

INDO-NEPAL RELATIONS, 1980-1989

**Dissertation submitted to the Jawaharlal Nehru University
in partial fulfilment of the requirements
for the award of the Degree of
MASTER OF PHILOSOPHY**

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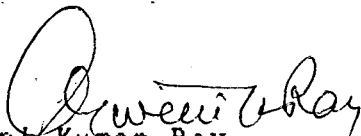
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CERTIFICATE

This is to certify that this dissertation entitled "INDO-NEPAL RELATIONS, 1980-89" submitted by Parbodh Kumar, in partial fulfilment of the requirements for the award of the degree of Master of Philosophy of this University, is an original work and has not been previously submitted for any degree of this or any other University.

We recommend that this dissertation be placed before the examiners for evaluation.


Aswini Kumar Ray
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Chairperson

PREFACE

There is no other country in the entire gamut of the international relationship with whom India has such ancient and deeply intertwined relations as with Nepal. Indeed, there are probably no two countries in the world whose destinies are so interlinked as Indo - Nepal. The relations between two close neighbours is based on the concept of shared Heritage, Shared destiny. India's relations with Nepal, particularly commercial and cultural, are rooted an antiquity. The Existence of a racial admixture of Mongoloid and Indian blood, fusion of Buddhist and Hindu religions and simultaneous impact of the Tibtan and Indian culture make Nepal one of the most delicate spots along the Indian border. For geographical and traditional reasons, India continues to be the main trading partner of Nepal Trade across the Himalayas was an expression of politics as well as of economic. The investigation of commercial relation of two countries brings to focus on vital forces, which shaped it as the political variable that pulled the strings of their mutual response. Nepal's trade with countries other than India has risen significantly in decades of 1970s and 1980s. The Share of India's trade in Nepal's trade scaled down upto lowest ebb in trade impasse period 1988-89.

India and Nepal have followed similar international norms such as Non-align movement, Non-interference, Non-aggression, belief in peaceful co-existence and peace. The contemporary international changes have brought two countries more closer in economic sphere. Conflicts and confrontations over the years in Indo-Nepal relations have not only historic but also unique reasons. Difference and disputes persist as do tension and insecurity, obstructing normalisation of relations, consolidation of peace and development in the process of economic Co-operation. China was the main external factor which created and enlarged these differences and disputes. Nepal has used China Card against India throughout the history of Indo-Nepal relations. China's Road diplomacy (Kathmandu-Lhasa Road) in 1954 to incident of arms sale to Nepal in 1987, have lingering external impact on Indo-Nepal relations. Through this road Nepal imported big haul of arms and ammunition from China. Nepal used China card to get endorsement to Nepal's proposal of Zone of Peace. This irritant of the eighties was apparent in spreading recognition in both countries of crippling consequences of confrontation and unaffordable costs which they have paid. It was seen that there would be no future of Indo-Nepal relations. It might be short cut move or over simplification. Clay has a tendency to be moulded but it requires a potter's hand to derive shape and form.

For the sake of convenience this work had been divided into five chapters, including conclusion. Chapter first to give details of the geographical, cultural ethnic and historical background. Chapter second deals with economic relations between the two concerned countries. It intends to evaluate the main trade and treaties. Such as the trade Treaties of 1950, 1960, 1970, and 1978. Its main trust is on the trade impasse period 1988-90. During this period Indo-Nepal trade came down to the lowest point that is about 26 per cent where as trade was around 95 per cent in 1950. Chapter third is a critical assessment of political and diplomatic ups and downs of Indo-Nepal relations, in the nineteen eighties. More or less assessment is based on the case study pattern. Basically treaty crisis-ridden period study interlinked with other significant irritants of the relations are discussed elaborately. Chapter fourth deals with political changes of respective countries and resettlement of crisis. In short, the main objective of the study is to provide an exposition of the character complexion and compulsions of foreign policy of respective parties of the study, and exploration of their determinants and critical evaluation of their successes and failures.

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I wish to express my warm thanks to the librarians and staff of these libraries for their cooperation in providing me all the required materials and help.

My sincere thanks and gratitude are due at my friends R.R. Sharma, Senu Kurion, George, Baljit, D.V.S. Verma who took the painstaking job of going in detail of my rough draft

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(PARBODH KUMAR)

CONTENTS

		PAGE NO.
PREFACE		
ACKNOWLEDGEMENTS		
CHAPTER 1	THE FOUNDATIONS OF INDO-NEPAL RELATIONS	1 - 53
1.1	Physical Setting	1
1.2	The Ethnic and Cultural Foundations	3
1.3	Historical Roots	10
1.4	Nepal's Concept of Zone of Peace	39
1.5	Indo-Nepal Relations During Janata Regime	45
CHAPTER 2	INDO-NEPAL ECONOMIC RELATIONS	54 - 104
2.1	Historical Overview	54
2.2	Indo-Nepal Economic Relations 1947-80	55
2.3	Economic Relations During Eighties	78
2.4	Trade Impasse Period	93
CHAPTER 3	POLITICAL AND DIPLOMATIC RELATIONS 1980-89	105 - 158
3.1	Indo-Nepal Relation : Impasse Period of 1988-89	121
3.2	Some Irritants of 1988-89	123
3.3	The War of Words	145
3.4	Call For Breaking Stalemate	151
CHAPTER 4	GOVERNMENTAL CHANGES IN INDIA AND SUCCESS OF DEMOCRATIC MOVEMENT IN NEPAL	159 - 174
CONCLUSION		175 - 178

APPENDIX

A:	Treaty of Trade; 6th December 1991	179 - 183
B:	Treaty of Transit; 6th December 1991	184 - 188
C:	Agreement of Cooperation Between Government of India and His Majesty's Government of Nepal to Control unauthorised Trade	189 - 192

TABLE

Nepal's Imports	193
Nepal's Exports	194
Nepal's Trade of Balance	195

SELECTED BIBLIOGRAPHY	196 - 203
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CHAPTER 1

THE FOUNDATIONS OF INDO-NEPAL RELATIONS

India and Nepal are closely tied to each other through the bonds of geography, culture, history and even economy. These perennial bonds of proximity and cordiality between India and Nepal, however, influenced their bilateral relations. Conversely, these bonds are often tempted and even twisted by imperatives of their mutual political intercourse and interaction. Nevertheless, the existence of these multi-factors, bonds provided a dynamic setting for the operationalization of their foreign policies.

1.1 PHYSICAL SETTING

Geography has played a conspicuous role in the evolution and shaping of the life-style and cultural orientations of the peoples of the Himalayan region. Apart from the differences among them, they do share a common cultural and historical heritage as well as problems that tend to foster similar attitudes and perceptions. The Himalayan region is situated between a huge landmass in the south and equally huge plateau in the north. Situated between India and China, the mighty Himalayas have long perceived as a sort of "a natural barrier" and a "buffer" between two countries. Spread over the southern slopes of Himalayas is the state Nepal. Nepal is mostly mountainous, 885 Kms long and 201 Kms wide. with a land area of 141499

square kilometers, Nepal constitutes a buffer state between the Tibetan region of China and the economic and demographic "heart land of India", i.e., the states of Uttar Pradesh, Bihar and Bengal.¹

Nepal is a land locked state facing East Sikkim on the North, Bengal on the South, and Kumaon on the West. To the South-East, the Nepal bordered the districts of Betwar, Hazary, Rungamutty and Coach Bihar. To the south its boundaries run along certain contiguous purgannahs of Durbhanga, Tritoot and Champaran, To the South-East lies Balrampur of Gorakhpur and in the North-West it is demaracted from Pilibhit, Rampur, Kashipur, Rudrapur and other districts of Rohilkhand by the Kumaon and Almora hills. The great Himalayas to the north present a physical barrier which permits penetration only in a few places. And to the south the inhospitable swamps of the Terai and rocky mountains of Siwalik ranges pose stiff resistance to any easy attack on the territory of Nepal. To the north, the land locked status of Nepal becomes more hard as it encounters not only the

1. For details with regard to the geography of Nepal, see Ramakant, Nepal, China and India, Nepal China relations (New Delhi, Abhinav Publication) 1976, pp.30-34, P.P.Karan, Nepal, Cultural and Physical geography of Nepal (Lexington, ky) 1960; N.B.Thapa and D.P.Thapa, Geography of Nepal, Economic, Cultural and Regional (Calcutta) 1969; R.P. Sharma, Nepal : A detailed geographical account (Kathmandy) 1974; S.S. Negi, A Hand book of the Himalaya (New Delhi Indu Publishing House) 1990, pp. 39-43; B.L. Joshi and Leo E Rose, Democratic innovations in Nepal (University of California Press) 1966, pp. 3-11.

barrier of Himalayas but also the huge and arid tableland of Tibet with an average altitude of 15,000 feet.

1.2 THE ETHNIC AND CULTURAL FOUNDATIONS

The ethnic and cultural foundations of Indo-Nepal relationship are unique. The use of cultural diplomacy as an instrument of foreign policy is not new. After World War II, the super powers have paid significant attention to this aspect of diplomacy. France has been able to retain its importance in international arena largely by substituting cultural antecedent for its declining political and military role. China has also paid considerable attention in this regard.² In the case of India, cultural dimensions played significant role in its foreign policy, especially with South Asian Countries. With Nepal cultural dimension also have broad similiar.

As far as the ethnic foundation is concerned, "the dominant strain in population of present day Nepal are "caucasoid" (Indo Aryan) and "Mongoloid" with very degree of admixture.³ Some of the ethnic groups had migrated to Nepal from east as a part of westward movement of

2. M.Dharmasani, Indian Diplomacy in Nepal (Aalekh Publishser Jaipur, 1976), p.198.

3. Rose E.Leo, Nepal : Strategy For Survival (Oxford Press New Delhi, 1971); pp.7-10; S.S.Bindra, India and Her Neighbours, A Study of Political, Economic and Cultural Realtions (Deep and Deep New Delhi, 1984); pp.204-5, Rose and J.T. Scholz, Nepal, Profile of a Himalayan Kingdom (New Delhi, West view Press, 1980); pp. 6-10.

tribal people from South-East Asia. Some had their origin in Tibet whereas still others moved northward from the Indian plains or eastward from the hill areas of Western Himalayas.

It is generally acknowledged that hegemonious element; socially, politically and economically in most of Nepal is composed of the descendants of high caste Hindu mostly of Brahmin or Kshatriya caste - who sought to take refuge in Nepal at the time of Muslim invasions of India or even earlier.⁴ They formed local elite wherever they resided. From the middle of 19th century onwards there was another wave of Hindu and Muslim migrants from adjoining areas of India who entered the Terai of Nepal known as "Madheshias". The word Madheshias is used disparagingly for the Nepalese people of Indian origin living for generations. The literal meaning of the word "Those living in the central country". Most of the Madheshias live in the Terai of Nepal and as such they are called 'Teraiwallas'. The Madeshias constitute a distinctively separate ethnic group in Nepal in as much as they differ very clearly from the people of hill origin in respect of physical features caste, structures, language, culture and various religious activities. Madheshias differ

4. Rose, Nepal strategy for survival, op cit, p.7.

from the people of the hill origin of regional habitation as well.⁵ Therefore, this community is cementing the cultural dimension of Indo-Nepalese relations.

Another important community, of mixed Caucasoid and Mangoloid, consist of Newars, concentrated in Kathmandu valley. They are characteristically an urban group, and the distinctive civilization that has evolved in the central valley of Nepal is largely their handiwork. Although, one would find both Hindu and Buddhist subgroups among the Newar, quite visibly and undisputably, Hindu has held dominant position in the last two centuries.⁶ The attitude as well as the role of the Newar deserve a careful analysis as the community has been termed as anti India. A former Indian Ambassador to Nepal, Sriman Narayan has argued the Newar Community in the Kathmandu Valley has been by and large, against India basically for the historical reasons. This community has considered both Ranas and the Shah dynasty as intruders from India and has developed anti India feelings. On the contrary there is argument that Newar, anti-India attitude is due to the economic clout that Marwaries from India have developed over the years and also because the Newars perceive themselves as representing the best in

5. Parmanand, "Indian and Madheshias", World Focus, vol 11, no.9, New Delhi, Sept. 1990.

6. Ibid, Rose, pp. 7-8.

Nepal's Civilization and Nationalism in their pursuit of Nepal's identity.

The remaining ethnic groups numerically important in Nepal are Mangoloid in origin. Prominent among them are the Magar and Gurungs, concentrated in Western Nepal mid-mountainous region and the Limbus, Rais and Tamangs, who reside in the hill areas to the east of Kathmandu valley. Although, Mangoloid origin is no longer synonymous with Non-Hindu usually Buddhist-culture. The Magar, for example, and to a lesser extent the Gurungs, Rais and Limbus have been "Sanskritized" to a considerable extent. To quote Leo E. Rose :⁷

"A syncretic form of Hinduism, encompassing much that is "Buddhist" or "animist" in derivation, therefore, is dominant religious and cultural form throughout much of Nepal. The reasons behind the ascendancy of Hinduism are manifold. But greatest importance is in fact that a Brahmanic form of Hinduism has been the religion of most Nepali ruling elites for the several centuries. Hindu social and ritual practices carry the highest prestige value, often even among communities of Mongoloid origin. the ancient and extremely close cultural and social relationship between Nepal and India is demonstrated in innumerable ways.

7. Rose, Nepal strategy for survival, op, cit, p.8.

For several hundred years, for instance, the various ruling dynasties of Nepal have intermarried as a matter of policy with Indian families of equivalent caste status and this has resulted in massive exchange of elite that has been of fundamental social, cultural and political importance.

Religion constitute an important variable in Indo-Nepalese relations. The common heritage of two countries is further reinforced by other form of cultural and intellectual ties. The legitimacy of its king is based on his being the incarnation of Hindu God Vishnu. As in the word on Shriman Narayana "Nepal is the only country in the world today where Hinduism is the state religion. The king, the echelons of aristocracy and people in general follow the vedic rights and ceremonies with great earnestness and are proud to be called Hindu.⁸ At an emotional and religious plane however, several places of pilgrimage in Nepal are visted by thousands of Indian peoples every year, and the "darsan" of some of the Hindu shrines in India is considered to be a duty by many a devout Nepali.⁹ The Joint family structure as in India, is the basis of social organisation in many part of Nepal.

8. Shriman Narayan, India and Nepal, An Exercise in open Diplomacy (Bombay, Popular Prakashan, 1970), p.30.

9. S.S.Bindra, India and Her Neighbours, op. cit, p. 204.

Nepalese education system and its art have been immensely influenced by Indian art. Hindi language played a pivotal role in cultural patch up. The vedas, upanishads and other literature in Sanskrit and Devenagari scripts continue to provide inspiration to the people of both countries. The people of Terai region mostly speak the languages prevailing in the northern India e.g. Maithili Bhojpuri and Avadhi. It is significant to mention here that "Nepali" which is national language of Nepal had its origin from Sanskrit. It has Devenagari script like Hindi. Indian radio television and films are indispensable part of Nepalese life. Several leaders of Nepal have received their education in India and had absorbed the spirit and ethos of Indian education system. Therefore the educated Indians and Nepalese speak same political language to a greater extent.

In spite of important variable in defining India's attitude towards Nepal, the scholars however, have paid meagre attention to explore the depth and intimacy of cultural relations between the two countries. Nevertheless, in the initial years of its independence India did not consider it necessary to use this aspect of its diplomacy to promote interests in Nepal. Partly this attitude was due to India's pre-eminent position in Nepal and partly because it did not face any security hazard on its Northern border.¹⁰

10. M. Dharmasani, Indian Diplomacy in Nepal op. cit, p.199.

In 1947, at Government level, there was only a Commonwealth unit to look after educational and cultural exchange between India and other countries of Commonwealth. It was only in 1950 that "Colombo Plan Technical Co-operation Scheme", was introduced. In the beginning, the service was confined to the Commonwealth nation but later on it was extended to all countries of South and South East Asia. Subsequently, the Government of India in 1952 took a decision to offer fellowship and scholarship to Nepali students. It is significant to mention that so far as the training facilities provided by India to other countries were concerned, Nepal received the largest share. In 1954, Indian cooperation mission was established which continues work as a cohesive link for promoting cultural ties between India and Nepal in 1960. The Indian Council of Cultural Relations was set up under the auspices of the Ministry of Education with a view to promoting external cultural relations. Thus council not only arranged scholarship for the Nepalese students but also taken initiative for improving educational facilities in Nepal. For this purpose, an agreement was signed between the two countries in October 1960, regarding the construction of Tribhuvan University in Kathmandu. Indian Government established various cultural centres and other units such as, "Bharat Nepal Maitri Sangh", which from time to time takes initiatives for organising seminars and others functions in

the respective countries. Since the Indian classical music is widely understood and appreciated in Nepal, India sends cultural delegations on the eve of Dushara celebration and various other occasions. India also maintains a cultural Attache in Indian Embassy at Kathmandu. But recent years at official level, the Government of Nepal has taken the decision to close down the libraries and reading rooms maintained by foreign missions on towns outside Kathmandu. India has been the main victim of this decision. From the above historical and cultural description it becomes amply clear that Indo-Nepal relations are built up on common historical and cultural heritage. Cultural bonds reflected in various social festivals, customs, common religious practices and language affinity all in combination provided a rich background for structuring amicable relationships between these two neighbouring countries.

1.3 HISTORICAL ROOTS

The relationship between the hill area of present day Nepal and the gangetic plains to the South has been close for nearly three millenia and perhaps much longer.¹¹ The history of Indo-Nepal relationship can be traced back to the ancient times. During Ashoka, the Great, Nepal was a part of Indian empire and in 4th Century A.D. it was under the sovereignty

11. Leo.E. Rose, op, cit. p. 10.

of the Gupta dynasty of India. The Samrat Chandragupta Vikramditya visited Nepal and introduced his famous Vikram Samvat. The King Harsha invaded over this kingdom in 7th Century A.D.¹² "In formation of foreign policy, Nepal has been influenced as profoundly as any area of India by the dicta on interstate relations that are generally attributed to Indian 'Mastermind Kautilya' Although Nepal maintained its political independence throughout the history but it was so closely intertwined with Northern India that even a summary analysis of this relationship would be both too lengthy and tediously repetitive."¹³

It was only during Seventh Century A.D. that the emergence of powerful kingdom of Tibet with its capital at ~~Kas~~^{Lhasa} transformed Kathmandu valley into an intellectual and commercial entrepot between India and Central Asia. Upto the Seventh Century political relations had not assumed a crucial importance. Whatever the character of Nepal-Tibet, relations, the events of 7th Century paved way for the opening of a new channel of communications between India and China across the Himalayan passes and also led to first direct contacts between Nepal and China.¹⁴ The Chinese pilgrim, Hsuan-Chuang, visited Nepal in 637 A.d., but he had

12. Sushila Tyagi, Indo-Nepalese Relations, (New Delhi) 1974, p. 36.

13. Rose, no.1, p.10.

14. Ibid, p.11.

journeyed to India via the established route through Kashmir. For the next two decades, the route through Tibet and Nepal was followed by many travellers between India and China.

During the entire Muslim period except for a very brief regime of Mohammad Tuglaq, Nepal remained entirely a separate entity and independent state. With the arrival of Muslims in India, Nepal acquired a special importance and Western part of the valley was rocked by Muslim invasions. When Muslim rulers rapidly went ahead with their territorial expansion in India, Nepal's importance as a shelter ground increased. When Alauddin Khilji attacked Chittor in 1303, the warlike freedom-loving Rajput moved towards the Himalayan hills and settled down in Palpa region. They gradually organised their little principality around the village called Gorkha from which drew the title of their race.¹⁵

In 1332 Hari Singh Deo, A Sarju Bansi, Prince of Oudh took refuge in the Himalayan kingdom and later on conquered it. His descendants known as Mallas ruled over Nepal valley till their defeat at the hand of the Gorkhas.

British India and Nepal

The initial British relations with Nepal began with the ascendancy of East India Company in Bengal, and for the first

15. H.A. Oldfield, Sketches From Nepal, Vol I, (London) 1980, p. 171.

time it came in contact with the Newar trader.¹⁶ By the mid eighteenth century when British established their hold on Bengal, Bihar and Oudh, the valley of Nepal was divided into three states of Kathmandu, Bhadgaon and Patan, all of which were ruled by Malla Kings. It was, however, only with Kathmandu that some British relations existed and its Raja was regarded by the East India Company as the Raja of Nepal. The all contacts were confined to commercial transactions between the Indian marchants of Bengal and Bihar, and the Newars (trading community of Nepal) of the valley with occasional correspondence between British agent and the Newar Raja of Kathmandu. All the bordering districts of India carried brisk trade with Nepal. Indeed, economic potentialities of Nepal were responsible for drawing the excluded land of mystery into the arena of Indian politics in the second half of eighteenth country.¹⁷ The Nepalese trade had also an added importance as British had ambition of linking it with Tibet and China. But during the British regime in India, the policy of Nepalese rulers and acquiescence of British had rendered her almost an unknown and mysterious country.¹⁸

16. Ramakant, Indo-Nepalese Relations 1816 to 1877,
(Published by S.Chand Co., New Delhi) 1968, p.2.

17. Ibid, p.3.

18. Ibid, p.1.

Prithvi Nagayan Shah is said to have laid the foundation of the Modern state of Nepal in 1769. During his time the British got first opportunity of actual political contact. A ruler of the tiny hill state of Gurkhas, he earmarked upon a policy of expansion in 1769 and within two years had unified the nation after defeating the Malla kings of Kathmandu, Bhatagaon and Patan. He unified the Nepal under his own rule and laid down the basic tenents of its foreign policy.¹⁹ The British India attempted to extend its influence beyond the boudaries of India to Nepal, Tibet and China. As a result of this, the Gorkha ruler of Nepal followed a policy of exclusion and expulsion of the Europeans with all strictness. He pointed out that the kingdom was sandwitched between two giant powers and advised his successors not to develop intimate relations with either of them. During his regime Nepal followed the policy of isolationism vis-a-vis both British India and China. The Company's interference also laid the foundation of policy of jealousy and exclusiveness which had ever since distinguished the court of Nepal. Motivated by desire to search the unexplored hill state, James Logon was sent to

19. Shashi Bhushan Prasad, The Chinese Factor in Indo-Nepal Reakltions 1952-72, (New Delhi), 1989, p .31.

Nepal in June 1770 to convince Prithvi Narayan Shah, of friendly attitude of the company and induce him to open the old trade relations between the two countries.²⁰

After the death of Prithvi Narayan Shah, the Shah dynasty was torn apart by family feuds. Political turmoil and disaster continued upto 1846. When Jang Bahadur Rana, a dynastic, and manipulative member of the noble family managed to eliminate all the rivals to become the Prime Minister of Nepal. His family ruled Nepal till 1950.

Bhimsen Thapa was one of the Nepal's greatest and most powerful nobles, who guided the destiny of Nepal from 1804-37. His prime objective was to save Nepal from the clutches of British imperialism. He kept India at arms length, by following policy of ostentatious friendship with China. He adopted a policy of slow and steady encroachment all along the Indian frontier so as to keep his soldiers busy. This policy brought Nepal into conflict with rising British imperialism in India and was followed by Anglo-Nepalese war of 1814-16 which proved disastrous for Nepal.²¹ This war terminated in March 1816 with the ratification of peace treaty of Sagauli, which was signed on 2 December 1815. This treaty became the basis of permanent British India's

20. K.C.Choudhari, Anglo-Nepalese Relations (Calcutta) 1960, pp. 37-38.

21. Ramakant, Nepal-China and India (New Delhi 1976), p. 24.

relation with Nepal. The treaty of Sagauli deprived Nepal of more than one third of its territory and forced it to accept a permanent British resident in Nepal.²² However, the jealous exclusion of the British from Nepal and non-intercourse with them were the basic principles adopted by them to preserve the independence of Nepal.

With the rise of Jung Bahadur Rana in 1846, a new era began in Nepal's internal as well external relations. As the first Prime Minister of Nepal, he thoughtfully and systematically tried to woo the support, assistance and guidance of British India. His visit to England in 1850 and conclusion of an extradition treaty with British India in 1855 obviously pleased the British. Rana further on convinced the British Government of his friendly and co-operative attitude by sending forces to quell rebellion during India's first freedom struggle in 1857-58. As one scholar added, The Indian revolt of 1857 was a major landmark in the history of relations between the two countries.²³

Rana Jung Bahadur realised that in the altered geographical context of Nepal, neither the old policy of expansionism nor a policy of confrontation with British India served any useful purpose. He followed the policy of

22. S.D.Muni, Foreign Policy of Nepal (New Delhi, 1913) p. 5.

23. Sushila Tyagi, Indo-Nepalese Relations (New Delhi, 1974), p. 80.

restricted intercourse, friendly isolation which was purely a defensive measure against the overwhelming impact of a mighty British empire in India. He clearly kept the British India at a safe distance and avoided the greater attachment because he knew that very intimate relations might lead to the British India's economic and political ascendancy in Nepal. This policy was a product of his close observation of proceedings of British India.²⁴

To quote a scholar of Indo-Nepal relation :

"The British policy towards Nepal was one of tactful management of a proud, sensitive, freedom of external independence provided an appearance of her sovereignty was kept up by avoidance of interference in her internal affairs, by periodical bestowel of honours and titles to her autocratic rulers, and by provision of employment to her martial race".²⁵

The period from 1858-1914 in which Nepal did not form an administrative part of British India, yet for all practical purposes, it was within the huge framework of British India's imperial interests. It was politically subordinate to and economically dependent on British India. That period is regarded as a story of adjustment between countries. During this period accomodation reached which

24. Ramakant, Nepal-China and India (New Delhi, 1976), p.24.

25. Brij Kishore Jha, Indo-Nepalese Relations 1952-72 (Bombay, Vora and company publisher, 1973), p. 7.

brought basic interest of Rana and British India into remarkable harmony.²⁶

By the time of two World Wars, however, Nepal had become virtual appendage of British Indian regime, responding to the requirements implicit with her alliance with British. During the first world war, for instance, Nepal loaned the Government of British India ten battalions in British Indian army. As a result of this the Nepali ruler Chandra Shansher was bestowed upon with a number of honours and there after, was to be addressed to as His Highness by the British.²⁷ In lieu of Nepali help to British India a fresh treaty was signed at Sagauli between two countries on 21 December 1923. Nepal finally obtained as "unequivocal" recognition of its independence. Both governments agreed mutually to "acknowledge and respect each other's independence, both internal and external".²⁸ However, the scope of Nepali's independence was curtailed and limited, by the clause which obligated each government to "extert its good offices" to remove causes of any "serious friction or misunderstanding with neighbouring states whose frontier adjoin theirs". Although, defined in term of mutual obligation, this implied on fact that Kathmandu would continue to "consult", the

26. Shanker Jha, Indo-Nepal Relations (New Delhi, 1989), p. 12.

27. Leo. E. Rose, Nepal, Strategy For Survival pp. 170-71.

28. Ibid.

Government of British India on relations with Tibet, Sikkim, Bhutan and China. Under the clause 5 of the treaty Nepal gained the right to import arms and ammunition without seeking approval of Government of British India, so long as "the intentions of the Nepali Government are friendly and that there is no immediate danger to India from such importations". Here again, however, this privilege was limited in practice, if not in theory. Given the limited geo-political options, Nepal did not have much to choose from. Leo, E. Rose suggested a option in this regard by saying :

"This question, however, is whether any conceivable attractive policies would have protected Nepal's independence and, indeed, obtained formal British recognition of the kingdom's sovereign status in the community of nations - no mean achievement in the prevailing circumstances. The answer is almost certainly in the negative."²⁹ Any how, that treaty of Sagauli 1923 represented the trends of co-operation and interdependence between the two countries but it has serious economic implications for Nepal to open it's economy for the exploitation of British India.³⁰

29. Ibid, p. 174:, Also see A.S.Bhasin, Documents on Nepals Relations with India and China 1949-66 (Bombay, Academic Books, 1970).

30. Shanker Jha, Indo-Nepal Relations, (New Delhi, 1989), p.12.

Independent India and Nepal

The independence of India in 1947 and the emergence of the People's Republic of China in 1949 marked a period of tremendous change around Nepal.³¹ Inspired by the Indian National Movement, in which large number of Nepalese leaders had actively participated, a struggle to establish democracy was soon launched in Nepal. India always stood for freedom and democracy in the abstract as well as in guise of practical and in the context of Asia as a necessary step.³² The popular ideas of liberty and equality sweeping across the entire Indian sub-continent caught Ranas to respond and make necessary adjustment which demanded inter alia, a sharing of power with people. The new course, most desired by Ranas had to have at least two dimensions. First to seek the international recognition of their authority through establishment and extension of diplomatic contact with India. Secondly, to keep the Government of India in good humour, Prime Minister of Nepal Mohan Shumshare was soon to admit in his first major policy statement in 1948 :

31. Pashupati Shamshare, J.B. Rana, India and Nepal: The Political Economy of Relationship, Asian Survey, Vol.11, no.10, Oct. 1971, p.645.

32. Indian Parliamentary Debates, Part 2, Vol.2, no.3, 17 March 1950, Cols, 1967-68.

"Our relations with India, a big country which has emerged through independence, should be neighbourly and as between two sister It shall be our policy therefore, to enter into diplomatic relations with all such countries that seek our friendship. It is evident that we shall require much help and co-operation from abroad in our nation building projects. We hope we shall obtain such needful assistance and co-operation from our neighbouring and friendly nations".³³

The revolution of 1950 in Nepal created very complicated situation for the Government of India. India wanted the democratic process to be initiated in Nepal but could not permit an uprooting of existing order. In such circumstances India followed the policy of middle way and central crux of the policy was that there should be peaceful and gradual democratization by evolving an appropriate compromise between Rana and popular forces. In such kind of situation Indian Prime Minister Mr. Jawaharlal Nehru and Nepalese King Tribhuvan laid down the foundation of eternal friendship between the two countries.³⁴

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33. Text of Speech Gorkhapatra, Vol.48, 14 Jaistha zoo (May 1948) (Sindura Jatra Special number), cited in S.D. Muni, Foreign Policy of Nepal (New Delhi, 1973), p. 17.
34. K.Natwar Singh, India and Her Neighbours, in Mainstream, Vol. 27, no.11, January 6, 1990, p. 7.

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Immediately after Indian independence both countries exchanged Ambassador with each other. Under a tripartite treaty concluded in November 1947, Nepal allowed India and Britain to recruit Gorkhas for their respective armies. In return for the recruitment facilities Government of India undertook to meet Nepal's army needs regarding defence production, army transport planes, civil supplies and training facilities. The Gorkha troops fought shoulder to shoulder with Indian army against Pakistan during Kashmir Crisis in 1947-48. A year later, more Nepalese troops were sent to help the Government of India to overcome its internal state building process, particularly in Hyderabad.³⁵

The emergence of People's Republic of China created an unprecedented situation that even the Britishers did not have to face. With the assertion of the Chinese territorial claim on Tibet and "buffer" displaying barrier disappeared between China and India. As a result of this India was compelled to take a much more intense interest in Nepal. Therefore, India entered into treaties of peace and friendship with Bhutan on August 8, 1949 and with Sikkam on 5 December 1950.³⁶

35. S.D.Muni, Foreign Policy of Nepal (New Delhi, Publishing House, 1973), p. 20.

36. Murlidhar Dharmadasani, Indian Diplomacy in Nepal (Aalekh Publisher, Jaipur, 1976), p. 36.

The post independence Indo-Nepal relations were based on the treaty of peace and friendship which was signed on 31 July 1950. This treaty provided a useful framework for overall relationship between the two countries. "This treaty was based on earlier treaty of 1923 and cancelled all previous treaties agreements.³⁷ Alongwith this treaty another treaty of trade and commerce was signed which provided direction and guidance in matters of trade between the two countries.³⁸ More than that New Delhi devised a New Concept of "Special Relationship" on account of the bonds of geography, culture, economy and the need of strategic defence. The Prime Minister of India, Nehru was quite candid and upright in underlining India's special interest in Nepal. Therefore no other country can have an intimate relationship with Nepal as ours is. We would like every other country to appreciate the intimate geographical and cultural relationship that exists between India and Nepal.³⁹

Nehru while referring to changing domestic political score in Nepal further added on 6 December 1950 :

"Our interests in internal conditions of Nepal has become still more acute and personal, in view of the developments across the borders in China and Tibet.

37. S.D.Muni, Foreign Policy of Nepal, p.20.

38. Keening Contemporary Archieve, Vol.8, no. 994 (London, 13-20 January 1951), p. 10933.

Apart from our sympathetic interest in Nepal we are also interested in security of our own country. From time immemorial, the Himalayas have provided us with magnificent frontier. Of course, they are no longer still fairly effective. We cannot allow that barrier to be penetrated, for it is also principal barrier of India. Much as we stand for independence of Nepal, we cannot allow anything to go wrong in Nepal or permit that barrier to be crossed or weakened, because that would be a risk to our own security. Therefore, the recent development made us ponder more deeply over Nepal situation".⁴⁰

The relationship between the two countries were strengthened by the very active role of India, played during the period of Ranas and subsequent developments in Nepal. The King Tribhuvan and other leaders of revolution were grateful to India. This was openly acknowledged by King Tribhuvan.

"I want to make particular mention of our cordial and affectionate relations with our neighbour, India. We were akin to each other in so many spheres in religion, social,

40. J.L. Nehru, India's Foreign Policy selected speeches (September 1946 - April 1961, Publication Division, Ministry of Information and Broadcasting, Government of India, 1977), pp. 435-36, from speech in Parliament. December 6, 1950 and Broadcast from New Delhi, January 24, 1951.

geographical, historical and so forth. Even the Nepal's democracy was the result of inspiration from India.⁴¹

The post independence history of Indo-Nepal relation can be divided into four phases. The first phase constituted the period from 1947-50, in which Nepal resentful acquiesced in India's assertive policy. It did not even much bother to settle and modify its relations with, but Chinese attitude towards Nepal was highly cautious.

Indo-Nepal Treaty of Peace and Friendship 1950

To sustain the policy of mutual accomodation, India and Nepal formalised two treaties on 31 July 1950, treaties of "Peace and Friendship" and "Trade and Commerce", were signed by the two countries. This treaty was product of political romanticism, that marked newly independent India's first step in foreign policy. It was an imperative effort to institutionalize the relations between India and Nepal. The treaty was most important for India from security point of view and for Nepal from economic point of view.

The significant feature of treaty of peace and friendship was contained in a secret letter exchange which stated : Neither government shall tolerate any threat to the security of the other by a foreign aggressor. To deal with

41. Sushila Tyagi, Indo-Nepalese Relations (New Delhi, 1974), p. 77.

any such threat, the two governments shall consult each other and devise effective counter measures. The obvious implication of this statement, as interpreted by both sides, was that this made Nepal an integral part of Indian security on Himalayan frontier.⁴²

Indo-Nepal Treaty is bilateral in nature, which has the economic, security and political importance for both India and Nepal.

India also has certain economic interest in Nepal. Water is the main resource of Nepal but it has not enough sources to harness it. Through the close cooperation with Nepal for the purpose of power generation, flood control and irrigation can be fulfilled. According to Article VI and VII both countries will provide national treatment to national of the other countries in its territory with regard to participation in industrial and economic development of such territory and grant concessions and contracts relating to such development.⁴³ So right from the beginning trade relationship between Nepal and India were characterized by principle of Most Favoured Nation (MFN). The objective was

42. Rose and Scholz, Nepal, Profile of a Himalayan Kingdom (New Delhi West View Press, 1980), p.120. also see Jawaharlal Nehru, India's Foreign Policy : Selected Speeches, Sept. 1946 to April 1961, New Delhi), p.374.

43. S.K.Chaturvedi, Indo-Nepal Relations, Tension Area in Foreign Affair Reports, Vol.38, no.5, May 1989, p.76.

to create a common market and India had a privileged place in Nepal in comparison with others, just as Nepal enjoyed a special place in India. According to this treaty, there shall be everlasting peace and friendship between Government of India and Nepal Article 5 of this treaty provided that the Government of Nepal shall be free to import from and through the territory of India arms ammunition, and warlike material necessary for security of Nepal. This arrangement shall only be worked out if two governments act in consultation.⁴⁴

Indian Policy towards Nepal was not only regulated by security consideration but also by certain political interest. According to articles 1st of the treaty, the two governments were agreed to acknowledge and respect the complete sovereignty, territorial integrity and independence of each other.⁴⁵ Nehru in December 1950 declared in Indian parliament that "we cannot allow anything to go wrong in Nepal."⁴⁶ This statement of Nehru led the feeling of apprehension in the minds of Nepali leadership that India was subjugating sovereignty of Nepal. As a result of the some anti-India propaganda in Nepal accusing Nepali regime for surrendering Nepal's sovereignty by accepting unequal

44. S.D.Muni, "India and Nepal", Erosion of relationship", in Strategic Analysis, Vol.7, no.4, July 1989, p. 361-62.

45. Ibid.

46. Cited in B.C. Upreti, "Indian Aid to Nepal, in South Asian Studies, Vol. 18, No.1, January-June 1983, p.52.

treaty. They considered that treaty was a stigma on Nepalese nationalism and stood in the way of Nepal's independent foreign policy formulations.⁴⁷

In the second phase which started from 1955 to 1963, the passing away of King Tribhuvan and succeeding reign of King Mehendra were the sign of the end of golden era of special relations. After succeeding to power in march 1955 King Mehendra accelerated and diversified Nepal's relation with other countries and promptly responded talks with China which Kathmandu had suspended in 1951. He quickly negotiated a treaty, endorsed the five principles and opened diplomatic relations with China in 1955.⁴⁸

As King Mahendra was considered, the era of isolation was over and that balance of power in Nepal's external affairs could be restored only by opening it to all forces not merely to China but other countries also. But China has occupied very significant place in King Mahendra's calculations. "As king Mahendra embarked on a conscious policy of affirming a Nepali identity through assertive Nepali nationalism which over the years, came to be increasingly identified with anti-Indianism. In fact, the

47. S.K.Chaturvedi, "Indo-Nepal Relations, Tension Area". in Foreign Affairs Report, Vol 38. no.5, May 1989, p.76,

48. Mac Alister Brown, "The Diplomatic Development of Nepal", in Asian Survey, Vol.2, no.7, July 1977, p. 665.

quality and content of organic character of Nepals relations with India began to erode under king Mahendra, even as the facade of friendly state level relation was kept up.⁴⁹

The geographical situation of Nepal has considerably altered India's attitude towards Nepal particularly after China's annexation of Tibet. That development fundamentally changed the situation for India and gradually increased its sensitiveness regarding the changed milieu of the region. The Chinese annexation of Tibet not only reasserted the balance but also finally cut off the route of trans-Himalayan trade.

To cope up with this climax India adopted two fold policy, while accepting complete sovereignty and integrity of Nepal India sought to bind Nepal to tone down to its own strategic and foreign policy needs. Nehru visited in Nepal in June 1959 and speaking at reception given by Nepali Indian friendship association Nehru stated that "two countries had no design on one another."⁵⁰ On the other hand Nepal had two dimensions firstly to seek international recognition of its sovereignty through diplomatic contact and secondly to keep India in good humour.

49. A.R.Deo, An Alternative Prospective, in World Focus, Vol.11, no.9, September 1990.

50. S.S. Bindra, India and Neighbours (New Delhi) 1984, p.254.

With the victory of Nepali Congress in 1959 Nepali general election and the appointment of B.P.Koirala as Prime Minister of Nepal the process of close friendship between New Delhi and Kathmandu restarted. He consistently followed the policy of equal friendship with all countries, especially with India. During his visit to New Delhi on 17th January 1960, he stated that the relationship between the two countries as something similar to that of two brothers. They might have estranged at times but relationship between two countries were never broken.⁵¹ A Joint Communque issued on 28 February 1960 reaffirmed that both India and Nepal have vital interests in each other's freedom, integrity, security and progress and agreed that two governments should maintain close consultation in matters of common interest.

"Taking advantage of strained Sino-Indian relations particularly after 1959, Mahendra rapidly delinked India from Nepal. His decision to dismiss the Nepali Congress Government and abolish the parliamentary system had a long term adverse impact on the course of political understanding and co-operation between New Delhi and Kathmandu.

However, according to B.P. Koirala, Nepal showed not "take side" get involved any way in present border dispute

51. A.R.Deo, An Alternative Prospective, in World Focus, Vol.11, no.9, September 1990.

between India and China. India's military setback in 1962 was forced Nepal to observe greater degree of political neutrality between its two neighbours and to ensure Chinese interests in the kingdom more carefully.⁵²

After the death of Nehru the third phase of Indo-Nepal relationship started. The post Nehru period saw the search for "new policy in India, while Nepal struggled to build the economic foundations for an independent foreign policy. That phase confirmed Chinese pre-eminence in Asia as the only world ranking nuclear power.

During Mr. Shastri's visit to Nepal in April 1964, a joint communique was issued in which both King Mahendra and Mr. Shastri reaffirmed faith in the policies and principles of Non-alignment and peaceful co-existence. The fourth phase in Indo-Nepal relation started when King Manhendra, as engineer of Nepal's assertive nationalism succeeded by King Birendra in 1972. "During the Nehru era India was said to have been very dominant and Nepal was regarded as outpost of Indian territory whereas during the Shastri period there was a perceptible desire on the part of India to live not only more amicably with Nepal but also to treat it on equal sovereign state. Mrs. Gandhi's era is said to have shed a little of softness of the Shastri period and adopted a

52. Asian Recorder, Vo. 5, no.38, p. 19-25, September 1959.

posture of firmness leaning more towards reciprocity than generosity.⁵³

Indian Prime Minister Visit to Nepal

One of the highlights of the year 1973 was the visit of Mrs. Gandhi to Nepal on 7 February that year.⁵⁴ She stated that there was no major outstanding issue between two countries according to her.

"Our rich culture heritage was same and many of our social and economic problems were similar.⁵⁵ The purpose of this visit was in her own words" to enlarge the area of understanding and gain insight into each other's endeavours". The visit enabled Mrs. Gandhi to develop rapport with new monarch, King Birendra, who was known to be keen to further cementing the ties and extending the area of co-operation between the two countries. It had also the five following objectives :

- i) To assure Nepal that India envisaged a relationship based on its sovereignty, equality, trust, co-operation and non-interference.
- ii) To ensure the help that India offered to Nepal was on the basis of mutual benefit.

53. D.P. Kumar, "For a Second Look at Indo-Nepal Relations, The Statesman, 6 April 1971.

54. Shriram Sharma, India and Neighbours in India's Foreign Policy Annual Survey 1973 (New Delhi, Sterling, 1977), p.33.

55. Asian Recorder, Vol. 19, no.14, 2-8 April 1973, pp.14111.

- iii) To affirm that India's co-operation and material and technological support to Nepal's development programmes would continue as before.
- iv) To acquaint her assessment of the political conditions in the sub-continent and other developments since the emergence of Bangladesh as an independent state, and
- v) finally to hear from premier Bista's impressions of his visit to China.

Mrs. Gandhi made a strong plea for regional co-operations among Asian Countries to ensure peace, stability and economic progress without getting entangled in Military Pact and big powers politics. She referred to the Shimla Agreement and said that India had given up over 5,000 sq. meters of occupied Pakistani territory "not in any spirit of patronage or generosity, but because the future relations in the sub-continent are very important for us."⁵⁶ She expressed India's happiness over Nepal's recognition of Bangladesh soon after its formation and said that it reflected the maturity and wisdom of Nepal's ruler.

She meticulously reiterated India's assurance to Nepal that India's big size posed no threat to Nepal. She felt

56. Ibid, Sriram Sharma, p.35.

there was immense need between India and Nepal for co-operation at the time when the bipolar world had broken down. She said that the interest of all the countries on the sub-continent lay in lasting peace and therefore, every issue that many arise need to be settled peacefully.

In the wake of Mrs. Gandhi's visit, Nepali Premier, Kirtinidhi Bista said that "Indo-Nepal relations were placed on an even keel and Mrs. Gandhi's visit to Nepal had been a very conducive factor in strengthening Nepal's consistent desire to maintain the best of relations with India.⁵⁷ Bista assured his countrymen, "with India we have consistently striven to maintain best of our relations and have sought to solve any bilateral problem that arise from time to time in a friendly and amicable manner."⁵⁸

In the midst of such cordial melieu a very unpleasant incident happend. In the month of June 1973, a Royal Nepal Airline Corporation air craft carrying a large amount of money belonging to Nepal Rashtriya Bank was hijacked while it was on a domestic flight from Biratnagar to Kathmandu. It was landed on an unused air strip in Bihar from where hijackers escaped with 30 Lakh rupees in a Jeep in readiness by accomplices.⁵⁹

57. Shri Ram Sharma, Indian Foreign Policy Annual Survey, 1973, p.36.

58. Ibid.

59. Ibid, p.37.

This sensational and unfortunate incident had a very unfavourable impact on Indo-Nepalese relations. The Nepali press went to the extent of questioning the bonafides of India. The pro-Chinese element of Nepal pushed-up it up as a "big political controversy". It also promoted ill will between King Birendra and outlawed Nepalese Congress leaders. It had been India's sincere desire that rapprochement to be effected between the two parties but in vain.

A month thereafter, Nepalese authorities asked the correspondent of Press Trust of India to leave the country within 48 hours or face forcible deportation. The Indian Ambassador to Nepal tried to explain Nepalese Prime Minister that expulsion order would have adverse impact on mutual relations between two countries but in vain.

The untoward tension toned down when King Birendra arrived in Delhi on 12 October 1973, on a week long state visit. He said, while talking to some Indian journalists, that there was no need for any friction in mutual relationship between India and his country. He agumeted, as regards the major issue he was going to discuss with Mrs. Gandhi. He added that there was "no major problem to be discussed with the Indian Prime Minister. Another significant statement he made was that "irritants" affecting mutual relations "need not necessarily be discussed at high

level but should be thrashed out in ordinary course.⁶⁰ However, King Birendra's visit underlined feeling in the context of changing national and international situation and objective realities of the time.⁶¹ Even though, during his visit Indian Prime Minister and Foreign Minister assured him (King) that India would not allow any activity against Nepal from Indian soil. King Birendra also reciprocated that raider were not getting any encouragement from India.⁶² Surprisingly, on 7th December 1973 Nepal's King Birendra left for China on state visit. This event, so soon after his state visit to India, was intended to keep the ~~scars~~ ^{distance} even between Nepal's two big neighbours. This visit was said to be in response to the joint invitation of acting chairman Tung Pi-Wo and Premier Chou En-lai. but the real motive appeared to have been to neutralise the impact of India's visit on the king's mind.⁶³

Despite all such acts of friendliness, the Nepalese felt that India was not sincere in its efforts to ensure the emergence of a strong Nepal. As a logical tenant to this thinking, many Nepalese argued that if India had not come out

60. Rose and J.T. Scholz, Nepal, Profile of Himalayan Kingdom (New Delhi West View, 1980), p.130.

61. V.P.Dutt, Indian Foreign Policy, p.200.

62. Keesing Contemporary Archives (London) Vol.21, no.1578, 7-13, April 1975, p. 27062.

63. Shriram Sharma, India's foreign policy, 1973 op cit,

with its sinister designs against Nepal, it was mainly due to the fear of Nepal taking sides with China. If China chose not to with its sinister designs against Nepal, it was mainly due to the fear of the taking Chinese sides. If China chose not to intervene in Bangladesh crisis or even after upheaval of 1974-75 of Sikkim, it was because of international compulsions. But if India tries to take advantage of internal unrest in Nepal to overthrow its present Government China would certainly not remain a silent spectator. But in reality India had no such intension.

Why did the Nepalese entertain such misunderstood conceptions ? One cause could possibly be that India had given shelter to B.P.Koirala who cherished hopes and horizons of staging a successful democratic movement against the monarchical regime. It was rumour that Mr. Koirala have as many as 4000 armed men in India, waiting for opportunity to march into Nepal. It will be argued that if India was sincere in its professed friendly feelings towards Nepal, it would have taken the some stand toward Koirala as it did in the case of former Burmese Prime Minister U. NU who was refused asylum. Why had India not taken any step against Koirala One major reply was that Indian National Congress party, which also happened to be in power could not cool down its past association with its Nepali counterparts. And also because the Government of India, on the basis of reliable

information convinced that he (Mr. Koirala) was no more a leader of any consequence. He could not at any time launch any movement or stir any trouble in Nepal was a testimony to fact that the Government of India had told him frankly that any Nepali activity on his part would forfeit his claim to stay in India. India has been caught in a delicate situation. It could not, under the existing law of the country put a ban on assembly of Nepali Congress leaders and workers in India so long as such assemblies were peaceful. Secondly, India could not hand them over to Nepal as they had not declared criminals and as such could not be extradited. Political refugees under the existing agreement between India and Nepal are exempt from extradition.⁶⁴

The relations between India and Nepal gravely adversed in 1974-75 because of Sikkim's association with India and anti-India demonstrations in Nepal. Nepal was the only country which had official reaction against India's move on Sikkim and described it as expansionist policy of India. India was well aware of Nepal's reaction engineered by China and Pakistan which were critical of Indian's action in Sikkim due to consideration of power politics in the region.⁶⁵ It added a new dimension to Indo-Nepal relations which needed a current review inlight of Nepali reaction over Sikkam dilemma. But soon Nepal realised that any deterioration of its relation with India ultimately would lead to situation which would be very adverse to Nepal's interests.

64. V.P.Dutt, India's Foreign Policy, op. cit. p.201.

65. Shri Ram Sharma, Indian Foreign Policy Annual Survey, 1974 (New Delhi, 1980), p.121.

1.4 NEPAL'S CONCEPT OF ZONE OF PEACE

The idea of zone of peace of Nepal first mooted by King Birendra at the 1973 Algier summit of Non-alignment movement. The Nepalese print media tried to popularise the concept but not with much success. Therefore, in his coronation address on 25 February 1975, King Birendra specially asked neighbouring states and other power to formally recognize Nepalese as a zone of peace. This was to become, subsequently the main point in Nepali foreign policy statement. Later on this very idea included in the directive principles Chapter of Nepali constitution (part 4 article 19(2) as a national objective). To quote Rose and Scholz :

Although this obviously serves to further the neutralisation objective, Kathmandu had been less than clear in defining the steps other than a formal recognition that would be required to make it's zone of peace status a reality. By necessary, it would seem the 1950 Indo-Nepal treaty would have to be abrogated or at least substantially amended and some of the other less public agreements with India (e.g. the 1965 agreement on supply of military equipment would not fit easily into the new format.⁶⁶

India found that proposal was inconsistent with the spirit of peace and friendship (1950) and therefore did not endorse it. This concept of zone of peace was tantamount to

66. Rose and Scholz, Nepal, Profile of Himalayan Kingdom, op cit, p. 30.

ignoring all geo-political realities of area and sacrifice of Indian as well as Nepalese interests to please China.⁶⁷ Nepali scholar cited that zone of peace proposal is akin to concept of peace enshrined in the principle of the United Nations and Non-alignment.

At the time of its declaration, there seemed to be some confusion on the operational content of the "Peace Zone" idea. After all, what did the peace zone precisely mean? There was not specific answer to this question at that time. A Nepal writer strongly contested the view point that King Birendra's proposal lacks a sense of realism simply because the specific clauses have not yet been clearly defined.⁶⁸

What has to be understood is the fact that zone of peace is a general concept and not a draft for an agreement or treaty. As a concept it brings out two most positive aspects of Nepali foreign policy. First it implies that Nepal will never try to play its giant neighbours to the north and south against each other for gain of any kind whatsoever. This particular aspect of Nepal's foreign policy has always been emphasized by the King. The zone of peace proposal formalise and expresses this policy in a more

67. Asian Recorder Vol 31, no.11, 12-18 March 1985. cited in V.P.Dutt, Indian Foreign Policy, Annual Survey, op. cit, pp.206.

68. Prakash C. Lohani, "Nepal 1975 : Not a Normal year", Asian Survey, Vol XVI, no.2, February 1976, p. 145. also see S.k. Chaturvedi, "Indo-Nepal Relation : Tension Area", Foreign Affairs Reports Vol. 38, no.5, New Delhi, 5 May 1989, pp. 68-71.

positive manner. Second, the zone of peace strongly implies Nepal will never allow any nation to use Nepali soil against the interest of some other nations. In any further agreement these two implications of this concept will provide the starting point for more detailed specific understanding, for all peace loving nations.

The response to this concept of zone of peace was quite a bit varied. By 1985 this idea won the sympathy of at least 65 countries. Most of the Non-regional powers including USA maintained a position marked by considerable ambiguity. They did not want to reject it publicly but neither endorsed it. China, Pakistan, Bangladesh and even Australia however, wasted no time in endorsing the proposal. Nepal has taken many initiatives raising this proposal at global level, but so far in vain. The most critical response for Nepal was a deliberate attempt to keep India away from the Nepalese people and its political affairs.⁶⁹ However, India has not officially rejected the proposal and the same time it did not approve this proposal. Indian position on this concept was stated clearly by both Prime Ministers Mrs.

69. Dr. Deepak Gosain, "Indo-Nepal relations : A Strategic view point", Third World Concept, October 1991, p. 11. For details see, Rishikesh Shaha, "Nepal as zone of peace", Pacific Community, Tokyo Vol. 8, October 1976, p. 170.

Kabliaswar Labh, "India and Nepal, zone of peace proposal", Foreign Affairs Reports, New Delhi, October 1978.

Gandhi and Morarji Desai that India will just not buy it in any form, shape or definition.⁷⁰ Indian reservation on this Nepalese proposal stem from the apprehension arising over Nepali desire for equidistance between India and China and the vagueness of proposal made it being the non-starter.⁷¹ India has stressed that it may not be very meaningful that in theoretical term the idea of zone of peace should be accepted rather it is the action which should prove the intention. The Nepalese purpose will be better served by regulating it's dealings with neighbours on a pragmatic basis rather than by seeking to institutionalize a theoretical concept.

The serious deterioration took place in the relation between two nations in the 1972-77 period.⁷² A number of developments contributed to this trend. Official consent and encouragement was given to the public demonstrations in Kathmandu. This evoked strong protest from India accompanied once again by economic pressure upon Nepal through the use of trade control technicalities.⁷³ Nepali leaders perceived Mrs. Gandhi as a leader who preferred crisis situations by resorting to ultimate options with out exploring less forceful reponses as geographically demonstrated during the

70. Rose and Scholz, op.cit. 130-31.

71. Dr. Deepak Gosain, no.69, p.11.

72. V.P.Dutt, Indian Foreign Policy, op. cit. pp. 201-3.

73. Ibid.

1971 Indo-Pakistan war over Bangladesh. This was reinforced by the event of merger of Sikkim in India. "The relations became bitter and strained during 1975-76 when in the wake of Sikkim merger with India, the ugliest anti-Indian demonstrations were staged in Kathmandu."⁷⁴

Despite the assurance from India that this was far from being precedent for India's policy towards other border states, it's (India) intentions were being taken with considerable skepticism by Kathmandu. There was, indeed, a growing sense of vulnerability in Nepal vis-a-vis India. Another event of 1976, King Birendra, highly publicised visit to Szechwon and Tibet provinces of China, just prior to a new round of negotiations on Indo-Nepal trade and transit treaty. This visit was not so particularly significant in themselves but contributed to a steady if not so dramatic a deterioration in mutual understanding. Commenting on the India response, Leo Rose and J.T. Scholz say : The Indian response was by now classic. This use of delay tactics in the re-negotiation of the 1971 trade and transit treaty that was due to expire in 1976. In this instance, New Delhi even threatened to discontinue applying the terms of the 1971 treaty on an adhoc basis until a new agreement was concluded, which would have been an instant disaster for

74. Shri Krishna Jha, "Ties with India", World Focus, Vol. 11, no.9, September 1990.

Nepali economy.⁷⁵

Again, renormalisation in Indo-Nepal relations moved on 1 December 1975. King Birendra appointed Dr. Tulsi Giri, as Prime Minister of Nepal. This was taken as a signal for amicable dialogue with India. The New Prime Minister emphasized upon "Clarity of perception" on both sides and the need to open up, and have a continuing dialogue which will take into consideration the respective national interest. On 5 January 1976, India lifted all restrictions on the export of the 44 Nepal items imposed earlier, which could freely enter in India market by Nepalese traders.⁷⁶ Continuing the friendly gestures, Foreign Minister of India Mr. Y.B.Chavan went to Kathmandu on four days goodwill mission on January 1976 and assured Nepal of continued economic help. This was followed by Indian announcement on 22 May 1976 that it would go all out to meet Nepal's demand for allocation of various important commodities for the current financial year, without waiting for recommendations of joint review committee. All these were clear indicators that Indo-Nepal relations were to go further beyond the point of normalcy.

75. Rose and Scholz, op. cit, p. 130.

76. V.P. Dutt, Indian Foreign Policy, op. cit, p. 204.

1.5 INDO-NEPAL RELATIONS DURING JANATA REGIME

The debacle of congress and the advent of Janata party to power in the March 1977 general election was generally welcomed in Kathmandu. Although Mrs. Gandhi had adopted an increasingly hard line on political and economic (i.e. Trade and transit treaty) relations with Nepal. She had also disassociated her government from the Nepali opposition forces based in India and had applied even sharper impediments in their operation. It might be due to her internal and external political compulsions. The situation had become so difficult for the Nepali exiles that the principal leader, B.P Koirala had decided to return to Nepal in December 1976 just three months before Mrs. Gandhi's partiallly expected electoral defeat, without having extracted any concessions from the royal regime that immediately imprisoned him again.

The Janata party was formed as a protest against authoritarianism and it had come to power by defeating the authoritarian government. As such it posed a threat to the regime in Nepal, especially because number of old socialist leaders were members of Janata Party and were vocal supporters of B.P. Koirala's Nepali Congress and Nepali opposition forces. Hence, the King patched up Nepali differences with India through an ostensible display of friendliness. The visit of King Birendra in March of 1977

helped to initiate the process of strengthening the relationship between the two countries.⁷⁷

In the initial months new government's policy towards Nepal remained the same. It adhered to 1950 treaty framework of relationship and did not therefore endorse Nepali concept of zone of peace (ZOP), but in other matters it showed magnanimity. For instance, it accepted Nepal's long-standing demand of two separate treaties on trade and transit and signed in 1977.

Fortunately, Indian Foreign Minister A.B. Vajpayee, moved quickly to reassure Nepal by projecting a more open and responsive position on the critical issues dividing the two nations. The Foreign Minister visited Kathmandu in July 1977. He talked to his Nepali counterpart and they agreed that 1950 treaty of peace and friendship was there both India and Nepal would respect it.⁷⁸ India was prompt to take a series of steps, mostly minor but indicative of new approach, designed to placate Nepal and infact the Janata government proved to be no more supportive of the Nepali opposition than its predecessors despite some unofficial endorsement by leaders⁷⁹ Mr. Vajpayee's "open minded" approach to bilateral issues ceased the tensions in Indo-Nepalese relations. It

77. Asian Recorder vol.23, no.29, 16-22 July 1977.

78. The Statesman, New Delhi, 2 July 1977.

79. Rose and Scholz, Nepal, Profile Himalyan Kingdom, op. cit, p.p. 133-34.

paved the way for the reactivation of long pending Karnali and Devighat hydro-electrical project. He laid repeated stress on friendship. "India will consider it a privilege to make sacrifices without demanding equal benefits in return".

About Nepali proposed Zone of Peace, he assured to Nepal that his Government would give due consideration it. Speaking for himself, he stated that he was neither in favour of it nor opposed to it. He declared that India wanted to see peace not only along Nepal's periphery but in the whole of South Asian sub-continent. To him, friendship between India and Nepal was "Traditional" it had to continue to be so in future also. He ruled out that there was any "Hate Nepal" campaign in India. Such outlook for further improving relations between both countries brightened up. Prime Minister of India Mr. Deasi informed the royal Nepalese Ambassador in New Delhi that India agreed in principle to conclude with Nepal two separate treaties on trade and transit instead of one composite treaty as in the past. This was big dose for satisfying the demand that Nepal had been making for nearly a decade and removed another irritant in bilateral relations.

About zone of peace Mr. Desai made a statement that Nepal was already "a peaceful zone" and because of the existing 1950 treaty of peace and friendship, there was no question of Nepal being in danger from the side of India.

Indeed, he said with an air of finality that there being peace between the two countries, there was no need to declare Nepal a zone of peace. This provided for Nepalese politicians to issue joint statement, demanding abrogation of the treaty. India however, paid no heed to it.

A joint communique issued in December 1977 in which both leaders agreed to enlarge and intensify their mutual co-operation. They welcomed the fact that there was no improved atmosphere conducive to beneficial co-operation in the entire sub-continent.⁸⁰ In these circumstances India accepted Nepal's long-standing demand for two separate treaties on trade and transit and both countries signed these treaties on 25 march 1978. Along with these treaties an agreement on co-operation to control unauthorised trade on the border between the two countries was concluded. Immediately after signing these treaties Nepalese Prime minister Mr. Kirtinidhi Bista visited India and expressed satisfaction over "qualitative improvement in relations" between the two countries.⁸¹

The year 1977 started on a note of pessimism, nevertheless, for Indo-Nepal relations as the differences between them regarding certain issues were still persisting.

80. Asian Recorder, Vol. 24, No.2, 8-14 January 1978, p.14111.

81. Lok Raj Baral, Nepal 1978 ; years of Hopes and confusion", Asian survey, Vol. 19, No.2, February 1979, p.202.

Reviewing Nepal's relations with Bangladesh, China and India a Nepali commentator observed, that Indo-Nepal relations had registered a "downward trend" in 1976 and this was due to less to failure of the "woo India" policy than to the failure of "almost all the effects that had been made to provide a stable and structured frame work" for their mutual relationship. In support of this view he cited the deadlock in the signing of a composite trade and transit treaty, despite Nepal's withdrawal of it and demand for two separate treaties in matter, India's reluctance to support the proposal to designate Nepal as "Zone of Peace" and its action in placing restriction on the movement of Nepali nationals in certian specified areas within its territory.

It was alleged in certian quarters that the transit facilities given earlier by India for Nepal trade with third countires had been inadequate for the purpose of its economic development and even economic survival. As usual India was severly criticised for not recognising the demand of a land locked or rather India locked country like Nepal for unfettered transit right to and from the Indian sea a demand that was completely legitimate and in line with well established international practices. However no less significant was the prospect opened up for an early signing of the two treaties. The two countries also agreed to hold regular consultation in Kathmandu and in New Delhi, for

ensuring harmonious implementation of the two treaties.

One unprecedented incident occurred during Janata regime, as its President Mr. Chandrashekhar issued a statement by asking His Majesty's Government to restart the process of reconciliation with Mr. B.P. Koirala and other leaders of disbanded Nepali Congress. National Campaign Central Committee of Nepal's chairman Mr. K.R Ragmi described "as clear interference in the internal affairs of Nepal".⁸² Nepal's Ambassador in India lodged a strong protest against Mr. Chandrashekhar's remarks said "It was ill conceived and uncalled for as well as direct interference in internal affairs of Nepal."⁸³ This untoward remark was massively condemned by Nepali press.

In the May 1979 pro-democracy demonstration arisen within and outside Nepal. A Nepali students demonstration was teargassed in New Delhi. Indian press called it mini-revolution. The King Birendra took right step. He released B.P Koirala alongwith 64 other political prisoners. It has been welcomed in both governmental and political circles in India. The King was evidently satisfied with assurance of India that advised him to adopt more tolerant attitude, and India was not in any way seeking to weaken his position.⁸⁴

82. The Rising Nepal (Kathmandu, 30 April, 1979).

83. The Statesman (New Delhi, 1 May 1979).

84. The Hindu (Madras 10 May 1979).

It's neighbouring country India was naturally concerned at what is happening in Nepal since the stability of this buffer state is of utmost importance to it. While India has no desire to interfere in internal affairs of Nepal, it has no obligation to render all possible advise and assistance in averting the danger of a big upheavals there.⁸⁵ This was first time that the major political development has taken place in Nepal without speculation about Indian hand long behind it. There had been complaints about India interfering in the internal affairs of Nepal from time of revolution in 1951 when the Rana kingdom was ended. These grew in intensity after the King Mahendra dismantled the parliamentary set up, followed by run raiders on Nepal's southern border. It was thus refreshing experience this time to hear neither officials and nor politicians talking about "Indian interference in Nepali affairs". On May 23, 1979 the outgoing Prime Minister of Nepal, Mr Bista had ruled out involvement of either a foreign power or any political faction in recent incidents. Some panchayat members still go on harping the theme and talk about Indian money or money from other country coming to ferment trouble but they do so unconvincingly. Even anti-Indian biased journalist saying, " This time nothing unfriendly has been done by India. It was confirmity that in the current

85. G.K Reddy, " India to send another emissary to Nepal" The Hindu (Madras, May 21, 1979).

crisis, India has been done in most friendly manner.

" In Nepal today, Mr. Desai is the most popular of all Indian leaders, both at the official and non-official or political level. Elderly Nepali politicians still nurse a grudge against Nehru that he did not do far enough for them but helped the monarch instead to come to power. Nehru became unpopular with King Mahendra in 1960 when King dissolved parliament and put ministers in jail and Nehru angrily called it "setback to democracy" king Mahendra signed agreements with China and Pakistan on Kathmandu Kodari road and trade respectively. Mrs. Gandhi's era was regarded by Nepalese as extension of Nehru era. She was viewed in Nepal as hardliner and there was always a measure of distrust about what she said. Mr Desai impressed all, the government and politicians alike, with his sincerity and foresightness.⁸⁶

In September 1979 King Birendra came to India for six days official visit. While talking to Indian Prime Minister Mr. Charan Singh expressed his satisfaction at present state of relation between two countries and agreed that relation should be strengthened and enriched.⁸⁷

Indo-Nepal relations during 1971-80 and especially from

86. D.P.Kumar, India and Nepal : Beginning of a New relationship", The Statement (New Delhi, June 20, 1979).

87. The Times of India, New Delhi, 21 September 1979.

1972-80 has been one of interesting dimensions. There was fundamental difference between the approaches of two nations to solve their bilateral problems. India sought to sort out all issues by bilateral negotiations consultations and co-operation. But Nepal wanted to involve third party in this respect by raising bilateral issues on the international stages. Overall historical relation of Indo-Nepal through the history caught by platitudinous promises, rhetorics and euphoria. They have not so far helped them to stabilise the relation in the form of an acceptable pattern. In fact history of Indo- Nepal relations shows a patternless pattern.⁸⁸

88. S.K.Jha, "Ties with India" World Focus vol.11, no.9, September 1990, p.18.

CHAPTER 2

INDO-NEPAL ECONOMIC RELATIONS

2.1 Historical Overview

Economic and Trade relations between India and Nepal had been developed in the ancient time even before political and diplomatic relations. It was opined that trade relationship between two countries was mentioned in Kautilya's Arthashastra too. Sylvain Levi concluded that even Lord Buddha had visited Nepal accompanied by among others, a group of merchants from India.¹ Suniti Kumar Chatterjee expressed that Indian mongoloids were the intermediaries in this trade. These mongoloids were conjectured as consisting of both Indian and Nepalese merchants. In the first half of the Seventh Century A.D. Nepal was centre of transit and trade between India and Tibet.² The items that Nepal exported to India were herbs hides, and certain metal goods whereas, Nepal obtained spices, salt, embroidery and silk cloth from India during medieval period.³ Thus, throughout the entire span of middle ages, roughly extending one thousand years from the middle of eighth century to the 18th century there were abundant signs of active trade between India and Nepal. The East India company first time come in contract with Newar

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1. See Johar Sen, Indo-Nepal Trade in Nineteenth Century (Firma KM, Calcutta, 1977) pp.15-29.
 2. See Dr.Ragmi, Ancient Nepal (Calcutta, 1969), p.261.
 3. Ibid, no.1.

traders.⁴ All the contracts were confined to commercial transactions between Indian Merchants of Bengal and Bihar and Newar of valley with occasional correspondence between British Agents at Bettiah and the Newars Raja of Kathmandu. All the bordering districts of India carried brisk trade with Nepal. The East India company was however, extensively eager to revive this trade with Nepal. In order to facilitate the trade between those two countries the first Treaty of 1723 was signed underwhich Nepal could import arms, ammunitions and goods from British India without any duty.⁵

2.2 Indo-Nepal Economic Relations 1947-80

Apart from geographical compulsion, cultural heritage and historical politico- interaction, relationships between India and Nepal are based on Nepal's economic dependence upon India. Immediately after independence indian economy was also shattered. India have meagre resources for its own development. It realised that peace in Nepal depended for its durability on economic development which in turn could not be achieved without India's co-operation and assistance. When India's assistance was first sought by Nepal in 1951-52, India had itself embarked upon the path of planned economic development and all the available resources were fully committed. But realising that Nepal's needs were equally

4. Ramakant, Indo-Nepalese Relation 1816-1877, (New Delhi 1968), pp.2-3.

5. M.A.Beg, Foreign Affairs Reports Vol.XXXIX. no.8&9, August-September 1990, p.3.

important and its difficulties perhaps greater, India came forward to extend aid and assistance.⁶ In that time India promised to Nepal in concrete terms, far giving assistance and guidance for Nepal's development. The policy of mutual accomodation between india and Nepal was formalised on 31 July 1950 when treaties of "peace and friendship" and 1950 trade and commerce were signed by the two countries.

THE TREATY OF TRADE AND COMMERCE, JULY 1950 : This treaty consisting of ten articles. Articles 1 to 5 of this treaty enumerated unrestricted transit facilities and articles 5 to 7 dealt with trade between India and Nepal. Article 8 permitted the civil aircraft to fly over the territory of the other in accordance with normal international procedure. Article 9 cancelled all the previous treaties and agreements with the British India. Article 10 assures the life span of this treaty for ten years.

Despite the mutually advantageous stipulations, article 5 became controversial and severely criticised by Nepalese people by saying that under this provision Nepal was made to follow a strict Indian tariff policy which deprived Nepal to follow her own independent trade policy. Nepalese could sell their goods to third.

6. D.K.Issar, "Assistance For Progress", National Herald 15, March 1981.

country at a price not less than charged from Indian merchant. Consequently, the continuous flux of Indian goods could move to Nepal unabated due to tariff advantage that India enjoyed. Nepal had made an infarmal approach to the Government of India suggested revision of 1950 treaty and in turn was assured by the India that the suggestion from Nepal in this regard could be duly considered. Jawaharlal Nehru during his visit to Nepal in June 1951, said "if you seek our help in say, technical or other spheres, we will do our utmost to be useful to you, but we never want to interfere on our own."⁷ In January 1957, the discussion between the Indian delegation and the Nepalese government on matters pertaining to the Indo-Nepalese trade agreement of 1950 were held and the talks centred round the clause 5 of the agreement. Under this clause, Nepal was required to levy, at rates not lower than those in force for time being in India, custom duties on imports from and exports to countries outside India. Further, Nepal wanted to levy on goods produced or manufactured in Nepal which were exported to India, the export duty at sufficient rates to prevent their sale in India at prices more favourable than those of goods produced or manufactured in India which were subject to excise duty.⁸

7. S.S.Bindra, India and Her Neighbours op cit, p.206.

8. Lama, The Economics of Indo-Nepalese cooperation op. cit, pp.5-6.

India's contribution to Nepal's trade and development during this period had been substantial. By sustaining special relations with Nepal, India did not levy custom duty on goods imported from and exported to Nepal, though it was permitted to do so. But custom duty at same rates as were prevailing in India was controlled on foreign goods going to Nepal. The amount thus collected was credited to Nepal, contributing significantly to the economy of Nepal. In 1959 custom receipts accounted for 40 per cent of Nepal's total revenue and brought in almost as much the next largest source that is land taxes.⁹

The treaty of trade and commerce 1950 was suitable to the circumstances, to Nepal's close dependence upon India. To quote Rose and Schalz, Nepal's economic policy, like its foreign policy was closely integrated with that of the Indian government and New Delhi's guidance on such issues was usually a critical factor in Nepali decision making process.¹⁰ But as Nepal gained self-assurance in foreign policy matter they increasingly became critical of some of its terms. Despite of mutually advantageous stipulations, article 5 of the treaty become controversial. It was alleged that ~~or had~~ ^{that} arrested the Nepalese industrial development

9. E.B.Mihalay, Foreign Aid and Politics in Nepal (London, 1965), p.91.

10. Rose and Schalz, Nepal-Profile of a Himalaya Kingdom op. cit, p.122.

almost for a decade".¹¹ However, the above mentioned argument could be onesided and valid only theoretically. In actual practice the manufacturing sector of Nepal was then extremely small part of its economy and hence the immediate impact of this article (5) on Nepalese manufacturing was minimal.¹² Nepal had to follow this common traiff policy, in fact, mainly due to the total absence of Nepalese organisational arrangement on custom.¹³

Article 5 of the treaty of trade and commerce 1950 was actually intended to support the Nepalese economy financial with the help of exchanged refund practice, whenever any Nepalese trader imported foreign goods through Indian port he had to deposit an amount equal to Indian customs tariff at the Indian custom office. After recieving the certificate from Nepalese custom authority regarding physical entry of these goods into Nepal, such deposits were allowed to be withdrawn. In practice, however, this deposit became the import duty of Nepal and was refunded to Nepal government in place of giving it to the traders.

Then Nepali Prime Minister Mr.B.P. Koirala's visited to New Delhi in January 1960. This visit resulted in new trade

11. J.B. Rana, "India and Nepal : The Political Economy of Relationship", Asian Survey, July 1971, p.648.

12. T.K.Jayaman, "Nepal's Trade with India : Probelms and solutions", Asia Quarterly, 1972 p. 13.

13. Ibid, no.10. p.33.

treaty and promise of rupees 18 crores by India for Nepal's new developmental programme.

TREATY OF TRADE AND TRANSIT 1960 : To wash out all restrictions which hampered the growth of Nepal's foreign trade, a new treaty as a mark of "an accomodating and conciliatory gesture" was signed on September 11, 1960 between India and Nepal for six years. The New treaty mainly aimed at expansion of exchange of goods between their respective territories and encouragement of collaboration in economic development and to facilitate trade with third country. This New treaty was overwhelmingly, welcomed by both Indian and Nepalese as it eliminated most of trade hampered barrier. It was rightly said "This new treaty of trade was necessitated not only by resentments over the treaty of trade and commerce 1950 but also some internal and external political and politico-economic compulsions of Nepal such as overthrow of the autocratic Rana regime and its aftermath."¹⁴ About the objectivity of treaty it can be added, the treaty explicitly aimed at the development of the economies of India and Nepal towards the goal of a "Comman Market" by eliminating all trade barriers between the two countries.¹⁵

14. M.Dharmadasani, Indian Diplomacy in Nepal, (Alekha Publishers, Jaipur), 1976, pp.231-32.

15. Ibid, p.151.

The treaty incorporated many new provisions on the aspects about Nepal's trade and transit with other countries. Articles 1 and 6 regulated the "Indo-Nepalese trade procedures", while articles 7 to 11 were meant to regulate "Transit trade" and articles 12 to 14 were "general in nature and meant to implement treaty effectively and harmoniously.

However, in a letter exchanged between the two countries, India agreed that Nepal could "impose protractive" duties or quantitative restrictions on such goods as may be produced by newly established industries to enable the latter to overcome the initial handicaps in the development. These provisions expressed in more unambiguous forms, were certainly a marked improvement over the 1950's treaty where the transit was given a vague and feeble emphasis. As according to article 7 "freedom of transit" through the territory of other without distinction "on the flag of vessels, the destination of origin, departure, entry, exit, destination or ownerships of goods. Article 10 ensured that tariff in transit shall not be subjected to unnecessary delay or fetters. India agreed to assign a separate shed in the Calcutta port where all Nepali goods in transit could be stored pending onward transmission. Article 14 added that the treaty would remain in force for five years which could be continued for

a further period of five years subject to modification. The Nepalese Prime Mnister B.P. Koirala after having conclusion of treaty returned to a enthusiastic response at home by the trading community as well as general public. Perhaps the reputation of Koirala government had never been higher before—at least on the foreign policy front.¹⁶

Some of the clauses of this treaty became controversial. For example, the goods manufactured in India and Nepal for mutual trade were not defined. And such a vague clause later on created confusion in its interpretation. India defined the clause goods originating in Nepal, as the goods comprising 100 per cent Nepali raw material in order to prevent entry of third country goods into its country. While Nepal on its part always alleged that most of the goods that were imported from India were also based on material from third country. This difference of opinion mooted problems in the way of expanding Nepal's trade with India.¹⁷ In such a turmoil and fast deterioraing context of Indo-Nepalese relationship, the treaty of 1960 of trade and transit could not have escaped from certain misgivings like, political inhabitations, external exposures, misinterpretations of clauses of treaty, mistrust and

16. Lama, no.12, pp. 267-68.

17. Lama, op. cit. pp.13-25.

suspicion, delays in movement of goods to and from third countries, deflection of trade transit arrangements and Nepal's policies of Gift Parcel scheme and Bonus voucher scheme acquired more controversial dimensions. Despite, all these misgivings and fierce exchange of proverbial protests against each other during the operation period of 1960 treaty, Nepal undoubtedly, gained largely both in trade and transit facilities extended by India. Nepal's trade with third countries registered a phenomenal increase. Its export to third countries boosted up from 28 lakhs in 1962-63 to Rs. 5.75 crores in 1966-67. Nepal's imports from overseas had increased from Rs.12.7 million to Rs. 51.2 million while its exports to India had increased from Rs. 91.6 million to Rs. 184 million during some period. The gap in the balance of payment position for Nepal diminished from Rs. 5.55 crores in the total trade of Rs. 12.75 Crores to Rs. 3.33 crores in the total trade of 35.5 crores.¹⁸

TREATY OF TRADE AND TRANSIT AUGUST 30, 1971 : On the diplomatic front , the treaty of 1960 became bone of contention between India and Nepalese economic ties.

18. Kishore Dahal, Indo-Nepal Trade Problems and Prospects, (Kathmandu, Ratana Pustak Bhandar) 1987, pp. 43-44.

In order to overcome the shortcomings of the treaty of 1960, it was aptly emphasised to enter into a comprehensive treaty of August 1971. It was consisting of three sections VIZ, Trade, Transit and general provisions. Articles 1 to 7 considered trade, Articles 8 to 15 concerned with general provisions. Comparing with the earlier treaty, the treaty of 1971 had been substantially modified. It included many new provisions and genuine measures. The concept of "common market" as envisaged by the treaty of 1960 was abandoned by both countries in the New treaty¹⁹ was now included on the basis of Most Favoured Nation (MFN) treatment on reciprocal basis. This treaty facilitated India to permit all goods in particular primary products of Nepal origin into its economy irrespective of percentage of Nepalese material and duties.

This treaty received mixed response in India and Nepal, some made its assessment in the light of its objectives, that Nepal had put for itself during negotiations. It was argued that primary objectives were: (1) separate treaties covering trade and transit (2) trade route through India to Pakistan (3) removal of qualitative and quantitative restrictions on Nepal's imports from third countries and its exports to India (4) simplification of customs procedures; (5) additional ware-

19. Kishore Dahal Indo-Nepal Trade Problems and Prospects, (Kathmandu, 1987), p.44, See also P.C.Lohani, "Indo-Nepal Trade and transit treaty of 1971", The Motherland, Kathmandu, August 23, 1971.

houses space at Calcutta port under Nepali supervision; (6) the right to separate barge in Calcutta port and to utilise sealed trunk containers in transporting goods between Calcutta to Kathmandu, and (7) same treatment for ships under Nepali flag in Indian ports as was given to Indian ships.²⁰ However, India either ruled out to accept or conceded only minor changes into prevailing system with the respect to first four Nepali condition. The only gains were to India's acceptance of points five and six of Nepali demands, in any case, New Delhi had been willing to concede from the beginning of negotiations in mid-1970s. It was pertinently pointed out by Shaha: " To sum up, stricter Indian controls over Nepal's imports and exports was the price Kathmandu had to pay for its deliberate policy of exploiting certain loopholes in the 1960 treaty for short term, it lucratives, adavantages for small group of influencial Nepali and some Indian commercial interests. Particularly irksome to New Delhi was the extensive use made by overseas exporters in Nepal of the international gift parcel system to import luxury items from abroad and then re-export these often illegally to India....."

20. Rishikesh Shaha, "Nepal, Reflections on the Issues and Events of 1971, Asian Survey op.cit, p.117, For critical assessment of treaty, See Lama, "The Economics of Indo-Nepal Co-operation op.cit, pp.25-35. Bindra, Indo and Her neighbour, op-. cit, pp.229-32. T.N.Kaul "Ambassadors Need not Lie", India and Asia, Vol.3., New Delhi, 1989, pp.46-49.

Moreover, the pattern of trade which emerged did not serve the purpose of greater economic diversity which was primary goal of Nepal's economic policy—but rather, if anything, increased Nepal's dependence on Indian market".²¹

During the operation of this treaty India gave huge aid and assistance for Nepal's development.²² The Indian Ministry of Irrigation and Power spent Rs. 373.88 lakhs on Indo-Nepal Trisul Hydro-electric and Gandak projects during

21. Ibid.

22. The following were Indian as did, agreed and completed projects on Transport and communication systems of Nepal in 1970s.

1. February 1972, inauguration of Kathmandu-Bombay direct radio-telephone, telegraph and telex circuit.
 2. 29 December 1974 inauguration of telephone exchange in Bhadrapur at a cost of Rs. 0.6 million with capacity of 250 connections.
 3. 14 February 1976 inauguration of telephone exchange in Janakpuram, costing Rs.8 lakhs with capacity of 200 lines.
 4. 25 February 1976 inauguration of 293 meter long bridge on the Rapti river at Bhaluway at a cost of Rs. 96 million.
 5. 11 May 1976 opening up of 46 km road from Ranipanwa to Tribuli.
 6. 12 January 1977, inauguration of \$ 1300 line automatic airconditioned telephone exchange installed in Biratnagar.
 7. 7 November 1977, inaugration of Kamal bridge 640 metre long on the Kamal river on Mahendra highway. It cost Rs. 40 million.
 8. On 16 septamber 1978 in a Memorandum Of Understanding (MOU) signed between India and Nepal agreed to construct a railway track to Udaipur at the cost of 20 crores.
- Source : Lama, Economics of Indo-Nepalese co-operation op.cit, p.108. See also :
- i) Nepal Press Digest (Kathmandu)
 - ii) Main Economic Indicators (Nepal Pastra Bank, Kathmandu.
 - iii) Annual Report, Ministry of External Affairs, Government of India, New Delhi.

the year of 1970-71. The Trisul project was commenced in Nepal as a part of Indian cooperation programme at an estimated cost of the Rs. 135 crores. The Gandak project was a venture of Bihar and Uttar Pradesh Governments and mainly comprising the construction of a barrage across the river at Valmikinagar and related canal systems were expected to provide irrigation to 3,32,000 hectares in Uttar Pradesh 11, 51, 000 hectares in Bihar and about 63,000 hectares in Nepal. It also envisaged construction of a power house with an installed capacity of 15MW in Nepal. Grant-in-Aid was supplied by Indian government to its states governments for financing expenditure on Nepal benefit portion of the project.²³ Both countries also signed an agreement on the resumption of work on the Western Kosi and Gandak canals. This ended several year long stalemate on the river project and opened the way to negotiations on at least two major projects which would provide up to 3,580mw of cheap hydro-electric power.²⁴ The economic relations of India and Nepal became more cordial after the 1971 trade and transit treaty. The Government of India continued to help in building and strengthening joining the economic infrastructure of Nepal.

23. See Bindra, op.cit, p.232, Lama, op.cit, pp.130-33.

24. Bindra, op.cit, p.232, For analytical study see Lama, The Economics of Indo-Nepalese Co-operations, op.cit, pp.45-95.

THE TREATIES OF TRADE AND TRANSIT (1978) : In the second week of December 1977 Indian Prime Minister visited Nepal. After negotiations a Joint communique issued .²⁵ Both countries have agreed to "enlarge and intensify" mutual cooperation. The comunique's major feature was of affirmation by Indian Prime minister of India's determination to continue to participate fully in the development processes of Nepal, acceptance of Nepali long awaited-ambition of concluding the separate treaties to cover trade and transit. Another feature of communique was that 14 MW Devighat project was to be executed on a "Turnkey basis" by Indian engineers and assistance for exclusive benefit of Nepal. The major point scored by India has been pinning down Nepal to agreeing to expedite three important joint projects in the Himalayan river Karnali project. Both countries agreed to examine the primary issues with regard to the execution of the project Pancheshwar Hydro-electric project on Mahakali river which form the western border of Nepal with Uttar Pradesh. India finally succeeded in and getting Nepal to agree on joint investigation and appointment of a committee for this purpose before Februray 1978. Third one project is Rapti was also discussed. Nepali press appreciated this agreement calling it Indo-Nepal cooperation touched a new high.²⁶

25. The Times of India (New Delhi) 12 December 1977 and The Rising Nepal (Kathmandu), 12 December 1971.

26. Commoner (Kathmandu) 12 December 1971.

Within the realm of economic accomodation, after eighteen months of extensive dialogue and negotiations following expiry of former treaty of August 1976, India and Nepal signed a separate treaty on trade, transit and an agreement for control of unauthorized trade on March 17, 1978.²⁷

Treaty of Trade 1978

This treaty incorporated 12 articles applicable and renewable for a further period of five years by mutual consent. The treaty ensures in the first article, the exploitation of technical co-operation and the promotion, facilitation expansion and diversification of trade between two countries. Under Article 2, treaty states that two countries have agreed to undertake all necessary measures for the free and unhampered flow of goods needed by each other. Article 4 further states that flow of the primary products produced in Nepal to India without custom duty and quantitative restrictions are now subject to reciprocal trade and not by India alone. Unlike the 1971 treaty, the protocol of 1978 trade treaty made specific reference of categories subject to exception in respect of which free trade was not to be made possible quantitative restrictions. The first category includes goods restricted for export to third countries. There was no immediate controversy in this category.²⁸ The second category includes goods which were subjected to control price for distribution or movement

27. With regard to diplomatic talks that preceded the treaty of 1978, See Lama, The Economics of Indo-Nepalese Cooperation, op. cit, pp.34-43.

28. Ibid, p.37.

within the market. This included certain essential goods like coal, petroleum, cement and cotton yarn in which Nepal has an acute shortage. Even within India they were subjected to control in terms of their movement and price. The third category included goods prohibited for export to each other. This was mainly aimed at preventing deflection of trade. Goods having low percentage of value-added in Nepal also fell into this category. The New treaty indirectly recognised the inherent fact that trade relation between India and Nepal were on the line of unequal partner. As Rishikesh Shaha said Treaties can never be unequal as long as governments and states continue to pledge their adherence to them.²⁹ This was aptly manifested India's attitude of highly appreciative spirit of accomodation. Unlike 1971 treaty of trade where sixteen categories of goods were exempted from basic custom duty and quantitative restrictions, the new treaty contained twenty categories.³⁰

Articles 5 and 11 are simply the repetition in toto of articles under the trade and general provisions of the 1971 treaty. The protocol concluded under this treaty provided

29. Yogesh Upadhyaya, "Indo-Nepal in Balance", The Hindu (Madras), 21 April 1989.

30. The protocol to treaty clearly mentioned eleven items of goods under this category viz, agriculture, horticulture and forest product, unprocessed minerals, Tobacco products, Beverages Dairy Products, oil and oil extracts, Cereal and flour preparations, confectionary (concluding chocolate), Handicrafts and Artistic goods and other miscellaneous mutually agreed upon goods.

the industrial products of Nepal access to Indian market free of basic custom duty and quantitative restrictions provided they contained not less than 80 Per cent of Nepales raw materials (Nepalese and Indians raw material) The tariff concession would be somewhat ~~and~~ diluted if value of the Nepalese and Indian material and labour added in Nepal, was at least 50 per cent of the ex—factory price. Although, custom duties come to lev~~y~~ed on Nepal's exports of Industrial Products to India, no quantitative restrictions were to be placed by India on its imports.

Treaty of Transit 1978

In view of changing scenario it was natural that Nepal wanted its immediate neighbours to realise it and change their approaches to make them conductive to the changed situation of Nepal. India was aware about it yet India's approaches to Nepal has been influenced by the old pace and pattern. That is why, a difference in the way of thinking and functioning between India and Nepal was noticed. Doubtless, India being the close neighbour and under standing friend, Nepal expected much more co—operation from India. It's expectation from India was certainly much more than what it was recieving from India. Nepal's expectation and India's internal political and economic compulsions created apprehension between the relationship of both countries.

Nepal's insistence on separate treaty on transit on the ground that transit was its legitimate right, while trade was a matter of bilateral relations. A separate transit will be helpful for the diversification and expansion of Nepali trade with third countries. Another point was that separate treaty on transit was rather psychological one, as it marked only marginal difference.³¹ Inpractice, composite treaty governing both bilateral trade and transit of third country trade of Nepal has the same effect as a separate from trade treaty. Difference in transit procedures will not effect bilateral trade, if transit was separate trade treaty.

Nepal's long-standing demand and aspiration to have a separate treaty on transit as a matter of "legitimate right" came into existence by the signed separate treaty on transit 1978. It consisted 11 articles and was to remain in force for a period of 7 years, renewable for another seven years by mutual consent. The treaty of transit included facilities of accomodation and open space for warehousing for storage of cargo from Nepal at Calcutta. Apart from this new facilities also included the movement of bulk cargo by both railway and road. India also agreed to provide an overland route for Nepal's trade with Bangladesh as well as third countries

31. The National Herald, (New Delhi) April 14, 1978.

through Bangladesh.³² About the overseas trade of Nepal Indian Prime Minister has given his assurance during his Nepal visit in December 1977. Indian Prime Minister said : Nepal has right to access to and from the sea in the matter relating to trade with third countries. However, trade must be such that it did not harm the countries concerned in the process.

Article One was just repetition of article Seven of earlier treaty with minor modification that "no distinction shall be made which is based on flag of vessels, the places of origin, departure, entry, exit, destination, ownership of goods or vessels. Article two preserved "legitimate interest" of India while giving such freedom of transit to Nepal. This aspect of the article was new to this treaty. Articles nine and ten of treaty of 1971 repeated in this treaty by articles three and four. Article five of treaty provided tariff in transit, at point or points of entry or exit on reciprocal basis and not by the Government of India only.

An agreement of co-operation to control

unauthorised trade : This agreement was concluded after a long felt need arising out of vexed problem of open border

32. M.A.Bag, Foreign Affairs Reports, Vol.39, nos. 8&9, August-September 1990, p.4.

and resulting in the deflection of trade³³ and brought both the countries to work towards curbing such surreptitious activities and every flourishing illegal trade. This agreement was to remain in force for the period of five years, renewable of another five years. It was renewed on March 17, 1983 for another five years with marginal improvement.³⁴

Article one reconfirmed the right of both countries to pursue independent foreign policies and the need to ensure that economic interests of either country were not adversely affected through "unauthorised trade". Article three provided that each country should curb re-export to other contracting country of goods imported from third countries and of products which contained imports from third countries exceeding 50 per cent of the ex-factory value of such goods. Article fourth imposed restriction on import from other country and its re-exports to the third country from its territory. Articles 6 to 10 were same as articles 7,15,16,17 and 18, of trade treaty of 1971. The total 15 routes had been specified for Nepal in the treaty to facilitate Nepal's trade with third countries. The number of routes specified for trade with India was 10 in 1971 treaty which was now increased to 21 under new treaty. The free time for Nepal's transit cargo was also increased from three to seven days at

33. Ibid, p.5, Lama, op.cit, pp. 39-43.

34. The Indian Express (New Delhi), March 5, 1983.

Calcutta and Haldia ports. To following this, on 14 August 1978, India and Bangladesh signed a Memorandum Of Understanding (MOU) to provide Nepal transit facilities to Dacca and third countries through their territories with a railway route connecting Bangladesh and Nepal through a short corridor to Indian territory of Radikapur. This was to have three terminus points for entry and exit of Nepalese exports and imports Cargo viz, Raxaul and Galgolia and Jogbani in the Nepal-India border. The protocol provided Nepal with access to sea through the ports of Chittagons and Chalna in Bangladesh.

During the Indo-Nepal talks held in Kathmandu in August 1980, Indian side claimed that all the necessary arrangement had been made for Nepal bound goods in separate godowns, provided to Nepal's transit and warehousing company. India also agreed to give tansit facilities at Banapal to goods other than paper also. On May 1982, India in a spirit of accomodation, understanding and trust made 10 more concessions in the area of transit. It agreed to simplify procedural matter with regard to make an evaluation of three point formula to effectively curb unauthorised trade. In view of the fact that Nepalese imports of third country goods had been facing the problem of insurance. "India was to provide insurance coverage to all goods imported by Nepal and transported through India by railway wagons and by official

carriers private carriers goods were to given insurance by June 1982.³⁵

According to article five both countries agreed to exchange lists of prohibited goods and exchange statistical and other information related to such trade. To ensure effective implementation to the treaties and agreement, both countries agreed to consult each other regularly with a committee to meet at six months interval. In these treaties and agreement both countries had shown the attitude of give and take, which Nepal gave up, its insistence to mention its right to transit, India agreed to delink bilateral trade with transit with an understanding on curbing unauthorised trade. Thus the document stand as proof of positive growing understanding between Nepal and India.³⁶ This latest pacts make it abundantly clear that India has gone more than half way to meet the demands of Nepal.³⁷

Above mentioned treaties stimulated and strenthened Indo-Nepalese economic ties. From the Nepalese economic diplomatic point of view, the year of 1978 was the year of big achievement. The Janata regime in India seemed to have maintained spirit of mutual accomodation and understanding.

35. Lama, op.cit, p.43.

36. The National Herald, (New Delhi), 14 April 1978.

37. The Financial Express (Bombay), 22 March 1978.

Indo-Nepalese economic relations further improved when two countries signed a Memorandum Of Understanding (MOU) on industrial and economic co-operation under which cement plant, paper and pulp industries, for export to India and third countries. For the continuation trade and transit facilities to Nepal, India signed similar memorandum of understanding with Bangladesh. The significant feature of understanding was an agreement on opening a railway route connecting Bangladesh and Nepal through a short corridor in India. This route would reduce Nepal's dependence on Calcutta Port, which was at that time only, access to sea. An agreement for setting up New Indo-Nepal joint ventures in the kingdom signed by finance ministers of both countries in Kathmandu.³⁸

Despite, stimulating economic relations, both countries however could not resolve the issue relating to the joint river projects, particularly the 3600 MW's multipurpose Karnali project in the Western Nepal. India wanted to make it a joint venture, thereby preventing third parties from entering into multilateral agreement as suggested by Bangladesh and Nepal. To cope with suggestion "India signed an agreement with Nepal to expedite work on the projects, Pancheswar, Rapti and Karnali. Rapti was essential for flood control project while other two were multipurpose projects.

38. The Statesman New Delhi, March 23, 1976.

After a period of discord, several irritants at political level were removed and bilateral ties were now progressing in a happy course. Nepal dependent for 90 percent of assistance on India which already provided nearly Rs. 150 crores of grant. A new Memorandum of Understanding in the wake of the trade and transit treaties over in which there were long-standing differences has set tone for broader level of cooperative activities.³⁹ Expressing satisfaction over fulfilment of Nepal's needs for economic development as well with in India's technical and financial capabilities during 1970's Nepali Prime Minister said that India and Nepal relations "had never been better, even in 1950-51".⁴⁰

2.3 Economic Relations During Eighties

For more than three last decades Indo-Nepal economic co-operation blossomed into programmes covering almost all fields, transport, communication, horticulture, livestock, irrigation, power, public health, education, geological survey, mineral investigation, industrial development and technology. To coordinate work in all these fields Indian Commission (earlier known as Indian Aid Mission) was established in 1954. The tree of cooperation which was planted three four decades ago has since borne rich fruit.

39. The Hindu, (Madras), September 25, 1979.

40. Asian Survey, Vol. 19, no.2, (February 1979), p.202.

Up to march 1980 India's assistance to Nepal amounted to Rs. 162.65 crores (Indian rupees).⁴¹ The proposed Indian assistance to Nepal for the year 1980-81 was Rs. 15.57 crores. The three Industrial estates set up with Indian collaboration were functioning properly. In the field of joint industrial collaboration, a beginning has been made in the field of paper industry on July 21, 1981 India agreed to assist Nepal having more reliable and stable telecommunication links between the two countries by laying a 4.5 long coaxial cable between Raxaul in Bihar and Biragarj in Nepal, at a cost of Rs. 13,00,000 The decision was also taken to effect that Indian co-operation mission be merged with Indian embassy in Kathmandu. On August 1981 the Gandak river canal; a 10 crore hydro project was handed over to Nepal.⁴² On December 1981 India and Nepal reached a comprehension agreement on flood control under which 40 stations will be set-up in different parts of the kingdom to provide advance flood warning and collect data of rainfall in catchment areas. The estimated

41. D.K.Issar, "Assistance For Progress", The National Herald, (New Delhi) March 15, 1980. The sectorwise breakdown of assistance, road and airports (Rs. 100.50 crores); Post and Communication (Rs. 1.60 crore); irrigation, power and water supply (44.27 crores); Horticulture, agriculture, veterinary and forestry (Rs.1.26 crore) Community and Panchayat development programme (3.57 crore) education and health (Rs. 2.28 crores); Industry (Rs. 1.84 crores); and Archeology, archives survey technical assistance and training (Rs. 7.33 crores). Grand total Rs. 162.65.

42. Lama, op.cit, p.278.

cost of setting up these centres will cost 1.5 crore which will be borne by India. India will also be supplying all the material needed for these centres which will be manned by Nepalese with Indian technical personnel assisting them.⁴³ On 7th December of some year on the eve of President of India's visit to Nepal, India announced a special grants of Rs. 1.3 crore for welfare schemes in Pokhara valley where a large number of ex-servicemen of the Indian army were settled.⁴⁴

Indo-Nepal trade and economic co-operation comprised of preferential trading arrangements and plentiful transit facilities to Nepal and also the Indian rupees as medium of their mutual trade.⁴⁵ These arrangements created misgivings would appear to concern both in fundamental and detail, while there was little room for the compromise of fundamentals but there was good chance for the removal of minor and available irritant, even it genuine grants to Nepal. India's very special relationship with Nepal would warrant it. The budget aid to Nepal of 1981 was 17 crores and annual trade between the two countries was about 300 crores. It could be considerable more but balance being in favour.⁴⁶ During the

43. The Hindustan Times, (New Delhi) December 3, 1981.

44. Lama; op.cit.

45. R.L.Veshney and Raj Kumar, Foreign Affairs Reports, Vol. 39, nos 1&2, January-February 1990, p.10.

46. S.Sahay, "A close look Indo-Nepal Relations", The Statesman (New Delhi), December 10, 1981.

decade of 1965-75 India observed about 95 per cent of foreign trade of Nepal. It has been fallen to 58 per cent in 1981. This was because India found it difficult to export scarce goods to Nepal and it has been also stopped to purchase of major item of Nepal like rice.⁴⁷

Nevertheless, Nepal accepted the interdependence inherent in geography, especially since the late King's efforts to diversify trade were not outstandingly successful. With this frame, the Nepalese might understandably try to lessen its dependence upon India encouraged by other countries. Such as setting up cement plant with the German and the Chinese aid; planning a paper and a tobacco factories with collaboration of Chinese and Russians; and agreeing a substantial contract to Japan. Its economic relation with Bangladesh and Pakistan were also viewed with optimism. Such revaluation was a logical expression of Nepalese sovereignty. Harassed and frustrated by procedural obstructiveness, sometimes, the Nepalese were tempted to suggest inadequate goodwill. For instance, transit rules were subject to varying in interpretations. Though primary products enjoy free access (like the product which made by 90 per cent of material was Indian or Nepalese), the customs suddenly decided not to allow unimpeded movement of "Khair" biscuits and ghee were also classed industrial products.

47. S.N.Machat, "India and Nepal : Need for New Vision", The National Herald, (New Delhi, December 9, 1981).

However to remove this hazard the rules were relaxed after 12 months of negotiation but only 50 out of 400 Nepalese applications were cleared at the end of two years.⁴⁸

To defend, India blamed Nepal that Nepali Government's action of recent reduction on duty on third country's imports has abolished India's trade advantage. Nepal argued that India is still favoured to the extent of 30 per cent because other seller have to pay sales tax and much more freight. Further, the Nepal will not admit that import more than it need in order to supply from the Indian blackmarket. Indian Government added that Indian businessmen and traders with establishment in Kathmandu, and office in HongKong Singapore and Bangkok who controlled clandestine commerce and trade. One of the genuine point Nepalese regret that most of Indian business houses were not interested in the Kingdom's industrial development because New Delhi neglected scope for joint ventures. And that little effort was made to open up the bordering of Indian Terai. It will link Nepali industrial like Biratnagar and Birganj with country's more backward West.⁴⁹ Since one of the major irritants in Indo-Nepalese economic Co-operation was the problem of transit of Nepal's imports. To solve this, the agreement reached at fifth

48. S.K.Datt Raj, "Relation with Nepal; Politics of Economic Co-operation", The Statesman (New Delhi) April 6, 1982.

49. Ibid.

meeting of Indo-Nepal governmental committee. India has agreed to seven things.⁵⁰ First, The problem of providing insurance cover for the goods in transit has been resolved. As a result insurance cover will be available with immediate effect for all goods. Second, India has agreed to increase the transit period from 15-30 days to 45 days. This will have beneficial effect of eliminating the hurdles arising out of triple import that was sometimes levied in Nepalese cargo in transit . Third, India has agreed not to levy detention charges for the first three days after wagons are made available. Futher, India has also agreed to exempt Nepalese import from detention charges where delay could be shown due to factors beyond the Nepalese importers control. Fourth, India has accepted to Nepal's request for opening another trans-shipment point at Gorakhpur. Fifth, The free period for storage of cargo at Narayanpur has been increased from one to three days . Sixth, The Nepalese wil now be allowed to keep their imports in their own warehouses at Raxaul and Finally, India has agreed to reduce the time lay in issuing notifications for preferential entry of Nepalese industrial product. All these steps, together contribute easing the prevailing misunderstanding between India and Nepal. Nepal's long continued economic problem is trade deficit. It has

50. The Financial Express (Bombay) May 4, 1982.

always adverse balance of trade with India. In 1981-82 Nepal's import was in tune of 480 crores and export worth only 147 crores.⁵¹ India had played a major role in rectifying the imbalance condition of Nepal although the main responsibility lies with Nepal itself. Industrial backwardness, burdened with intensive economy and Nepal's concentration on agriculture for an exportable surplus are main causes of its chronic imbalance of trade. To be land locked and in access to sea are the geographical causes of its trade imbalance. Another cause to this imbalance of trade was smuggling, which was rampant. Similarly, the deliberate abuses of loopholes in the import regulations by the trading community of both countries on the border, was also in alarming proportion. Doubtless, Nepal's demand for trade and transit facilities through India was therefore, legitimate and deserving of sympathetic and genuine consideration. To curb the smuggling, on 7 February 1983 both countries agreed that the officials of both sides will meet at least once in six months to exchange information about mode of operation of smugglers and advise effective steps for dealing with such illegal operators. The opening of two new railway transshipment and transit points at Kathihar and Gonda no doubt speeded up the transportation of goods to these parts

51. The Hindustan Times (New Delhi) February 7, 1983.

of Nepal. But than Nepal has special responsibility to see that these additional transit points are not misused.

On February 1983 Nepali Prime Minister visited India and emphasised on restructuring the world economy and neutral co-operation of thrid world countries. Both countries agreed upon joint execution of three major multi-purpose river vally projects for harnessing water resoures for irrigation and power. The trade treaty of 1978 expiring on 31 March was extended on ad-hoc basis. A Joint commission was set up to promote co-operation and joint ventures. On December 1983 Nepal was linked with Indian telecommunication network along with Pakistan, Bangladesh and SriLanka. In February 1984, there were talks were held between India and Nepal on utilization of water resources in Nepal and on March 1984, the King commissioned the Devighat hydro-electric power station built under Indo-Nepal economic co-operation programme. In June, the same year, Indo-Nepal inter-governmental committe look very important decision: by adding 12 more items of Nepalese industrial and other preferential treatment in the Indian market; granting permission to 19 items of Nepal to reach India without perform formality; extending time from one to three days more for lifting the Nepali cargoes at Narayanpur shed; Simplifying insurance procedures and allowing the entry of 6 Indian companies in

Nepal for setting up of industries there.⁵² But all these efforts could not solve the problem of Nepali deficit. From 72.90 crores in 1974-75 it had scaled up to Rs. 137.72 crores in 1982-83. In 1974-75, Nepal imported goods worth Rs. 147.59 crores and exported Rs. 72.90 crores of traditional items to India. In 1983-84, it exported goods worth Rs. 84.33 crores and imported from India goods worth Rs. 249.96 crores. In addition, the rapid and somewhat unchecked growth in unauthorized trade created a crucial problem. Goods worth Rs. 2 crores were smuggled every year between the two countries. To cope with this problem, Nepal agreed to reduce customs duty on certain Indian goods.⁵³

On February 5, 1985 India and Nepal have identified 17 industries as having immediate possibilities for the establishment of Joint ventures between Indian entrepreneurs and Nepali industrialists. In the first week of April 1985 foreign secretaries of both countries met at Kathmandu to initiate steps to avoid double taxation so that Indian entrepreneurs will be encouraged to participate in Nepal's industrial development programmes.⁵⁴

52. Lama, op.cit, p.279

53. Ibid.

54. The Newstime (Hyderabad) April 8, 1985.

✓ But there was a prejudice in one section of Nepali intellectuals that Indian aid is Indian benefit oriented. It did not improve economic development of Nepal. Mr Lama analysed use of Indian economic assistance to Nepal very honesty. More than 50 per cent of India's assistance to Nepal has been allocated for development of transport and communication because of rugged and mountaineous terrain. Nepal had remained a fragmented economy with embryonic internal transportation system comply with the popular need India to build. About the composition of Indian aid and assistance he stated, India's aid has been mostly in grants, the loan element being very small. This is in contrast to the overall aid composition trend in Nepal where grants as percentage of total foreign aid have come down to 55 percent in 1982-83 from 98 percent in 1965-66.⁵⁵ The utilization of Indian aid appears to be ineffective. Among the factors attributed to such limited digestion of aid, the lack of a proper economic environment, inadequate administrative and financial institutions, unrealistic monetary and fiscal policies lack of proper planning and resources allocation and deficient technical experts are preponderent. This analysis revealed that "Nepal is itself responsible for many its problems but not all of Nepal's problems are of its own

55. Mohendra P.Lama, "Contents of Indian Assistance to Nepal", The Patriot (New Delhi) March 25, 1986.

making. ^{ne} One of the greatest hurdles to Nepal's development in future will be removed if India could only to convince Nepal's need for expeditious and assured transit including, where possible, development of river transit in mutually advantageous manner.⁵⁶ India continued to be the single trading partner of Nepal accounting for 58.6 per cent of Nepal's exports 1984-85, and 50.6 per cent of its imports while Nepal, export to India increased by 39.2 per cent in the preceding years, its imports rose by 29.2 per cent.⁵⁷ But Nepali Foreign Minister claimed Nepal's imports from India in 1984-85 to total Rs.403 crores and exports amounted only Rs. 161 crores . In the first nine months of 1985-86 alone imports from India amounted Rs. 328 crores while exports were more than Rs.196 crores.

During the visit of King to India in September 1985, Nepal agreed to withdraw China from sensitive road project in Terai (Khalapur - Banbasa sector of East-West highway) and accepted India's assistance of Rs.50 crores (Indian Rupees) for the construction of this project. In July 1986 Indian President Giani Jai Singh visited Nepal, assuring Nepal of India's contributing support for it to become self-reliant. The President of India said, India's economic, technical and scientific assistance for the kingdom is not a favour but our duty for friendly Nepal.⁵⁸ Nepal's stress on reducing its adverse balance of trade gap with India on one hand and India's desire for mutual co-operation in harnessing the

56. Rishikesh Shaha, "Complex India-Nepal Ties", The Times of India January 21, 1984.

57. The Hindu (Madras) July 16, 1986.

58. The Patriot (New Delhi) July 23, 1986.

water resources of Nepal were believed to have dominated in the official talks between the two countries in the five days state visit of President of India.⁵⁹ On July 1986 India and Nepal have decided to set up a joint commission at ministerial level to review existing co-operation, ways to diversify it and strengthen it according to plans and priorities of the Nepalese Government. The decision to set up commission was taken at the meeting between Indian industry Minister and Nepal's Prime Minister. India has agreed to set-up an industrial estate at Rajbiraj in Southern Nepal. The National small industries corporation will build the estate at the estimated cost of the 1.3 crore. India also agreed to consider the Nepalese suggestion for expanding the Bir Hospital at Kathmandu at a cost of Rs. 28 crores. Both the countries agreed that Nepal's huge water resources or hydro-electric potentialities could be used for mutual benefit.

By evaluating the outcome of Indian President visit **The Hindustan Times** stated⁶⁰ that the President of India's visit to Nepal has been a success story, especially if it is borne that titular head's sojourn is hardly expected to do anything more than generate goodwill. There was tangible evidence of this success, to be agreed to harnessing the water resources for mutual benefit and decision to set up joint commission to oversee Indo-Nepal co-operation were the best examples. If however, to be noted that decision to set up commission itself was not new. The establishment of joint commission was agreed in principal when the then Prime Minister of Nepal

59. The Hindustan Times (New Delhi) July 24, 1986.

60. The Hindustan Times (New Delhi) July 26, 1986.

visited India in 1983. In the year of 1986, the decision taken by both countries about a sugar factory to be constructed at Lumbini in Nepal with Indian participants to produce 30,000 tonnes per annum. A 236 KM section of Mehendra Highway in Western Terai was opened in January 30, 1986. The project was begun in 1972 with the assistance of Indian Government. One another 831 KM of road was completed from eastern border area to town at Nepalganj. The construction of last stretch from Nepalganj to Mahakali is to be begun in July 1986 with Indian assistance expected it will complete in 1990.⁶¹

On June 1987 India and Nepal signed three agreements, setting up of joint commission intended to boost up economic co-operation in trade and transit, industry and water resources. Second, establishment of industrial estate in Rajbriaj at the cost of Rs.1.5 crore. It was discussed and signed during the visit of Indian President to Nepal in July 1986) this was the fourth estate to be set up here with Indian assistance and third agreement was avoidance of double taxation. In addition to them, India also agreed to give Nepal an assistance of Rs 5 crores for the goitre control programme in rural areas of Nepal.⁶²

On June 26, 1987 India and Nepal signed an agreement regarding use of insat-satellite by latter in order to make the telecommunication links between the two countries more reliable. The use of the satellite, it was hoped would

61. The Country Report India-Nepal no.2, 1986, p.22.

62. The Hindustan Times (New Delhi) June 15, 1987.

considerably improve meteorological services, including weather forecast.⁶³ The project was to be completed in three years time. It will be essential to mention here that this agreement was a keel of telecommunication cooperation between the two countries. Earlier telecommunications between India and Nepal was linked by coaxial and micro wave system.

However, the trade turn over between two neighbours in 1986-87 increased to 206.19 crores showing increase of 7.4 per cent over the last year. While the balance of trade has been in favour of India simultaneously imports from Nepal to India have also gone up from Rs.36.47 crores 1983-84 to Rs. 64.48 crores in 1986-87. The main items of imports being feedstuff for animals, chemical and related products and textile fabric.⁶⁴

On 14 August 1987 Prime Minister of Nepal too admitted India's contribution in overall developmental activities of Nepal by saying:

"we have succeeded in developing necessary infrastructure in the field of education, transport, communication hydro-electricity, irrigation and agri-culture."⁶⁵

On 10 September 1987, in the 9th meeting of Indo-Nepal Inter-governmental committee by expressing satisfaction

63. Nepal News, vol.26, no.11, 15 July 1987, p.2.

64. The Patriot (New Delhi) September 15, 1987.

65. Nepal News, Vol.26, no.13, August 15, 1987.

Commerce Secretary of Nepal urged that India should continue to undertake feasible joint ventures and provide other assistance to Nepal.⁶⁶ With regard to Karnali project both sides while agreeing on the need for making a forward movement also realised that it was necessary to implement the project at the earliest possible time. Both countries discussed and realised significance of the implementation of Pancheshwer -multi-purpose project and border river Mahakali: In the sixth meeting of joint corodination committee on Karnali (Chisapani) project discussed problems of hydrology, Sedimentology seismology and opitimization.⁶⁷

On 13 August 1988 India and Nepal agreed to set up three commissions on trade, economic and industrial co-operation and water resources management. This decision was taken by joint inter-governmental commission meeting in Kathmandu. Each-commission to be headed at Secretary level, which would meet at least once a year or more and when necessary and report to the annual meeting of joint commission.⁶⁸ The two also agreed to establish an effective flood forecasting and warning system through exchange of data on reciprocal basis. In this regard, seven Indo-Nepal flood centres were identified, to set-up in uper Himalayas, India has also provided wireless sets and some other gadgets.⁶⁹

66. Nepal News, Vol.26, no.5, September 15, 1987, p.2.

67. Rising Nepal (Kathmandu) September 11, 1988.

68. The Statesman (New Delhi) August 14, 1988.

69. The Hindustan Times (New Delhi) June 11, 1988.

2.4 Trade Impass Period

Since the 1950 trade and transit issue has become a major bone of contention in their economics relations. The Treaties of trade and transit 1978 expired in March 1983 and were renewed by Indian government for another five years. The problem arose in March 1988 when India proposed that fresh negotiations be started on a single unified treaty on trade and transit in addition to it an agreement about unauthorised trade.⁷⁰ But Nepal wanted two separate treaties on trade and transit with the purpose of diversifying its trade with other countries and shunning away the trade ties with India at any opportune time while retaining the transit facilities. The intention of Nepalese Government was clear that it may not like to continue trade relations with India.⁷¹ It bears repeating that Kathmandu's insistence on two separate treaties instead of one composite trade and transit treaty was not a sudden development. This was just continuation of game which Nepal has long been playing last for 10 years when treaty of 1960 was lapsed in october 1970. The Nepalese government did nothing in advance to get it renewed. After protracted negotiations it was renewed in August 1971, covering legitimate economic interest of both India and Nepal. The 1971 treaty of trade and transit lapsed in August 1976. That it could not be renewed on the time primarily

70. Niranjana Koirala, "Nepal in 1989", Asian Survey, Vol. 30, no.2, February 1990, p.136.

71. The Financial Express (Bombay) September 30, 1983.

because Nepal's insistence on two separate treaties. Indo-Nepal trade and transit treaties 1978 finally expired on 23 March 1989, in accordance with the notice given by the Government on March 1, 1989.

"Accordingly to a spokesman for ministry of Foreign Affairs, despite Nepal's proposal for negotiations for separate treaties on trade and transit, the Government of India publically announced the termination, with effect from March 23, 1989, all existing arrangements.⁷²

According to the announcement, among the points specified by the treaty for Indo-Nepal bilateral trade, all such points excepting for Jagobani and Raxaul have been closed. Even for transit purpose these two points have been kept open. On March 1, 1989 the Ministry of Commerce received a letter from the embassy of India to Nepal, giving the notice that the treaty of trade and Agreement of Co-operation to control unauthorised trade will expire on 23 March, the date on which the treaty of transit will also expire.

Termination of treaties had adverse impact on Indo-Nepal imports and exports. Hence, it has been established that in Nepalese exports, the primary products were the mainstay in the initial phase but manufactured products accounted for the large export share in the later period. Among the main items of imports, the share of transport vehicles and other machinaries (23.5 percent) was highest,

72. Nepal News, Vol.38, no.4. (April 1, 1989).

followed by textile (20.0 per cent), beverage and live animal (19.0 per cent), other products like, cosmetic goods, medicine, L.P.G and Coal (17.0 per cent) industrial raw materials like thread, cotton tobacco and bidi leaves (10.0 per cent) construction material (7.2 percent) and books and stationary (2.3 percent) during 1988-89. The changing trend was seen in the composition of Nepal's imports from India was other groups (23.4 per cent) consisting of commodities like medicine, cosmetic goods. LPG and Coal followed by construction material (20.3 per cent), transport vehicle and other machineries (14.6 per cent), textile (13.3 per cent), Industrial raw material (12.3 per cent), food beverage and live animal (13.3 per cent) and books and stationery (4.4 per cent).

An Analysis of Nepal's exports of main good to India also reveals another unprecedented results export of agricultural forestry and related products cereal items, oilseed, oil and fats, spices and condiments, vegetable and fruit, jute and jute goods, fresh fish and live animals together accounted for 88.6 per cent in 1988-89. The year of 1989-90 was witnessed with reduced share in products of agricultural, forestry and related products to the level 75.5 per cent whereas the share of hides and skins has significantly increased and accounted for 19.9 per cent. So major export goods of Nepal to India included the products of primary and raw-material nature which was of high intensity but attracted lower prices.

The balance of trade of Nepal with India has taken a more intricate and alarming dimension during 1989-90. This trade deficit in 1975-76 was doubled in 1982-83. The most important factor leading to such huge trade deficit with India was emerging systems of unequal exchange between India and Nepal.⁷³ India occupied an important place in Nepal's exports as it accounted 61.7 per cent in 1980-81. During impasse period 1989-90 it was recorded with lowest share of 8.1 per cent as against the huge share of 91.9 per cent of rest of the world.⁷⁴ Nepal's imports from India also witnessed declining trend as 49.2 per cent in 1980-81. But during impose period 1989-90 it was decreased up to 26.0 per cent as against gigantic share of rest of the world was 74.0 per cent.⁷⁵ The trade balance of Nepal with India and rest of the world showed an unfavourable trend throughout. In the year of 1980-81 it was 42.1 per cent with India and 57.9 per cent with rest of the world. In 1989-90 it scaled down to the level of 33.0 per cent with India. In contrast, it was about double of India's share 67.0 percent with rest of the world. The overall decline of India's share in Nepal's trade was highest dimension at the end of 1980's which was the transitory period of trade impasse.

In commoditywise, India's share in all product categories declined except tobacco and beverages where the share of India in Nepalese imports has risen from 87.8 per

73. The Economic Times (New Delhi) December 22, 1984.

74. For detail See Table No. 2.

75. See Table No. 1 .

cent in 1974-75 to 91.4 per cent in 1989-90. The whole scenario manifested the fact that India's share in Nepalese exports has declined at a greater pace than India's share in Nepalese imports particularly during trade impasse. This assured that Nepalese economy is more depend on Indian economy as it continued to import much even at higher tariff rates.⁷⁶ In this respect Nepalese basic argument that it should be lessen its dependence on India because of this reason the transit rights have become a corner-stone of its foreign trade strategy.⁷⁷ During this impasse period, Nepal was also determined to diversify its trade relations and transit facilities to reduce dependence upon India. It was reported that Nepal to have decided to open new routes to the sea through Karakoram Highway of China and from there to Karachi port of Pakistan.⁷⁸ In the field of foreign trade in a bid to diversify Nepal's trade relations, Nepal pursued the policy of allowing imports from third countries under OGL (Open General Licence). But Nepal's trade and industry still preferred transactions and economic dealings with India. Their reasons for these preferences were :

(i) A long period of trading relations and understanding in the matter of money dealing with their Indian counterparts.

(ii) Knowledge of price and cost structure of either side on all items.

76. M.A.Beg, Foreign Affairs Reports, op.cit, p.28.

77. Anirudha Gupta, "Indo-Nepal Discord", Economic and Political Weekly, Vol. 20. no.26, April 22, 1989.

78. R.L.Vershney and Rajkumar, Foreign Affairs Reports, Vol. 39, nos 1 & 2, January-February 1990, p. 13.

- (iii) Absence of any currency problem.
- (iv) Well geared up transport system.
- (v) Availability in plenty of petroleum products.
- (vi) Nepal's difficulty in finding sources of supply in various countries with different patterns of trade price and cost structure in the field of consumer goods, raw materials chemicals etc.
- vii) And the meagre foreign exchange reserve position of Nepal which makes the prospects of trading through the MFN (Most Favoured Nation) and OGL dim.⁷⁹

This trade impasse virtually ruined Nepalese economy. With growth rate expected to drop from five per cent to about one per cent and inflation rising from 8 to about 20 per cent.⁸⁰ The trade deficit has increased. The value of Nepalese rupee has fallen by 8.8 per cent since March 1989 and overall balance of payments could well be reduced to precarious balance in 1989-90.⁸¹ All the sectors of the national economy : Tourism, industry, forests, transportation, trade, dairing and agriculture were affected. The backbone of Nepalese economy is its tourist industry, which has depended upon tourists mainly from India. Due to impasse and prolonged internal upheavals of Nepal thousands of tourists cancelled their visit in Himalayan kingdom. Indian tourists who make up 30 per cent of the total foreign earnings will be scared off.⁸² Banking, hotel and

79. Ibid, p.14.

80. The Indian Express (Chandigarh), May 29, 1989.

81. Country Report, India-Nepal, no.1., 1990.

82. Country Report, India-Nepal, no.2, 1990.

transportation industries of Nepal all affected because it totally depended upon tourists industry. India had single main source of supply of Nepal's requirement of consumer goods and petroleum products etc. Due to shortage of petroleum products the whole Nepalese economy beleagured. The Agriculture Ministry of Nepal accounted the loss of Rs. 36 crores. Rice production decreased by 65,000 metric tons and production of maize went down to 1000 metric tons. As a result of which, the Nepalese farmers lost around Rs. 6.5 crores. By the end of May 1989, the dairy farmers in Nepal were likely to incur a daily loss of Rs. one lakh as nearly 14,000 liters of milk was not being collected everyday due to the collapse of transportation system.

The fisheries production, worth Rs. 18 crores, slumped by 7,600 metric tons. The trade of fish with India, worth Rs. 3 crores every year, now collapsed. Production marketing and self purchase of perishable goods like fruits and vegetables was badly affected. The Nepalese, Forest Ministry claimed that trees in about 240 hectares were being felled every day to meet the fuelwood requirement in Nepal. The forest destruction rate had increased by over 5 per cent after the expiry of trade treaties with India. According to Nepal, trees worth Rs. 113.5 million had been axed since March 23, 1989.

Due to the trade impasse 90 industries in Nepal had to bear loss of Rs. 1.1. crore. Industry Ministry of Nepal expected that 7126 labourers working in these industries had been rendered jobless. In many places industries shut down

due to the irregular or shortage supply of petroleum products. Many of them closed down due to non-availability of raw material, earlier comes from India. Industrial production index went down by nearly 50 per cent in the month of April alone. Against the average monthly industrial production of 170 crores Nepal could only attain a production level of Rs. 85 crores in April. The Government of Nepal calculated that stalemate was likely to bring a loss of Rs. 300 crores in the four remaining month of the fiscal year of 1989.⁸³ Nevertheless, the GDP fell from 9.7 per cent in 1988-88 to just 1.5 per cent in 1988-89.⁸⁴

One of the beneficial results of trade dispute with India has been Nepal's diversification in other export market. Forced to find new market due to crippling Indian custom duties, Nepal has been exporting a far greater proportion of its goods, particularly carpets and ready made garments to Europe and USA.

Indo-Nepal trade until March 1989 had been conducted in Indian currency Indian currency in a legal tender in Nepalese kingdom. However, inspite of such significance of Indian economy to Nepalese economy, why trade and economic co-operation between India and Nepal came to an abrupt halt ? and to so extensive scale ? Venturing a guess about possible reasons, R.L.Vershney and Rajkumar stated :⁸⁵

83. India Express (Chandigarh), May 29, 1989.

84. Country Report, India-Nepal, no.3, 1990, p.89.

85. R.L.Vershney and Rajkumar, Foreign Affairs Reports op.cit. p.15.

First in the political thinking of small and weak nations fear from big and strong neighbours is deep-rooted and everlasting. When such fear exist, economic cooperation may not be favoured by small neighbour. Second, lack of understanding and friendship between governments of two countries might have made economic co-operation a casualty.

Third, Nepal might have nourished a desire all these years to have trade relations with other countries as well as so that it did not come to solely and totally depend upon one country (India).

Fourth, what seems to be most plausible is Nepalese Anti-India stance at home and in the international community. In the South Asian region, governments of some countries seem to have managed to survive politically on the strength of their anti-India campaign. Projecting India - the giant in the region - as a threat to their entity has been a source of support not only from people at home but from some powers outside the region as well. Nepal also chose this way, to demoralise India in the many international stages like UN, NAM etc.

The hitherto relation between India and Nepal were discussed at length in New Delhi on the auspicious visit of the Prime Minister of Nepal Shri K.P.Bhattarai during 8-10 June 1990 at the invitation of the then Prime Minister of India Shri. V.P.Singh. A Joint Communique was signed,

covering all aspects of bilateral relations and agreed to ensure that status quo ante to April 1987 was restored by July 1, 1990 which could abolish the felters which were emerged in the wake of collapse of Indo-Nepal trade after expiry of trade and transit in March 1989. A list of main contents are summarised below.⁸⁶

1. In the major concessions, India has agreed to provide access, free of basic customs duties and quantitative restrictions, for all manufactured goods containing not less than 65 per cent of Nepalese materials or Nepalese India material on a case-by case basis, keeping in mind the need for expeditious clearance, such as not to be detrimental to the tariff regime for Indian exports.
2. The standby credit facility to Nepal would be enhanced from Rs. 25 crores to Rs. 30 crores.
3. India will reopen 22 border points and 15 transit points for Nepal's imports and exports via India.
4. India will restore supplies of coal, coke, petroleum products and preferential goods such as sugar and cement to Nepal.
5. India also agreed to exempt basic duty on import of primary products from India as provided for similar

86. The Economic Times, Bombay, June 11, 1990.

products from Nepal imported by India. Import of primary products from Nepal is to be exempted from basic customs duties as well as from quantitative restrictions by India.

6. India will allow 50 per cent tariff concessions on Most-Favoured Nations (MFN) rate of import duty, where values of Nepalese and Indian materials and labour added in Nepal is at least 40 per cent of the ex-factory price on case-by-case basis, keeping in mind the need for expeditious clearance.
7. Nepal agreed to end restrictions on the movement of Indian currency between the two countries on the basis of reciprocity. Nepal also agreed to restore tariff preferences to Indian goods by exempting from additional custom duty. Further, Nepal agreed that tariff preferences for third countries goods should not be such as to be detrimental to the tariff-regime for Indian exports.
8. India agreed for canalisation of exports of petroleum products to Nepal through Indian Oil Corporation and agreement between Indian Oil-Corporation and Nepal Oil Corporation for product exchange between two organisations.
9. Lastly, it was also agreed that valuation of India's goods exported under DRP for assessment of basic custom

duty will be made on the basis of ex-factory and ex-adopt prices excluding any element of refundable Indian duties and taxes, but including transport and insurance charges, wherever applied.

With the ending of trade impasse, supplies of raw material and consumer goods returned to normal in Nepal. Non-agricultural production increased significantly and total GDP growth of Nepal was estimated to have reached 4 per cent in 1990-91. On August 31, 1990 Nepal Coal India Limited signed agreement with Mineral and Metals Trading Corporation of India for supply of 125,000 tons of coal. The price of coal imported from India is 35 per cent cheaper than that paid to third country last year when the trade and transit dispute brought most of the import from India to a standstill.⁸⁷ Indeed, despite chequered history of Indo-Nepal economic relations, India had made a significant contribution to Nepal's development.

87. Country Report, no.4, 1990, pp.36-37.

CHAPTER 3

POLITICAL AND DIPLOMATIC RELATIONS 1980-89

Nepal expected from her immediate neighbours to realise it and change their approach to make them conducive to the changed situation of Nepal. India was aware of Nepal's changing situation yet India's approach to Nepal has been influenced by the old pace and pattern. Thus, differences in the way of thinking and style of functioning between India and Nepal was noticed. It was natural, India being close neighbour and understanding friend, Nepal expected much more co-operation from India. Its expectation from India was certainly much more than what it was receiving. That is why, throughout the history relationship between India and Nepal were co-operative and competitive, cordial and conflictual. The curious love-hate relationship has been developed between India and Nepal. While Nepal resented India's supposed "Big brother" attitude, India has always looked with suspicious eyes at Nepal's hobnobbing with foreign powers. India has been acting as safety cushion for discredited Nepalese regime.

Janata regime was eager to give a strong impression of continuity and did a good job in mending fence with countries. Mid-term elections in India were held in 1980 and Janata Government was defeated and under the leadership of Mrs. Indira Gandhi Congress (I) again came to power. It was

felt that there would be a definite change in India's attitude towards Nepal and earlier position maintained by Janata government may be challenged. But Mrs. Indira Gandhi government was more than eager to impress upon all concerned that it means to break away from Janata government's style and to revert to her earlier approach.¹

Nepal's press welcomed Mrs. Indira Gandhi : As Rising Nepal stated.²

"We congratulate the Indian Community, congratulate Mrs. Indira Gandhi and look forward to see better day in their country in which we too, as close neighbours, have a vital interest."

Indian press was also expecting same attitude from India.³

"With Mrs. Gandhi backing in the saddle, there is a general feeling here that Kathmandu can no longer take a complacent view of such matter. While New Delhi would certainly adopt a sympathetic and co-operative attitude towards the kingdom. It also expects strict reciprocity in the inter state ties. Both sides will have to take steps to maintain and improve upon the ancient and tested friendship."

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1. The Economic Times (New Delhi) March 11, 1980.
 2. Rising Nepal (Kathmandu) January 6, 1980.
 3. Mavin Kurve, "King Birendra's visit will strengthen Ties", The Times of India (New Delhi) march 3, 1980

The Nepalese leadership wondered whether she (India) would adopt a hardline policy towards Nepal and relations between two nations may be deteriorated once again.⁴ To diffuse such kind of apprehensions Nepal's King Birendra visited India on 6 March 1980. During his visit he met the President of India Mr. Neelam Sanjiva Reddy and held talks with Indian Prime Minister Mrs. Indira Gandhi on various bilateral and regional matters. Both country is agreed to demarcate their boundary by replacing the damaged pillars with new ones in conformity with international standards in a spirit of mutual trust and co-operation.⁵ The needs for a proper demarcation of indo-Nepalese border had arisen following Nepal's Agreement with China last year to delimit the Sino-Nepalese border with pillars. The trijunction point on either side had been left undetermined by mutual consent. It is noteworthy that there was no boundary disputes as such between India and Nepal except in a small stretch of territory along a river which had been frequently changing its course. The rest of the lengthy border had been delimited long ago and demarcated by 300 pillars but majority of these had been damaged over the years by the ravages of snow and rains. Clarifying Nepali position about boundary

4. Douglas Heck, "Nepal 1980 The years of the Referendum", Asian Survey, Vol 21, No.2 February 1980, p. 86.

5. The Hindu (Madras) March 8, 1980.

dimension, the Nepalese prime minister Surya Bahadur Thapa said:⁶

"There is no border problem between India and Nepal, Farakka issue is a bilateral matter between India and Bangladesh."

While discussing the entire range of their bilateral relations the question of utilization of water resources were also come up. The King's visit was expected to help speed up work on numerous Indian aided projects, joint ventures and mutual benefit schemes relating to Himalayan rivers. For example, the Rs. 32 crore Devighat hydal project so vital to power starved Nepal, has been delayed because of complications relating to land acquisition. The 85 crore joint venture in cement and clinker in Lashmipur was also hanging fire. Even relatively inexpensive but potentially vital scheme for joint flood forecasting and early flood warning system has been put in cold storage. Both sides agreed to establish some kind of mechanism in this respect and reaffirmed their determination to strengthen bilateral relations which were characterized by mutual trust and confidence. To serve such purpose the joint statement was issued which was referred the need to fesinig tension

6. The National Herald (New Delhi) June 18, 1981.

in the south Asia, firm and consistent adherence to the policy of Non-alignment, that is India and Nepal will make efforts to keep region free from big powers. To keep region free from the big power, obviously was referred to Soviet military intervention in Afganistan. Both countries agreed that withdrawal of foreign troops and non-interference in the internal affairs of other countries, should form the essential basis for stability of the region. This visit of Nepal's King removed whatever the misunderstandings and apprehensions which Nepal has about the attitude of Congress regime towards Nepal. It was rightly said : The present visit of King at this psychological opportune moment can prove to be a good starting point for giving extra dimension to traditional pattern of Indo-Nepal relations.⁷

In response to King Birendra's visit to India, Indian President Mr. Reddy visited Nepal in December 1980. Mr Reddy reiterated India's commitment to Nepal's economic development and welfare of Nepalese people. He said; "My visit re-inforced my faith in the future of our relations and convinced me more than ever before that friendship between our two countries would grow even further in the years to come."⁸

7. The Hindu (Madras) March 8, 1980.

8. Asian Recorder Vol.28, no. 2, January 1982, p.16404.

About Nepali proposal Zone of Peace (ZOP) he added that Nepal has been a zone of peace for the last 2500 years and there was no question that the proposal for Nepal being declared a zone of peace was of any value.⁹ The outcome of visit showed that the overall state visit of President of India has given further boost to Indo-Nepal understanding and cordiality.

In February 1983 Nepalese Prime Minister Mr. Thapa visited India. During his stay in India both countries agreed to set-up ministerial level joint commission to further promotion of co-operation between two countries. The commission will be jointly headed by foreign ministers. Mr. Thapa admitted that Nepal wanted to declare his country a zone of peace. He said that his country has no external threat but was seeking assured peace in the land for economic development. It revealed that Nepal feared of its inferiority complex and feeling of insecurity had launched a new phase of diplomacy.

✓ In 1983, one incident created tension between two countries. In August 28, 1983 Indian securitymen arrested 33 Nepal origins at panitanki border checkpoint near siliguri for illegal entry into inner line area without valid permit. Though arrested Nepalese were released on September 1 and sent back to Nepal. Nepali Government rounded up a large

9. The Tribune (Chandigarh) February 7, 1983.

number of the so called Indian vagrants in Kathmandu valley a few days later and took them in five trucks to be deported to India at the Raxaul border checkpoint. This insidious attempt being made by some anti-Indian elements in Nepal to create a Srilanka type of ethnic problem by launching a campaign of intimidation and vilification against Indian origin people in the Nepal. Indian Ambassador to Nepal met Nepalese Prime Minister and Home Minister of Nepal to draw their attention to anti Indian activities, which could take a violent turn if no timely steps were taken to control it. Indian ambassay in Kathmandu explained to Nepal Government that since 1976 all Nepali nationals entry in West Bengal through the inner line were required to obtain the necessary permits. Though the regulation was not strictly enforced in earlier years, the Government of India decided to tighten the control by putting up additional checkposts to check illegal entry into this military area. India deployed three divisions of Indian troops in this area to cope up the Chinese concentration in the Chumbi Valley adjoining Sikkam.¹⁰

At this narrow strip the territory dividing the whole North Eastern region from the rest of India. From the security of view this was a great strategic importance for India.

10. The Hindu (Madras) September 6, 1983.

The Nepalese Government taken this legitimate restriction improperly and retaliated by deporting a large number of Indian nationals, conveniently, ignoring the fact that the Nepalese are allowed to enter India along the rest of the border through traditional routes without any restrictions. A Nepalese militant organisation Rashtria Samaj Sudhar Sam²itha (RSSS) which spearheaded the anti-India in Nepal was starting to propogate that Indian nationals are going to colonise the Nepal. In addition to this there were reports of frequent harrasment and victimization of those who are well entrenched in Nepal's economy, unless they were able to enter into partnership with influencial Nepalese to safeguard their interests. The Government of India has not taken a firm stand over this issue all those years since it did not want to say or do anything that might woarsen the situation. But now a stage has been reached when it felt to oblige to voice its disapproval of this Nepali chauvinism in strong terms before it aquired serious dimensions. It was for this reason the Indian Ambassador was asked to take up the matter with Nepalese Prime Minister, Home Minister and press for suitable steps to avert the danger of huge violence.

To restrict the flow of Indians. The Nepali Government tried to tightening up citizenship requirement in

all kinds of activities. This was sure that Nepal might invite Indian retaliation. This will hurt Nepal much more than it will be helped by its own restrictions. However it would be foolish to try stop flow of either culture or modern democratic ideas closing the border. Even the Russian Government has been unable to prevent their citizens from listening to Jazz or wearing jeans. As a great Nepali scholar, former foreign minister and human rightist suggested an acceptable solution¹¹

"However, the border must be controlled, not to prevent the free movement of people accross it but to stop the smuggling to keep on track the flow of Nepali and Indian currency and to collect data about flow of Indians into Nepal and the flow of Nepalese into India. This data are critical to any intelligent decision making about such matter as currency, trade and migration."

✓ A press report appeared in Nepali press, that a sizeable section of Nepalese feels that India is following colonialist, imperialist hegemonist and expansionist policies in Asia. India was accused of preparing to interfere in internal affairs of Nepal. This prejudiced section of

11. Rishikesh, Shaha, "Complex India-Nepal Ties", The Time of India, January 21, 1984.

Napalese justified the Pakistan's support in form of arms supply and training to the anti-India elements of Punjab. The Nepali mass media had been critical of India's action in Sikkim, Assam and Punjab. However, the responsible Nepali politicians did not approve anti-India attitude by Nepali media. To clarify Nepali stand and washing away irritants in bilateral-relation especially on the question of illegal migration from India to Nepal, Nepali foreign minister Mr. P. B. Khatri was arrived India on 12 July 1984.

In 1983 another incident happened in disputed area of Sustra in Bihar along the border where the police clashed with dacoit Munna Khan. The dacoit sought protection from Nepalese authorities, claiming that area was under Nepalese jurisdiction. Indian official said that Nepali authorities during the talks have agreed to maintain the status quo on the issue of Sustra. So the friendship between the people of two countries was never in question. But it was always prudent to remember that like many other things it also needed sundry repair from time to time in order to make rapport, useful and beneficial for the fulfilment of claims and conditions.

In 1984 after assassination of Mrs. Indira Gandhi, Rajiv Gandhi became Prime Minister of India. His progressive ideas were largely appreciated in Nepal. As "Commoner Newspaper wrote.

The New Prime Minister of India Mr. Rajiv Gandhi was keen to further strengthening traditional friendly ties with Nepal so well fostered by both late Mr. J.L. Nehru and Mrs. Indira Gandhi will be noted with satisfaction by all here, with anticipated thought it was.¹²

In September 18, 1985 Nepali King Birendra visited India to explore and understand the attitude of New Prime Minister of India. The talks between king of Nepal and Prime Minister of India did not solve any problems. At the best it helped them to explore each other's intentions perhaps to build a rapport.

In the last week of July 1986 Indian President Jai Singh visited to Nepal. Indian officials remarked that President's visit had got off to a "Promising start",¹³ On the economic point of view Nepal immensely benefited. This visit did not create any ripples. During the visit minor differences between the two countries were swept under carpet. Nepal's one-track foreign policy which extols as a zone of peace has not disturbed the visit.

With Indo-Nepal relations entering the second half of 1980s, a large number of Indian observers had pointed out that Nepal was playing the China card with regard to development projects in Terai even after it was thought that a workable understanding had been arrived at with the solution of irritating issue of Kohlapur-Banbasa sector of

12. The Commoner (Kathmandu) May 6, 1984.

13. S.D. Muni, "Rajiv Gandhi's Neighbourhood Policy", Mainstream, Vol 24, no.25, (22 February 1986), pp.5-6.

Mahendra Rajmarg in Nepal's Tarai. India on its part also started negotiations with Nepal on the Zone of Peace (Z O P) proposal which had always been used for security support for Nepali monarchy and the Panchayat system against growing internal opposition. There also were reports that Indian Prime Minister even refused to meet the Nepali congress leaders and some liberals groups within the panchayat system lest this might offend the sensitivities of King of Nepal in any manner or by any chance. Support to above mentioned fact Karki Hussan added :

"..... the existence of a favourable consensus for exploiting the China card for Nepal's banefits reflects the popular perception which simultaneously has come to hold India as major impediment in Nepal's growth. It would be realistic to appreciate the fact that the erstwhile elected leadership and present ruling elite would not disagree on the basic of the Nepal's strategy for national identity. In its extreme form, India has long constructed the on-going fracturing between Nepal and China as an anti India act. Perhaps the time has arrived to pscho-analyse our frustration at Nepal's calculated overtures towards China and vice-virsa. No doubt, the strategic element is the crux of India's strong reservations about the growing Chinese presence and its facile credibility by the Nepalese in contrast to the hard-nosed bargaining and a quid pro quo approach which has become

a regular feature of Indo-Nepalese interaction.¹⁴

At the same time, the fact is that, India had remained persistent in its refusal to endorse the Zone of Peace proposal, which over the last decade had become bone of contention between two countries. It was reported in 1980 that Nepal decided to include zone of peace proposal in its constitution by making it one of the foreign policy objectives of Panchayat system and right from that year it became one of the main planks of its foreign policy.¹⁵ India viewed that such a Constitutional provision was an internal affair of Nepal and hence its reservations were justified. But Nepal raised this issue in all global and regional forums like UN, NAM, SAARC and also tried to pressurize India for its approval. The globalisation of Zone of Peace proposal of Nepal did gradual erosion of mutual understanding between the two countries.

On 27th May 1987 eight member Indian parliamentary delegation, led by the Minister of State for Home Affairs, Mr. Chintamani Panigrahi arrived in Kathmandu on six day "good will visit". Speaking over the dinner hosted by him to the Indian delegation Nepalese Minister of State for Home

14. Karki Hussain, "Indo-Nepal Relations : An Appraisal," main stream Vol. 30, No. 16, (3 January 1987), pp. 11-12.

15. Rising Nepal (Kathmandu) December 16, 1980.

Affairs said : that the Zone of Peace proposal reflect the true aspirations of Nepalese people to live in peace and harmony. We have recieved support to the proposal from many countries, and hope to receive more support from other friendly countries in the near future.¹⁶ Nepalese Foreign Minister Mr. S. K. Upadhyaya argued " We expect India's support for this proposal and we firmly believe that once this support was given, all security related suspicion held by India would banish automatically.¹⁷

The formation South Asian Association for Regional Cooperation in the second half of 80s is positive sign of cooperation between India and Nepal. Since 1980 Nepal has started to take interest in the regional-cooperation in South Asia. It has become an active participant in various meetings of SAARC were held in Kathmandu in November 1981. Nepal has showed lot of interest in regional cooperation seemed to have been primarily because of its identity problem against India. It was seemed to have viewed regional cooperation as alteration to its economic dependence upon India. India and Nepal has beleived that their problems related to security as well as economic development can only be solved in cooperation with other states of the region also.

16. Nepal News, Vol.26, nos. 8-9 (June 15, 1987), p.12.

17. The Patriot, New Delhi, August 24, 1989.

As Nepalese Home Minister stated :

"The establishment of the South Asian Association for Regional Cooperation has added new chapter in the history of our relations. The SAARC is the fine fruition of common will and common commitment for continued collective efforts for the uplift of conditions of the people of our region".¹⁸

King Birendra of Nepal in his inaugural address of third summit of SAARC held Kathmandu on November 1987, said, "SAARC kindles our dreams and excites our imagination" he also warned piecemeal approachtaking up one issue today and adding another tomorrow. Such an approach may land us in a morass of ad-hocism.¹⁹ However India made no mention of Nepal's Zone of Peace proposal but highlighted the close economic relationship between India and Nepal. The Prime Minister of India Mr. Rajiv Gandhi rejected the concept of regional Peace Zones, maintaining that there could be no piecemeal or regional approach to this global issue. Although, Mr. Gandhi seemed to be referring to the Pakistan's proposal for declaring South Asia a nuclear-free Zone of Peace. It may be noted that with the emergence of SAARC, the inconsistency of Nepal in respect of peace of Zone has been diminished considerably.²⁰ However King Birendra made a

18. Nepal News, Vol.26, nos 8-9 (June 15, 1989), p.12.

19. Nepal News, Vol. 26, no.19, (November 15, 1987), p.1-8.

20. S.K.Chaturvedi, Foreign Affairs Reports Vol. 38, no.5 (May 1989), p.70.

special reference to the growing menace of terrorism in South Asia - much to the satisfaction of India and underlined Nepal's position to the balkanisation of states. "Terrorism can pose danger to peace and stability in the region, we must actively ensure that it receives no support or sanctuary within or without. Nepal is firmly opposed to India of balkanisation of states ".²¹

Immediately after Kathmandu SAARC summit, a delegation of the Rashtriya Panchayat of Nepal came to India in the last week of November 1987. The Chairman of the delegation Mr. Subedi underlined international peace and tension free world as major foreign policy objectives of both India and Nepal. Gesturing the Nepalese delegation, the speaker of Indian Lok Sabha Mr. Balram Jhaker said :

"We are happy that His Majesty the King has assumed the Chairmanship of the South Asia Association for Regional Cooperation. The third SAARC summit had added a new dimension to matters of regional cooperation. Nepal and India, both members of the Non-alignment, hold similar views on many issues. Relations between two countries have remained quite close".²²

On December 7, 1987 Nepali Foreign Minister visited

21. Nepal News Vol. 26, no.19, (November 15, 1987), p.5.
22. Nepal News Vol. 31, no.20. (December 1, 1987), p.5.

India, for exchange of views with his Indian counterpart Mr. Natwar Singh. During the talks emphatically underlined the need to ensure that the open border between India and Nepal was not exploited by harmful elements so the outcome of the talks was not much fruitful, that they were supposed to have contributed towards improving Indo-Nepalese relationship. As expected the SAARC can be useful in developing a common idea on the matters of solving certain problem but it can not be an alteration to bilateral relations.²³ The year 1987 ended with another hopeful note as Indo-Nepal talks on development of water resources concluded in Kathmandu on 22 December, 1987.

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3.1 Indo-Nepal Relations: Impasse Period of 1988-89.

In the wake of expiry of Indo-Nepalese trade and transit treaties on 23 March 1988, rapport of Indo-Nepal plunged vigourously. These treaties expired in 1983 and were renewed by Indira Gandhi Government for another five years and Rajiv Gandhi Government again extended twice for six months each. One of the worstever period of Indo-Nepal relations started on March 1989 when India proposed that fresh negotiations be started on single unified treaty of trade and transit in addition to it an agreement about

23. B.c. Uprati, "Nepal and Regional Co-operation in South Asia", South Asian Studies, Vol.20, no.2, July-December 1986, pp.89-94.

unauthorised trade.²⁴ But Nepal wanted two separate treaties on trade and transit with the purpose of diversifying and expanding its trade with other countries. The intention of Nepal was clear that it may not like to continue trade relations with India. On the other hand after termination of trade treaty India now, actually telling Nepal that " no special relationship can be one sided, meaning that any such relationship has to be reciprocated."²⁵ It should be borne in mind that Nepal's insistence on two separate treaties instead of one unified trade and transit treaty was not a sudden and strong development. This was just continuation of a game which Nepal has been playing since 1950. It may be recalled that 1960 trade and transit treaty meant to last 10 years, lapsed in October 1970. It was renewed in August 1971, covering legitimate economic interests of both countries. The 1971 trade and transit treaty finally lapsed in August 1976. That it could not be renewed on the time because Nepal's insistence on two separate treaties. At last Nepal's long-standing demand of two separate treaties fulfilled by Janata government in 1978, which finally terminated in March 1989 and created a new chapter in Indo-Nepal relations. As S.Nihal Singh rightly said :

24. Niranjan Koirala, "Nepal in 1989", Asia Survey, Vol.30, no.2, February 1990, p.136.

25. D.P.Kumar, "Indo-Nepal Crisis, No Easy Wayout of stalemate", The Statesman, (New Delhi), October 11, 1988.

"The sharp deterioration in relations between India and Nepal has long prelude and the surprise is only in its timing. But unlike the traditional ups and downs these relations have traditionally been subjected to, the new crises portends the opening of a new chapter".²⁶

Former Nepali Premier Mr. Bista added India's refusal to renew separate trade and transit treaties which was likely to disrupt daily life in Nepal amounted to "An unfortunate development in the history of Indo-Nepal relationship."²⁷

Nepal emphasized that trade is a matter of bilateral arrangement between two countries or trade partners and it should not be mixed up with transit, which is different subject according to International conventions and laws. It was right of land locked states for their access to and from the Sea through the territory of the transit-states for their trade with other countries. To counter argument against Indian stand on composite treaty on trade and transit Nepal argued that it was confusing by many in Nepal and in view of the adverse trade balance that faced vis-a-via India.

3.2 Some Irritants of 1988-89

Problems of Indians and Madheshias in Nepal. The Indians

26. S. Nihal Singh, "Limit to confrontation", The Tribune (Chandigarh) April 24, 1989.

27. The Hindu (Madras) March 30, 1989.

are those who have Indian citizenship and do not intend to become citizens of Nepal. These Indians have been engaged in every business and trade activities to earn their livelihood in Nepal. Due to huge influx of Indians in Nepal, situation became more complicated and Nepalese Government appointed a national commission on population in 1983, headed by Dr. Harka Bahadur Gurunga noted demographer. The commission reported that Indian community was responsible for numerous ill-effects on the country.²⁸ It has recommended the issuance of work permit to the Indian workers and a ban on Hindi films, songs and magazines in order to control the alleged immigration from India to Nepal. According to work permit system it would be mandatory for outsiders working in Nepal to obtain a green card issued by the Government of Nepal.²⁹ This system is an open violation of article VI and VII of the treaty of Peace and friendship of 1950.

Article VI of the treaty clarify : "Each government undertakes, in taken of their neighbourly friendship between India and Nepal, to give the nationals of other in its territory, national treatment with regard to participation in industrial, economic development of such territory and to

28. For detail see, Harka Gurung, "Issue of Political Demography", Commoner (Kathmandu) July 23, 1989.

29. Asian Recorder, Vol.33, no.25, 18-24 July 1987.

grant of concessions and contracts relating to such development.

Article VII of treaty added : "The Government and Nepal agree to grant, on reciprocal basis, to nationals of one country in the territories of the other and some privileges in the matter of residence ownership of property, participation in trade and commerce movement and other privileges of a similar nature.

So the introduction of the workpermit system obviously implied that Indians were not to be given any preferential treatment in Nepal and were to be treated on par with other foreign nationals. Three months before the third SAARC summit in Kathmandu, registration of worker implemented in the three district of Kathmandu valley, the Nepalese Government argued that they had the safety and security of heads of States and Governments in mind who were together in Kathmandu for third SAARC summit. At that time it appeared a bit reasonable.³⁰ But in 1989 Nepalese Government had intensified this system in other parts of Nepal. The Indian Government and press criticised these recommendations were alleged to contrivance to the people of India that commission has imposed

30. Permanand, "Indian and Madheshias", World Focus Vol. 11, no.9, September 1990, p.20.

strict restrictions to curb the so-called Indian Influx without giving assurance about the Nepalese government intended to safeguard the rights of its Indian origin citizens.

Another part of problem of Indian origin Nepalese people known as Matheshias - which became a contentious issue of 1989-90 impasse. The word Madheshias is used in Nepal for Nepalese people of Indian origin living in Nepal for generations. The literal meaning of the word is "those living in control country". Most of the madheshias live in the Terai (adjoining part of Nepal to India) of Nepal as such they are called "Teraiwallas" or "Teraians".³¹ They differ very clearly from the people of hill origin in respect of physical features, caste structure, language, culture and religious activities. The Madheshias are estimated to number 7.5 to 8.0 million in Nepal. These people are facing various problems mostly concerned with citizenship, agriculture, business, education, language, religion and participation in the national mainstream politically, administratively and militarily.

The most sinister problem that the Madheshias facing was that possession of citizenship certificate. As a bond

31. Ibid, p.19.

between the individual and the government of a country citizenship played a significant role in the process of national integration. In Nepal the citizenship certificate was essential for applying government jobs and in buying or disposing of one's property etc.³² This problem is serious in the Terai region, but almost non-existent in hilly areas. There were three types of citizenships in Nepal : Paternal, inherent and artificial. The artificial citizens were those who neither born in Nepal nor having Nepalese ancestors but who have been living there for a long time. These citizens are facing problems of citizenship. This problem was artificially created during Panchayat system especially during 1970s. Since then, the problem has become more complicated. Quite a bit it was true that a large number of people obtained citizenship certificates during 1970-80. Various panchayat ministers had processedly tried to solve the problem by giving certificates to the eligible and deserving persons. But lack of awareness and illiteracy among Indian origin Nepalese, and complicated bureaucratic procedures have continued denial of these certificates to a substantial number of people. It was alleged that there are as many a million Madheshias who have been denied from obtaining certificate on various pretext such as they being recent

32. Parmanand, "Indian Community in Nepal and Nepalese Community in India", Asian Survey, Vol. 26, no.9, September 1986, p.1006.

immigrants from India.

The Tarai area of Nepal dominated by Madheshias is known as back bone of Nepalese economy. This area was producing 59 per cent of Nepal's gross domestic product and 76 per cent share of its revenue in 1980.³³ Some influential ruling elites of the kingdom always tried to replace of land owners and tenants of Madheshias in that area with the Nepalese people from hill areas. These anti-madheshias activities were started in early 1960s. Since Nepal introduced new land reform acts in sixties³⁴ known as Mohiyani system in which land was owned by comparatively rich farmers and was tilled by landless tillers who gave 50 per cent of their crop to owner was another problem affecting rich farmers of Indian origin.³⁵ Besides this people without citizenship certificate were subjected to double taxation. According to this provision it is mandatary on the part of Indian traders and investors to pay tax both in India and Nepal. Indian Goevernment raised this issue many times and requested Nepalese Government to solve this problems. During Nepalese Foreign Minister Mr. Padma Bahadur Khatri's visit to India both sides agreed that agreement on avoidance of double taxation would give encouragement to growing economic and

33. F.H.Gaige, Regionalism and National Unity in Nepal, New Delhi, 1975, pp.29-30.

34. The Indian Express, (Chandigarh), July 13, 1984.

35. Parmanand, Asian Survey, op.cit, p.1010.

technical cooperation and proved favourable for establishing joint ventures.³⁶

Apart from economic sphere, Madheshias were also discriminated in political sphere also. Their disproportionate representation in the rashtriya panchayat, obviously reveal their disadvantage status in the decision making process. By the third constitutional amendment of December 1980 in which district were adopted as constituencies and this further worsened disadvantaged position of tarai population.³⁷ This was total abrogation of domestic tradition of representation process in which population generally and broadly accepted as the basis of representation. Besides, these Madheshias are very few in bureaucratic set up of Nepal. In addition, in Nepal an organisation called Rashtriya Samaj Sudhar Sanstha (RSSS) for a number of years had been demanding the Indians to be driven away from the Kingdom. During the treaty crisis ridden period of 1989-90 situation of these Indians and Madheshias turned very miserable. Despite, Nepalese government's much published campaign for peaceful co-existence, physical assault and expulsion of Indian nationals from Kathmandu and interior region of Nepal was continued.³⁸ Nepal Education Minister

36. The Telegraph (Calcutta), May 3, 1990.

37. Parmanand, Political Development in South Asia, (Streling Publication, New Delhi, 1988), p.142-44.

38. The Telegraph (Calcutta), April 16, 1989.

had issued a secret circular as early in 1987 to gradually ease out Indian teachers from employment in Himalyan kingdom by 1991.³⁹ All these descriptions indicate that problems of Indians and people of Indian origin in Nepal are quite serious and call for immediate solution. In fact, problems of Madheshias are indicative trends of national disintegration. The concentration of Madheshias in Terai which adjoining with Indian border, might sooner or later convert into an explosive situation, similar to that of the Tamils of north eastern province of Srilanka.⁴⁰ The demand of Terai people aired strongly in concerted manner for the first time in Rashtriya Panchayat asking the government to bring about an end to tough legislation and the discrimination against Madheshias in the field of service, job representation, representation in the Rashtriya panchayat, education and grant of official recognition to their Maithali, Bhojpuri and Hindi languages.⁴¹

During the three day visit of Nepali Premier K.P.Bhattarai was inter-alia agreed that Nepal would remove the Indian nationals from the ambit of workpermit scheme. This was also incorporated in the joint communique signed by both nations on 10 June 1990. The Nepalese government issued

39. Shabu Singh, "Check Point Nepal", Telegraph (Calcutta) April 2, 1989.

40. Parmanand, "Indian and Madheshias", World Focus Vol.11, September 1990, p.21.

41. The Hindustan Times (New Delhi), July 2, 1989.

notification in June that it is no longer mandatory on the Indian citizens to obtain workpermit in the three districts of the Kathmandu valley. But the discrimination against Madheshias is still prevailing and Nepali Governemnt has not taken any serious step to remove this discrimination. This irritant have emmence potentiality of souring Indo-Nepal relations in future.

Similar to problems faced by Indians and Nepali people of Indian origin in Nepal, the people of Nepali origin also faced problems in India, such as their identity crisis to citizenship, language and participation in national mainstream. The government of India has taken a sympathetic and accomodative attitude towards these problems and was thinking of giving citizenship to all Sikkimese of Napalese origin. The majority of Nepali community is demanding for inclusion of Nepali language in the eight schedule of Indian Constituion. The attitude of Janata Government was appeared to be quite sympathetic to this demand. The Sikkim assembly has already passed resolution to this effect.⁴² It was reported that Sikkim Chief Minister Nar Bahadur Bhandari said that unless the problems of faced by vast number of people of the Nepali origin were solved, the any election of legislature

42. The Times of India (New Delhi), September 25, 1982.

assembly would be a farce. In India an organisation, all India Nepali Bhasha Samiti is fighting for recognition of Nepali language. The unsatisfactory political representation of Nepali community in Indian political set-up is another irritant between the two countries's rapport. Untill 1979 there were a number of seats reserved for the people of Nepali origin in Sikkim assembly. But during congress regime of 1980, People's Representaion Act of 1980 was enacted which changed the earlier satisfactory position by reserving 6 seats for lepchas, 6 for the Bhutias, 3 for scheduled caste one for the Buddhists and leaving 17 seats open for all communities including the Nepalese.⁴³ The Nepali community led by Mr. Nar Bahadur Bhandari has been demanding the restoration of reservation by claiming that Nepali community constituted 70 per cent of total population of the state. Even the President of Sikkim Congress has requested to the Supreme Court of India to nullify the 1980 People's Representation Act.

Another similar problem of Nepali refuges in India. It was reported that in March 28, 1986, 200 Nepalese mainly mine workers had been expelled from Meghalaya. In response to pressure to introduce control on Indian workers in Nepal, Nepali Government has ordered industrial firms to issue

43. Parmanand, Asian Survey, Vol.26, no.9, September 1986, p.1018.

identity card to their workers within two months.⁴⁴ There were protests in Nepal against India's inhuman manners in which Nepalese citizens were being driven out of Meghalaya.⁴⁵ The Nepalese Government has taken up the matter with India. During the visit of Nepalese Foreign Minister Mr. Shailendra Kumar Upadhyaya stated that the matter was also discussed and both leaders were agreed that their government would be close in touch with each other to work out a modality to resolve that problem.⁴⁶ The best solution of problems experienced by Indian community in Nepal and Nepalese community in India however, consisted in the face to face dialogue between the experienced democratic leadership of the two countries.

Gorkhaland movement in India and its impact on Indo-Nepal relations. This movement was launched by Gorkha National Liberation Front (GNLF) for the citizenship right for all Gorkha Nepali of West Bengal. The centre of the movement was Darjeeling district of West Bengal. The movement has turned in that part of the country into a trouble spot.⁴⁷ The leader of GNLF Mr. Subash Ghising opposed the Indo-Nepal treaty 1950 by saying it was detrimental and damaging for them. Nepal can not stay aloof from this on the plea that it

44. Country Report India, Nepal no.2, 1986, p.22.

45. Rising Nepal (Kathmandu) March 29, 1986.

46. The Times of India, (New Delhi), December 15, 1986.

47. Asian Recorder, Vol.33, no.9, 26 February-4 March 1987, p.19,338.

is an internal affair of India. The movement has demanded the abrogation of Article 7 of the 1950 treaty. This article obligated each of the two countries to extend reciprocal right with respect to the resident, ownership of property, participation in trade and industry and movement in each other territory. Indian Prime Minister Mr. Rajiv Gandhi ruled out the abrogation of clause 7 of the treaty because it would create more problems for Indians living in Nepal and Nepalese living in India. while addressing a press conference he stated that the Nepalese of Darjeeling were not Indian citizens and they were living in India as Indians were living in Nepal.⁴⁸ But he added that Gorkhas of Indian origin were not foreigners and they could not be regarded as anti national elements simply because they demanded citizenship.⁴⁹ Mr. Ghising visited Kathmandu and submitted a memorandum to the King of Nepal complaining of genocide and apartheid against Gorkha in India which demanded King's support to their Gorkhaland and abrogation of the Article 7 of the Indo-Nepal treaty of 1950. The King had however, refused to meet him but Mome Minister of Nepal received his memorandum.⁵⁰ The King, Government and political elites of Nepal were uncertain about their political future and ability to handle the problem of

48. The Telegraph, (Calcutta), January 21, 1987.

49. Indian Defence and Strategic Analysis, Vol 19, no.11, (New Delhi), November 1986, p.1240.

50. Ibid, p.1242.

Indian people of Nepali origin and Nepalese people to gether Pan-Nepali state comprising the Nepalese dominated areas of Darjeeling, Sikkim, Bhutan, Assam and Nepal itself.⁵¹ In addition to it, there was immediate fear that Madheshias settled in Terai area might agitate for similar demand within Nepal as a counter to Indian Citizens of Nepalese origin who were demanding Gorkhaland. Mr. Ghising stated if trouble crossed the border, Nepal's major foreign exchange earner tourism would be the first casualty. It was due to these factor that Nepal adopted an ostrich policy towards GNLF agitation.⁵² The Nepalese Governemnt emphasized that this was a internal problem of India as neighbour it hoped that it would be resolved amicably. For the common people, the agitation was believed to have had an emotional impact in East Nepal which have close blood and trade links with Darjeeling. Though, Nepalese leadership ignored the role of their country in this movement. But according to Chief Minister of West Bengal Mr. Jyoti Basu there was a visible hand of Nepal in this movement. The state government reported that GNLF training camps located in the interior of Nepal and GNLF guerrillas were being trained in these camps. When the attention of Nepalese Foreign Minister was drawn to these

51. The Rising Nepal (Kathmandu) November 20, 1986.

52. Indian Defence and Strategic Analysis, Vol20, no.3, (New Delhi) March 1987, p.309.

allegations, he stated that a country which wished to be decided as Zone of Peace (ZOP) did not allow its soil to be used against another country. He added that Gorkhaland problem was an internal affair of India, but it was natural for Nepalese people to feel sympathetic towards the movement because of their blood relations with Gorkha and sympathy could not be regarded an expression of antagonism towards India.⁵³ After a long tripartite negotiations between GNLF, West Bengal Government and Central Government of India, problem has been solved by India.

Now, GNLF Supremo and Darjeeling Gorkha Hill council (DGHC) Chairman Subhash Ghising has reported that anti-Indian forces in Nepal and elsewhere have been working together to merge Bhutan, Sikkim, and Darjeeling hill with Nepal, for setting-up the proposed Greater Nepal Kingdom. He restressed that these forces are trying to take advantage of loopholes in Indo-Nepal Peace and Friendship treaty 1950. However, West Bengal Chief Minister Mr. Jyoti Basu in communication to the Union Home Minister categorically stated that State Government had no information about Greater Nepal conspiracy as claimed by Ghising.⁵⁴ Mr. Ghising claimed that he has proof that communists of Nepal are

53. Nepalese Press Digest (Kathmandu) December 21, 1987.

54. Sudbin Dey, "Cry, The Beloved Kingdom", The Times of India, July 7, 1991.

supporting the Greater Nepal demand. It was estimated this move by Ghising is to beat back the challenge posed by Chief Minister of Sikkim, Nar Bahadur Bhandari, as to who among them emerged as unquestionable leader of the hill people of the area. Bhandari has been demanding constitutional recognition of Nepali as an official language of hill people. On the other hand since the signing of the Darjeeling Gorkha Hill Council accord, Ghising has been demanding recognition of "Gorkha language and not Nepali as the official language of the hill people of the area. He described the people of Nepal living in hill area as "Gorkha" and not Nepali, for the nationality of the people of Nepal which makes them as foreign as "Pakistanis" or "Bangladeshis" are.⁵⁵ Ghising argued that demand for recognition of Nepali as official language is nothing but camouflaged movement in support of the Greater Nepal demand as it seeks to create homogenous Nepalese population in the area to strengthen the demand. While addressing the meeting of DGHG he said that cancellation of all previous treaties between the British Indian Government and Nepal as per Article 8 of Indo-Nepal treaty was a blunder which could be exploited by "Greater Nepal" activities, posing serious threat to the unity and integrity of the country. Is this a new slogan to aid the sagging image of Ghising ?

55. Ibid.

The latest development is that Subhash Ghising revived his demand for "Darjeeling for Gorkhas" and gave 60 days ultimatum to the Prime Minister of India and Nepal, seeking their clarification on the status of the hill area.⁵⁶ The ball of decision is in the court of India and Nepal and we have to see when, where and how they will hit it.

The most contentious issue of 1988-89 impasse was China's arm supply to Nepal. Since 1950 especially after the death of King Tribhuvan, Nepal always played China card in Indo-Nepal relationship. India has reservations against the Chinese involvement in Kodari road building diplomacy as well as other Chinese economic activities in Nepal. India argued that Chinese aid, and assistance and involvement in Nepal was a politico-strategic one, not a commercial. India has expressed its grim concern over Nepal to allow the foreign powers to set-up project close to Indo-Nepal border. India also opposed Nepal's contracts to the Chinese for building electrical transmission in Terai area of Nepal. More than above all, China card became bone of contention between two countries when Nepal purchased huge sophisticated weapons from China including anti-air craft guns, medium range missiles, A.K. 47 rifles, and huge quantities of arms and ammunition. This was outcome of China-Nepal negotiations of

56. The Hindu (Gurgoan), January 12, 1992.

March, 1988 and later in June 400 to 500 military trucks carried these arms and ammunition from Tibetan town Kodari to Nepalese capital Kathmandu.

The strategic analysts and commentators considered that this development as a step by Nepal in its research for strategic diversification and distancing from India. India's fear however, was that arms including A.K. assault rifles may reach its (Indian) territory through the 1700 K.M. open border along Uttar Pradesh, Bihar and West Bengal.⁵⁷ In fact Nepal ignored the sensitivities of India with whom it has unique relationship. Besides this, Nepal was raising two more infantry divisions which would double the present strength of 30,000 troops and these two divisions were going to be equipped and trained by China.⁵⁸ This arms purchasing issue raised two important questions in India. (i) why was Nepal making such arms purchase from China? (ii) why did the tiny Himalayan Kingdom which has about 35000 men under army compared with India's 1.4 million need anti-air-craft guns anyway?.⁵⁹ This irritant made Indo-Nepal relations, more complex. It was total contravention of peace and friendship treaty of 1950. As great scholar of Indo-Nepal relations

57. The Hindustan Times (New Delhi), September 28, 1988.

58. The Times of India (New Delhi), May 31, 1989.

59. Earlean Figher, "Border Dispute Tangles Indo-Nepal Relations", Bangkok Post May 3, 1989.

stated, "Kathmandu's Import of arms and ammunition from China through the Chinese built Kodari-Kathmandu highway was a clear violation of 1965 Agreement which gave India a virtual monopoly of Nepal's defence needs and altogether excluded any Chinese role in equipping the Nepalese forces.⁶⁰ Some contents of secret agreement of Indo-Nepal of 1965.

(a) "The Government of India undertakes to supply arms ammunition, and equipment for entire Nepalese army, on the basis of a total strength of about 17000 men, comprising four recognised brigades. This will be inclusive of existing Himalyan troops, Home guards, Home hold troops, military companies etc."

(b) "The Government of India further undertake to replace-existing Nepalese stock by modern weapon as soon as available and also to provide the maintenance of and replacement for the equipment to be supplied by them".

(c) "The Government of India undertake to provide all training facilities required for the Nepalese armed force personnel in training establishment in India, as necessary and also by sending training personnel to Nepal at the request of His Majesty's Government. During their training in India adequate funds will be made available by the Government of India to enable them to meet expences on a parity basis as incurred by Indian military personnel of equivalent ranks,".⁶¹

59. D.P.Kumar, "Nepal Violated Secret Agreement with India", The Statesman (New Delhi), May 27, 1989.

60. Ibid.

These contents of secret agreement of 1965 shows that India owns all expenditure for modernising, equipping the Nepalese forces. So this Nepali act to purchase arms from China was a deliberately distortion of Indo-Nepal relations. India argued that though, Nepal have to consult before purchasing arms from China but Nepal refuted the Indian argument that Nepal required under the 1965 Agreement to consulte India before purchasing arms from China. This refutation was a clear violation of the spirit of treaty of peace and friendship 1950. It also challenged the view point of Leo-Rose, who visited Kathmandu in January 1989 - that Nepal should have consulted India before making arms purchasing from China and added that no where under the agreement is such conditionalities. Nepalese scholar has viewed that Nepal went for arm deal with China because as early as 1965 Nepal felt the need to modernize its army and the Government of India, United Kingdom and United States of America were being approached in this matter. It was in 1970 subsequently when India refused to help Nepal by supplying items like anti-~~arms~~^{air} craft guns that the latter turned to China.⁶¹ But former Foreign and Finance Minister of Nepal. Rishikes Shah urged India to take over Nepal's defence as

61. A.N.Jha, "Nepal-Indo-relations : Diplomacy by other means", Nepal News Vol 28, no.4, (15 April 1989), pp.30-31.

provided in documents exchanged by the two sides in 1965.⁶²

Some other untowards irritants added fuel in fire of 1988-89 Indo-Nepal impasse were smuggling and Terrorism etc. Nepal imports luxury items in big quantities which are many times more than purchasing power of Nepalese people, Then these goods are smuggled to India. Many drugs are also smuggled. In the border towns Raxaul and Beregunj, narcotics are available at any time. In 1986, Interpol supplied to the Nepalese Government a list of 124 "drug dons" which included the names of several diplomats, former ministers and body-guard of prince Dheerender Kumar. But Nepalese Government did not take any strict action against many of them of the contraband and narcotics seized in India, in the past few years, 80 per cent came from Nepal.⁶³ But both countries did not take it seriously. This drug trafficking became focus of discussion when Indian Minister of State for Revenue Affairs, arrived in Kathmandu on 21 June, 1988. During the talks when the issue of drug trafficking along with Indo-Nepal border emerged, Nepalese delegation felt uncomfortable to point out the measures taken by its Government for curbing illegal trade and trafficking in narcotics in Nepal. When it was suggested that Nepalese drug-traffickers and gold smugglers operating from India should be handed over

62. The Sunday Observer, May 13, 1989.

63. "Irritants in Indo-Nepal Relations", Link, (16 April 1989) p.17.

to Nepal, Indian side gave its consent to the suggestion.⁶⁴ During the impasse period smuggling activities on Indo-Nepal border were increased. In 1987-88 and 1988-89 Nepal imported 5400 and 4000 metric tonnes respectively of synthetic yarn that was far in excess of domestic need of around 300 tonnes. Similarly Nepal imported clove and other items of smuggling worth around Rs. 12 crores in 1988-89. While their annual average in previous year has been between 2 to 4 crore.⁶⁵ This smuggling created chaos among the policy makers of India. It was economic setback to India and created milieu of misunderstanding and suspicion.

The extremist activities in the both the countries aired the tension between two countries. The Nepalese police suspected that over one hundred have infiltrated into Nepal through India and other countries and that problem was due to open border between two countries. Nepal gave witnesses of bomb explosions in Kathmandu. The possibilities of Sikh terrorists arriving in Nepal by air from other countries with a view to infiltrating into India. The strict surveillance was being maintained at Tribhuvan airport in Kathmandu to check such anti-India activities and Nepalese Foreign Minister assured India that his Government would

64. Nepal News, vol27, no.10 (July 1, 1988) p.15.

65. The Newstime (Hyderabad) September 1, 1989.

also take all necessary steps to prevent extremists fleeing from Punjab for taking refuge in Nepal and engaging in hostile activities from there.⁶⁶ But in one of his pamphlets dated July 10, 1991. Mr. Amanullah Khan, self-styled Supremo of JKLF revealed that with the help of some countries he had set-up a training base for Kashmiri militants in Kathmandu. It was from here that kidnepping of Indian Oil Corporation executive was planned.⁶⁷ If this report is right then again it is a violation of peace treaty 1950 and Government of India should take strong and strict action against this development to curb such anti-India activity. Recently, terrorist activities increased in the Terai area of Uttar Pradesh along with the border of Indo-Nepal border. India and Nepal Governments should take pre-cautionary measures to curb them otherwise in future it will be equally harmful for both nations.

During this impasse an unprecedented incident happned. In 27 March 1989 Royal Air Lines Chartered flight landed at Patna. It carried consignment of Rs. 13 crore in Indian currency notes. This sum was repayment of Indian loan to the Indian Government. However, custom officials refused to allow the package to be off loaded at Patna though, Reserve Bank of

66. Keesing Contemporary Archives Vol 31, no.10, (London) August 1985, p.33784.

67. Shuba Singh, "Check point Nepal" The Telegaph (Calcutta) April 3, 1989.

India's official were present to accept it. The money had arrived as a part of routine currency transactions under a signed communication from Indian Embassy in Kathmandu. But custom officials argued that Indo-Nepal treaties on trade and transit had lapsed on March 23 1989. Hence, they were not willing to clear the package without instructions from New Delhi. Nepalese authorities criticised it as height of embarrassment of Nepalese officials. According to Indian authorities, "It was a bureaucratic foulup."⁶⁸ This incident was an eloquent indicator of the deterioration in Indo-Nepal relations, which have reached their lowest ebb ever with the expiry of two treaties of trade and transit.

3.3 The War of Words

Since 1987 there has been a sort of rapid fire sequence of anti-India postures and actions become tools of Nepali actions. All above mentioned irritants became tools of Nepali actions. During this period alligation and counter-allegations on each other side started. Nepal's introduction of controversial work permit system for all foreigners including Indians and arms purchase from China

68. Shuba Singh, "Checkpoint Nepal" The Telegraph (Calcutta) April 3, 1989.

placed a question mark on Indo-Nepal relations. These substantive actions were symbolic gestures of the prevailing state of deterioration which caused much harm to Indo-Nepal ties. The Nepalese Foreign Minister could not find time to inaugurate a picture exhibition in connection with Jawaharlal Nehru birth centenary celebrations. During the third SAARC Summit of Kathmandu, King Birendra declined Indian Prime Minister's invitation to breakfast meeting and India Lok Sabha Speaker had to walkout of Nepal's national panchayat when in his presence, Nepalese students raised anti-India slogans. Even more, in the war of words Nepal has turned out to be much more aggressive than India has been so far. In response to the such anti-India campaign the Indian mass media taking an increasingly resentful turn, started talking about adoption of different security policy, reduction in terms of economic aid and assistance and a revision of 1950 treaty. Some publicists from Indian Institute of Defence and strategic studies (IDSA) and Jawahar Lal Nehru University, New Delhi has been advocating the abrogation of treaty of 1950 on the ground that Nepal had strayed from its spirit. On the other hand a section of the press in Nepal has been airing the same view but on the plea that it was an "unequal treaty".⁶⁹

69. Yogesh Upadhyya, "Indo-Nepal in Balance Tie ," The Hindu (Madras) April 21-1989.

In this war of media the captive Nepalese press comes out with columns after columns of anti-India trade.⁷⁰ Nepalese Press used blatant anti-India slogans such as Indian expansionism, magnanimous over bearing regional bully imperial India, India's elbow diplomacy etc. These blasphemous anti-India slogans incorporated in hate-India campaign lunched by Nepali Journals. The popular Nepalese Journals, intellectuals, politicians and banned political parties were sharply divided over the current "cold relations between two countries". Many leading Nepalese magazines and weeklies has stepped up hate-India campaign and others have questioned Prime Minister of Nepal, Mr. Marchiaman Singh Shrestha's Government to continue following its "failure" to protect the people from economic hardships. The two banned Nepali parties, the Nepali Congress and Nepali communist Party (Manandhar group) have also held Shrestha Government responsible for present situation. The daily Kathmandu based "Sapthahik" accused India of having "honey in the tongue, gall in the heart." "Sapthahik Vichar" and "Alok" published from border district Jhapa have criticised India "hegemony on Nepal". In the Intellectual class Rishikesh Shaha has been quoted by "Bisleshan sabthahik" blamed the Royal

70. Biswanth Battacharyya, "Indian diplomatic Bungling in Nepal, " The Statesman (New Delhi) August 28-1989.

Government for the grim situation that arose after the expiry of treaty on 23 March 1989. Indian Newspapers and magazines which were largely popular in Nepal launched media defence campaign strictly banned the Himalayan kingdom, earlier such ban was imposed on only select number of Indian publications.

To tone down the Nepal press, Indian national daily "The Times of India" played significant role.⁷¹ In his article Mukerjee reacted vehemently to writings of the Nepalese Government owned daily. "The Rising Nepal" which blamed India professing undying friendship between the people of two countries. Referring to press coverage of Nepal in Indian Press Nepal contented such stories were "constructed on 10 per cent facts, 40 per cent falsehood and 50 per cent imagination. Nepal also accused India making a false and fake claim that essential supplies were allowed into Nepal from India, despite, the expiry of trade and transit treaties so that Nepalese people do not face hardship. Nepalese Ministry of Commerce alleged that no goods to entered Nepal through the Indian border since March 23, 1988."⁷²

71. Dilip Mukerjee, "Himalayan stalemate: Indian State good will", The Times of India (New Delhi) April 4, 1989.

72. Nepal News Vol.28; No.4, (15 April 1989) p.p.30-31.

The War of Words between two countries created bewilderment among the students of Indo-Nepal relations. This war highlighted the lowest ebb of Indo-Nepal ties. As Prof. Anirudha Gupta stated this media war between two neighbours questioned the logic as well as desirability of linking following charge against Nepal with the expiry of trade and transit treaties.⁷³ The whole war of media was concentrated on these assumptions; (a) Nepal is discriminating against Indian goods to make them less competitive in the market, (b) Nepal Government has been imposing certain restrictions since 1987 which were intensified in 1988. Indians were not being allowed to visit Nepal's districts bordering Tibet, but Chinese engaged in strategic projects in Terai area of Nepal were allowed to visit places adjacent to Bihar and Uttar Pradesh. Nepal has lately unilaterally imposed custom duties on Indian goods, to give an advantage to goods from the third countries. These strict restrictions imposed on Indian nationals and goods were in violation of 1950 treaty of friendship. Indian media only asked to Nepal that Kathmandu must explain how does it allow Chinese nationals within the ten miles of Nepal's border with India, when it debar Indians from going within ten miles of Nepal's border with China.⁷⁴

73. Prof. Anirudha Gupta, "India-Nepal Discord", Economic and Political Weekly, Vol 24, no.16, (22 April 1989) pp.853-54.

74. The Hindustan Times (New Delhi), March 23, 1989.

(c) The another content of war of words was Nepal's purchase of assault rifles, missiles and anti-aircraft guns from China. Prof Anirudha Gupta has tried to wash away this war of confusion about arms purchase from China. It is not clear which of the items cited above has any bearing on the issue pertaining to two treaties on trade and transit which finally lapsed in March 23-1989. If security is the upper most concern of the Government of India then why has it not come out with an authoritative statement on this particular Nepalese purchase of few arms from China? Besides, could it not have taken up security issues at more appropriate level instead of linking it up with matter relating to trade and trade?

To answer these questions, one should bear in mind that India did not give aid and assistance and other trade preferences to Nepal on the basis profit and loss. India have special relations with Nepal. It was Indian external strategic security compulsion which obliged to bear such a unprofitable trade with Nepal. If Japan and America can relate nuclear weapon dimension and NPT with programme of aid and assistance and trade preferences to India then why not India do the same with Nepal? The Japanese Foreign Minister Michio Watanabe's statement, Japan might eventually refuse to extant economic aid to the countries that "have nuclear weapons or sell conventional arms" highlighted in the Indian

media being a pressure tactic to force India to sign the NON-Proliferation Treaty. No doubt, Nepal's land lockedness is a unique feature of Indo-Nepal relationship. India never refused Nepal's this geographical compulsion and always helped it much more than any international legal obligations in this regard. The basic feature of GATT is the Most Favoured Nation (MFN) under which each country levies the same tariffs rates on imports from all other GATT member country. Nepal was levying special tariff rate on imports from Indian under the 1978 treaties of trade and transit which expired in March 1989. More than it Nepal, by purchasing arms and ammunition from China created a security hazard to India. It was totally against the mutual understanding and interests of both countries. India's decision to unit Indian security concern and economic prefernces to Nepal might be unpopular but it was inevitable, Over all an anti-India hysteria gripped by Nepal which made India to maintain its inflexible stand perhaps, to teach Nepal a lesson.

3.4 Call For Breaking Stalmate

Irrespective of mutual recrimination and systematic disinformation certian indisputable facts were brought to light which dig out certain root causes of this impasse. The thread of suspicion and confusion was always run along their

mutual rapport. But nobody can be denied possibilities of King Birendra's growing apprehension about his political future . His fear have been reinforced by "a wave of democracy" striking the Philippines in 1986, South Korea in 1987 and Pakistan in 1988. It could be as well Nepal's turn next. Nepal's projection about India's big brother attitude was pretext to divert public attention in Nepal. Secondly, India's vast size and huge population is bound to create a sense of apprehension in which psyche of its small South Asian neighbours. All these small countries are suffering from sort of identity crises. Speaking in seminar former Indian Foreign Secretary Mr. A.P. Venkete's warn rightly said the psyche of a "dominant power" has gone into our heads and had led to present problems. Thirdly to narrow down the base of power elite in South Asia's periphery and comparatively wider base of political system in India has resulted in a conflict of basic interests with such broad perspective on India. In short, New Delhi policy, posture vis-a-vis its small South Asian neighbours's misunderstanding was root cause of this present Indo-Nepal impasse. In addition Nepal extra-sensitivities about transit facilities to expand its foreign trade and a sense to reduce its dependence on India also urged Nepal to take such unprecedanted steps against Indian external security which created a flow between India and Nepal's mutual understanding which became an immediate

cause of this tangle. The linkage between treaty crisis with other issues had brought Indo-Nepal relations to such a lowest ebb. Nepal's pursuit of economic diversification and strategic autonomy had buried New Delhi's security sensitivities by purchasing arms from China, took such a self suicidal action against India.

In the wake of treaty crises Nepal's economy has been shattered. Economic hardships faced by the population of Nepal, its limited geo-political options forced Nepal ruling elites to take off this grim situation and approach the Government of India for resolving the crises at the earliest. King Birendra accepted this truth. He said while holding out threat that "Nepal could with justification setalite in media war in a like manner but such is not the way to resolve the diffirences".⁷⁵

In April 1989 Nepal submitted to Indian Government a draft of trade treaty based on Most Fovoured Nation(MFN), and a separate draft of transit treaty. Indian Government has shown no willingness to dicuss drafts. on 15 April 1989 call for friendly dialogue and negotiations to resolve be problems that have arisen in Indo-Nepal relations. It was hoped that public affirmation will be followed by corresponding diplomatic signals consistant with not only Nepal's

75. The Hindustan Times (New Delhi), July 2, 1989.

aspirations but also Indian political and economic interests. The Nepalese King rightly emphasized that the situation certainly calls for a reasoned approach rather than an emotion as approach".⁷⁶ On 16th June 1989 Nepalese spokesperson was reported that India has not yet responded positively to Nepal's latest proposal to break the stalemate on the bilateral trade and transit issues. We are patiently awaiting a reply from India.⁷⁷ India did not miss the chance and a call was sent to Nepal for holding early negotiations through letter from Indian Foreign Minister to his Nepalese counterpart. The spokesperson of Indian Foreign Ministry clarified that warm and friendly letter did not impose "preconditions" and sought clarifications on all "mixed" signals from Nepal. In Kathmandu Indian reply letter was considered as "very positive". The Nepali Prime Minister took this Indian response to calls of negotiation very critically. He asked whether India was really interested in having a meaningful dialogue with Kathmandu. He added Indian intentions of raising political issues on the pretext of trade and transit had become clear.

During the sametime a seminar on "Indo Nepal relations, past present and Future," was held in New Delhi in the second week of July 1989, under the aegis of Indian

76. The Times of India (New Delhi), April 15, 1989.

77. The Times of India (New Delhi), July 17, 1989.

Council for International Co-operation presided over by Mr. Govind Narain former adviser to the King of Nepal.⁷⁸ All the participant intellectuals and activists of both countries emphasized to resolve the crisis as much as earlier possible. While inaugurating Mr. Atal Behari Bajpayee urged Indian Government that its dealing with Nepal should not only be fair but generous. Dr. Upadhyaya a member of a Royal Commission in Nepal stressed the treaty of peace and friendship should not cloud the relations between the two countries. The concept of Special Relationship should clearly defined. He added India's security and Nepal's susceptibility may not be coincided. Mr. S.D.Muni a Professor of South Asian Studies Centre in Jawaharlal Nehru University answered the Mr. Upadhyaya's statement, said: we have got to look at totality of relating rather than lay stress on treaty provision of Special Relationship. It is basically a question of Inter-dependence, unless equation of political harmony between the state and society is solved, Indo-Nepal tension will continue. He wondered why Nepal purchase anti-aircraft guns to quell any disturbances within the country as the Nepalese people were in no way using air craft in any battle with the state. He urged Indian foreign policy makers that

78. See Pramod K.Mishra, "What is at root of the Indo-Nepal Crisis", The Deccan Herald, July 27, 1989.

the impact of Indian policy in the of life of Nepalese people should be the Indian foreign policy's main concern.

During this phase of negotiations many times Nepal tried to play China card in the process of settlement. Despite, Nepali appeasement of China it could not get support from China. Nepal started showing signs of bitterness and frustration. Speaking in a function organized by Nepal-China Friendship Association Nepal Foreign Minister said⁷⁹, the relations between Nepal and China are centuries old. China, India and Nepal developed there relations based on the Nehru's Principle of Panchshel over the decades but some have of late forgotten the principle. Some have discarded the Principle profounded by their own grandfathers but China has always stood for firm by these principles. Even after this appeasement China had chosen to remain Neutral over the issue of deadlock in Indo-Nepal relations.⁸⁰ China did not go beyond saying that current impasse between the two countries should be resolved through friendly negotiations. Actually, by the upheavals of the Tienanman Square massacre in Beijing, China was also gripped by the movements of pre-democracy and human rights.

India took a initiative to phase out the strained atmosphere as Indian Foreign Minmister Mr.P.V.Narasimha Rao

79. The Times of India (New Delhi), August 3, 1989.

80. The Times of India (New Delhi), August 31, 1989.

reached Nepal on 25 August 1989. This visit was for the preparation of ground of a summit between Indian Prime Minister and Nepalese King. It marked the resumption of the dialogue for restoring normalcy to the traditional relationship. The outcome of Mr. Rao's visit was his meeting with King Birendra at which it was decided that King and the Indian Prime Minister should have a summit level discussion on September 4, 1989 at Belgrade where both would be going to attend the NAM Conference. The summit level meeting would set the process of negotiation in motion and pave the way for direct talk. And this expectation was fulfilled by Mr. Rao's visit to Nepal.

After the lapse of treaties Nearly 14 months Mr. Rajiv Gandhi and King Birendra met in Belgrade on 5th September 1989 with a view to settlement of stalemate in the bilateral relations. On September 6 King Birendra virtually accused India of restoring to "gunboat diplomacy" and an "onslaught of mass communication to NAM to ensure security" and survival of smaller and land locked countries. True, three rounds of talks between heads of two countries at Belgrade during NAM summit could not solve the crisis but reason for it was obvious. There was no love lost between the two. King Birendra, perhaps, wanted to test Mr. Gandhi's legitimacy at the hustings; of course forgetfulness of his own legitimacy except the so-called divine order. Now, the scenario in New

Delhi appears with more receptivity and flocibility in every shape of politics.⁸¹ In short during the period of call of negotiations India's quite diplomacy seems to have succeeded.

81. Parmanand, "Prospects For Indo-Nepal Ties", The Patriot (New Delhi), January 19, 1990.

CHAPTER 4

GOVERNMENTAL CHANGES IN INDIA AND SUCCESS OF DEMOCRATIC MOVEMENT IN NEPAL

The period of 1988-89 ended without any landmark achievement in breaking the stalemate. The diplomatic efforts could not ease out the tensions. The crisis in Indo-Nepal relations had now surpassed the stage of blaming each other. It became imperative how the two countries could resolve their differences amicably and restore normalcy. The persistent and worsening stalemate between two countries was detrimental to their national interests.

With the end of Congress rule and the advent of National Front Government on 2nd December 1989, the overall climate of Indo-Nepal relations changed overnight¹ simultaneously, political tremors brought by fermentation of democratic movement in Nepal assumed uncontrollable force in 1990. The countrywide enthusiasm for movement, a series of bandhs, rallies and strikes were staged all over the country to which Government responded with force and repression and over three thousand people were arrested and detained. It was reported that about 15 people were killed. The democratic movement was further get strengthened with increasing

1. The Times of India (New Delhi), December 3, 1989.

country wide support of intelligent class. In the March 1990 agitators burnt effigies of Nepali Prime Minister Marich Man Singh Shreshtha all over the country. The Nepali King dissolved the Shrestha Ministry and replaced him with more accomodating Mr.Lok Bahadur Chand on 6th April 1990. After realising that situation is now uncontrollable, King Birendra freed most of the leaders of political parties and coveyed to them informally that he was prepared to lift the ban on political parties and introduce the multi-parties system. On 8th April King announced the deletion of word "Partyless" from the constitution and lifted the ban on political parties. With the swearing in of 11 members coaliton Interim Government on 19th April, headed by Mr.K.P Bhattarai amidst scenes of jubiliation; a new era had begun in Nepal.² The success of democratic forces in Nepal and establishment of popular Government headed by Napali Congress leader Mr. K.P.Bhattarai became evident of the end of impasse in Indo-Nepalese relations.

In the first week of January 1990 the discussion between the Foreign Minister of both countries have yielded no breakthrough in resolving the trade and transit dispute.³ However, a Foreign Ministry spokesman of India said that misunderstanding and suspicion had been dispelled. A joint statement issued at the conclusion of the talks stated that

2. Sunday (Calcutta), Vol.17, 22-28 April 1990, pp.57-58.

3. The Hindustan Times, January 5, 1990.

dialogue had resulted in greater mutual understanding of each other's interests, concerns and problems affecting these bilateral relations.

The statement indicated that two countries felt the shared objectives were not only restoring close ties but also strengthening it further could be best achieved through the kind of "very cordial continuation of comprehensive dialogue which had now been resumed."⁴ These talks had created a good will between two estranged countries which was the imperative need of the hour.

Immediately after assuming office Nepalese Prime Minister of Interim Government, Mr.K.P.Bhattarai brought the notice to India. This notice incorporated hardships faced by the Nepalese people on the break down of trade and transit treaties. He proposed a highest level meeting with India for political settlement of impasse. By 27th April 1990, India too considered the new draft for trade treaty presented by Nepal. Indian Minister of State for External Affairs informed the Rajya Sabha on 26th April that Nepal had expressed a reference for two separate treaties on trade and transit, But India had suggested for new unified treaty. He also informed that no formal proposal for review of treaty of peace and

4. Ibid, no.81.

friendship (1950) had been received from Nepal. Considering all speculations and geo-political realities, pros and cons of impasse period 1988-90 Nepali Prime Minister had cleared his Government's stand that status quo ante that prevailed before expiry of trade and transit treaties in March 1989, should be restored and treaty of peace and friendship, though not completely outdated. For a long time a number of political organizations especially the radical communists had demanded abrogation of it as "unequal to Nepal". Although Mr. Bhattarai, did not call it "unequal". He certainly described it as "old treaty", which needs some changes but he had not explained the changes to be made in the treaty of 1950.⁵

Mr. Bhattarai visited India during 8-10 June 1990. More than 14 months old impasse was discussed at length in New Delhi. For the first time after the lapse of trade and transit treaties, India was going to deal with leader of democratic Nepal. The Prime Ministers of two countries reiterated their Government's adherence to and respect for the principles of sovereign, equality, territorial integrity, national independence, non-use of force, non-interference in each other's internal affairs and peaceful settlement of all disputes. And this was decided that formal treaty probably be

5. The Telegraph (Calcutta), May 3, 1990.

signed after holding of the general election in Nepal in May 1991. In fact, the process of refresh realism was started. A joint communique was signed, covering all aspects of bilateral relations and agreed to ensure that status quo ante to April 1, 1987 is restored by July 1/1990. This communique was commendable to end the crisis-ridden relations.

Addressing news conference before Nepal delegation took off for Kathmandu, Mr. Bhattarai categorically come out with unequivocal assurance to Indian security interests and perceptions. He said: "We tried to assure them that our own views would show and prove that we shall take care of their security preceptions and shall not allow Nepal to be used as a base by any one..... China and any other country".⁶ About arm dealings he disclosed in an unambiguous statement "previous Government had entered into arm deals with China principally because prices offered were extremely cheap". But he satisfied the Indian strategic analysts of New Delhi by clarifying that before coming to New Delhi I decided no further shipment of arms would be accepted from the China.⁷ He accepted that if India was able to meet Nepal's need for arms (in terms of price, delivery and quality) it might not be necessary for Nepal to go purchasing arms elsewhere in the world to meet its requirements. This gesture produced the

6. The Hindu (Madras), June 10, 1990.

7. Ibid.

desired effect in New Delhi and convincing Indian leaders about sincerity of new ruler of Nepal. On the long awaited and insisted Nepal's concept "zone of peace (ZOP)", Nepal Prime Minister has categorically rejected the zone of peace proposal and reiterated Nepal will continue to have best of mutual security understanding with India. The new Government of Nepal wanted globalisation of this proposal not limited to Nepal alone.

Indian Government enthusiastically hailed success of democratic movement in Nepal. Indian Prime Minister Mr. V.P.Singh also assured Nepal that no dark cloud of suspicion and controversy any longer hovered over the two countries . Doubtless to say, that for the first time two Prime Ministers met equals to start a deep meaningful relationship between the two countries. The relation of status quo to be applicable as on 1st April 1987. This was significant cut off date from Indian stand as it was from then onwards that Kathmandu had taken steps objected by India; the arms deal with China, the restrictions of work permit for Indian nationals in Nepal and withdrawal of tariff preference to Indian goods. On July 1, 1990 all 15 trade point and 22 transit point for Nepal's transit and trade with third countries were opened. Despite, the reaffirmation of friendship between two countries, there are still a few issues which need to be resolved. For example, the flow of

Indian currency between two countries and restrictions on the movement of Indian vehicles, which are pending since the Joint communique was issued in June 1990.⁸

The agreement for restoration of status quo ante was welcomed by the people of the both countries. But the radical communist in Nepal who have formed a joint front called United National People's Movement was critical of understanding on trade and transit relations. Pro Maoist Communist Party of Nepal(Mashal) spokesman remarked that Nepalese Government has surrendered the country's sovereignty to New Delhi. He alleged that India had forced Nepal to compromise its sovereignty and security before agreeing to restoring status quo ante in trade and transit issues. Meanwhile, the Nepalese Communist Party (Marxist Leninist) leaders Mr.Krishana Das Shrestha termed as "wrong" Mr.Bhattarai's decision to stop supply of Chinese armes to Nepal. Nepal's security must not be linked with that of India. There was spreading rumour that India in its draft treaty had wanted to have a joint checkpost of India and Nepalese army in Nepal-Tibet border and Indian Air Force planes were to be given free access into Nepal's over space. But Indian Ambassador to Nepal removed these apprehensions by

8. The Telegraph (Calcutta), February 23, 1991.

saying them "Baseless". He added There is a total equality and complete reciprocity with security clauses of Delhi agreement. Former Nepalese Foreign Minister Mr.Sailendera Kumar Upadhyay and former Premier of Nepal K.N.Bista have hailed Mr.Bhattacharai's efforts to resolve the trade and transit impasse. Nepali Press hailed the status quo ante agreement extensively. The English daily "Commoner" in its editorial wrote" the Prime Minister Mr.Bhattacharai deserves congratulations for the good work he had succeeded to do in having Nepal-India relations normalised. Thanks are also due to Government of India for its constructive attitude towards solving the problem that has been setting the traditional friendly relations between the two countries.⁹ Although, some questions raised by Nepalese Press. It was being conceded that resumption of supply of various essential commodities like coal and other raw material will enable country's industry to operate comfortably. It was being wondered whether Nepalese industries would in the position to stand the competition to be posed by Indian goods that flows increasingly to Nepal. But one should not be forgotten that less competitiveness of Nepali goods and trade deficit are the weaknesses inherent in its backward economy. Another concern was security. It has been stated in the joint

9. The Commoner (Kathmandu) June 11, 1990.

Comminique that mutual consultation will be held between two countries in all such matters to remove prejudices to each other's security. Since there was no explanation laying down the circumstances under which security may be deemed to have been prejudiced. One can be estimated the explanation of prejudice was just alarming old Nepali tradition of big small nations. Regarding the two military helicopters that were presented to Mr.Bhattarai during his visit to New Delhi: criticism was that two military helicopters do not make much difference oneway or other. These critics wonder if this present may not arouse sensitivities in some other quarters also just as import of some Chinese arms by Nepal sometime ago earned Indian's ire.

On 6th August 1990 Indian Foreign Minister Mr. I.K. Gujral visited Nepal. Talking with his Nepali counterpart, both decided to explore the prospects of establishing three railway lines in Nepal with Indian assistance. Mr. Gujral had agreed to three more entry points for tourists coming to Nepal overland would be opened by India in Eastern Nepal. The three points were Gouriphanta adjoining Pithoragarh, Sumauli adjacent to Indian town Nautawa and Nepalganj. In short Mr. Gujral's visit was reassurance visit to Nepal.¹⁰ In February 1991 Indian Prime Minister Mr.Chandra Shekhar visited to

10. The Telegraph (Calcutta), August 7, 1990.

Nepal. There was no major agreement signed during his visit. India agreed to upgrade Jaynagar-Janakpur Biratpur railway line in Nepal as well as expand the Bir Hospital in Kathmandu by 200 more beds. The upgradation of railway line was estimated to cost about Rs.7.10 crores while expenditure of Bir Hospital was estimated to be a about Rs.25 crore. This visit consolidated the Indo-Nepal ties.¹¹ During National Front regime in India Indo-Nepal relations improved not only bilateral issues but Nepal gave support to India at International stage also. Its support for India's candidature to security council during National Front regime was a welcome change from the pattern obtaining in previous three decades.¹² Since old hand from diplomatic vineyards of 1978 was associated with the process of separating the trade and transit and control illegal goods flow between Nepal and India, trust of decision about 1990s restoration of status quo ante was some subjective satisfaction. The importance of 1980s understanding was that govermental and public opinion in Nepal interpreted it as India accepting the independent rights of Nepal.

The year 1991 was a year of major political transformation in both countries In India, Congress again came to power. In Nepal first truly democratic general

11. S.D.Muni, The Times of India February 20, 1991.

12. See, S.K.Sinha, "Indo-Nepal Ties", The Statesman, February 8, 1991.

election held in May 1991 and Nepali Congress became the ruling party. It was significant for the Indo-Nepal ties. On 5th December 1991 Nepali Prime Minister Girija Prasad Koirala paid a six day official visit to India. On 6th December the Prime Minister of both countries met together. This meeting facilitated the conclusion of five agreements which would be termed as an "epoch making" effort to strengthen age old friendship. These five Agreements are: Agreement on trade, Agreement on transit, agreement on co-operation to control unauthorised trade on the border, Agreement on co-operation in Agriculture and Indo-Nepal B.P. Koirala Foundation.

A new Indo-Nepal treaty on trade was signed, valid for five years and renewable for the same period. It came into effect from 7th December 1991. Beside the elements included in earlier trade treaty and several tariff concessions provided in June 1990, several new facilities were also incorporated.¹³ An agreement has also been reached to curb

13. Some Highlights of Indo-Nepal treaty on trade are:
Reduction of Nepalese/Nepalese-Indian content requirement for duty and quota-free entry of Nepalese manufactured goods to India from 65 Per cent to 55 per cent.
Time - bound proforma clearance for such Nepalese exports to India, though the Indian Embassy in Kathmandu, as sought by the Nepalese Government with a four month time-limit.
Validity period of such proforma clearance has been increased from two years to five years. An agreement in principle to include Nepalese labour content in the 55 per cent requirement for duty/quota-free entry subject to a negative list of products being worked out by the two Governments. For detail see Appendix-A.

unauthorised trade valid for five years. Both sides are committed to work in close concert aimed at controlling this growing scourge which has adverse impact on the Indian economy. The new separate transit treaty will be valid for seven years. Beside the provision of earlier transit treaty, this incorporated simplified custom and other procedures to help Nepalese exporters and importers. In revolutionising bilateral co-operation with regard to water resources development, two countries took a number of decisions concerning karnali, Pacheshwer and Saptakashi hydal and multipurpose projects medium size projects like Gondaki flood forecasting and flood protection scheme, power exchange etc.

But it would be too early to conclude that water development related issues have disappeared. To maximize its profit Nepal wanted the prices of hydal power to be linked to the marginal cost of thermal generation in India. India on the other hand favoured a cost plus formula, to minimise the cost of power. Beside this Nepal wanted India to pay a premium for the water that will be released from reservoirs as power is generated, but India claims it is something contrary to international practice. These differences are not merely technical but also crucial¹⁴ with regard to

14. The Times of India (New Delhi), December 10, 1991.

development of water resources, Indian Prime Minister had decided to accept recommendations of task force, high level Indian delegation which visited Nepal in August 1991. This task force, during its three meetings with Nepali authorities, finalised the identification of major steps to be initiated in the bilateral relations to make them mutually beneficial and productive.¹⁵ The recommendations of joint task formed basis of agreements concluded between two countries.

A Memorandum of Understanding signed for co-operation in agriculture which encompasses co-operation in agriculture, science and technology, research processing of cash crops and agro-based industries. Apart from these agreements it was decided to give special encouragement for the setting up of Indo-Nepal joint ventures with a view to promote industrial development in Nepal. For this purpose, access to Indian market, free of basic custom duties and quantitative restrictions would be provided automatically for all products of such joint ventures which were cleared by the two governments. India's liberalised economic policy and concluded agreement on trade and transit with India are bound to influence the commerce and industrial policy of Nepal.

15. S.D.Muni, "A Landmark visit", Frontline, January, 1992, pp. 115.116.

The another agreement is establishment of Mr. Bishweshwar Prasad Koirala Indo-Nepal foundation. It will work with the active support of New Delhi and Kathmandu, to promote not merely educational and cultural exchanges but also to co-operation in science and technology, agriculture and other development oriented fields. India will contribute a sum of rupees two crores to Foundation's fund and the Nepalese Government will make matching contribution.

The Nepalese Premier's main objective to visit India was to secure as many concessions as possible and he succeeded to a large extent. While talking to Indian mediaperson he said "he would be returning home with great satisfaction". In the matter of trade and transit, he got considerable political advantage by signing separate treaties on trade and transit. About Nepal's acquisition of arms from China, Nepalese Prime Minister added that it had emerged as a major irritant in the Indo-Nepal relations and that kind of a thing will not be repeated in future. By expressing satisfaction on improved Indo-China ties, he was happy that Indo-China relations are improving. The overall situation is a matter of satisfaction for all three countries. About Pakistan's idea making South Asia a nuclear weapon-free zone, he said "why not the whole world". There can be no short-cuts in the matter of peace. The whole question should be

viewed in global context.¹⁶ About much mounted greater Nepal propaganda of Mr. Ghising, Nepalese Prime Minister clarified, Nepal would neither interfere in the internal affairs of Bhutan nor would undertake any endeavours to support the idea of greater Nepal.

The visit of Nepalese Prime Minister to India has proved to evoke mixed reactions in New Delhi as well as in Kathmandu. The political circles in Kathmandu mostly welcomed the out come of visit by considering it a fresh start of constructive friendship and economic co-operation. Mr. K.P.Bhattarai said it was satisfactory. However, the communist parties of Nepal divided in their analysis of the outcome of G.P.Koirala's visit to India. The Secretary of United Communist Party of Nepal (M-L) Mr. Madan Bhandari welcomed the signing of two separate treaties and kept his opinion about agreement on water resources reserved. Indian print media and political circle have welcomed the outcome of Nepali Premeir's visit to India as a positive step towards cementing of freindship between the two countries.¹⁷ There are clear signs that both Governments appreciate each other's political sensitivities better than what had been the case for most of the 1980s. As Nepalese Prime Minister accepted

16. The Times of India (New Delhi), December 8, 1991.

17. The Hindustan Times (New Delhi) December 7, 1991.

that his visit to India was aimed at repairing the damages and end the bitterness caused by the " hate-India campaign mounted by the toppled panchayat regime for the last 32 years on the pretext of Nepali nationalism .

In short the outcome of the visit of Nepali Prime Minister was that it put on an even keel in continuation of the process that his predecessor Mr. K.P. Bhattarai initiated in June 1990.

CONCLUSION

The history of Indo-Nepal relations since 1950 showed that the future of Indo-Nepal ties will depend on who runs the governments. In the era of King Tribhuvan of Nepal, Indo-Nepal relations were at the peak. The King Mahendra's assertive nationalism always contradicted with India's covert as well as overt support to democratic movement in Nepal. In short since 1955 anti-Indianism had become synonymous with Nepali nationalism. A certain amount of stridency is not only natural but may have been meant essentially for Nepali domestic consumption. It was during the regime of king Birendra Nepali policies have assumed a pronounced anti-India bias not only at state level but even in people to people relations. There was systematic discrimination against the Indian community in Nepal which was the one of the main irritants even in 1980s. But potentiality of this irritant marginalized by India. As ambassador to Nepal Mr. Bimal Prasad consider it is an internal problem of Nepal.¹ The important point is that momentum of cordial relations between two neighbours reestablished since the restoration of democracy in Nepal has been sustained. Earliar the relations were strained because panchayat systems's perceptions of an unequal relationship with India, other complications arising

1. The National Herald (New Delhi) January 16, 1991.

from the conflict of personalities cult and absence of democracy in Nepal. What is needed now is a series of agreements to channelise the goodwill between the two countries into mutual beneficial projects. These conditionalities are fulfilled by the five agreements signed in 6th December 1991. These agreements institutionalised Indo-Nepal economic cooperation between two countries and consolidated the tides of history and succeed in creating accomodative order for benefiting the new age and opening the way for happiness, prosperity and bright future of the people of two countries. The institutionalisation of Indo-Nepal co-operation must be accompanied by similar arrangement with other South Asian countries especially with China because since 1955 after the death of King Tribhuvan of Nepal, its overt and covert hobnobbing with China against India became contentious issue between two countries. For example, Nepal's action of purchasing of arms from China has given freash leage to simmering conflict between India and Nepal. This Institutionalisation of Indo-Nepal and Indo-China relations respectively will be helped for washing away the deep-rooted apprehensions stemming from India's sizable presense in South Asia. It seems that Nepal is discarding its more than three decades old anti-India,China card. Even China is not in the same position as in 60s and 70s. But in the case of personal relations, nothing should be taken for granted.

International development and their implications should be assessed and reviewed by the two neighbours and try to adjust within their framework purposefully. The notion of "who needs who most" is obsolete in the present day in the international politics rather it is a question of the concept of interdependence. So considering this truth India have to change its early image of big brother(as Nepal considered) with Nepal. At present India is going to follow liberalisation in economic sphere.To fulfill energy requirement of new industrial infrastructure it has to co-operation with Nepal because the latter have huge water resources for hydro-electricity.² India has the ability to harness it. So from economic co-operation point of view firm utilisation of water resources of Nepal will be marked as clear understanding of respective interest of both countries.

The decade (1980s) of Indo-Nepalese relationship was compounded by the plethora of irritants such as problem of Indian nationals in Nepal, problem of Nepali people of Indian origin, problem of Nepali people in India, terrorism and smuggling, trade and transit dispute, Nepali notion of zone of peace and above all Nepal's ill-conceived action of arms purchase from China. Generally all these irritants have

2. For detail see, Lowrance Surendra, "Water Warriors", Frontline, July-August 1991, pp. 57-59.

been removed in the 1990-91. Now it is the duty of democratic Governments of Nepal and India headed by mature leadership to nurture these relations, purposefully. An essential interdependence does exist and this must be appreciated by both countries. Since Nepal is a small country, its sensitivities heightened by minor irritants and in future it would expect India to handle every grievance of Nepal with greater understanding.

APPENDIX - A

TREATY OF TRADE; 6th DECEMBER 1991

The government of India and His Majesty's Government of Nepal (herein after referred to as the Contracting Parties),

Being conscious of need to fortify the traditional connection between the markets of the two countries,

Being animated by the desire to strengthen economic cooperation between them,

Have resolved to conclude a Treaty of Trade in order to expand trade between their respective territories and encourage collaboration in economic development, and

Have for this purpose appointed as their plenipotentiaries the following persons namely,

For the Government of India Shri P.Chidambaram Minister of States for Commerce, For His Majesty's Government of Nepal, Shri Gopal Man Shrestha, Minister of Commerce.

Who, having exchanged their full powers, and found them good and in due form, have agreed as follow :

ARTICLE - I

The Contracting Parties shall explore and undertake all measures, including technical cooperation, to promote, facilitate, expand and diversity trade between the two countries.

ARTICLE - II

The Contracting parties shall endeavour to grant maximum facilities and to undertake all necessary measures for the free and unhampered flow of goods, needed by one country from the other, to and from their respective territories.

ARTICLE - III

Both the Contracting parties shall accord unconditionally to each other treatment no less favourable than that accorded to any third country with respect to (a) customs duties and charges of any kind imposed on or in connection with importation and exportation, and (b) import regulation including quantitative restrictions.

ARTICLE - IV

The Contracting Parties agree, on a reciprocal basis, to exempt from basic customs duty as well as from quantitative restrictions the import of such primary products as may be mutually agreed upon, from each other.

ARTICLE - V

Notwithstanding the provisions of Article III and subject to such exceptions as may be made after consultation with His Majesty's Government of Nepal, the Government of India agree to promote the industrial development of Nepal through the grant on the basis of non-reciprocity of specially favourable treatment to imports into India of industrial products manufactured in Nepal in respect of

customs duty and quantitative restrictions normally applicable to them.

ARTICLE - VI

With a view to facilitating greater interchange of goods between the two countries, His Majesty's Government shall endeavour to exempt, wholly or partially, imports from India from customs duty and quantitative restrictions to the maximum extent compatible with their development needs and protection of their industries.

ARTICLE - VII

Payment for transactions between the two countries will continue to be made in accordance with their respective foreign exchange laws, rules and regulations. The Contracting Parties agree to consult each other in the event of either of them experiencing difficulties in their mutual transactions with a view to resolving such difficulties.

ARTICLE - VIII

The Contracting parties agree to co-operate effectively with each other to prevent infringement and circumvention of the laws, rules and regulations of either country in regard to matters relating to foreign exchange and foreign trade.

ARTICLE - IX

Notwithstanding the foregoing provisions, either Contracting party may maintain or introduce such restrictions as are necessary for the purpose of:

- (a) protecting public morals,
- (b) protecting human, animal and plant life,
- (c) safeguarding national treasures,
- (d) safeguarding the implementation of laws relating to the import and export of gold and silver bullion, and
- (e) safeguarding such other interests as may be mutually agreed upon

ARTICLE - X

Nothing in this treaty shall prevent either Contracting Party from taking any measures which may be necessary for the protection of its essential security interests or in pursuance of general international conventions, whether already in existence or concluded hereafter, to which it is a party relating to transit, export or import of particular kinds of articles such as narcotics and psychotropic substances or in pursuance of general conventions intended to prevent infringement of industrial, literary or artistic property or relating to false marks, false indications of origin or other methods of unfair competition.

ARTICLE - XI

In order to facilitate effective and harmonious implementation of this Treaty, the Contracting Parties shall consult each other regularly. **ARTICLE - XII**

This Treaty shall come into force on the 6th December 1991, and shall remain in force for a period of five years. It may be renewed for further periods of five years, at a

time, by mutual consent, subject to such modifications as may be agreed upon.

Done in duplicate in Hindi, Nepali, and English languages, all the texts being equally authentic, at New Delhi on 6th December 1991. In case of doubt, the English text will prevail.

(P. CHIDAMBARAM)
Minister of State for Commerce
For the Government of India

(GOPAL MAN SHRESTHA)
Minister of Commerce
For His Majesty's
Government of Nepal

APPENDIX - B

TREATY OF TRANSIT; 6th DECEMBER 1991

The Government of India and His Majesty's Government of Nepal (hereinafter also referred to as the Contracting Parties),

Animated by the desire to maintain, develop and strengthen the existing friendly relations and cooperation between the two countries,

Recognising that Nepal as a land-locked country needs access to and from the sea to promote its international trade,

And recognising the need to facilitate the traffic in transit through their territories,

Have resolved to conclude a Treaty of Transit, and

Have for this purpose appointed as their plenipotentiaries the following persons namely,

For the Government of India Shri P.Chidambaram Minister of State for Commerce, For His Majesty's Government of Nepal, Shri Gopal Man Shrestha, Minister of Commerce.

Who, having exchanged their full powers, and found them good and in due form, have agreed as follow :

ARTICLE - I

The Contracting Parties shall accord to "traffic in transit" freedom of transit across their respective territories through routes mutually agreed upon. No distinction shall be made which is based on flag of vessels,

the places of origin, departure, entry, exit, destination, ownership of goods or vessels.

ARTICLE - II

(a) Each Contracting Party shall have the right to take all indispensable measures to ensure that such freedom, accorded by it on its territory does not in any way infringe its legitimate interests of any kind.

(b) Nothing in this Treaty shall prevent either Contracting Party from taking any measures which may be necessary for the protection of its essential security interests.

ARTICLE - III

The term, "traffic in transit" means the passage of goods including unaccompanied baggage across the territory of a Contracting Party when the passage is a portion of a complete journey which begins or terminates within the territory of the other Contracting Party. The transshipment, warehousing, breaking bulk and change in the mode of transport of such goods as well as the assembly, dis-assembly or re-assembly of machinery and bulky goods shall not render the passage of goods outside the definition of "traffic in transit" provided any such operation is undertaken solely for the convenience of transportation. Nothing in this article shall be construed as imposing an obligation on either Contracting Party to establish or permit the establishment of permanent facilities on its territory for such assembly, dis-

assembly or re-assembly.

ARTICLE - IV

Traffic in transit shall be exempt from customs duties and from all transit duties or other charges except reasonable charges for transportation and such other charges as are commensurate with the costs of services rendered in respect of such transit.

ARTICLE - V

For convenience of traffic in transit the Contracting Parties agree to provide at point or points of entry or exit, on such terms as may be mutually agreed upon and subject to their relevant laws and regulations prevailing in either country, warehouses or sheds, for the storage of traffic in transit awaiting customs clearance before onward transmission.

ARTICLE - VI

Traffic in transit shall be subject to the procedure laid down in the Protocol here to annexed and as modified by mutual agreement. Except in case of failure to comply with the procedure prescribed, such traffic in transit shall not be subject to avoidable delays or restrictions.

ARTICLE - VII

In order to enjoy the freedom of the high seas, merchant ships sailing under the flag of Nepal shall be accorded, subject to Indian laws and regulations, treatment no less favourable than that accorded to ships of any other

foreign country in respect of matters relating to navigation, entry into and departure from the ports, use of ports and harbour facilities, as well as loading and unloading dues, taxes and other levies, except that the provisions of this Article shall not extend to coastal trade.

ARTICLE - VIII

Notwithstanding the foregoing provisions, either Contracting party may maintain or introduce such measures or restrictions as are necessary for the purpose of:

- (i) Protecting public morals;
- (ii) Protecting human, animal and plant life;
- (iii) Safeguarding the implementation of laws relating to the import and export of gold and silver bullion; and
- (iv) Safeguarding such other interests as may be mutually agreed upon.

ARTICLE - IX

Nothing in this Treaty shall prevent either Contracting Party from taking any measures which may be necessary in pursuance of general international conventions, whether already in existence or concluded hereafter, to which it is a party relating to transit, export or import of particular kinds of article such as narcotics and psychotropic substances or in pursuance of general conventions intended to prevent infringement of industrial, literary or artistic

property or relating to false marks, false indications of foreign or other methods of unfair competition.

ARTICLE - X

In order to facilitate effective and harmonious implimentation of this Treaty the Contracting parties shall consult each other regularly.

ARTICLE - XI

This Treaty shall enter into force on the 6th December 1991 and shall remain in force for a period of seven years. It may be renewed for further periods of seven years by mutual consent, subject to such modifications as may be agreed upon.

Done in duplicate in Hindi, Nepali and English languages, all the texts being equally authentic, at New Delhi on the 6th December 1991. In case of doubt, the English text will prevail.

(P. Chidambaram)
Minister of State for Commerce
for Government of India

(Gopal Man Shrestha)
Minister of Commerce
for His Majesty's
Government of Nepal

AGREEMENT OF COOPERATION BETWEEN
GOVERNMENT OF INDIA AND HIS MAJESTY'S
GOVERNMENT OF NEPAL TO CONTROL
UNAUTHORISED TRADE

The Government of India and His Majesty's Government of Nepal (hereinafter also referred to as the Contracting Parties).

KEEN to sustain the good neighbourliness through mutually beneficial measures at their common border which is free for movement of persons and goods.

Have agreed as follows:

ARTICLE - I

The Contracting Parties, while recognising that there is a long and open border between the two countries and there is a free movement of persons and goods across the border and noting that they have the right to pursue independent foreign trade policies, agree that either of them would take all such measures as are necessary to ensure that the economic interests of the party are not adversely affected through unauthorised trade between the two countries.

ARTICLE - II

The Contracting Parties agree to cooperate effectively with each other, to prevent infringement and circumvention of the laws, rules and regulations of either country in regard to matters relating to Customs, Narcotics and Psychotropic

Substances, Foreign Exchange and Foreign Trade and shall for this purpose assist each other in such matters as consultation, enquiries and exchange of information with regard to matters concerning such infringement or circumvention.

ARTICLE - III

Subject to such exceptions as may be mutually agreed upon each Contracting Party shall prohibit and cooperate with the other to prevent:

(a) re-exports from its territory to third countries of goods imported from the other Contracting Party and products which contain materials imported from the Contracting Party exceeding 50 per cent of the ex-factory value of such products;

(b) re-export to the territory of the other Contracting Party of goods imported from third countries of products which contain imports from third countries exceeding 50 per cent of the ex-factory value of such goods.

ARTICLE - IV

Each contracting Party will :

(a) prohibit and take appropriate measures to prevent import from the territory of the other Contracting Party of goods liable to be re-exported to third countries from its territory and the export of which from the territory of the other Contracting Party to its territory is prohibited:

(b) in order to avoid inducement towards diversion of

imported goods to the other Contracting Party, take appropriate steps through necessary provisions relating to Baggage Rules, gifts and foreign exchange authorisation for the import of goods from third countries.

ARTICLE - V

The Contracting Parties shall compile and exchange with each other statistical and other information relating to unauthorised trade across the common border. They also agree to exchange with each other regularly the lists of goods the import and export of which are prohibited, or restricted or subject to control according to their respective laws and regulations.

ARTICLE - VI

The respective heads of the Border Customs Offices of each country shall meet regularly with his counterpart of appropriate status at least once in two months alternately across the common border:

- (a) to cooperate with each other in the prevention of unauthorised trade;
- (b) to maintain the smooth and uninterrupted movement of goods across their territories;
- (c) to render assistance in resolving administrative difficulties as may arise at the field level.

ARTICLE - VII

In order to facilitate effective and harmonious implementation of this Agreement, the Contracting Parties shall consult each other regularly.

ARTICLE - VIII

This Agreement shall come into force on the 6th December 1991, and shall remain in force for a period of five years. It may be renewed for further period of five years, at a time, by mutual consent, subject to such modifications as may be agreed upon.

Done in duplicate in Hindi, Nepali and English languages, all the texts being equally authentic at New Delhi on the 6th December 1991. In case of doubt, the English text will prevail.

(P.Chidambaram)
Minister of State for Commerce
for Government of India

(Gopal Man Shrestha)
Minister of Commerce
for His Majesty's
Government of Nepal.

TABLE NO. 1

NEPAL'S IMPORTS

(Values in million Nepalese Rupees)

Year	Total	India	Other countries
1974-75	1814.6 (100) ^B	1475.7 (81.3)	338.9 (18.7)
1975-76	1981.7 (100)	1227.1 (61.9)	754.6 (38.1)
1976-77	2008.0 (100)	1343.5 (66.9)	664.5 (33.1)
1977-78	2469.6 (100)	1534.1 (62.1)	935.5 (37.9)
1978-79	2884.7 (100)	1581.7 (54.8)	1303.0 (45.2)
1979-80	3480.1 (100)	1786.4 (51.3)	1693.7 (48.7)
1980-81	4428.2 (100)	2179.0 (49.2)	2249 (50.8)
1981-82	4930.3 (100)	2280.9 (46.3)	2649.4 (53.7)
1982-83	6314.0 (100)	2499.6 (39.6)	3814.4 (60.4)
1983-84	6514.3 (100)	3058.0 (46.9)	3456.3 (53.1)
1984-85	7742.1 (100)	3895.0 (50.3)	3846.3 (49.7)
1985-86	9341.2 (100)	3970.4 (42.5)	5370.3 (57.5)
1986-87	10905.2 (100)	4262.0 (39.1)	6643.2 (60.9)
1987-88	13869.7 (100)	4595.8 (33.1)	9273.9 (66.9)
1988-89	16263.6 (100)	4238.6 (26.1)	12025.0 (73.9)
1989-90 ^P	16315.3 (100)	4245.4 (26.0)	12069.9 (74.0)

SOURCE:- Quarterly Economic Bulletin, Nepal Rashtira Bank, Vol. 1, October, 1988 to July 1989 November 1-4.

B -> Figures within bracket indicate percentages of the total

P -> Provisional

TABLE NO. 2

NEPAL'S EXPORTS

(Values in million Nepalese Rupees)

Year	Total	India	Other countries
1974-75	889.6 (100) ^B	746.7 (83.9)	142.9 (16.1)
1975-76	1185.8 (100)	893.7 (75.4)	292.1 (24.6)
1976-77	1164.7 (100)	779.6 (66.9)	385.1 (33.1)
1977-78	1046.2 (100)	498.11 (47.6)	548.1 (52.4)
1978-79	1296.8 (100)	650.1 (50.1)	646.7 (49.9)
1979-80	1150.5 (100)	520.9 (45.3)	629.6 (54.7)
1980-81	1608.7 (100)	992.4 (61.7)	616.9 (38.3)
1981-82	1491.5 (100)	994.4 (66.7)	497.1 (33.3)
1982-83	1132.0 (100)	843.3 (74.5)	288.7 (25.5)
1983-84	1703.9 (100)	1160.7 (68.1)	543.2 (31.9)
1984-85	2740.6 (100)	1601.7 (58.4)	1138.9 (41.6)
1985-86	3078.0 (100)	1241.1 (40.3)	1836.9 (59.7)
1986-87	2991.4 (100)	1302.6 (43.5)	1688.8 (56.5)
1987-88	4114.5 (100)	1567.8 (38.1)	2546.8 (61.9)
1988-89	4195.5 (100)	1034.8 (24.7)	3160.70 (75.3)
1989-90 ^P	4589.7 (100)	376.3 (8.1)	4213.49 (91.9)

SOURCE:- Quarterly Economic Bulletin, Nepal Rashtra Bank, Vol.23
October, 1988 to July 1989 November 1-4.

B -> Figures within bracket indicate percentages of the total.

P -> Provisional

TABLE NO. 3

NEPAL'S TRADE BALANCE

(Values in million Nepalese Rupees)

Year	Total	India	Other countries
1974-75	925.0 (100) ^B	729.0 (78.8)	196.0 (21.2)
1975-76	795.98 (100)	333.4 (41.9)	462.5 (58.1)
1976-77	843.37 (100)	563.9 (66.9)	279.4 (33.1)
1977-78	1423.4 (100)	1036.0 (72.8)	387.4 (27.2)
1978-79	1587.9 (100)	931.6 (58.7)	656.3 (41.3)
1979-80	2319.6 (100)	1265.5 (54.3)	1064.1 (45.7)
1980-81	2819.5 (100)	1186.6 (42.1)	1633.9 (57.9)
1981-82	3438.8 (100)	1286.5 (37.4)	2152.3 (62.6)
1982-83	5182.0 (100)	1656.3 (32.0)	3525.7 (68.0)
1983-84	4810.4 (100)	1897.3 (39.4)	2913.1 (60.6)
1984-85	5001.5 (100)	2294.1 (45.9)	2707.4 (54.1)
1985-86	6263.2 (100)	2729.8 (43.6)	3533.4 (56.4)
1986-87	7913.8 (100)	2959.4 (37.4)	4954.4 (62.6)
1987-88	9755.2 (100)	3028.2 (31.0)	6727.0 (69.0)
1988-89	12068.1 (100)	3203.8 (26.5)	8864.3 (73.5)
1989-90 ^P	11725.6 (100)	3869.1 (33.0)	7856.6 (67.0)

SOURCE:- Quarterly Economic Bulletin, Nepal Rashtra Bank, Vol.23
October, 1988 to July 1989 November 1-4.

B -> Figures within bracket indicate percentages of the total.
P -> Provisional

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