutan is small one, the former might wish to exercise pressure on Bhutan. It is, therefore, essential that I make it clear to you (Bhutanese people) that our wish is that you should remain an independent country and take the path of progress according to your will. At the same time, we two (India and Bhutan) should live with mutual goodwill. We are members of the same Himalayan family and should live as friendly neighbours, helping each other. The freedom of both Bhutan and India should be safeguarded so that no one from outside can do any harm to them.(33)

Nehru's persuasive diplomacy did bring positive results and reports later in 1958 indicated that Bhutanese government had accepted a small sum for road

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32 Vohra, n.4, pp.87-88.

33 Ibid., p.88.

construction as well as material and equipment. The Bhutanese attitude towards India marked a significant change in 1959 when the Chinese presence in Tibet became more menacing and Bhutan developed apprehensions about further developments on her own borders. Later during 1959 India and Bhutan agreed that from 1960 onwards India would provide Bhutan an annual grant of rupees seven lakhs for development purposes which would enable the Government of Bhutan, to draw its development plans on a systematic pattern covering every phase of country's economy.<sup>34</sup>

In February 1961, Bhutan invited a team from the Indian Planning Commission to devise the first development plan (1961-66) for the country which was totally financed by India. It made a grant of Rs.17.44 crores to finance the complete plan. The plan envisaged social projects and general development measures for the growth of Bhutanese economy. Road construction programme was given a high priority, and infact seventy percent of the planned expenditure was devoted to this activity.<sup>35</sup>

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34. Ministry of External Affairs, Annual Reports 1960-61, p.8.

35. Vohra, n.4, p.89.

India contributed rupees twenty crores as grants to Bhutan during the second five year plan (1966-71). Assistance was given to Bhutan to set up revenue raising schemes like animal husbandry and agriculture industry etc. Apart from this, small air plane landing strips had been constructed at Paro and Thimpu to provide additional links with India. In the field of communications, fifteen wireless units were initially supplied by Indian government which were to be used for flood warning.<sup>36</sup>

The Government of India had agreed to provide Rs.35.5 crores to finance Bhutan's Third Five Year Plan (1971-76), but following modification and expansion of plan size, India's contribution to the implementation of the Third five year plan of Bhutan<sup>rose</sup> to about rupees fortysix crores.<sup>37</sup> During the third five year plan, the formal agreement on the Chukha-hydro electric project estimated to cost rupees eighthree crores and designed to produce 332 MW of power was signed on 23 March 1974. India is financing the project on the basis of sixty per cent of grant and forty percent loan.<sup>38</sup> India has also

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36. Banerjee, n.3, p.463.

37. Ministry of External Affairs, Annual Reports, 1975-76, p.15.

38. Hindustan Times (New Delhi), 27 March 1974.

undertaken to finance the construction of cement plant with an annual capacity of 1,00,000 tons at Pagli in Bhutan at a cost of rupees seven crores. The cost of which was met through Indian grants and loans.<sup>39</sup> Both would provide bases for the development of Bhutan's economy and industry.

India had offered assistance of over Rs.70.30 crores out of its total plan outlay of rupees eighty crores in Bhutan's Fourth Plan (1976-81).<sup>40</sup> The Bhutanese delegation discussed with Indian officials a number of projects such as micro-wave links, broadcasting station, irrigation and dairy schemes as for their establishment India can provide financial and technical help. As a result of which India has provided help in the survey of Begna and Rydak hydro electric schemes and micro hydel project of power supply to different areas of Bhutan.<sup>41</sup>

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39. "The agreement was signed on 26 July 1974 by the Pagli project authority and the Cement Corporation of India, appointing the latter as consultants for setting up cement plant on turnkey basis". Ministry of External Affairs, Annual Report 1976-77, pp.2-3.

40. "India's financial assistance during the fourth plan has seen an average rate of Rs.10 to Rs.12 crores per annum", Times of India (New Delhi), 16 June 1981.

41. Indian Express, 26 May 1981.

During the fourth plan period India assisted Bhutan in the construction of cement project at Penden which is estimated to cost Rs.12.75 crores. India has also helped in the comprehensive allied irrigation schemes in the town of Gayleghug. A sum of Rs.2.13 crores was given for geological and mineral exploitation in Bhutan in the year 1977-78. The Ministry of Agriculture under the Government of India carried out a pre-investment survey of forest resources for the exploitation of Bhutan's forest wealth during the fourth plan period.

Out of a total outlay of Rs.433 crores for Bhutan fifth five year plan (1981-87) India would finance to the tune of Rs.134 crores. As part of this contribution, India pledged a grant of rupees twentyfive crores for 1982-83, while in 1983-84, a sum of Rs.24.77 crores was released to Bhutan as plan subsidy and in 1984-85, a sum of Rs.28.60 crores was granted to Bhutan as plan subsidy. Besides this, a grant of ten lakhs was given by India for Monastic complex in Bhutan. India had given rupees five crores to Bhutan for the construction of a Secretariat complex and for the renovation of Bhutan's famous monasteries and administrative centres. A grant of rupees two crores by India had enabled Bhutan to undertake urban development works.<sup>42</sup>

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42 Ministry of External Affairs, Annual Reports 1982-83, 1983-84, 1984-85, 1985-86.



Bhutan's present fifth development plan ends in 1987 Bhutan is now approaching towards sixth plan which will introduce a new phase in Bhutan's development. The process of drawing up Bhutan's next plan (1987-1992) has been initiated by Bhutan and a team from the planning commission and the Ministry of External Affairs, held talks with Bhutanese counterparts in August 1985 on the conceptual bases of sixth plan. Indian Prime Minister Rajiv Gandhi during his visit to Bhutan in September 1985 affirmed India's commitment to continuing participation in Bhutan's forthcoming sixth plan.<sup>43</sup>

Table - IV

INDIAN AID TO BHUTAN'S FIVE YEAR PLANS

<u>Plan/Period Covered</u>	<u>Amount (in crores Rs.)</u>
First (1961-66)	17.44
Second (1966-71)	20.00
Third (1971-76)	44.00
Fourth (1976-81)	70.30
Fifth (1981-87) *	134.00

\* It does not include the grant cum loans for Penden Cement plant and the Chukha project.  
 Source: Ministry of External Affairs, Annual Reports from 1961-62 to 1985-86.

43 Indian Express, 26 May 1981.  
Asian Recorder, 1 and 7 Jan., 1985, p.18604.

The above table shows Indian aid to Bhutan's five year development plans. The first three plans were drafted and financed by India. While in the fourth plan which incorporated Bhutanese ideas also, India had contributed approximately ninety percent (90%) of the total plan outlay. Moreover for the fifth plan, which is entirely product of Bhutanese genius India had offered 50 percent of the plan outlay as aid. The amount which India has given for Bhutan's fifth plan is approximately double of the amount of the fourth plan and near about eight times greater than the amount sanctioned in the first plan. In spite of the involvement of other international agencies as donor in Bhutan's development the amount of India aid provided by India is still larger.<sup>44</sup>

Aid commitments by India to Bhutan is the largest not only amongst the Himalayan kingdoms but also amongst all the South Asian countries. Except for the years 1970-71, 1979-80 and 1982-83 the percentage of Indian aid has been increasing as shown in table V below:

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44. See Appendix 12.

Table - V

## YEARWISE AID COMMITMENTS BY INDIA TO BHUTAN

Period/Years	Amount(Rs. in lakhs)	Percentage of total assistance
1961-66	1744.00	3.50
1966-67	314.00	.65
1967-68	406.00	.84
1968-69	571.50	1.86
1969-70	674.50	1.40
1970-71	638.25	1.32
1971-72	715.00	1.48
1972-73	1024.50	2.12
1973-74	1337.50	2.77
1974-75	1577.09	3.27
1975-76	1943.12	4.03
1976-77	2347.50	4.87
1977-78	2466.00	5.11
1978-79	3513.84	7.19
1979-80	3046.00	6.39
1980-81	3352.76	6.85
1981-82	3863.88	8.01
1982-83	2222.00	4.61
1983-84	5688.50	11.70
1984-85	6238.19	12.84
1985-86	4536.27	9.31
<b>Total</b>	<b>48220.40</b>	<b>100</b>

Source : Ministry of External Affairs, Annual Reports  
from 1960-61 to 1985-86.

The decline in Indian aid in 1970-71 was due to India's involvement in 1971 war with Pakistan for liberation of Bangladesh. While in 1979-80 Bhutan took different stand than that of India on the Kampuchean issue and called for closer relations with China. Bhutan also demanded satisfaction of 1949 treaty. As it wanted no secret of its desire to open direct and bilateral negotiations with China (The friendship treaty of 1949 demanded that Bhutan should consult India on matters relating to its internal defence, security and international affairs). It was Bhutan quest for a new role in the world community which got occasionally articulated in a demand for revision of treaty of 1949. But this decline in India's aid is only marginal i.e. 0.8 percent in 1970-71, 0.87 percent in 1979-80 and 3.40 percent in 1982-83. There is an increase in overall aid commitment by India. Whereas in the first five years (1961-66) India had given Rs.1744.00 lakhs to Bhutan in 1985-86 this amount rose to Rs.4536.27 lakhs for one year, which is approximately four times than the previous one.

#### Technical Assistance

Apart from this India had assisted Bhutan in technical fields by sending experts and technicians for

development projects, training facilities, seminars and scholarship to Bhutanese. The amount of scholarship reached to Rs.14 lakhs in 1985-86 which is more than double of the 1964-65 which is Rs.5.08 lakhs. India has also provided educational and training facilities to Bhutanese in various fields like science, technology, medicine and telecommunications.<sup>45</sup> Certain projects like area development, poultry, animal feed plant and fruit canning etc. has also been identified with the help of Indian surveys. Besides this, India continues to supply, at Bhutan's request certain essential commodities such as wheat, rice, sugar, coal, steel and edible oils etc. at controlled prices. Indian experts visited Bhutan to help it in setting up a super market type structure to provide outlets for basic consumer goods at fair prices.<sup>46</sup>

India has cooperated in Bhutanese development process mainly by way of grants and technical and manpower assistance for its projects. The loan element is very small in Indian assistance to Bhutan.<sup>47</sup> It can be

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45. Ministry of External Affairs, Annual Report 1985-86, pp.5-6.

46. Ibid. p.6.

47 See Appendix 12.

said that Bhutan has been receiving a fair quantum of foreign aid consisting of mainly grants from India and India will continue to offer assistance on larger scale to Bhutan.

### Indian Aid to Bangladesh

Bangladesh is surrounded by Indian territory except for a short south-eastern frontier with Burma and the southern coast fronting the Bay of Bengal. China and Nepal being separated from Bangladesh are two closest neighbours after India and Burma. The modern state of Bangladesh had emerged in 1971 after eleven day war with Pakistan,<sup>48</sup> which previously was known as East Pakistan (one of the five provinces into which Pakistan was divided at its separation from British India in 1947). Bangladesh emerged as an area of highest bilateral aid concentration for India in its sub-continental economic cooperation during the early 1970s. It was necessitated because of political events in the area as well as due

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48. "During the 11-day war in the eastern theatre, the Joint Mukti Bahini Command of Bangladesh and India defeated the Pakistani army which surrendered on 16 December 1971" with this a new situation emerged in the subcontinent i.e. birth of the sovereign independent state of Bangladesh. Banerjee, n.3, pp.360-61.

to the fact that Bangladesh economy had the necessary infrastructure and its aid absorbing capacity in comparison to Himalayan kingdoms, at its inception, was immense.<sup>49</sup> Indian aid to Bangladesh can be divided into two parts (a) Aid for reconstruction (b) Aid to develop beneficial economic relations.

#### Reconstruction Programme

Bangladesh at her birth had a number of problems and needed economic assistance of vast magnitude. The first and the foremost problem for the new Republic was the return of ten million refugees who had poured into India at the time of the struggle for the freedom of Bangladesh. Immediately after the liberation of their homeland these refugees started returning towards their homes which created the problem of their resettlement. In this task, the Government of India extended a grant of Rs.18.58 crores to the Government of Bangladesh to be spent on refugee relief in the form of cash doles.<sup>50</sup>

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49. Vohra, n.4, p.101.

50. Ministry of External Affairs, Annual Reports, 1971-72, p.11.

By March 1972 most of the refugees had returned to Bangladesh and the next problem was to reconstruct the war ravaged economy of Bangladesh. A grant of rupees twentyfive crores for the purchase of urgently needed commodities was extended by the Government of India to Bangladesh. Apart from this, India extended loans to the Bangladesh to help her overcome its economic difficulties. A loan of Rs.10 crores was made in March 1972 for rebuilding railway network in Bangladesh. The Government of India provided a further loan of \$ 5 million in foreign exchange for the foreign exchanged needs of Bangladesh.<sup>51</sup>

The year 1972-73 marked the period of the heaviest Indian economic assistance to Bangladesh. A sum of Rs.200 crores was budgeted for economic assistance to Bangladesh during 1972-73, of this amount Rs.167.63 crores had been fully allocated. (Rs.132.80 crores in the form of grants and Rs.34.83 crores in the form of loans on concessional terms.). Apart from this, the internal food imports from India was entirely in the form of gifts.

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51. Ibid., p.11.





The largest component of Indian aid was the grant of 7,50,000 metric tonnes of foodgrains which was further augmented by another 1,50,000 metric tonnes of foodgrains.<sup>52</sup> Upto August 1973 India had allocated a sum of Rs.210 crores as financial assistance to Bangladesh in the form of grants and loans.<sup>53</sup> These supplies from India enabled Bangladesh to conserve its hard currency for resumption of its trade relations. The Indian Railway engineers successfully completed the repair of the vital bridge in Bangladesh, formally opened on 12 October 1972, which helped ease the transportation problems within Bangladesh.<sup>54</sup>

#### Beneficial Economic Relations

Initial aid for rehabilitation and reconstruction of Bangladesh economy was succeeded by a more diversified, mutually beneficial relationship. The economic assistance by India to Bangladesh had been given new dimension during

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52. Ministry of External Affairs, Annual Report, 1972-73, p.8.

53. See Appendix 13.

54. Ministry of External Affairs, Annual Report 1972-73, p.8.

1973-74, as the priority had now shifted to cooperation in the fields of trade, industry transport and water management instead of supply of essential goods and services. In addition to the amount of Rs.200 crores earmarked for Bangladesh during 1972-73, which was partly spent during 1973-74 and 1974-75, the Government of India agreed to give the following aid and commercial credits during 1973-74:

- (a) Rupees ten crores for the purchase of equipment.
- (b) Rupees twentyfive crores special bank credit for the supply of items like the railway wagons and coaches, pumps, tubewells, transmission lines and power equipment.
- (c) Rupees Fifteen crores temporary bank accommodation for one year for the supply of textile.<sup>55</sup>

Despite its own economic constraints in 1974-75 India made available loans and credits worth rupees thirtyeight crores i. e. rupees five crores for Chetak Cement plant, rupees ten crores for purchase of commodities by Bangladesh from India and rupees twentythree crores provided by the Industrial Development Bank of India.<sup>56</sup> A further credit of rupees ten crores was made

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55. Ministry of External Affairs, Annual Reports 1973-74, pp.9-10.

56. Bangladesh Observer (Dacca) 21 May 1979.

available in August 1974 to assist Bangladesh in meeting an acute balance of payment position. Apart from this, as a token of sympathy and solidarity with the victims of July-August flood ravaged in Bangladesh, a commodity grant of rupees five lakhs was made available by the Government of India.<sup>57</sup>

From mid 1975 onwards further areas of economic aid to Bangladesh were explored. In May 1975 the then Indian Planning Minister, D.P.Dhar, accompanied by a team of senior Indian officials visited Bangladesh and held wide range discussions on economic cooperation between the two countries.<sup>58</sup> An agreement for the supply of 2,00,000 tonnes of limestone annually to the Chetak Factory by the Komarrah Limestone Company for twenty years was concluded in May 1975. In addition, the Government of India initiated feasibility studies in the fields of Clinker Cement and Fertilizers, each costing Rs.one lakh. India also sanctioned technical assistance in the field of sponge iron. The cost of the feasibility study on this project was to rupees thirteen lakhs.<sup>59</sup>

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57. Ministry of External Affairs, Annual Reports, 1974-75, p.12.

58. Vohra, n.4, p.103.

59. Ministry of External Affairs, Annual Report 1974-75 p.11.

Despite all the aid given by India Bangladesh turned hostile towards the latter during 1975 ( a bloody coup on 15 August 1975) resulting in the reduction of aid commitments by India to that country. India continued her efforts to reduce bitterness and gave Rs.5.81 million as grant and Rs.5.81 million as credit to Bangladesh.<sup>60</sup> It started picking up rather hesitantly and even in 1977-78 it was at the 1975-76 level. However, during 1978-79 there seems to be an impressive rise following a fresh phase of political relations between India and Bangladesh under the Janata government in India, in 1977. In December 1977, the Eastern Paper Mills Ltd. a Calcutta based firm concluded a rupees two crore contract to set up a paper board plant in Bangladesh. In July 1978, Siemens India was entrusted with a Rs.1.8 crore turnkey job for the electrical power supply system and distribution equipment for National Assembly building complex in Dacca.<sup>61</sup> During the last days of Janata Government (May 1979) an agreement was signed

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60. Indian Express (Delhi) 16 December 1976.

61. "India and Bangladesh : Economic Relations", Commerce, vol.CXXXVIII, no.354, April 21, 1977, pp.639-640.

between India and Bangladesh under which India agreed to supply 50,000 tonnes of wheat and 1,50,000 tonnes of rice to Bangladesh to help her in acute food crisis. The commodity loan of wheat was free of interest and repayable by Bangladesh within a period of eight months after delivery but in case of rice, the loan was for the period of two and half years.<sup>62</sup>

India's Minister for Industries, Charanjit Channa said on 7 December 1980 that

inspite of India's limited resources, we have extended credit of \$ 4 million to Bangladesh since its emergence as an independent country, a part of which is still in the process of being utilised.<sup>(63)</sup>

In July 1981, India signed an agreement to supply 1,00,000 tonnes of wheat to Bangladesh which contained Bangladesh commitment to return foodgrains in the next two and half years.<sup>64</sup> In November 1982 Bangladesh was facing serious foreign exchange crisis. As a token of its earnest desire to help Bangladesh, India offered a Government to Government credit of rupees twenty crores and another rupees forty crores as commercial credit

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62. Kuldeep Singh, India and Bangladesh (Delhi: 1987), p.63.

63. Hindustan Times (New Delhi) 8 December 1980.

64. Asian Recorder, 9 July 1982, p.16685.

from export-import bank for the purchase of capital goods and equipment. These were given at interest rate much below the prevailing market rates.<sup>65</sup> On 14 June 1983 India agreed to provide a credit of rupees twenty crores to Bangladesh and also another rupees forty crores loan at 9.25 percent of interest repayable in thirteen years.<sup>66</sup> No doubt conflicts between the two Governments do exist, but both desirous to improve the quality of bilateral relations under the framework of South Asian regional cooperation.

Table - VI

YEARWISE AID COMMITMENT BY INDIA TO  
BANGLADESH

Period/years	Amount(Rs.in lakhs)	Percentage of total assistance
1971-75	3090.00	46.18
1975-76	922.25	13.79
1976-77	288.17	4.31
1977-78	263.10	3.93
1978-79	365.51	5.46
1979-80	530.00	7.92
1980-81	121.50	1.82
1981-82	127.49	1.91
1982-83	165.91	2.48
1983-84	171.00	2.56
1984-85	297.00	4.44
1985-86	348.00	5.20
<b>Total</b>	<b>6680.93</b>	<b>100</b>

Sources: Ministry of External Affairs, Annual Reports from 1970-71 to 1985-86.

65. Ibid., 13-19 August, 1983, p.17313.

66. Ibid., 1-8 January, 1983, p.16964.

The above table shows that Indian aid commitment to Bangladesh upto 1975 was maximum as it was for reconstruction of war ravaged economy. But later on in the years 1976-77 and 1977-78 there was decline in percentage of India's aid commitment to Bangladesh i.e. 9.48 percent in 1976-77 and 0.38 percent in 1977-78 which could be attributed to coup in Bangladesh and the anti-India attitude prevailing in Bangladesh. But under Janata Government policy of beneficial bilateralism, Indian aid commitment increased. Again there was decline in 1980-81 and 1981-82 due to Prime Minister Indira Gandhi's policy and her criticism of Janata Government's soft posture towards neighbouring countries. Moreover, aid commitment to Bangladesh has been progressively increasing since 1981-82. It rose from 1.91 percent in 1981-82 to 5.2 percent in 1985-86. This could be considered a symbol of more friendly and cooperative relations between the two countries.

#### Technical Assistance

Apart from grants, loans and credits India has provided technical assistance to Bangladesh in terms of training facilities, research facilities, expert service in various fields like railways, banking, administration, management, agriculture, small scale industry and nuclear

science in order to restore the infrastructure of Bangladesh. Under scholarship programme, hundreds of Bangladesh nationals and officials were trained in India. In 1984-85, around seventy scholars availed scholarship offered by the Government of India.<sup>67</sup> Moreover, training facilities had been also made available to Bangladesh personnel in Indian railways and in the National Science Institute of Kanpur. Indian experts also visited Bangladesh to provide consultancy services in areas of sugar technology, cement and small industries. Three feasibility studies, at a cost of rupees sixteen lakhs on cement, fertilizer and sponge iron were completed by Indian consultants.<sup>68</sup> A seven member delegation from Bangladesh participated in the sixth Indian Engineering trade fair in February 1985.<sup>69</sup> Thus, Indian technical assistance is mainly aimed to transform stagnant agricultural Bangladesh economy into a dynamic industrial one.

#### Indian Aid to Sri Lanka

Situated on the southern tip of the Indian sub-continent, Sri Lanka covers an area of 25,332 square miles.

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67. Ministry of External Affairs, Annual Report 1984-85, p.4.

68. Ibid., 1977-78, p.3.

69. Ibid., 1985-86, p.2.



almost the size of Greece. It is separated from the Indian subcontinent by a narrow stretch of water, the Palk Strait. From the geo-political point of view, Sri Lanka lies within the periphery of a country, which in relation to her, indeed by Asian standards, is a "Big Power". In this context Sri Lanka is to India what Madagascar is to Africa.<sup>70</sup>

In 1948 when Sri Lanka became an independent and sovereign democratic republic, thirty four percent of its gross national product was derived from exports and an equal percentage of national income was spent on imports. The weakness of the economy lies in the fact that these exports were subject to wide fluctuations in terms of world economy and market conditions. So in order to revive its economy Sri Lankan Government had received aid from various countries particularly western capitalist countries. India entered into the field in 1966 only after Srimavo-Shastri pact of 1964.<sup>71</sup>

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70. Lalit Kumar, India and Sri Lanka (New Delhi, Chetana, 1977), p.1.

71 "Srimavo-Shastri Pact on the Issue of Stateless persons was made and this came to be a big breakthrough in the bilateral relations of the two countries". See for details, Ibid., pp.52-54.

India's vast size and resources, her geographical proximity and presence of about a million people of Indian origin in the island are responsible for an attitude of suspicion towards India. This could be one of the reasons, why India started giving credits to Sri Lanka quite late in mid 1960. India provided liberal credits and soft loans in order to improve the balance of payment position of Sri Lanka which was frequently disturbed by fluctuations in the price of exports of Sri Lanka. Apart from this, India gave gifts and relief funds for rehabilitation purposes. Later on, India also started giving technical assistance to Sri Lanka for development purposes.<sup>72</sup>

#### Credits and Loans

On 14 February 1966 India inspite of its own foreign exchange crisis gave a sum of rupees twenty million as credit to enable Sri Lanka to import consumer goods from India at three percent interest per annum. The Sri Lankan High Commissioner said that India's response to Ceylon's need was worthy of emulation by

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72. H.S.S.Nissanka, Sri Lanka's Foreign Policy : A Study in Non-alignment (New Delhi, Vikas, 1984), pp. 248-250.

others.<sup>73</sup> On September 1969 India extended another credit of rupees fifty million to Sri Lanka for purchase of some equipment like electrical goods and machinery at five percent interest per annum.<sup>74</sup> This revealed that with an increase in the amount of credit, India increased the rate of interest. After a gap of one year a further credit of rupees fifty million at five percent interest per annum had been given by India in 1969.

The credits of the same amount had been given by India in 1971, 1973 and 1976 but more specific conditions like fixation of years in which credits have to be repaid signified a new trend in India's aid to Sri Lanka from 1970 onwards. They may be due to Sri Lanka's neutral policy in Bangladesh developments.<sup>75</sup> Although later on Sri Lanka voted in favour of United Nations resolution i.e. calling for withdrawal of forces from East Bengal yet India offered rupees one crore as loan to Sri Lanka for development projects. Besides this, in 1973 also a

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73. Asian Recorder, 5-11 March 1966, p.6963.

74. Indian Express (New Delhi) 2 September 1967.

75. V.P.Dutt, India's Foreign Policy (Delhi, 1985), p.233.

loan of rupees ten crores<sup>76</sup> offered to set up fertilizer project in 1975. This showed that India did not let its relations be marred by the latter's stand on Bangladesh developments.

In May 1976, an agreement was signed in New Delhi providing an interest free loan of rupees ten lakhs to Sri Lanka for the purchase of various items from India for holding Conference in Colombo in August 1976. The loan was to be repaid over a period of three years in equal instalments from 3 July 1977. The Government of India had also given a grant of rupees ten lakhs for the same purpose.<sup>77</sup>

On 19 January 1977, India gave a sum of rupees seventy million as credit to Sri Lanka which carried five percent interest per annum and was repayable in fifteen and half years including a grace period of three years.<sup>78</sup> The credit was to be utilized for purchasing various items from India including commercial vehicles.

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76. Asian Recorder, 10-16 Sept., 1975, p.12779.

77. J.A.Naik, India in Asia and Africa (Maharashtra, Avinash, 1981), pp.174-175.

78. Asian Recorder, 26 Feb. - 4 March 1977, p.13617.

industrial construction, telecommunication, agricultural and fisheries equipment. Previously, essential commodities, capital goods and machinery equipment could be purchased. With the emphasis on the purchase of agricultural fisheries and industrial construction equipments from India, there is an increase in the amount of credit i.e. an increase of rupees twenty million than the previous credits.

Under Janata Government's policy of beneficial bilateralism, there was an increase of rupees thirty million in the amount of credits. The conditions of credits were similar to that of previous one. Further credits of rupees one hundred million were offered by India to Sri Lanka in 1979 and 1981, respectively without any change in conditions, for the same purpose i.e. purchase of consumer and capital goods. The list of credit facilities extended by India to Sri Lanka are given in the following table.

#### Gifts and Relief Funds

In 1967-68, to help the victims of flood in Sri Lanka, the Government of India made a gift of sarongs and

Table - VII

## CREDITS FACILITIES EXTENDED BY INDIA TO SRI LANKA

Year	Amount (Rs.million)	Purpose	Condition
1966	20	Essential commodities consumer, capital goods and machinery	3 percent interest per annum
1967	50	-do-	5 percent interest per annum.
1969	50	-do-	5 percent interest per annum for 12 years.
1971	50	-do-	5 percent interest per annum, 15½ yrs + 3 yrs.grace period.
1973	50	-do-	-do-
1976	50	-do-	-do-
1977	70	Consumer and capital goods & also agricu- ltural fisheries and industrial const. equipment.	-do-
1978	100	-do-	-do-
1979	100	-do-	-do-
1981	100	-do-	-do-

Source : Ministry of External Affairs, Annual Reports  
from 1965-66 to 1980-81.

sarees worth of Rs.10,000 to the Government of Sri Lanka.<sup>79</sup> In August 1970, India met Sri Lanka's request for 10,000 metric tons of sugar to meet the shortage. India also met the cost of about rupees fifty lakhs to establish cattle breeding unit and donated high breed animals for sheep breeding centre. Apart from this the Indian government gifted rupees thirty two million worth of equipment for direct dialing system project.

India donated a sum of rupees eight lakhs to Sri Lanka as contribution towards relief and rehabilitation purposes during ethnic crisis in Sri Lanka in 1977. The value of relief supplies provided by the Indian government and the Red Cross Society amounted to rupees eleven millions. Apart from this rupees four millions were given by the Indian government for refugee camps.<sup>80</sup>

#### Technical Assistance

India provided training facilities to Sri Lanka's nationals in the fields of engineering, medicine, fisheries, mica-mining fertilizer technology and irrigation power.

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79 Ministry of External Affairs, Annual Report, 1967-68, . . .

80 Ibid., 1983-84, p.2.

Teams of Indian experts from the Engineering Projects India Limited (EPIL) conducted studies and prepared feasibility reports for setting up rubber based industries including tubes, tyres and textile technology.<sup>81</sup> A sheep breeding centre was also set up in Sri Lanka with Indian assistance as India gave veterinary medicines, and other equipment at a cost of Rs.6.50 millions.<sup>82</sup> Besides this, Indian government helped in the implementation of Mahawali development programme -- specially by providing feasibility study in Kotmale project (a component of water resources development plan of Mahawali river basin) by providing expertise and technical personnel. Indian technical personnel had also shown a great interest in the establishment of fertilizer plant and hand made paper unit in Sri Lanka.<sup>83</sup> Recently, India also agreed to provide training opportunities to Sri Lankan personnel for conducting offshore mineral survey.<sup>84</sup>

Thus, it can be said that relations between the two countries are usually more stable if rooted in

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81. Commerce (Bombay) 8 April 1978, pp.552-553.  
 82. Ceylon Daily News (Colombo), 14 February 1976.  
 83. Commerce, 8 April 1978, pp.552-553.  
 84. Asian Recorder, 30 April - 6 May 1983, p.17151.



developmental and technical cooperation rather than identity of political views which are so often transient to local pressure.

### Indian Aid to Maldives

The Maldives, an archipelago of about 2000 coral islands, of which only 210 are inhabited is situated South of the Indian territories of Lakshadweep and South West of Sri Lanka.<sup>85</sup> It suffers from the problems of demography of underdevelopment and of international power rivalries. The physical remoteness of Maldives explains how the islands have remained untouched by great social and political changes that have swept across South Asia.<sup>86</sup> Though Maldives became independent in 1965 and transformed itself into Republic three years later i.e. in 1968, it was only in March 1974 that thread was picked up for improving relations with India. The then Maldivian Prime

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85. J.P.Anand, "The Maldives : A profile", IDSA Journal (New Delhi), Oct-Dec. 1976, vol.IX, p.116.

86 "The nearest land mass of Maldives lies 300 miles away. The distance of Cape Comrin, India's South extremely and it is 400 miles eastwards across Indian ocean to Colombo, the capital of Sri Lanka", see for details, a World Bank Country Study, Maldives an Introductory Economic Report (Washington, D.C., 1980), pp.1-2.

Minister Zaki arrived in India on his first visit in the same year. Subsequently Indian <sup>Prime Minister</sup> on an invitation of Maldivian Government spent three days in Male from 12 to 14 January 1975. This marked the beginning of a new and closer relationship between India and Maldives in the fields of education, fisheries and communication.<sup>87</sup>

In September 1975, the International Airport Authority of India (IAAI) prepared a project report for the expansion of the Hulele Airport. Besides this India assisted in the establishment of rupees fortytwo lakhs canning plant with an annual capacity of 3,000 tonnes. India also provided entire equipment for it. A Radio telegraphic link between Male and Bombay was set up with Indian assistance.<sup>88</sup> India rendered considerable assistance in training Maldives manpower in different fields such as civil aviation, custom, parliamentary and secretarial work. Maldivian Prime Minister said on 30 December 1976 that

the people of Maldives are grateful to India for sending surgeons on various occasions and they are interested in

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87. Indian and Foreign Review, 1 February 1975, p.17.

88. Times of India, 15 January 1975.

Indian technical assistance in several fields because Maldives is situated in its immediate neighbourhood.(89)

The visit of the Maldives' Minister of Education to India in May 1977 reflected the friendly contacts being maintained between India and the Maldives. On 2 March 1978, the Government of India decided to award Rs.9.30 crores (\$ 11 million) for airport construction in Male.<sup>90</sup> Moreover, a Committee of Indian and Maldivian officials had been set up to work out details of economic and technical cooperation between India and Maldives.<sup>91</sup> In 1979, the International Airport Authority of India had completed its contract for Hulule airport, the runway, the terminal buildings and the ancillaries were completed by the middle of 1981 and the Airport was inaugurated in November 1982.<sup>92</sup>

Apart from this, India provided medicines worth Rs.1.04 lakhs to fight diarrhoea epidemic which broke out

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89. The Hindu, 31 December 1976.

90. Asian Recorder, 2-8 April 1978, p.1425.

91. Hindustan Times, 29 December 1978.

92. Ministry of External Affairs, Annual Report 1979-80, pp.81-82.

in the summer of 1982. India also gifted material worth Rs.25,000 as gift for the handicapped the same year. And medicines worth of Rs.3.30 lakhs were again sent to Maldives to fight diarrhoea epidemic in 1983. Further two fire fighting engines were presented to Maldives in the same year. During the year, two Maldivian foreign service officials and five Maldivian civil aviation officers were trained in Civil Aviation Training College at Allahabad.<sup>93</sup>

Under the aegis of South Asian Association Regional Cooperation (SAARC) India had provided the services of sports coaches for training Maldivian sportsman,<sup>94</sup> on February 1986, rupees twentyone crores worth infrastructure and package had been offered to Maldives by India for health care, meterology, hotel industry, telecommunication and mass media, which constitutes a modest expression of collective self reliance under SAARC.<sup>95</sup>

To sum up, it can be said that India's aid to the South Asian countries is substantial compared with

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93. Ministry of External Affairs, Annual Report 1982-83, p.6.

94. Ibid., 1985-86, p.4.

95. Ibid., 1986-87, p.4 / The Hindu, 11 February 1986. and also

her own needs and resources. She had conducted her aid diplomacy when she herself was in the throes of an economic crisis in the wake of partition and the attendant problems such as rehabilitation of millions of refugees from Pakistan and later due to demands of heavy industrialization. India's aid schemes in the northern kingdoms constituted a political compulsion for her and was aimed to build infrastructure and economic development. Now, it is concentrating on maintenance aid. Whereas her aid programme in Bangladesh was directed through a conscious effort, to mould the sub-continental political climate in accordance with her foreign policy objectives, the early economic assistance from India was intended to help Bangladesh rehabilitate and reconstruct her war ravaged economy. As Bangladesh rehabilitated her economy, focus of Indian assistance shifted to fields of technology and industry etc. with regard to sea locked countries i.e. Sri Lanka and Maldives, India seemed to have become aware of the need for closer economic relations quite late. India's aid to these two countries constituted mainly credits, loans and technical skills.

Indian aid to South Asian countries is not an isolated phenomenon. This is a part of a larger system

of her foreign policy priorities and objectives. An understanding of her bilateral aid to South Asian countries involves a study of the rationale of her aid diplomacy within her domestic and international political and economic system.

## CHAPTER IV

RATIONALE AND EVALUATION OF INDIA'S  
AID DIPLOMACYRationale

A country's foreign policy is eventually an extension of its domestic policy. It is also influenced by actions and foreign policies of other states. India's foreign policy has been the product of many and varied factors - the traditional values of Indian society, the commitments of the Indian national movement during the struggle for freedom, the nature and structure of elite opinion in India the geographical realities of the state as it emerged after the partition, the economic needs of a society urgently in need of a take off and the internal political pressures and pulls generated by a democratic system.<sup>1</sup>

After independence, it was not possible for the new Government of India to define India's national interest in the way as the outgoing British raj had done. On the contrary, its leaders were bound by their past

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1. Sisir Gupta, India and Regional Integration in Asia (Bombay, 1964), p.2.

commitments as well as present realities, such as reduced geographical physique of the Indian state. Moreover, India's emergence in the world coincided with the emergence of vast ideological realities at the European and the American continents. In addition to it most of the old strategic concepts had become obsolete because of the development of nuclear weapons. Functioning within these limitations, India had to evolve a foreign policy which would advance her security as well as status in the international politics.<sup>2</sup>

Although India is a debtor country still it has employed aid diplomacy in pursuit of its foreign policy objectives. It may be mentioned that besides historical and political influences, economic factors are equally important in shaping the foreign policy of a country.<sup>3</sup> A credible foreign policy begins from nearer home and in the case of India, it must radiate from its neighbouring

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2. Ibid., p. 4.

3. "It was the employment of the post war instruments of economic diplomacy in addition to various other methods already in use to maintain India's influence and protect her security in South Asia".



South Asian countries. Being a leading power in South Asia, India's security and vital interests are intimately tied up with the fate or future of South Asia. Her strategic position, strength and potential, demands that in order to maintain stability in the region, India should play a dynamic role. Moreover, India has started giving aid to the South Asian countries specially to the Himalayan kingdom countries, with a view not only to improve her image abroad but also to enhance the ability of India to use economic aid as a tool to achieve its national interests. The rationale behind India's aid diplomacy should be seen not only in internal and external political environment but also in the domestic and international economic system.

India as a Regional Power - Strength and Potential of India in South Asia

Geographical location of India has forced it to play a dominant role in the region and thereby keep its status of regional power in the South Asian region. The then Secretary General of India's external affairs ministry, G.S. Bajpai wrote in 1952

Today India is the major stabilizing factor for peace in Asia; the measure of stability that she can impart on this part is not a

matter of good intentions but of power.<sup>4</sup>

Two factors made India strong in her foreign policy operations. In the first place, as virtually the biggest amongst the newly freed countries of Asia and Africa, her voice was bound to be counted in a world where decolonialization was on a high agenda; and secondly, by itself India represented a vast country with a huge population, the future of which was bound to affect the course of an important section of mankind.<sup>5</sup>

The consciousness of India's strength was particularly apparent to the Indian prime minister Nehru, who had been known for his capacity to view events in the canvas of history. In one of his early speeches, he said :

The fact of the matter is that inspite of our weakness in a military sense...India even today counts in world affairs....If we had been some odd little nation somewhere in Europe or Asia, it would not have mattered much. But because we count and because we are going to count more and more in future, everything we do becomes a matter for comment.

In another speech, while dwelling on the positional importance of India, Nehru observed :

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4. Dewan Chand Vohra, India's Aid Diplomacy in the Third World (New Delhi, Vikas, 1980), pp.195-196.

5. Sisir Gupta, n.1, p.5.

"Now that period and epoch (of European domination) has ended, India now comes, I think into the forefront in national and world affairs. (6)

India's strength also lay in the fact that she has all the potentialities of a great power seen in the context of the endowment of natural and human resources which needed to be tapped and developed. India as a leading country of South Asia has emerged as an industrial power on the South Asian economic landscape. According to UNIDO experts, India has entered significantly in the field of technology exports.<sup>7</sup> Besides this, India's potential as a market (for industries which the South Asian countries can set up) is immense because of its vast population. It has also established large capacity for consumer and capital goods whose benefits she can make available to the South Asian countries.<sup>8</sup>

Thus, it is growing infrastructure and industrial capacity and skilled manpower in the field of science and technology which qualifies India to take lead in the South Asian neighbourhood.<sup>9</sup>

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6. Jawaharlal Nehru, India's Foreign Policy: Selected Speeches 1947-61 (New Delhi, 1961), p.36.
  7. B.N.Banerjee, India's Aid to Neighbouring Countries (New Delhi, Select Books, 1982), p.168.
  8. T.H.Prakash, India and Regional Development (Bombay, 1969), pp.45.
  9. Economic Times (New Delhi) 2 Dec., 1975.

The fundamentals of India's foreign policy in Nehru's words lay "merely in fact that we are potentially a great nation and big power". He observed -

It is not such a simple matter for us to affiliate ourselves with this organization or that organization and get privileges of membership of that organization. That kind of thing is not going to happen. So far as our fundamental approach to the problem of foreign policy is concerned, I just don't see how we can vary it. As occasion arises we adapt ourselves to circumstances, that I can understand but the fundamental approach, I do think has to remain the same, because the more you can think about it the more you will find there is no way. It is not a question of adopting a certain policy because idealistically you think it is good one. I do submit if you give it up, there is no other policy for the country to adopt with slightest advantage. (10)

After attaining independence, India embarked upon planned economic development through five year plans under the pattern of mixed economy in which both public and private sector work together to achieve the goal of democratic socialism. Part IV of the Indian constitution dealing with the Directive principles of state policy is designed to achieve democratic socialism

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10. Nehru, n.6, p.37.

by bringing social and economic revolution through peaceful and nonviolent means.<sup>11</sup> In order to implement its development process through plans and ensure economic development in the South Asian region, India needs peace more than anything else. In order to maintain peace and security in South Asia India has to increase her links with South Asian countries.

Besides this, the harsh realities of the world economic system and problems and predicaments of the developing countries have enjoined the need of having aid diplomacy on the part of India - without which it is impossible to exercise leverage with the developed world and bring out any change in terms of trade and aid that are deteriorating for the developing countries.<sup>12</sup> It is this realisation which forced India (the developed country among the less developed countries) to play a dominant and influencive role in the South Asian region.

#### Non-alignment, Peace and Cooperation

In the immediate post-independence era, India's foreign policy thrust was on the Asian connection and

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11. The Constitution of India (1986 edition), pp.28-31.
  12. V.P.Dutt, India's Foreign Policy (Delhi, Vikas, 1984). p.11.

particularly on the South Asian junction. Since her independence, non-alignment, peace and cooperation have been the cornerstone of India's foreign policy. In 1947, itself India hoisted the Asian relations conference in New Delhi. It voiced the need for the elimination of imperialism and to have active contacts among the Asian nations. This objective is prompted not by the desire of India to dominate Asia but by her desire to make Asia play its due role effectively towards the promotion of world peace. The foreign policy goals of India in South Asia are to foster political stability, to facilitate economic developments; to increase her links with the South Asian countries for collective good; and to achieve unity. These goals of India's foreign policy are pursued through non-alignment, peace and cooperation.<sup>13</sup>

Non-alignment stands for keeping away from cold war and military and security alliances and yet participating actively in the international relations. It neither means neutrality nor it means that friendly cooperation is not possible with other countries. Indian prime minister, Nehru explained on 8 March 1949 in Parliament.

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13. A.Appadorai, Domestic Roots of India's Foreign Policy (Oxford Press, 1981), pp.14-22.

Non-alignment does not exclude close relationship with other countries and will continue to be not only to keep apart from power alignments but trying to make friendly cooperation possible.(14)

The core of India's non-alignment policy is a delineation of the area of agreement between the great powers of the world. Such a policy is ultimately in consonance with her own national interests. It is indeed the best means to maintain freedom of action in foreign relations. Non-alignment means independence plus while alignment means independence minus.<sup>15</sup> Taking this fact into consideration all countries of South Asia have favoured non-alignment as a means to achieve their foreign policy goals.

India needs peace more than anything else, which is essential not for her security but also is an economic necessity. In the poor and underdeveloped South Asian countries, Indian aid diplomacy can be useful and effective if there is peace and stability in the South Asian region. It is not only in its own interest but is also helpful in fulfilling the needs of the South Asian countries.

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14. Ibid., p.18

15. U.S.Thyaga Rajan, "Non-alignment and Neighbours", Mainstream (New Delhi) 29 August 1981, p.10.

Indian prime minister Nehru remarked before the plenary session of the non-aligned nations at Belgrade held from 2 to 6 September 1961.

It will do us no good, I think, if we start condemning this country or that country; it is not an easy thing to do anyhow as it complicates the set circumstances. But apart from being easy or difficult if we want to be peacemakers and if we want to help in the cause of peace, it does not help us to start by condemnations. We want to win over and to influence and induce them to follow the path of peace. If we can prevent war we can go ahead in our other problems and build our free societies, prosperous societies, welfare states in our respective countries because that is to be our positive work.<sup>16</sup>

Cooperation with all Asian countries in the sphere of social, economic and cultural fields has been the hallmark of India's foreign policy. Particularly in respect of her strategic important neighbours in South Asia, India is keen to develop further her friendship and cooperation in the sphere of economics. Indian foreign policy is very considerate to the needs of India's small

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16. Quoted from Vohra, n.4, p.207.



neighbours in South Asia. India wishes her neighbouring countries to become stable-politically and economically and has been helping them with economic aid.

In order to understand the rationale behind India's aid diplomacy in South Asia, a deeper look is essential, especially into India's conduct of her foreign policy. The nature of India's power in conducting its policy of non-alignment, peace and cooperation depended on whether India operated in the global system of states or in the regional system. According to Heimsath and Mansingh, "to contrast India's posture vis-a-vis the great powers with its relations with important states in Asia is to juxtapose ideological interests against the realities of a tangible power".<sup>17</sup>

Counterbalance Big Power Influence and  
Maintain Stability

Middle powers like India must be free from pressures and pulls of big powers and equally they must not allow themselves to be blackmailed by smaller powers.

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17. Ibid., p. 206.

This can happen only if small countries function as independent, self-reliant and try to develop economically through which they can maintain stability in their internal or domestic front. Probably, it is in pursuit of this goal that India has been giving aid to the South Asian countries.

The big powers, have admittedly played a major role in South Asia both in its politics and economic development. South Asia because of its proximity both to China and Soviet Union is an area of immense strategic importance to the United States. The attitude of the United States towards South Asia will continue to be influenced by its relations with Soviet Union and China.<sup>18</sup> Besides this, India has proved to be a nation with a strong political will, military efficiency and inherent economic potency, particularly after its victory in 1971 war. As an emergent power in South Asia, India cannot pursue a static policy of staying where it is. It can bring stability and peace in the region by assisting the South Asian countries in economic and technical fields.

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18. J.K.Baral, "Great Power Interaction in the Sub-continent", IDSA, Journal (New Delhi) April, 1973, vol.II, no.4, pp.496-499.

Soviet Union and South Asia

Soviet Union in addition to being a super power is both an Asian and a European power. As an Asian power, Soviet Union has treated the South Asian region strategically as well as politically important. A major objective of the Soviet Union has always been to check not only the involvement of the United States but also the growing influence of China,<sup>19</sup> as such, a situation which could jeopardise its own security. Besides this, because of its geographical location in the vicinity of both China and South Asia, it cannot always afford to remain a salient observer in any regional dispute. Another basic geo-strategic interest of the Soviet Union is that, being largely land based country, it needs an outlet to the Southern seas for an unobstructed use of the great highways of the world.<sup>20</sup> This is essential not only for its national security but also to meet the growing demands of its expanding economy. So it urgently needs alternative openings to the Indian ocean and through it to other

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19. V.P.Dutt, "Super Power Interest in South Asia", in K.Subrahmaniam, ed., Self Reliance and National Resilience (New Delhi, 1975), p. 74.
20. K.D.Kapur, Soviet Strategy in South Asia (New Delhi, Young Asia Publication, 1983), p. 2.

prominent oceans.

Soviet Union was directly involved in the intra-regional affairs in South Asia in the mid fifties and thus reached its high watermark in the Tashkant declaration of 1966. Incidentally, on the one hand, it had a growing rivalry with the United States at the global level and an ideological dispute with communist China. On the other hand, on the South Asian platform, one notices, Pakistan's alignment with the USA, the Indo-Pak dispute over Kashmir and India's hostile relations with China. Naturally such an interplay of global and regional factors brought Soviet Union closer to India. However, the Soviets could not afford to ignore their basic interests in other parts of South Asia and sometimes provided them with sizeable economic and technical aid.<sup>21</sup> Of course, Soviet Union never tilted the balance against India and recognized its potentiality as a leader of the emergent third world nations.

Moreover, because of its own economic prosperity, the Soviet Union is in a position to provide economic assistance to the developing nations of South Asia. In fact,

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21. Soviet Union is giving aid to South Asian countries to restrict Chinese and American influence and its relations with India continue to be focal point of its South Asian strategy.

it is already doing so by providing economic assistance and technical know how for a number of projects undertaken by these nations.<sup>22</sup> All these factors have increased the bargaining capacity of the Soviets in this part of the world.

#### United States and South Asia

The USA emerged as a major global power with world wide interests after the end of World War II. However, its interests in all regions were not equal. The US objectives in South Asia are subordinate to its global objectives. Its interests in South Asia has always been a product of its global strategy. Its global objectives can be summed up as increasing the military capability, strengthening military alliances, countering the spread of communist movement and finally its opening to communist China. In terms of real performance to fulfil the above

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22. "The Soviet Union has given both financial and project aid to Nepal, Bangladesh, Sri Lanka and Pakistan. The contract is made for the supply of 12,000 tonnes of diesel worth \$17 millions to Nepal. It has given technical assistance to Bangladesh in projects like Ghorasal Thermal Power Station, electricity machinery plant, etc. While to Sri Lanka it has given assistance in projects like cold storage plant and Kelani Ganga Basins scheme. By Feb.1971 Soviet Union had given assistance for 31 projects in Pakistan", R.K.Jain, Soviet South Asian Relations 1947-78 (New Delhi, 1978), pp.403-444.

objectives, it can be submitted that although America succeeded partly, by and large, it has been disillusioned with the new international trends in the region and elsewhere.<sup>23</sup> As later on, shifts have been reflected in US policy in South Asia.

United States interests in South Asia are largely because of latter's location in the vicinity of two strategic regions of the world-the Gulf and Southeast Asia. South Asia is the soft belly of European land mass. Its heartland is accessible from its two adjacent waters : the Arabian sea and the Bay of Bengal.<sup>24</sup> Although the Indian Ocean is not so important to the US as the Pacific and Atlantic oceans but the United States being a global power with global interests has been deeply involved in South Asia in view of its proximity to two communist grants and the Persian Gulf.

In the light of new political developments in South Asia, since the emergence of Bangladesh on the geographical map of the world, there has been apparently some

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23. Robert Jackson, "The Great Powers and the Indian sub-continent", International Affairs (London) Jan. 1973, pp.37-39 and also see for a similar assessment, Leo E. Rose, "The Super powers in South Asia: A Geo-strategic Analysis in Orbis (Pennsylvania), vol. 2,3 summer 1978, p.395.
24. M.K.Chopra, "South Asia and Strategic Environment" in USI Journal (New Delhi), July-Sept.1977, pp.204-205.

re-evaluation in the United States, South Asian policy. Besides this, India's peaceful nuclear explosion in 1974 and the increasing rumours about Pakistan manufacturing the first Islamic bomb, have naturally altered the major global powers interest. With India and Pakistan as potential nuclear powers in this region, the United States, as a major power, cannot afford to be a disinterested observer. Moreover, the failure of US diplomacy in Iran (1978) and Soviet intervention in Afghanistan (1979) have also forced the USA to pay more attention towards South Asia. As a low profile policy for this region could be seriously detrimental to a wide range of American goals and policies at the global level.<sup>25</sup>

In order to keep its position prominent and to restrict the influence of other powers including India, USA maintains links with the South Asian countries through its policy of economic assistance. The USA has been the largest source of foreign aid to South Asia. The US aid to Nepal is a continuous process as it has already reached Rs.72.2 million. There has been an increase in the US grants

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25. Parmod Kumar Misra, South Asia in International Politics (Delhi, WDH, 1984), p.13.

to Nepal. There has been increasing trend in the US loans to Sri Lanka from 1970 onwards.<sup>26</sup>

Pakistan also signed several bilateral and multilateral agreements with the USA in search of power parity with India. As a result of which the USA decided to give economic assistance to Pakistan. Although the attitude of the USA towards Bangladesh was hostile during the freedom movement, but with the foundation of the Islamabad-Peking-Washington axis, US policy towards Bangladesh was revised to eliminate the Indo-Soviet influence by giving economic assistance to Bangladesh.<sup>27</sup> Thus USA has been taking interest in South Asia for its political security and economic reasons. South Asia has become a link in the US global strategy as the source of valuable oil i.e. Middle East is near to it.

#### China and South Asia

China is physically a neighbouring power as it has common borders with four out of seven South Asian regional

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26. K.P. Misra and S.P. Verma, Foreign Policies of South Asia (Jaipur, 1969), p.153.
27. J. Biswas, US Bangladesh Relation-A Study of Political and Economic Development (Calcutta, Minerva, 1984), p.100.



states with the exception of Bangladesh, Maldives and Sri Lanka. China has the most immediate interests in South Asia. Not only China shares international borders but Tibet (now Chinese occupied area) has long maintained trade relations with most of the South Asian states. China<sup>is</sup> a peripheral power to the South Asian region. However, it is anxious to play a key role and is trying to decrease the influence of Soviet Union, its major rival. In pursuance of that objective, it has unhesitatingly collaborated with the USA which is also eager to play a crucial role in the region.

China's vital interest is the security of its Southern boundary. The Himalayan range which serves as the northern border of the South Asian states, is important in any strategic calculation of China. It has also projected itself as a dependable ally of Pakistan. There has been growing contact between these two nations in the political, economic and military field. Besides this, China's basic interest is the search for an outlet to the outside world. Because of its growing hostility with the Soviet Union, it can only hope to widen its contacts with other nations in its eastern and southern frontiers.<sup>28</sup>

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28. Misra, n.25, p.16.

China is giving economic and technical assistance to South Asian countries in order to achieve its aim of leadership in the developing world. A Nepalese daily commented that Sino-Nepal ties are a model of stable friendship...in the best spirit of South-South cooperation.<sup>29</sup> Sri Lanka is the second country in South Asia to receive Chinese aid. Moreover industrial and hydraulic complex are being built in Sri Lanka with technical assistance of China. But the signing of an agreement on sea frontier on 25 March 1976 between Sri Lanka and India curtailed Chinese opportunities in Sri Lanka. There is decline in loans from China and no grants are given by China to Sri Lanka.<sup>30</sup> Although initially China was quite critical towards Bangladesh but it was quick to react to coup in Bangladesh and subsequently encouraged Bangladesh dispute with India over the distribution of Ganga water by giving loans to Bangladesh in 1978 and 1980.<sup>31</sup>

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29. L.C.Harris and R.L.Warden, China and the Third World (Auburn, Massachusetts, 1986), p.147.
30. R.K.Jain, China and South Asia (New Delhi, 1981), p.665.
31. S.Yurkov, Pekings's Plan for Asia (Delhi, Sterling, 1982), p.81.

South Asia has accounted for almost twenty percent (20 percent) of the Chinese aid. It is regarded as a principal target area in Chinese economic assistance policy.<sup>32</sup> Chinese major interests in providing aid to the South Asian countries are to counterbalance super power rivalry. It has sought dominance in Asia and regarded India as its rival which has to be subdued. Thus, like the United States, China has taken keen interest in South Asia for its political, strategic and economic reasons.

#### India and Smaller Powers in South Asia.

India's policy towards South Asia has been looked at from two levels. At the one level Pakistan is a major partner in South Asia and the other level smaller countries of South Asia, which include Nepal, Bhutan, Bangladesh, Sri Lanka and Maldives.

Pakistan is an important factor in the domestic and foreign policy of India. Fear of India a strong~~ly~~ military and industrial power has remained the essence of Pakistan's South Asian outlook. The problem of Pakistan's

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32. Jayantha Dhanapale, China and Third world (New Delhi, Vikas, 1985), p.115.

defence revolves around the Central theme of Indian domination and safeguards are sought to counter this threat. In the pursuit of this, it has been able to restrict India's aspirations by becoming friendly to the USA and China.<sup>33</sup> It has also been looking for opportunities and platforms where it can deflate Indian influence and tarnish its image as anti-Indianism is an important ingredient of Pakistan's foreign policy.<sup>34</sup>

Pakistan's policy has two objectives in safeguarding its security viz. (a) reduction of the hold of the 1971-72 model by initiating a debate on a new bilateral framework in the form of a No War Pact; and (b) seeking American help for solving its perceived security threats and at the same time delinking US aid with Pakistan's ties with non-alignment and the Islamic conference. Thus Pakistan plays the role of major partner for India in South Asia. The other countries such as Nepal, Bhutan,

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33. "Despite its own limitations regarding geographical location and economic, military development, Pakistan has been able to restrict India's influence in South Asia as it is mainly dependent on US aid and China is still closest of all its friends", Chopra, n.24., p.199.

34. P.L.Bhola, "Developments in Pakistan's Foreign Policy", South Asian Studies (Jaipur) Jan.-July Dec.1977, vol.12, pp.50-62.

Bangladesh, Sri Lanka and Maldives are smaller powers in size but not without any significance as they constitute a 'nuisance value' to India because they have a bargaining power, in times of crisis. Such bargain is possible in both cases by use of extra-regional power or by use of other regional powers.<sup>35</sup> They would appear to have been less influenced in their behaviour by Pakistan's existence a rival of India than big power influence. So India's basic approach towards the small powers of South Asia has three important dimensions.

(I) Following the British, India had identified its security needs in the same pattern of "extended frontier" methods. This meant that it would take interest in the security needs of the small neighbours.

(2) Such a security interest is likely to manifest in two ways. Care would have to be taken that these countries don't become open to outside intervention. Secondly, interest would also focus on the internal stability of the nation concerned because any upheaval in the political system that goes to weaken the state would be an invitation

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35. Shri Kant Paranjpe India and South Asia Since 1977 (New Delhi, Radiant, 1985), p.3.

for outside intervention. This would also constitute a security threat to India.

(3) India would, thus, try to maintain an order pattern (order would inevitably be resolving around the relatively superior power viz. India) in South Asia that would exclude extra regional intervention.<sup>36</sup>

No doubt the South Asian countries have had to operate within a framework determined almost totally by India's aims and aspirations as well as by her weakness. That is why they are accepting economic aid from big powers who also have basic interests in the region hinged around border security or safety of communications. But Indian aid to South Asian countries deserves special mention as it has been recognized by the major powers as 'New Influential'. Such a recognition implies that the big powers will not intervene in South Asia in a manner that might threaten India's position.

Besides this (South Asian Regional Cooperation) SAARC proposal in 1980 is made by Bangladesh and accepted by other small countries) has brought the need for building

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36. Ibid., pp.47-48.

up a new response to South Asia for India. It signifies that the independent identity of smaller countries can and should be channelled through a regional order pattern. But it cannot and would not restrict India's position, as the order pattern in South Asia would evolve at two levels- the politico-strategic level where India would be able to continue as a core/pivotal power and a socio-economic and cultural level, where a 'democratic' principle of interaction would operate in the form of SARC (South Asian regional cooperation).

The rationale behind India's aid diplomacy in South Asia is political, strategic, commercial and economic. In countries where India has concentrated her aid it performs the vital political function of promoting national security; this applies in the case of the Himalayan states. In areas where Indian aid has been small in quantity, it is expected to promote goodwill, share experiences, promote trade, help development process and to ensure solidarity and friendly relations.<sup>37</sup>

It is significant that the major power interests in South Asia have been constantly changing whereas the

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37. Vohra, n.4, p.202.

geostrategic interests of India have remained more or less constant.<sup>38</sup> India's conception that the small states of the South Asian region lie within her own security sphere, has entailed the corollary that these states must move within Indian orbit. The continuation of aid diplomacy by India to the South Asian countries will prevent them from becoming more enenetic towards India. As a senior partner in the South Asian region India would have to play a responsible role. As the privileges of a great power would have to be adequately tied with responsibilities towards maintenance of harmony. Thereby, India is also protecting its foreign policy goals and objectives. In this respect, aid diplomacy is the most viable instrument for serving India's national interest not only in South Asia but also in the emerging world order.

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38. In the fifties the chief concern of the US was to draft South Asian states in a bid to contain communism in Southeast Asia. In early sixties there were collusion between the USA and the USSR to support India against China. In the late sixties the Soviet Union attempted to draw both India and Pakistan into collective security system directed against China. In the early seventies, there is again collusion between the USA and China to maintain the balance in favour of Pakistan\*, Shelton Kodikara, Strategic Factors in Interstate Relations in South Asia (New Delhi, 1984), p.66.



### Evaluation

Motives, goals and objectives of Indian foreign aid policy do not differ radically from that of big powers. Aid is at best based on the "enlightened self-interest" of a donor state. Big powers aid follows a certain pattern in its motives. This can be described as an exercise in foreign policy building by the donor. Aid is mainly given to gain leverage and influence over the recipient. It can extend, widen and deepen the relationship between the donor and the recipient. Aid can sometimes be a reward for the support of donors policy position.

Aid may be given in an attempt to maintain stability and status quo within a state. For instance, India's aid to South Asian countries could be viewed from that perspective. It has been agreed that one of the chief objectives of New Delhi has to obtain both regional and external acceptance of its dominant status in the South Asian region. In addition to this India has also sought the maintenance of generally stable regional political systems. Indian aid activities in South Asia since independence are those of aspiring middle power whose economy is not sufficiently developed but leaders have ambitions to play an influential role in the world.

Jawaharlal Nehru, the Prime Minister of India  
observed in 1948

The freedom that has come to India by virtue of many things, history, tradition, resources, geography, great potential and all that inevitably leads India to play an important part in world affairs.

It is not a question of our choosing this or that; it is an inevitable consequence of what India is and what a free India must be. And because we have to play that inevitable part in world affairs, we have another and greater responsibility. Sometime, with all my hope and optimism and confidence in my nation, I rather quake at the great responsibilities that are being thrust upon us and which we cannot escape.

If we get tied in our narrow controversies, we may forget this. Whether we forget it or not that responsibility is there. If we forget it, we fail in that measure. Therefore, I would beg of this House to consider these great responsibilities that have been thrust upon India and on us in this House because we represent India in this as in many spheres and to work together in framing this constitution always keeping in view, that the eyes of the world are upon and the hopes and aspirations of a great part of the world are also upon us. We dare not be little; if we do so we do an ill-service to our country and to the hopes and aspirations of other countries that surround us. (39)

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39. Jawaharlal Nehru, India's Foreign Policy, Selected Speeches 1946-1961. (New Delhi, 1961), pp. 17-18.

India's hegemonistic designs as it is so often accused of in South Asia is particularly due to its large size and power position. It is a reality and the smaller neighbours have to line with it whether they like it or not. It is this fact which generates feelings of suspicion and fear in South Asian countries about India's political ambitions. However, India as a core country of the region has a vital role to play in winning over the confidence of its smaller neighbours, which would be possible only if India can remove the sense of mistrust from the minds of South Asian countries. Moreover, it must convince them that it has no intention to interfere in their internal affairs or behave as a big brother. It may be emphasised that the Indian government has persistently describes its loans, credits and grants as economic cooperation. However, it may not be absolutely accurate to describe them as such since Indian aid to these countries is given to promote its own national interests and may in certain cases be also to gain economic and political advantages. To characterize India as having a single policy towards all South Asian countries may not be correct. India, somehow has preferred to deal with the countries of South Asia on bilateral bases, thereby it may be seeking to attain a degree of leverage. (Aid opens market,

creates situations resulting in procurement for the donors industries and employment of its expertise). While the economic motive is important in many cases, Indian strategic and political motives override all others in determining India's aid priorities to South Asia. Even economic gains are by product of these motives.

Indian grants to South Asian countries can indirectly promote India's economic interests, particularly, when the grants are tied, wherein the grant is to be utilised to purchase Indian goods and services. Besides this, the terms of loans and credits are also different. Loans are generally given in Indian rupees not tied to specific purchases of itemized Indian goods and services. But the credits have been a far more common phenomenon and are more accurately described as 'buyers credits' tied to the purchase of Indian goods. Thus loans are provided with a view of long terms economic gains. The credits, however, are commercially motivated transfers. But actually both are provided for achieving political goals in mind by the Indian government.

#### Impact of Indian aid diplomacy

The question arises whether India has succeeded in using aid diplomacy as an instrument to achieve its

foreign policy goals. Since foreign aid is an instrument of foreign policy it is obvious that it will influence the foreign policies of recipients. It thus cannot be ignored that India is providing aid to South Asian countries to fulfil her political-strategic objectives. However, similarly, Indian aid diplomacy has to create a visible and effective impact on the economies of the South Asian countries. As foreign aid involves transfer of capital, foreign technicians and advisers, it is bound to exercise significant impact on the political system of the recipient country. India is not treating all South Asian countries equally due to their political and other conflicts with India. It deals with them on a bilateral basis. Consequently, the impact of Indian aid diplomacy in the region differs from one state to another as also the amount of Indian aid differs from country to country in South Asia.

### Nepal

During the last decades India has advanced economic aid to Nepal with which Nepal has been able to register significant economic growth. The infrastructure built by India in terms of roads, communication, power and irrigation has immensely benefited Nepal. The

economic and strategic considerations notwithstanding, Indian aid utilization and its sectoral distribution has been designed in keeping with Nepal's development priorities as envisaged in its plans. While undergoing cooperation, India has participated in all varieties of projects and also benefited from it as they created demand for subsequent import of raw materials, components and spare parts etc. On the other hand Nepal can save foreign exchange which otherwise would have incurred in completing projects in its own.

India has cooperated with Nepal in developing latter's water and energy potential. Nepal's vast hydro power potential cannot be developed without India's cooperation as it is the only country which can purchase the power generated in these plants. Moreover, Nepal being small and landlocked cannot afford to exploit them on its own. Moreover, it has been facing the problem of aid indigestion which is primarily caused by her small absorptive capacity. So in order to increase her absorptive capacity, India is providing technical assistance and also is putting emphasis on industrialization of Nepal. It can be said that India's assistance to the economic development of Nepal has been more in the nature of mutual cooperation and sharing expenses rather than aid in terms of money which implies a patronising attitude.

## Bhutan

It has made a great stride in the transition from traditionalism to modernism while at the same time preserving all that was good in Bhutan's past. Bhutan's economic relations with India are substantial as India is the largest single donor of aid to Bhutan.<sup>40</sup> The tempo of Indian assistance for the construction of a network of communications including roads, telephone, transport services is kept up so that Bhutan will have infrastructure capable of further development. India has also provided electricity to Bhutan. In 1977-78, for instance, Bhutan purchased 1182,264 kw.(Kilowatt) of power from India while its own generating capacity being about 4000 kw(kilowatt). The development of Chukha project would not only stimulate development in Bhutan but also provide that country with valuable export earning from the sale of power.<sup>41</sup> The ninety

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40. A World Bank Country Study: Bhutan (Washington D.C. 1984), pp.120-125.

41. "Power from Chukha project is needed for the development of Bhutan's mineral wealth to raise internal resources as yearly revenue amounts to Rs.two crores and Bhutan can sell its power to West Bengal-a power hungry region". Patriot, 19 December, 1974. Hindustan Times, 24 March 1974.

percent of power enables Bhutan to repay the loans. India has also helped Bhutan for Pagli and Penden cement plant, which not only meet Bhutan's requirement but also generate exportable surplus.<sup>42</sup> Moreover, through a combination of technical manpower hired directly from India and by making use of Indian technical assistance, Bhutan has been able to reduce technical constraints on development and project implementation. Thus Indian assistance to Bhutan is a symbol of modernism to Bhutan's traditional agricultural and hut economy.

#### Bangladesh

An economist argued that by virtue of foreign aid, Bangladesh is as dependent on the world economy as any classically independent country dominated by foreign multinationals.<sup>43</sup> The situation in Bangladesh is very acute as 60 percent of its investment, 83 percent of its

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42. The surplus of Palgi cement project and Penden project with each a capacity of 300 Megaton daily is exported to North Bengal and West Bengal respectively. Amrita Bazar Patrika, 12 June 1979.
43. B.Hartman "Foreign Aid Food and Hunger", Frontier (New Delhi) 20 June 1982, pp.8-10.



development budget and 63 percent of its commodity exports are supported by western aid.<sup>44</sup> India gave massive economic assistance to Bangladesh for speedy rehabilitation and reconstruction of its economy, during its emergency as an independent state. This opened a new chapter of amity and cooperation with India.

Besides this, India had given lakhs of tonnes of foodgrains to meet acute food shortage caused by cyclone and flood. Indian food credit will not only release substantial foreign exchange for Bangladesh to make essential purchases, it would also create for Dacca considerable counterpart funds with which inflationary pressures can be reduced. In turn, India will be helped as it will partially be relieved of gigantic task of carrying over huge grain buffer.

India has also promoted the well-being of Bangladesh through technical assistance. For instance, Bangladesh has profited from Indian experience regarding the crop production of 'high yielding varieties' which assisted Bangladesh to reduce huge imports of food grains. Besides this, India assisted Bangladesh in restoring its railways

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44. Times of India, 18 Dec.1977.

and communication system. Moreover, the projects assisted by India will help Bangladesh to improve her adverse balance of trade with India as the product by these projects can be marketed in the eastern states of India. For India, it is more economical as there will be considerable savings on freight costs. In all round implementation of development programmes of Bangladesh, the Indian technical know has played a significant role.

#### Sri Lanka

Indian assistance to Sri Lanka is consisting of mainly credits and technical assistance. Credits are given at a low rate of interest to purchase Indian goods. Technical assistance has special significance in Sri Lanka. Training programmes have been organized in Sri Lanka by Indian experts to remedy the shortage of middle grade technical and skilled works. Besides this, India has helped Sri Lanka in the establishment of a fertilizer (UREA) plant project and also agreed to purchase the entire production of the plant. Moreover, Mahawali power project has been set up in Sri Lanka with Indian technical assistance. The project envisages the development of water resources to the Mahawali Ganga for irrigation, flood control and other uses like integrated development of the area with a view to improving opportunities for

employment and general economic and agricultural development of the area. Unfortunately Tamil issue has created some problems for smooth development of India-Sri Lanka ties but efforts for economic cooperation between the two countries are stressed by both the governments. India has given assistance to Sri Lanka in both agricultural and industrial sectors, so that it can develop its economy. No doubt, economic relations between India and Sri Lanka are continuing problems, primarily because of heavy imbalance in India's favour. That is why Sri Lanka has sought diversification in its external economic relationships that are politically attractive and economically they are of little importance to Sri Lanka.

#### Maldives

A country with poor natural resources, Maldives has been particularly keen on India's help in the training of skilled personnel, the building of industries and the establishment of communication links with outside world. The main source of external revenue of Maldives is fish and India has aided in this field through technical know how. India is also the first country to offer Maldives modern banking facilities by opening a branch of the state bank of India at Male. Besides this, India has offered assistance

to Maldives for the development of tourism so that it can earn more foreign exchange reserve and thereby to attain economic development.

India's aid diplomacy in the neighbouring countries of South Asia has implications for the economic welfare of both donors and recipients. For instance, on the one hand these countries are markets for Indian goods while at the other hand, Indian aid has helped the South Asian countries to bridge the strategic gap between development investment and domestic mobilization. Moreover, the social overhead capital (projects, infrastructure facilities) created by the Indian aid has more impact in the long run than in the immediate short run. Indian aid should not be considered as investment but economic cooperation which is meant to contain big power influence from the South Asian region by employing development aid diplomacy. Aid will lead to development which in turn will lead to political stability and friendlier attitude towards India.

#### Efficacy of India's Aid Diplomacy

Aid diplomacy as an instrument of foreign policy is used by great powers because it fitted well with the desire of the developed market states to maintain the existing structure of international economic relations

and at the same time garner political influence by responding to desires for development of the recipients. The dilemma, however, of the Indian foreign policy in South Asia has been how to be strong enough to protect its own interests without provoking antagonism of its neighbours and how to respond to their sensitiveness gently without appearing to be too weak to protect its own interests.

Despite its own dependence on foreign aid and crucial economic problems at home, India has given aid to South Asian countries in order to maintain its status of middle power. How far effective is the Indian aid is a subject of controversy as the very yardstick of efficacy is a relative factor and to a large extent subjective. Three questions (as given below) generally arise regarding the efficacy of Indian aid diplomacy in South Asia.

- (a) How far India is able to reduce anti-Indian propaganda in the South Asian countries ?
- (b) To what extent, it is able to restrict big power influence ?
- (c) How far aid diplomacy is useful in achieving or protecting foreign policy goals ?

(a) The atmosphere in the South Asian region being more sour than sweet is best indicated by the state of relations of the biggest country i.e. India with its

neighbours. The sheer bigness of India as a country of subcontinental dimension with vast population has made rapid strides in many spheres. Its flattering performance in several key areas, attract the stereotype label of hegemonism.

For instance, the relations between India and Pakistan are always fluctuating between varying degrees of hostility. India and Bangladesh are bedevilled by continued influx of refugees from that country and also by differences over the distribution of the Ganga water. The pitch of India-Sri Lanka relations has been badly queered by social excess that have occurred in that country. The importance of Maldives has increased manifold of late because of the undue interest taken by the USA and Pakistan in its affairs. Nepal remains unable to shed its hypersensitivity towards what it regards as Indian hegemonistic pretentions. As for even Lilliputian Bhutan, India faces the predicament of having to exercise sufficient control and at the same time not to make kingdom cramped as it pursues a national urge for greater independence. Thus, all the six countries of South Asia never miss an opportunity to malign India as a regional power with hegemonistic designs. Consequently these countries have demanded for more trade than aid in the economic sphere.

Sovereign states proximate to each other are bound to influence each other. That is why despite anti-Indian attitude in the South Asian neighbourhood, Indian continues to give aid to them not in a superior spirit of charity but in the larger interests of mutual economic development based on the principles of self interests of each nation. India pledged Rs.7.5 million for SARC (South Asian Regional Cooperation) activities during 1984-85. Then the Indian finance minister, P.V. Narsiman Rao said

Our primary aim must be to strengthen our economic independence and to reduce the vulnerability of our economies to outside pressures. (45)

India will undoubtedly continue to be a net contributor to SARC giving more technical aid than she can ever hope to receive which will help India to restore the missing element of confidence and work step by step towards better political understanding, with her aims of sharing development rather than dominating economically weaker countries in the neighbourhood or elsewhere. India is infact successful in driving home the view that international peace and mutual trust is an input for the economic development of poor countries specially in South Asia.

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45. Tribune (Chandigarh) 21 Feb.,1984.

(b) Normally, big countries don't have to worry much about their neighbours which are not of great size but they can be easily affected by the circumstances created by big powers. That is why India is giving aid to South Asian countries. Indian theorist Kautilya stated the operating principle of all states as being :

Don't trust your neighbour, who is your natural enemy but rather look for support from states beyond who are your natural allies or as a supplementary principle, if you are surrounded by two or more larger states, play them off against each other. (46)

The above mentioned strategy has been demonstrated in the history of South Asian countries, till the present day. No other country in South Asia with possible exception of Bhutan has had close and extensive relationship with India in the fields of development and security. All except Bhutan have sought to use external powers as counterbalance to India.

However, New Delhi cannot dictate to its neighbours nor decide the terms upon which the major powers are involved in the subcontinent. But India is assisting the South Asian countries to build their industrial, communication

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46. Sahabuddin Shah, "Problems and Prospects of SARC", in M.A.Hafiz, ed., South Asian Regional Cooperation (Dhaka, 1985), p.19.



and commercial network for better living standards and higher economic development which is essential for their stability. It also helps them to be self-reliant i.e. to accept less assistance both financial and technical from the big powers.

(c) Like any other country, India seeks to maximise its external and internal security, its political role in world affairs, its economic opportunities within and outside its framework. In doing so, however, India faces a problem. It is too large and too important, a country to be left alone by the world. But it is not strong enough yet to be able to look after its interests. Its resources attract avarice, its potential arouses fear. And if there are serious weaknesses in the structure of its external and internal relations, it can become victim of an external threat.

Thus the constant dilemma that India has been facing in the conduct of its neighbourhood diplomacy is whether a policy of appeasement based on misplaced generosity can by itself help to win friends in the region or whether concessions made from a position of strength in deserving cases would make better impact in the long run. The Janata government tried to pursue the first policy but failed to impress them with its benevolence.

Whereas Mrs. Gandhi had opted for the other alternative as a matter of conscious choice in the belief that it would yield better results.<sup>47</sup>

It is only with Bhutan that India has been able to maintain a reasonably close relationship by yielding to the demands of changing times and circumstances. India continues to provide aid to South Asian countries in order to create a climate of trust and confidence which will strengthen India's capacity to pursue an independent, non-aligned policy and also to assume a role of responsible leadership among the developing nations of the world specially of South Asia.

The whole area between the Himalayas in the North and oceans in the South has constituted a field of common and converging interests. India is trying to be the top dog among the neighbours since it cannot reach parity with world's major powers. It is also asserted by many that in the international sphere strength and power alone are respected while weakness is invariably looked down upon. The disaster of 1962 war greatly weakened India's position vis-a-vis her immediate neighbours as well as international community. However,

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47. The Hindu (Madras) 3 April 1984.

the liberation of Bangladesh and the nuclear explosion of 1974 increased India's standing. That is why India by providing assistance to South Asian countries is perhaps seeking to preserve its image of a regional power.

India is strong both economically and militarily in the region which evoke fear among South Asian neighbours. It is thus, pleaded that India should follow a policy of generosity and understanding. However, country's national interests cannot be ignored for humanitarianism. Thus, India should attempt to increase its aid to the neighbouring countries in South Asia, which certainly would lead to decrease in extra-regional influence. Moreover, India must pay attention to its power-economic, technological and military, and also its dealings with major powers, we are likely to intervene in the region. This will contribute to the overall security of its neighbours to enable them to sort out their own problems. Precisely for that it has become essential for India to accelerate the process of cooperation i.e. SARC. Inaugurating the first ever meeting of foreign ministers of economic cooperation of SARC, Mrs. Indira Gandhi said :

We should be ever vigilant against attempts of external powers to influence our functioning as cooperation would increase the capacity to withstand external powers or pressures. (48)

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48. Times of India(New Delhi) 2 August 1983.

The destiny of South Asia as a geo-political factor on the world scene is going to depend on India's capacity to attain a degree of self-reliance and to achieve credibility. It is part of India's nation building effort to ensure that its development is not in any way hampered by the turbulence in the South Asian neighbourhood. It should be the task of Indian diplomacy to reassure the neighbours that its economic strength is not inimical to their economic and security interests. India should ensure patience, tact and firmness till such time when its neighbours realize how much India can help in their development process.

The study of India's aid diplomacy also signifies an effort to evaluate the efficacy of India's economic policy in the conduct of her foreign policy. India has evolved an economic policy as an effective instrument of foreign policy. The economic and political success of foreign policy is partly dependent on readiness to aid. That is why India despite being a large recipient of foreign aid is giving aid to other underdeveloped countries. This act is based upon her own development experience. India has also supported struggles against imperialism, colonialism and

neo-colonialism. Thus India as a donor acts as promoter of economic cooperation and in turn also benefits from it.

In the final analysis, the ultimate objective of foreign economic aid should be to gradually prepare the donor to do without it but the successful donor is one who creates conditions where no donor is needed. The advantages of aid only to the recipients reduce the efficacy of aid as it is well known that foreign aid should be regarded as palliative to generate the process of economic development and not as a substitute to attain self-reliant growth. Aid diplomacy somehow leads to more advantages to the donor. In this respect India seems to have used aid diplomacy to increase her influence and maintain her dominant position in the South Asian region. The geo-political situation demands that India should play an influential role in South Asia by employing aid diplomacy. This would help them in their progress and development also make them self-reliant which is essential to decrease big power influence in South Asia.

India's aid diplomacy, it may be said has been fairly successful as benefits have occurred by and large equivalent to deep costs incurred and sacrifices made.

## CONCLUSION

Colonialism is dying but not dead. Before disappearing from the world scene, it has been getting a new shape i.e. Neo-colonialism under the guise of aid. The contemporary international system has contributed to the consolidation of economic and technological power in the hands of few nations resulting in the division of the world between "the haves" and "the have-nots". The dominant "haves" have made use of foreign aid to serve their enlightened national interest. Somehow, they are bound to attach strings to aid.

Foreign economic aid consists of grants which don't have repayable liability, sale of surplus products for local currency payments, loans repayable in foreign currency, and technical skills to widen the recipient country's capacity constraints. It refers to government sponsored flows of resources made available on concessional terms to foreign governments.

In spite of the differences between liberal and Marxist thinkers about the nature and functions of foreign economic aid both agree that economic aid is necessary for the development of the Third World. However, the basic function of all types of aid is political.

Foreign economic aid is an important factor in the foreign policy strategies of the aid giving countries, whether they are super powers or other great powers whose political orbit is not so global as that of the USA and USSR. Aid diplomacy comprises a whole range of activities involving the use of material and human resources for the achievement of the ends of the foreign policy of a state eventually designed to achieve national objectives. Aid programmes are instruments of general political strategies, although they may not be clearly defined as such. From the stand point of both the recipient and the donor whether the main concern is security, economic growth and stability, the programmes is intended to serve national interests. Aid diplomacy is contrived to attain specific aims although most of the people at the helm of national affairs feel reluctant to admit it and swear by motives of economic help to less developed countries. At present, aid diplomacy covers cases where a relatively more developed country shares her experience and expertise with a less developed country apparently for mutual benefit.

The study of India's aid diplomacy in South Asia provides us a close and durable picture of economic

relations between India and other South Asian countries. The former is relatively more developed than the latter. India, has assumed the status of a great power in South Asia. Her strategic location gives her central position in the region. Indian aid to South Asian countries has basically been guided by her strategic factors, need for economic progress and maintenance of political stability in South Asia. India's aid programme is one of the facets of her foreign policy which is aimed to promote peace and stability in the world. India, it may be said has three main aims in the South Asian region, viz, to increase link between India and South Asian countries for the preservation of national security interests of India, to promote economic progress, and to encourage political stability in South Asia. As the third largest reservoir of skilled manpower in the world, and as the tenth industrialised nation and also developed among the developing countries of South Asia, India can conduct her aid diplomacy effectively in the South Asian region.

The development assistance inevitably has been a part of India's foreign policy from the very beginning. The policies of India's aid diplomacy of the South Asian countries seems to be quite complex. On one hand, India is the largest aid recipient as an underdeveloped country, while on the other, India has been extending economic aid



to other underdeveloped countries of South Asia. This looks all the more paradoxical if we stick to the popular notion of aid immediately after the Second World War, which held that only the developed countries extended assistance to less developed countries.

The origin of Indian aid in the form of economic and technical cooperation can be traced back to early 1950s. The decision to extend technical and economic assistance to the Himalayan Kingdom countries soon after India's independence was not born out of a new diplomatic process but was simply the extension of British policy to maintain special relations with the Himalayan states. Most of India's subcontinental economic cooperation with three Himalayan Kingdoms — Nepal, Bhutan and Sikkim (till it became one of the Indian State in 1975) — is one sided and essentially bilateral aid.

India's policy towards the Himalayan Kingdoms has been of considerable importance because of their strategic location. India has been aiding Sikkim's economy through undertaking special projects financed by loans and grants. More than fifty percent of the Indian aid to Nepal has been allocated for development of transport and communication. Bhutan which entered late in India's aid list has been helped in the implementation of its development schemes.

The first three plans of Bhutan were drafted and financed by India. Aid commitment by India to Bhutan is largest amongst all South Asian countries.

The early economic assistance to Bangladesh by India was to rehabilitate her war ravaged economy by reconstructing its railways, improving transport system and restoring communication system. Later on, after 1975, the focus of Indian aid to Bangladesh shifted to the fields of technology and industry.

The cooperation amongst India, Sri Lanka and Maldives has tremendous potentiality of concretisation and expansion in both bilateral and regional contexts. In addition to consultancy services and technological cooperation, India has extended bilateral credits to Sri Lanka. Maldives, a small island in South-West of Sri Lanka, has been provided communication facilities and loans by India. However, India has limited trade relations with Pakistan. The economy of Pakistan is vastly depended upon the US foreign aid.

Indian aid to the northern kingdoms mainly constituted of grants. To Bangladesh, it was mainly in the form of grants and loans, to Sri Lanka and Maldives, Indian aid consisted of credits, loans and technical skills.

Indian aid to the South Asian countries is a part of a larger system of her foreign policy priorities and objectives. In order to decrease big power influence and to promote goodwill and better living and also maintain her status in international affairs, India's aid diplomacy seems to have been quite relevant and successful.

India's aid diplomacy has its rationale in promoting its foreign policy goals. Indian aid to South Asian countries is security-cum-defence oriented. Strategic and political considerations have significant influence on the direction and contents of India's aid, besides commercial interests which play an important role.

While India's aid is beneficial to the recipient countries, it is also helpful to her own economic development. There is every reason for an increased outflow of aid from India to South Asian countries because it will be outmatched by an inflow of exchange to the country. Moreover, India does not lack either will or capacity to conduct an aid programme commensurate with her size and resources. Depending on the state of India's economy and given political will of the nation, India's aid diplomacy seems to be justified.

By and large Indian aid has proved to be effective in South Asian countries as it has helped to bridge the

strategic gap between development investment and domestic mobilization. No doubt, political factors have been obstructing the smooth and proper implementation of Indian aided plans and projects in the South Asian region, yet, India has been using aid as a diplomatic instrument to deal with the changed nature of her security problem in South Asia because of the growing anti-Indian propaganda by the neighbouring countries of the region. The small countries of South Asia have often accused India of being an imperial power which could primarily be attributed to its size, resources and scientific skilled manpower etc. India's aid policy aims to create a climate of mutual trust, confidence, peace and security which are essential for the economic development in the South Asian region.

Within the confines of the Directive Principles of state policy as enshrined in the Constitution (Part IV), India's aid diplomacy being an adjunct of her foreign policy of non-alignment, peace, cooperation and understanding among nations is naturally aimed at securing the optimum utilization of her natural and human resources in order to fulfil the national objective of achieving better living standards for the inhabitants of this country.

The touchstone for the success of India's aid diplomacy remains the optimization of national benefit at the minimum national opportunity cost in terms of alternatives foregone because resources spent abroad could have been used at home. Indian foreign aid does not differ radically from other big powers' aid programmes either in motives or in goals.

Indian aid diplomacy is designed to strengthen its relationship and acquire a measure of influence in the countries of South Asia. Indian aid has been far too long an ignored aspect of Indian foreign policy. Its impact though small is just beginning to be felt in the South Asian countries.

Appendix - 1

Broad Generalisations along with the Economic,  
Socio-Cultural and Political Components of  
South Asian States

Countries	Economic base (mode of pro- duction)	Social Stance	Political order
Bangladesh	Feudal + weak dependent manu- facturing sec sector.	Islamic Bengali dominated	Military dictatorship
Bhutan	Semi feudal and feudal	Drukpas, Buddhist dominated	Traditional monarchy
India	Elements of federal + modern capitali- st with nationali- st as well as dep- endent manufactur- ing sector	Hindu dominated but secular	Parliamentary democracy federal const- itutional structure
Nepal	Semi feudal + a marginal dependent commercial sector dominated by feudal interests.	Hindu kingdom	Traditional monarchy with facade of elected legislature.
Pakistan	Feudal + modern capitalist sector with dependent monopolies.	Islamic Punjabi dominated	Military dict- atorship with facade of elected legislature
Sri Lanka	Plantation + small dependent manufa- cturing sector.	Sinhalese Buddhist dominated	Presidential democracy with strong poli- tical control

Source : S.D.Muni, "Political Imperatives and SARC",  
seminar paper presented in JNU on 4 December  
1985, pp. 20-21.

Appendix - 2

## Basic Indicators of the level of Development in South Asian countries

Country	Population (millions mid 1983)	Area (thous- ands of sq.km.)	G.N.P. per capita		Average annual rate of inflat- ion (%)	
			Dollars 1983	Average annual growth rate	1965- 1973	1973- 1983
Bangladesh	95.5	144	133	0.5	7.3	9.6
Nepal	15.7	141	160	0.1	5.8	8.1
India	733.2	3288	260	1.5	6.3	7.7
Sri Lanka	15.4	66	330	2.9	5.1	14.5
Pakistan	89.7	804	390	2.5	4.8	11.1
Bhutan	1.2	47	-	-	-	-

Source : World Development Report 1985.

External Debt of South Asian Countries  
(Outstanding disbursed debt only)

(millions of US dollars)

country	1974	1976	1978	1979	1980	1981	1982	1983
Bangladesh	1010.8	1939.7	2766.6	2844.4	3521.2	3851.9	4294.4	4184.5
India	1147.4	13291.3	1543.4	15796.4	17575.7	17976.4	19512.5	21276.6
Maldives	-	0.1	3.9	6.8	24.8	36.9	42.1	46.5
Nepal	27.1	44.3	37.0	123.1	173.9	231.6	296.6	346.4
Pakistan	4633.9	6000.7	7583.0	7999.1	8780.6	8812.0	9164.2	9465.6
Sri Lanka	587.8	691.6	1017.5	1110.9	1344.2	1610.2	1964.6	2205.0

Source : Statistical Year Book 1983/84, United National, New York 1986.



Appendix - 4

Disbursement of Bilateral and Multilateral  
Aid to South Asian Countries  
(millions of US dollars)

Country	Year	Bilateral aid	Multilateral aid	Total
Bangladesh	1982	822.0	367.8	1189.8
	1983	582.4	418.0	1000.4
Bhutan	1982	3.2	8.1	11.3
	1983	2.9	10.1	12.9
India	1982	471.2	1546.8	2018.0
	1983	725.2	1434.4	2159.6
Nepal	1982	111.4	88.9	200.3
	1983	108.6	92.2	200.8
Maldives	1982	0.9	3.0	3.9
	1983	3.2	4.2	7.4
Pakistan	1982	400.4	491.0	891.4
	1983	252.4	479.7	732.1
Sri Lanka	1982	305.4	121.5	426.9
	1983	342.6	141.8	484.4

Source : Statistical Year Book 1983/84, United National,  
New York, 1986.

Appendix - 5

Indian Aid to South Asian Countries  
(Bhutan, Nepal and Bangladesh)

Years	(Rs. in lakhs)		
	Bhutan	Nepal	Bangladesh
1971-72	715.00	912.00	4400.00
1972-73	1024.50	803.00	2000.00
1973-74	1337.50	834.00	5247.00
1974-75	1577.09	897.00	341.26
1975-76	1943.12	976.51	922.25
1976-77	2347.50	1056.44	288.17
1977-78	2466.00	924.39	263.10
1978-79	3513.84	1104.19	365.51
1979-80	3046.00	1460.34	530.00
1980-81	3352.76	1421.60	121.50
1981-82	3863.88	1575.00	127.49
1982-83	2222.00	4841.45	165.91
1983-84	5688.50	1788.47	171.00
1984-85	6238.19	1341.50	297.00
1985-86	4536.27	2739.87	348.00
1986-87	5811.00	1563.00	223.00
<b>Total</b>	<b>49683.15</b>	<b>24238.76</b>	<b>15811.19</b>

Source : Annual Reports (from 1970 onwards), Ministry of External Affairs, New Delhi.

Appendix - 6External Assistance Receipts from  
Other Sources to Bhutan

1976-77 to 1981-82 (US \$ 000) \*

UN System	1976- 1977	1977- 1978	1978- 1979	1979- 1980	1980- 1981	1981- 1982
UNDP	1177.4	1232.0	1325.7	4154.1	1849.4	3028.9
UNCDF**	-	-	-	500.0	282.0	203.5
UNLDCF+	273.2	383.5	226.5	94.3	-	52.5
UNLLCF@	-	-	-	9.1	-	-
UNICEP&	-	-	-	-	500.0	285.0
UNFPA	-	-	-	577.9	728.7	566.3
UNICEF	592.4	1150.4	656.0	1405.0	1108.3	388.0
WEP	155.0	400.0	600.0	700.0	2124.9	1207.0
Total	2198.0	3165.9	2808.2	7440.4	6593.3	5731.2

Notes: Flows are based on donor's fiscal year.

\* Official sub assistance only.

\*\* UN Capital Development Fund.

+ UN Least Developed Country Fund.

@ UN Landlocked Country Fund

&amp; UN Inter Country Programme.

Sources: A World Bank Country Study, Bhutan (Washington, 1984).

Appendix - 7

Foreign Cash Grants to Nepal Bilateral  
(Value in Rupees thousand)

Years	Donors'		
	USA	China	India
1974-75	24522	9704	4552
1975-76	58843	12283	6839
1976-77	27833	9771	12331
1977-78	46948	5015	4934
1978-79	36265	2438	36091
1979-80	33473	-	41284
1980-81	62355	-	32086
1981-82	86312	-	58144

Source : M.P.Lama, The Economies of Indo-Nepalese Cooperation (Delhi, 1985), p.125.

Appendix - 8

## Donorwise Inflow of Foreign Aid in Nepal

( in million rupees)

Plan Period	India	USA	China	USSR
Pre plan period	70.0	25.0	--	-
First Plan	82.1	222.4	32.1	8.5
Plan gap year	40.9	82.5	14.8	42.2
Second Plan	110.0	212.7	45.0	76.8
Third Plan	550.5	219.4	153.0	18.8
Fourth Plan	563.7	211.5	210.5	7.7
Fifth Plan	643.6	281.2	307.7	-

Note : Technical assistance is not included

Source : B.P.R.Baidya, "Foreign Aid and Economic Development Nepal's Experience with Chinese Aid", (Bhuneshwar, 1984), pp.74-75.

Appendix - 9Assistance (Loans and Grants) to Bangladesh -  
Bilateral

(Takas in lacs)

Years	USA	USSR	India
1973-74	63.30	32.66	10.36
1974-75	134.90	14.86	22.55
1975-76	420.73	26.44	46.79
1976-77	92.25	7.33	33.95
1977-78	203.06	36.45	8.85
1978-79	276.95	6.21	1.35
1979-80	280.48	10.87	1.64
1980-81	214.88	6.03	4.58

Source : Annual Import Payments 1973-81, (Bangladesh, Dakha)

Appendix - 10

## Chinese Loans to Bangladesh

Date of Agreement	Amount	Purpose
21 March 1978	US \$ 59 mn	Interest free, setting up 190 ton. daily capacity fertilizer project and water conservancy project for irrigation of 2,000 hectares of land.
21 July 1980	US \$ 43.85 mn	Interest free to be repaid over 20 years period including 10 year grace period.

Source : R.K.Jain, China-South Asian Relations  
(Delhi, 1981), p.614.

Appendix - 11

## Total Loans and Credits by USA to Pakistan

(in million of US dollars)

Years	Loans and Credits			Grant assistance amount
	Repayable in dollars	Repayable in rupees	Total	
1960-65	654,266	245.704	899.770	504.093
1965-70	819.316	191.123	1010.439	197.376
1970-71	71.132	-	71.132	49.810
1971-72	65.479	-	65.479	17.799
1972-73	212.212	-	212.212	16.626
1973-74	125.101	-	125.101	24.056
1974-75	97.770	-	97.770	32.819
1975-76	178.800	-	178.800	2.214
1976-77	248.160	-	248.160	18.470
1977-78	56.430	-	56.430	0.400
1978-79	127.000	-	127.000	0.423
1979-80	149.397	-	149.397	1.505
1980-81	58.397	-	58.397	0.339

Source : R.K.Jain, United States - South Asian Relations  
(Delhi, 1981), p.569.



Appendix - 12Economic Assistance extended by India to  
South Asian countries upto March 1984

(Amount authorised in million rupees)

Country	Period				
	upto March 1966	1966-74	1974-78	1978-81	1981 - 1984
Bangladesh					
L	-	670.6	199.2	293	4
G	-	1429.4	25.0	2.8	9
Bhutan					
L	-	20.5	33.66	192	408
G	105	456.3	795.8	970.5	1373
Nepal					
L	10	-	205	-	51
G	302	790	386.9	376.9	486
Sri Lanka					
L	20	204	321	248	-

L indicates Loans and G indicates Grants.

Notes: (a) Aid to Nepal excludes grant expenditure on Kosi and Gondak schemes executed by the Bihar government and grant expenditure on training of Nepalese scholars in India.

(b) Figures for aid to Bangladesh do not cover relief goods of the value of Rs.17 crores supplied to that country in 1971-72.

Source : Govind R. Agrawal, ed., South-South Economic Cooperation : Problems and Prospects (New Delhi, Radiant Publishers, 1987), pp.214-215.

Appendix - 13

## Indian aid to Bangladesh - Aug., 1973

<u>Description</u>	<u>Amount</u>	<u>(amount in Rs. crores)</u>
		<u>Purpose/Project</u>
<u>I. Grants</u>		
a) Foodgrains	78.46	Supply of 75000 tons of foodgrains.
b) Commodity grant	32.78	Supply of essential goods.
c) Refugee relief grant	18.58	Purchase of consumer goods and industrial raw material from India.
d) Second Refugee Relief grant	0.86	Supply of pulses, match box and hand pumps.
e) Third Relief grant	1.36	Supply of shelter material.
f) Restoration of five rail links	0.70	-
g) Technical assistance	1.00	Training facilities and feasibility studies.
h) Commodity assistance	1.00	Supply of baby food and raw material.
i) Unallocated	1.00	Cultural or commodity assistance.
Total	136.74	-
j) Educational and Cultural	0.20	
Grand Total of grants	136.94	
<u>II. Loans</u>		
a) For the rehabilitation of railways and telecommunication and power equipment.	10.00	i) Rate of interest nil ii) Grace period - 7 yrs. iii) Repayment period - 18 years.
b) Supply of two ships and two aircrafts spares and services	6.00	i) Rate of interest - 2½% ii) Gross period - 5 yrs. iii) Repayment period - 20 years.
c) Loan to finance the import of 50,000 tons of crude oil by Bangladesh	8.10	i) Rate of interest - 6½% ii) Gross period - nil iii) Repayment period - 5 yrs. commencing January 1973.

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 contd...next page

Appendix continues...

<u>Description</u>	<u>Amount</u>	<u>Purpose/Project</u>
d) Foreign exchange loan	9.50	i) Rate of interest-2½% ii) Grace period- 5 yrs. iii) Repayment period - 15 yrs. commencing 5 years after the date of disbursement.
e) For supply of 150 buses	1.33	i) Rate of interest-6% ii) Grace period-5 yrs. iii) Repayment period - 10 years commencing from 20 June, 1978.
f) Supply of textile machinery	6.00	
g) Supply of commodities	10.00	
Total	50.93	
III. <u>Miscellaneous expenditure</u>	22.13	

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Grand Total of loans  
and grants                      Rs. 210 crores

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Source : Satish Kumar, Documents of India's Foreign Policy  
1973, p.143.

Appendix - 14

## South Asia : Basic Demographic Profile

Bangladesh

It is bounded west, north and north-west by India, east by India and Burma, south by the Bay of Bengal. Its area is 144,020 sq.km; population (1981) 87,052,000. Dhaka is the capital. The chief ports are Chittagong and Khulna. A new currency - Taka - was floated in 1976.

Agriculture contributes 55 percent of the Gross National Product and employs about 80 percent of the population; 64 percent of the total area is under cultivation, 80 percent of which is under rice and nine percent under jute. Rice is the most important food crop. Bangladesh accounts for about half the world production of raw jute which is the main foreign exchange earner.

Bhutan

It is situated in the eastern Himalayas, bordered on the east, west and south by India. Area 46,600 sq.km. Population estimated at 1,325,000 (1981). Thimphu is the capital. Paper currency has been introduced known as Ngultrum, silver currency is known as Tikchung. Indian currency is also legal tender. The area under cultivation is about 5,500 sq.km. Bhutan abounds in valuable forests. Tourism is the largest source of foreign exchange.

India

The area of the Indian union is 3.28 million sq.km. Population estimated at 683 million (1981). The currency is Indian rupee. Its capital is New Delhi. About 70 percent of the people are dependent on the land for their living. In 1978, agriculture provided about 40 percent of national income. India has the world's largest pool of scientific manpower. She is also among the seven countries in the world who have the technological capability to erect a complete nuclear power plant.

Pakistan

Pakistan has a total area of 796,095 sq.km. and a population of about 83.7 million (1981). Its currency is

Pakistan rupee and its capital is Islamabad. It is India's immediate neighbour on its western front. Agriculture is a high priority sector and a major objective is the reduction of food imports by achieving self-reliance. Pakistan has been living beyond its means with the help of foreign funds.

### Nepal

The Himalayan kingdom of Nepal is bounded on the north by the Tibet region of China and on the east-west and south by India. The total area of Nepal is about 141,400 sq.km. and its population in 1981 was 15,020,000. Its capital is Kathmandu has a population of 1,95,260 and its currency is Nepalese rupee. More than 90 percent of Nepal's trade is with India. Nepal has valuable forest in the southern parts of the country. Of the total area, nearly one-third is under forest. In the northern part, on the slopes of the Himalayas, there grew large quantities of medicinal herbs which find a world-wide market.

### Sri Lanka

It lies off the south-east coast of the Indian state of Tamil Nadu, separated from it, by the Indian ocean but almost joined to it by the chain of islands called Adam's Bridge. The country's total area is 65,610 sq.km. with a population in 1981 of about 14,850,000. Its currency is Ceylon's rupee and its capital is Colombo. About one-third of the country's total area is under cultivation. Tea, rubber, coconut are the chief exports. Principal imports are food and drinks, consumer goods and intermediate goods.

### Maldives

The Republic of Maldives, 400 miles to the south west of Sri Lanka, consists of some 2,000 low lying coral islands (only 220 inhabited) grouped into 12 clearly defined clusters of atolls but divided into 19 for administrative purposes. Its area is 298 sq.km and its population according to the census of 1981 is 157,000. Its capital is Male. The islands are covered with coconut palms and yield millet and fruit as well as coconut produce. The Maldivian economy is based on the fishing industry. Tourism introduced in 1972 is expanding.

Sources: Parmod Kumar Misra, Dhaka Summit and SAARC (Calcutta, Netaji Institute for South Asian Studies, 1986), pp.65-67.

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