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Intelligence Report

Office of Near Eastern and South Asian Analysis

25 March 1997

India: Seeking Improved Relations With South Asian Neighbors

Forging friendlier relations with India's South Asian neighbors is a cornerstone of the United Front government's foreign policy. India in recent months has modestly bolstered cooperation with its neighbors on several fronts and is moving to resolve contentious issues that have soured relations in the past.

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New Delhi sees improved regional relations as essential to achieving recognition as a global power, its key foreign policy goal. Recent setbacks in the international arena--such as India's failure to win a nonpermanent seat in the UN Security Council--have led officials in New Delhi to conclude that friendlier relations with its neighbors are necessary to improve India's image and to secure increased support for its positions in international forums. Indian leaders also anticipate that closer regional ties will pay important economic dividends and reduce some of its security concerns.

Nonetheless, progress on regional cooperation probably will be slowed by lingering animosities and suspicions, domestic political problems in some South Asian countries, and other political and economic constraints. Moreover, the initiative toward better relations is primarily the creation of Foreign Minister Gujral and could be easily reversed by a new administration in New Delhi.

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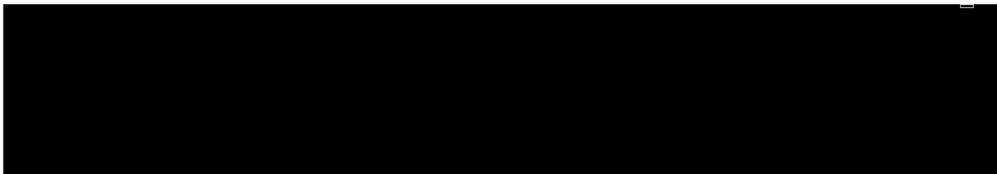
India: Seeking Improved Relations With South Asian Neighbors

A Commitment to Closer Regional Ties: The Gujral Doctrine

India's United Front government has accorded the highest priority to improving relations with its South Asian neighbors since it came to power last June. Under the stewardship of Foreign Minister Gujral, New Delhi has taken unprecedented initiatives to open a new chapter in its regional relations--dubbed the Gujral Doctrine by the Indian press--which often have been strained by disputes over territory, water sharing, trade barriers, security issues, and the perception that India seeks to dominate its smaller neighbors politically and economically. In addition, New Delhi has adopted a more positive tone in its rhetoric toward its neighbors, stepped up diplomatic exchanges with them, and made a modest start at expanding regional cooperation and ironing out bilateral problems:

- Gujral has told reporters that, as the largest country in the region, India must do more for its neighbors than it can expect in return, and it would no longer insist on a quid pro quo.
- New Delhi, for example, has made progress with Bangladesh on several issues without requiring that Dhaka agree to grant India transit rights through Bangladesh, a politically sensitive issue for Dhaka. India also has made unilateral concessions to Nepal in recent months.
- Bangladeshi and Nepalese officials have told US counterparts that New Delhi's more flexible stance has convinced them it is serious about establishing better regional relations. 

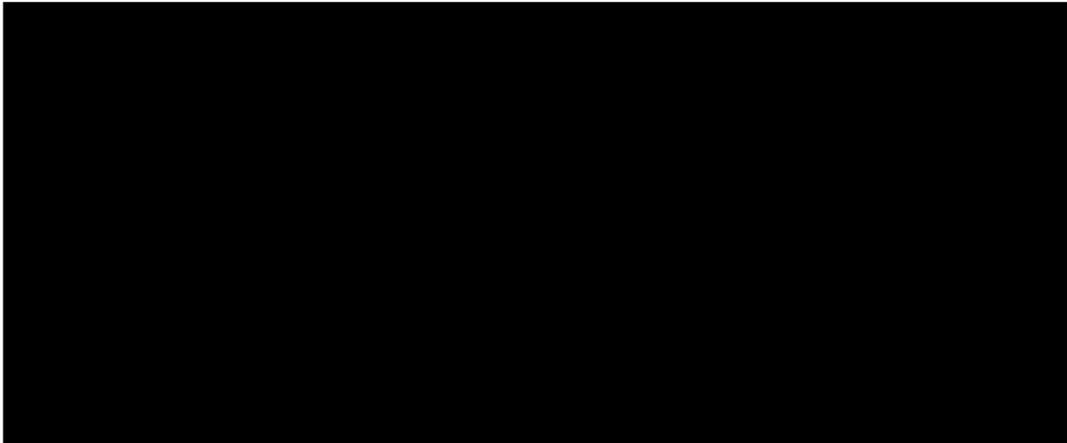
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The Gujral Doctrine [REDACTED]

The Gujral Doctrine, as described by India's Foreign Minister, asserts India will take the lead in helping the South Asian nations of SAARC forge closer relations. The five basic tenets of the doctrine are:

- Asymmetry; India will not insist on reciprocity in actions with its neighbors.
- Nonuse of the territory of any South Asian country for activities aimed at destabilizing any other country in the region.
- Noninterference in the internal affairs of neighboring countries.
- Respect for the territorial integrity and sovereignty of South Asian states.
- Settlement of disputes through peaceful-bilateral negotiations. [REDACTED]



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Bolstering Economic Ties [REDACTED]

Efforts to expand economic cooperation are the most tangible sign of the United Front's good neighbor policy. Foreign Minister Gujral has stated that New Delhi views economic cooperation as a cornerstone of its regional diplomacy. New Delhi appears to be working on several fronts to strengthen trade and other economic cooperation with its neighbors and to resolve contentious economic issues that have strained relations:

- In recent months New Delhi has conducted talks with **Bangladesh** at the ministerial and secretarial levels aimed at reducing barriers to trade and reaching a new water sharing agreement for the Ganges River--one of the most sensitive issues in their relations. According to press reports, the two sides reached agreement on a border trade accord, and New Delhi agreed to modest trade concessions to help redress the imbalance in bilateral trade. India ran an \$880 million trade surplus with Bangladesh in 1995, according to IMF statistics. The two countries in December signed a 30-year water agreement for sharing Ganges River waters that provides for a guaranteed minimum flow to Bangladesh during the dry season. [REDACTED] New Delhi and Dhaka recently held exploratory talks on the sale of electricity by India to Bangladesh.
- The United Front government reached agreement with **Nepal** on a new trade agreement that grants Nepalese imports expanded preferential access to the Indian market, according to [REDACTED] press reports. New Delhi also agreed in principle to an overland transit route for Nepal through India to Chittagong Port in Bangladesh to facilitate Nepal's foreign trade. India and Nepal recently ratified a treaty for joint development of the Mahakali River that was negotiated under the previous Congress Party administration, according to press reports.
- During his visit to Sri Lanka in January, Foreign Minister Gujral signed an investment protection agreement, announced the release of \$15 million in credit to Colombo, and stated India's intention to reduce tariffs and quantitative restrictions on its trade with Sri Lanka, according to diplomatic reporting. [REDACTED]

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Strengthening South Asian Cooperation [REDACTED]

New Delhi is seeking to strengthen regional economic ties within the framework of the South Asian Association for Regional Cooperation (SAARC). This organization has made only limited progress since it was founded in 1985 largely because of chronic political tensions and New Delhi's insistence on dealing with its neighbors on a bilateral basis. In recent months Indian officials have become more active participants in SAARC conferences and have emphasized in public statements the importance New Delhi attaches to the organization:

- In an acknowledgment of India's past neglect of regional economic cooperation, Prime Minister Deve Gowda remarked at a meeting of South Asian business leaders in November that "the truth is that there is no time to lose, and we have a lot of backlog to make up."

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- According to press reports, India was instrumental in securing an agreement in principle among from the South Asian states to expand the list of goods eligible for reciprocal tariff concessions at trade negotiations in late November, offering unilateral tariff cuts on some 900 items.
- During his trip to Bangladesh in January, Prime Minister Deve Gowda remarked that India planned to hold a ministerial-level conference in the near future to discuss promoting investment ties among the South Asian countries. He also said that New Delhi wanted to address regional infrastructure bottlenecks and transportation problems on a priority basis. [REDACTED]

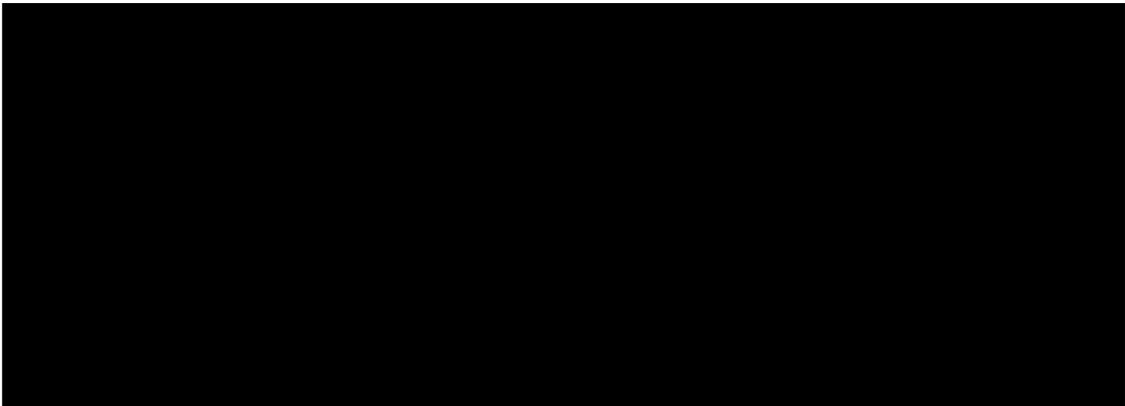
Indian officials expect that bolstering SAARC will strengthen India's bargaining position in dealings with other regional groupings, such as ASEAN, according to press reports. Indian leaders appear increasingly aware that participation in regional economic groupings has spurred export and economic growth in other Asian countries. New Delhi is eager to protect its market share in South Asian countries from increased competition from South-east Asian nations. [REDACTED]

Fostering Political and Security Cooperation [REDACTED]

New Delhi is pushing for increased cooperation with its neighbors on security issues. Indian officials have long claimed that Indian separatists and militants train or enjoy safehaven in neighboring countries or transit them to enter India. New Delhi also is concerned about the potential for insurgencies and other security problems in neighboring countries spilling over into India's politically sensitive border regions:

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- New Delhi and Kathmandu have been working more closely to monitor groups involved in anti-Indian activities based in Nepal, according to a clandestine source. Nepalese officials detained two suspected Sikh terrorists several months ago and deported them to India after they were found to have fraudulent passports, according to another clandestine source. In addition, India and Nepal have agreed to negotiate a new border monitoring system, according to press reports.
- Indian officials appear pleased that Dhaka has taken initiatives to curtail anti-Indian activities in Bangladesh. [REDACTED]



Tentative Overtures to Islamabad [REDACTED]

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The United Front government has made far less progress engaging Pakistan than its other neighbors because of deeply ingrained mutual suspicions and the uncertain political situation in Pakistan in recent months. Nonetheless, it has taken modest steps to move the relationship forward:

- Indian officials have curtailed their anti-Pakistani rhetoric. Gujral, for example, declined to exercise India's right of reply after Pakistani Prime Minister Bhutto's speech to the UN General Assembly last October excoriating India over human rights abuses in Kashmir.
- New Delhi has continued low-level discussions with Pakistani officials aimed at resolving bilateral problems, like narcotics smuggling.
- India has taken small steps to normalize trade with Pakistan, most of which in recent years has been routed through third countries, making it costly and inefficient. New Delhi, for example, agreed to sell Pakistan 500,000 tons of wheat and 100,000 tons of sugar last year, according to press reports. In a shift from past policy, Indian officials allowed the goods to be transported directly from India to Pakistan via truck or train.
- Indian officials have told Islamabad that they are interested in exploring the possibility of a gas pipeline from Central Asia across Pakistan to India. [REDACTED] New Delhi has asked the Pakistanis for a paper outlining proposals for the management, ownership, and financing of such a pipeline. [REDACTED]

Public statements by Indian leaders suggest that they view the election of Nawaz Sharif as Prime Minister of Pakistan as an opportunity to make meaningful progress toward breaking the impasse in relations:

- Prime Minister Deve Gowda welcomed Sharif's election and pledged to "fully cooperate with Islamabad" to reopen dialogue. Deve Gowda said in late February the Indian and Pakistani ministers should meet to revive high-level contacts.
- Gujral announced in mid-February that India would promote business travel between India and Pakistan by easing visa restrictions, according to press reports. [REDACTED]

Nevertheless, Deve Gowda confronts political constraints that could slow Indo-Pakistani progress. The opposition Hindu nationalist Bharatiya Janata Party, for example, has threatened a no-confidence motion against Deve Gowda's government for being soft on Kashmir and, by extension, on Pakistan. Such attacks could force Deve Gowda to trumpet nationalist themes, damaging the atmosphere for Indo-Pakistani dialogue. [REDACTED]

Can South Asian Cooperation Last? [REDACTED]

New Delhi's good neighbor policy faces an uncertain future despite its promising beginning. The most intractable obstacle--historic animosities between India and the others--will take years of good-faith efforts to overcome. In the meantime, the process will be vulnerable to setbacks, if not outright reversal. New Delhi would have few reservations about reverting to heavy-handed "big brother" tactics if it believed its vital interests were threatened, such as by Nepal's efforts to develop its hydropower potential in ways that would deprive downstream India of needed water. [REDACTED]

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Progress toward increased cooperation will be slowed by the weak political positions of key governments in the region. Most are preoccupied with staying in power and are operating under severe political constraints that limit their foreign policy options. India's United Front government in particular will be wary of handing its political opponents an issue or generating adverse public opinion by granting concessions or catering to neighbors' concerns at the expense of Indian interests. As a loose and fragile coalition of regional parties, the United Front must be sensitive to political opposition from the state level and must consult state leaders as it formulates foreign policy toward India's neighbors. [REDACTED]

India's good neighbor policy might not survive the United Front's demise, because it is driven almost single-handedly by the Foreign Minister. Gujral enjoys a free hand in formulating foreign policy; many of his Cabinet colleagues, including the Prime

Minister, have virtually no experience or interest in foreign affairs, according to sources of varying reliability. A weak successor government probably would be loath to undertake bold new initiatives, while an administration led by the Hindu nationalist Bharatiya Janata Party would not be inclined to make agreements perceived to be against India's national interest. BJP president Advani told a rally of 25,000 protesters in late January that ,if the BJP were to come to power, it would review India's water-sharing agreement with Bangladesh with an eye toward voiding it [REDACTED]

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Enhanced cooperation on the economic front faces additional hurdles. Strong protectionist sentiment in India and some of its neighbors will slow progress in reducing tariffs and other barriers that have hindered the growth of regional trade. The expansion of trade ties also will be limited by similar production patterns in many South Asian countries and the limited domestic markets of the smaller states. Financial shortfalls will hinder South Asian countries from pursuing joint development projects. [REDACTED]

Appendix A

India and Its Neighbors: A Troubled History [REDACTED]

India has a long history of disputes with its South Asian neighbors. New Delhi has made some progress in improving its regional relations--primarily on a bilateral basis--but contentious problems remain. [REDACTED]

Pakistan. Tension between India and Pakistan has been one of the defining issues of South Asian politics since their independence in 1947. In addition to their pivotal dispute over the status of Kashmir, relations have been strained over such problems as trade barriers, water sharing, and security threats. In recent months India and Pakistan have once more traded accusations that each is trying to destabilize the other by aiding and equipping cross-border militant operations in each other's territory. [REDACTED]

Bangladesh. Diplomatic relations between India and Bangladesh have been strained during much of the past 25 years but appear to be improving. Disputes have centered on water rights and border demarcation. Illegal immigration between the two countries is another point of contention. Attempts by the Bangladeshi military to quell tribal groups in the 1980s prompted thousands of refugees to flee to northeastern India, which complicated New Delhi's efforts to cope with its own antigovernment insurgencies. [REDACTED]

Sri Lanka. Security concerns about Sri Lanka have been high on India's agenda in recent years. New Delhi began indirectly supporting Colombo's counterinsurgency efforts against Tamil separatists in Sri Lanka in the late 1980s out of fear that violence in Sri Lanka would spill over into India. In 1987 Indian Prime Minister Rajiv Gandhi agreed to send Indian peace keeping forces to Sri Lanka to help reestablish order and disarm the separatists. The troops remained there for almost three years. Gandhi's assassination in May 1991, allegedly by militant Tamil separatists, prompted New Delhi to crack down on the Tamil militant presence in India's southern state of Tamil Nadu, and it continues to closely monitor the activities of suspected Sri Lankan militants in India. [REDACTED]

Nepal. New Delhi has always been wary of the close political relationship between Kathmandu and Beijing and has often accused Nepal of allying with China as a counterweight to India. A dispute over trade and transit treaties in the late 1980s that resulted in a virtual Indian blockade of Nepal continues to fuel Nepalese concerns over Indian hegemony in the region. In addition, Nepalis resent the Indo-Nepalese

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Treaty of Friendship--which governs security relations between the two countries--as favoring India at their expense. [REDACTED]

Bhutan. In contrast to the others, New Delhi enjoys cordial relations with the kingdom in Thimpu, but it comes at a price for Bhutanese sovereignty. Under the terms of a Treaty of Friendship signed by the two countries in 1949, India provides "guidance" for Bhutanese foreign policy, which limits Bhutanese freedom of action on issues of importance to New Delhi. In exchange, Bhutanese subjects have the same access to economic and educational opportunities in India as Indian citizens, and Bhutan receives annual economic assistance from New Delhi that has covered roughly three-fifths of its budgetary outlays in recent years. [REDACTED]

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Appendix B

A Snapshot of Indian-South Asian Trade Ties [REDACTED]

Chronic political tensions have taken a toll on India's economic relations with its neighbors. Regional trade, for example, accounted for less than 3 percent of India's total official trade in 1995, the last year for which we have reliable data. The significant imbalance in official regional trade in India's favor has only added to South Asian worries about India's hegemonistic goals in the region. In 1995, for instance, India exported to its neighbors almost eight times as much in dollar terms as it imported from them, according to IMF statistics. The large amount of smuggling between India and neighboring states is clear evidence of potential for increased official trade if New Delhi can reduce longtime political and economic barriers. [REDACTED]

Bangladesh is India's most significant South Asian trade partner in terms of the value of goods traded. In 1995 India's exports to Bangladesh totaled \$960 million, while its imports were worth roughly \$80 million, according to IMF statistics. The large trade imbalance in New Delhi's favor is a major irritant in their relations. Dhaka has long complained that New Delhi has been slow to reciprocate steps Bangladesh has taken to reduce tariffs and other barriers to trade. India's main exports to Bangladesh are textiles, transport equipment, machinery, cement, coal, and rice, while its main imports are jute, fertilizer, and leather goods. In addition to tariffs and quantitative restrictions on trade, poor roads and other inadequate infrastructure in the northeastern states of India bordering Bangladesh constitute a formidable barrier to increased trade. [REDACTED]

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India's exports to **Sri Lanka** have nearly tripled during the last five years, in large part because of stronger economic growth on the island. India has been Sri Lanka's second-largest source of imports in recent years; it provided 9 percent of the 1995 total, [REDACTED]. In the same period India's imports from Sri Lanka were roughly one-tenth the level of its exports, according to IMF statistics. India's main exports to Sri Lanka include transport equipment, textiles, machinery, cement, and pharmaceuticals. Its primary imports from Sri Lanka are scrap metal, iron and steel, sugar, and spices. [REDACTED]

India and **Nepal** enjoy preferential access to each other's markets under a trade agreement that was renewed last December. Even so, Kathmandu complains that, despite tariff concessions from New Delhi, its exports to India are hindered by a wide range of nontariff barriers, including quantitative restrictions and bureaucratic obstacles [REDACTED]

India's predominance in Nepal's trade has diminished in recent years because new export opportunities--for carpets, readymade garments, and handicrafts--and liberalized import policies have enabled Kathmandu to expand its trade with third

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countries. According to IMF statistics, 70 percent of Nepal's official exports went to India in the mid-1980s, but this had dropped to 8 percent in 1995. Similarly, the share of Nepal's imports that came from India declined from 50 to 14 percent in the same period. Nepal accounts for less than 1 percent of India's official foreign trade:

- Key Indian exports to Nepal consist of transport equipment, machinery, and pharmaceuticals, while its main imports are textiles, spices, pulses, and jute.
- Flourishing smuggling is an important feature of economic relations between the two countries. Some estimates put the volume of smuggled goods between India and Nepal as high as 10 times that of official trade. [REDACTED]

Official trade between India and **Pakistan** has shown a slow but steady increase in recent years despite the continuing strains in their political relations. The level of official trade in 1995 was 22 percent higher than in 1990, according to IMF statistics. The bulk of their trade is unofficial, partly as a result of formidable tariff and nontariff barriers imposed on both sides. Press [REDACTED] sources estimate the value of these smuggled goods at \$1-2 billion a year, compared with official trade worth roughly \$110 million in 1995, according to IMF statistics:

- India's main exports to Pakistan include oil meals, cement, dyes, iron ore, and spices.
- Major imports are fruits and nuts, sugar, textiles, spices, and leather. [REDACTED]

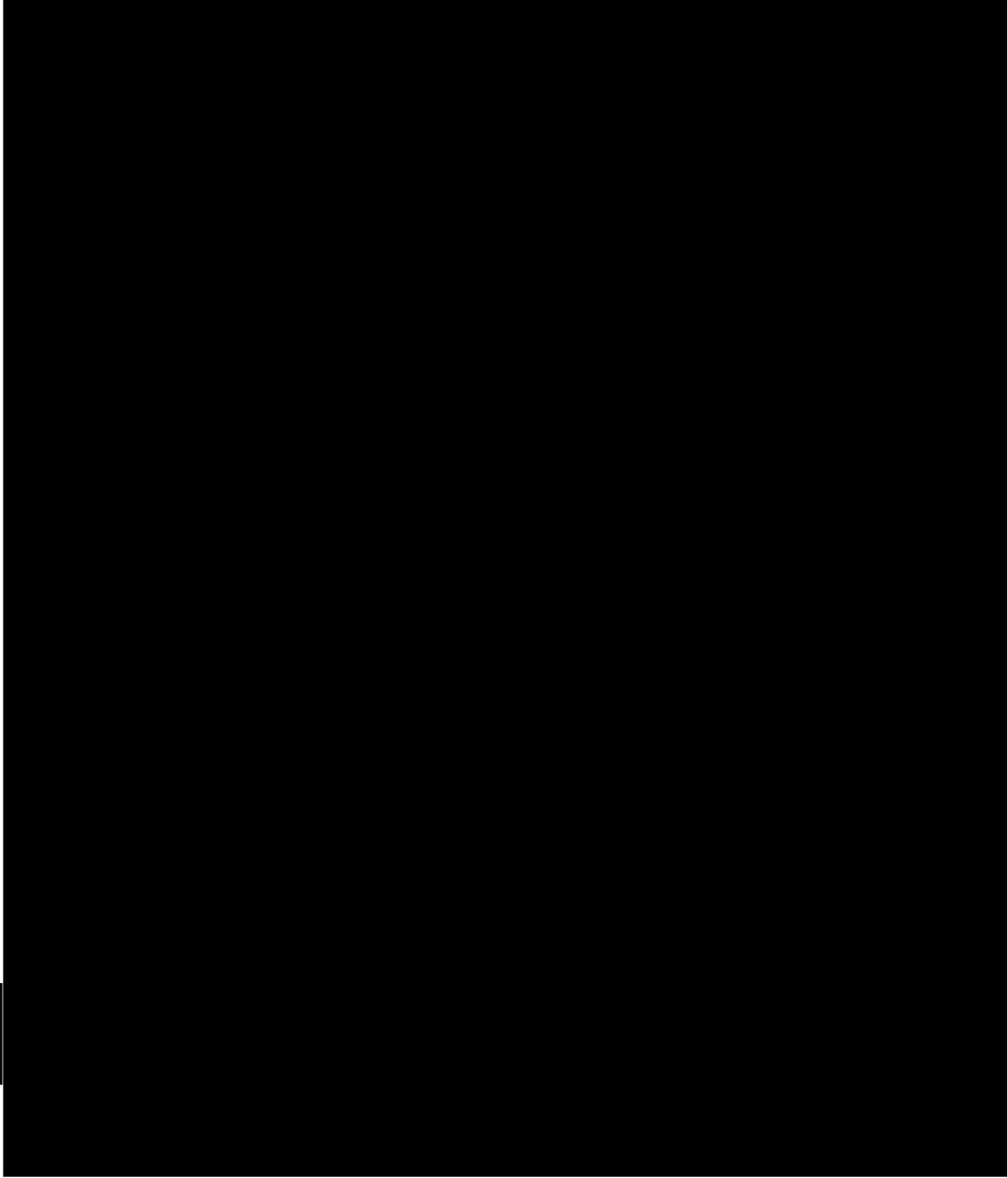
India has been **Bhutan's** main trade partner since 1960, when the closing of the Bhutanese-Chinese border disrupted Bhutan's historically close ties to Tibet. In 1995 India accounted for roughly 80 percent of Bhutan's official foreign trade, according to diplomatic reporting, while Bhutan accounted for less than 1 percent of India's total trade. A Treaty of Friendship signed by the two countries in 1949 provides for free trade and duty-free transit across India for landlocked Bhutan's imports from third countries:

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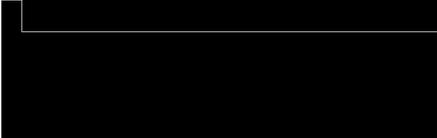
- India's main exports to Bhutan are machinery, transport equipment, foodstuffs, consumer goods, and textiles, and its major imports include spices, minerals, and fruit.
- India imports surplus electricity from Bhutan from the Chhukha Hydel Project. [REDACTED]

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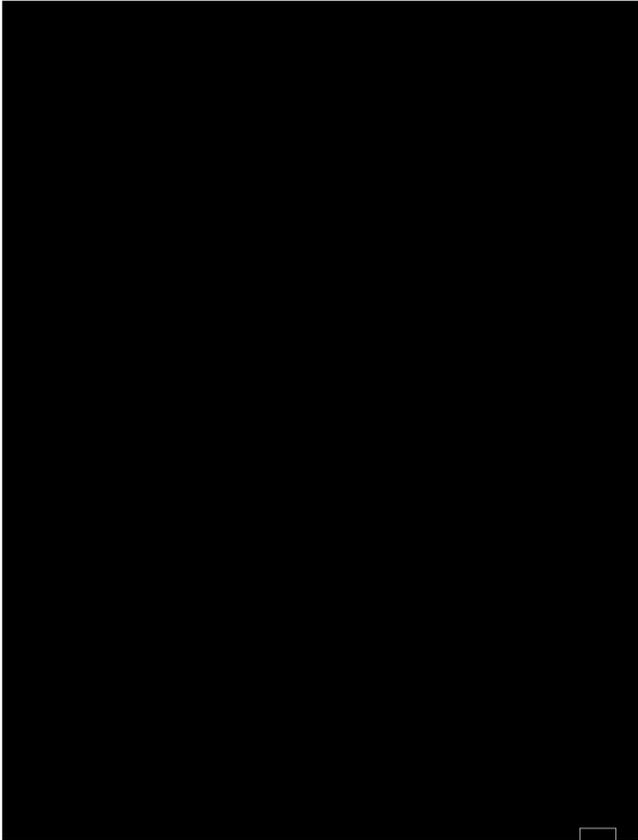


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