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INDIA'S ECONOMIC MIRACLE & NEPAL

PROF HARI BANSI JHA



Vivekananda
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Foundation

India's Economic Miracle & Nepal

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Foreword

Vivekananda International Foundation (VIF) has maintained an abiding interest in promoting bilateral relations with India's neighbours. Nepal has always figured right up there in its list of priorities.

When it was proposed to write a book on "India's Economic Miracle and Nepal", the idea was that the proposed work should move beyond the usual narrative of *special historical socio-cultural ties, Roti-Beti ka Rista, open borders etc.* Instead, it should help draw up a sustainable and irreversible model of economic and commercial complementarities between the two neighbours, pegged round what Dr. Jha describes as the growing 'Economic Miracle' of India. I am happy to say that the author has done precisely that by convincingly building the argument that Nepal has tremendous scope to modernise and develop its economy by integrating/aligning it with the Indian story.

To undertake this challenging task, there could not have been a better qualified person than Dr. Hari Bansh Jha, who till recently was the Vice Chairman of the Policy Commission, Province No. 2 (2018-19). Earlier, in 2016-17, he was a Visiting Scholar at the Indian Council of World Affairs, New Delhi, and at the Chengdu American Centre for Study Abroad, Sichuan University, Senior ICCR Fellow at the Institute of Defence and Strategic Analyses, New Delhi (2011-12) and the list goes on. Between 1976 and 1998, he was Professor of Economics at Nepal's

Tribhuvan University. His areas of interest include planning and policy making, regional affairs, Madheshi/Terai issues, strategic affairs etc. Being a prolific writer, he contributes articles on topical issues regularly both within and outside the country, including to the VIF website

The world is in a flux. India and Nepal will not remain unaffected. The new generation is aspirational and upwardly mobile. Bilateral relationship has become complex, as the recent events have shown. India and Nepal need to refresh their relationship by bringing in new ideas and new synergies between themselves while retaining the essence of their unique friendship and close ties. I am confident this book will be useful for students of India-Nepal economic relations by defining a new approach to bilateral cooperation between these close neighbours, particularly in South Asia.

New Delhi
27 July 2020

Arvind Gupta,
Director, VIF

Preface

India happens to be the world's fourth-largest economy in terms of purchasing power. Expectations are that it might overtake Japan, China and the United States in the next four decades or so. As its closest neighbour, Nepal has a great potential to benefit from India's fast economic growth through road, air and railway connectivity and above all in governance sectors. The probability to do so arises because of Nepal adopting a model of economic growth almost similar to the one India has been pursuing since the 1950s.

However, Nepal and India don't share the same level of economic growth. India has been maintaining an economic growth rate of eight percent or so for the last several years, while Nepal's growth rate is around five percent. This is intriguing because Nepal offers possibilities of a higher growth rate due to the huge, friendly and fairly diverse Indian market located at its footstep. The large potential to produce hydropower, laws favourable for investment, including foreign direct investment (FDI), diverse ecological belts suitable for different agricultural activities, an attractive tourism sector, besides its location as a prospective transit economy between India and China.

The core problem in Nepal's development is its institutional bottlenecks. The country is plagued by weak governance, inadequate infrastructure, power shortage, labour militancy, expanding trade deficit, poor tourism

policy and a politically divided society. To overcome these bottlenecks and to initiate catch up with India, there is a need for a politically stable and committed government in Kathmandu to encourage private trade and capital flows with India. The focus should be on macroeconomic stability through provision of goods, development of infrastructural facilities and higher investment in health and education services.

Time demands that Nepal must improve relations with India, keeping in mind traditional ties in economic, political, cultural, social, religion, language, and historical fields. A porous Nepal-India border has not only fostered greater people-to-people ties, but also made such relations dynamic and evergreen.

Considering this unique equation between Nepal and India, the book titled "*India's Economic Miracle and Nepal*" intends to create awareness in both societies about various possibilities that exist and can be benefitted from.

Significantly, the book has a chapter on "India's Economic Miracle: How Can Nepal benefit from it?" This chapter reveals how India achieved stunning results in most important sectors, including agriculture, industry, service and trade through economic reforms introduced in 1991. The time has come for Nepal to explore how it can benefit from the Indian economic growth experience. The chapter also mentions how Nepal can transform its under-developed economy into a vibrant one.

The book is divided into two parts. Part one talks of how Nepal can benefit from India's economic miracle, while part two has a collection of important articles published in leading newspapers, websites and journals of Nepal and India.

I worked on the theme of "India's Economic Miracle: How Can Nepal Benefit from it?" as a Senior Fellow at the Indian Council for Cultural Relations (ICCR) in 2011-12 and at the Institute for Defence Studies and Analyses (IDSA) in New Delhi, India. The data presented in the original text was subsequently updated to the extent possible.

It would not have been possible for me to complete this work without the support of the ICCR for which I would like to express my gratitude. Besides, I am also obliged to Dr Arvind Gupta, former Director-General of the IDSA who gave me affiliation to work at the IDSA as an ICCR Fellow. My thanks are due to Dr Ashok Behuria, Dr Nihar Nayak and other members of the South Asia cluster at the IDSA for exchanging views with me related to my research theme. I would like to extend special thanks to the library staff of IDSA and the Research and Information Centre (RIS) for their kind support during my research period in New Delhi. My obligations are also due to Professor Charan Wadhwa, former President and Chief Executive of the Centre for Policy Research in New Delhi for his valuable inputs to make my study meaningful.

I would also like to express my heartfelt thanks to all those newspapers, websites and journals which published my works (as presented in part two of the book) on various facets of Nepal-India relations.

Last but not the least, I would like to express my gratitude to the New Delhi-based Vivekananda International Foundation (VIF), for taking the trouble to edit and publish this book well in time.

Hari Bansh Jha

March 20, 2020

Part - I

India's Economic Miracle: How Can Nepal Benefit from It?

Background

After achieving independence in 1947, India adopted parliamentary democracy with a multi-party system. Economic planning began in the early 1950s with the twin purpose of enhancing economic growth and ensuring equitable distribution of resources. For this, a mixed economic system with both capitalist and socialist features was adopted.

However, for decades, the Indian economy remained largely state-controlled and isolated from the world economy due to the inward-looking import substitution approach of economic growth. The rate of economic growth in the country averaged 3.4 percent per year for almost half-a-century, and was often called the “Hindu Rate of Growth” – a derogatory term to express the lower rate of economic growth.¹

Until 1991, political support for reforms was lacking, plunging the country into a serious macroeconomic and balance of payments crisis. Gross fiscal deficit galloped upto 10 percent of GDP; while foreign exchange reserves declined to a level where costs of imports could only be met for a period

1 The Economist, “In search of a dream: To persuade voters of the need for reform, India’s leaders need to articulate a new vision of its future,” September 29, 2012, p. 13.

two weeks.² The government was compelled to approach the International Monetary Fund (IMF) to procure \$1.8 billion worth of loans to get over the balance of payments crisis.³ In a way, the IMF bailout was the symbol of the failure of India's economic policies, which substantially eroded its pride. The event proved that a *status quo* economic regime in India was unsustainable and, therefore, it was necessary to integrate the economy with the global economic system.

Intending to address the economic woes of the country, the then Congress government under Prime Minister P.V. Narasimha Rao and Finance Minister Manmohan Singh introduced several economic reforms in 1991. Principal Secretary in the Prime Minister's Office A.N. Verma played a key role in strengthening the hands of Prime Minister Rao. As an action-oriented person, he cleared Foreign Direct Investment (FDI) proposals without taking much time.⁴ Some of the important approaches that were adopted initially included fiscal consolidation measures, tax reforms, deregulation of industries, removal of trade barriers, creation of a congenial environment to attract foreign investment, convertibility of the rupee for current account transactions, liberalisation of banks and a greater role to the private sector for investment in the national economy in general and in energy and telecommunication sectors in particular.

In the process of liberalising the economy, import licensing was given up and tariff rates were reduced from a weighted average rate of 72.5 percent in 1991-92 to 24.6 percent in 1996-97.⁵ Foreign ownership to the extent of 100 per cent was allowed in most industries. Technocrats

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- 2 T. N. Srinivasan, "Indian Economic Reforms: A Stocktaking" January 10, 2003, pp. 2-3 in <http://www.econ.yale.edu/~srinivas/Indian%20Economic%20Reforms%20A%20Stocktaking.pdf>.
 - 3 Sandeep Ahuja and et al, "Economic Reform in India: Task Force Report," The Harris School of Public Policy, University of Chicago, January 2006, p. 7, in <http://harrisschool.uchicago.edu/news/press-releases/ipp%20economic%20reform%20in%20india.pdf>
 - 4 Ranjit B Rai, "The Inside Story of India's 1991 Liberalisation and Look East Policy: A Repeat is Called for," unpublished article.
 - 5 T. N. Srinivasan, no. 2, p. 6.

were given lead roles in the political establishment so that they could push the economic reforms programmes more effectively. The government was forced to privatise several public sector enterprises as they were exerting a great strain on the national exchequer.

Most importantly, the reforms allowed the Indian economy to attain the take-off stage soon. Statistics show that the fiscal deficits of central and state governments declined substantially i.e. from 9.4 percent of the GDP in 1990-91 to 7 percent in 1992-93. Besides, the balance of payments crisis was overcome by 1993.⁶

In the 1990s, the average rate of economic growth of the country was 5.7 percent. This was followed by spectacular growth in the 2000s, peaking at 7.8 percent in 2008-09 and 8.8 percent in 2010 respectively, before declining marginally to 7.1 percent in fiscal 2011-12.

In 2017, India's economic growth rate plummeted to below six percent following demonetisation of Indian currency in 2016. It was expected to rise to 7.1 percent by 2018-19.⁷ The higher rate of economic growth has made the country the fastest growing economy in the world, surpassing even China.

The high growth rate has been attributed to the growth of domestic savings and investment. Between 1991 and 2011, for example, India's savings rate shot up from 22 percent to 34-36 percent⁸; while its investment rate increased from 26 percent to 36-38 percent of GDP. With additional modest capital flows from abroad, India is in a position to invest with its savings to the extent of 40 percent of GDP per year. This 40 percent investment is likely to help the economy achieve 10 percent growth,

6 Montek S. Ahluwalia, "Economic Reforms in India since 1991: Has Gradualism Worked," *Journal of Economic Perspectives*, 2002, p. 1.

7 PTI, "India's growth rate may accelerate to 7% in 2018-19: HSBC," *Business Line*, January 2, 2018.

8 Swaminathan Sanklesaria Aiyar, "20 Years to an Economic Miracle," *The Economic Times*, June 22, 2011.

assuming a capital-output ratio of four is to one.⁹ It would not be difficult for India to achieve a 10 percent growth rate if there is an improved governing system and further investment is made in the infrastructure sector.¹⁰

Due to a higher growth rate, there was a perceptible increase in the per capita income of the people. In 2018, the per capita income in the country had increased to \$2010.¹¹

Realising the role of efficient financial institutions, including banks, non-banking finance companies, micro finance units, capital market, mutual funds, insurance companies and pension funds for the sustainable rapid rate of economic growth, the Indian government introduced more financial sector reforms, which included preparation of a roadmap for the private sector banks and foreign investment banks, deregulation of saving rates and raising the limit on FDI in the insurance sector.¹² India is now in the process of introducing administrative reforms to remove red tape at all levels.

Economy Weathering the Global Downturn

India's growth is largely driven by domestic consumption. Private consumption in this country accounts for 57 percent of GDP, while it is only 35 percent in China. The growth strategy in India appears to be different from China, Japan and even the Asian Tigers, which have relied heavily on exports.

The Indian domestic-driven growth strategy provided a greater cushion from external shocks especially during the global financial crisis of 2007-

9 Swaminathan S. Anklesaria Aiyar, "India's Growth Fantasy" in http://www.cato.org/pub_display.php?pub_id=11954.

10 Indivjal Dhasmana, "Infra, governance key to double-digit growth" Business Standard, April 25, 2011.

11 The World Bank Group, 2019.

12 Montek S Ahluwalia, "Prospects and Policy Challenges in the Twelfth Plan" in Economic and Political Weekly, May 21, 2011 Vol XLVI No. 21, p. 98.

08. At a time when the world's leading economies such as the USA, Europe and Japan were most affected by the financial crisis, the Indian economy, including its banking sector, came out of it largely unscathed.. The Indian banking sector was able to make 43 percent profitability in 2008, while financial institutions in most parts of the world experienced a nightmare.¹³

During this recession, India emerged better on account of its resilient consumer propelled economy. China, on the other hand, had to resort to stimulus and credit packages from its state-controlled banks to maintain growth. India does have greater expertise in risk management and credit analysis because banks are run more on commercial principles. Banks in the country lend money more intelligently and their balance sheets are also strong.

Stunning Achievements

Now, most Indians remember only two dates in the twentieth century – 1947, the year in which they achieved independence from the colonial British regime, and 1991, the year in which they decided to liberalise their economy. Liberalisation of the economy proved a turning point in the country's economic history.

India is set to play a role in international rescue operations, providing over \$2 billion in loans to Europe to help its bailout from the financial crisis.¹⁴ There has been a huge upsurge in the revenue bonanza in India. This has enabled the government to spend more on education, health and different other welfare schemes. Unlike China, which propelled its economic growth with labour-intensive exports, India made its headway through skill-intensive exports such as through computer software, pharmaceuticals, autos and other service sectors.¹⁵

13 Hari Bansh Jha, "India's Economic Miracle and its Impact on Nepal" Strategic Analysis, Vol. 36, No. 1, January 2012, p. 7.

14 The Times of India, August 3, 2011.

15 Ibid.

India accounts for almost a third of the global demand for gold. On account of prosperity, gold has found favour when there is inflation. Even the price of silver has increased. Earlier, the demand for gold used to fall during the June to August period when there was no festivals or events like marriages, but now there is a demand for gold throughout the year. In 2010-11, India imported gold worth \$33.9 billion, which was more than the total GDP of 12 Indian states together.¹⁶

More than anything else, there is a change in the mind set and perception of people not so much from outside as from within. Whereas in the past, Indians sought a better life for their children and grandchildren; now they think or rather seek a better life for themselves. This is something unprecedented in India's history.

Indian politician Kamal Nath once said, "...in India today, the biggest changes are a change of perception and a change in government. Today, in government, there is consciousness as never before, a consciousness of the expectations of the people of India and the expectations of the world toward India, to which India must respond."¹⁷

It is this change in outlook that Indians in general and youth in particular, are becoming intolerant of laziness, inefficiency and corruption. Even Bollywood movies like *Chak de India*, *Munnabhai MBBS*, *Rang de Basanti* and *Swadesh*, reflect the Indians zeal for transformation.¹⁸

Many national highways have been built as people do not mind paying road cess. Airport development has been made possible mainly through the money generated by levying a cess on air travel.

16 Editorial, "Huge gold imports hurting economy," *The Asian Age*, February 8, 2012.

17 Kamal Nath, "India: An Emerging Giant" in Jagdish N. Bhagwati and Charles W. Calomiris (Ed.). 2008. "Introduction" in *Sustaining India's Growth Miracle*. New Delhi: Stanza, p.248.

18 Nandan Nilekani. 2009. *Imagining India: Ideas for the New Century*. New Delhi: Penguin Books. p. 78.

There was a time when Indians exported goods to earn dollars, but today they want to generate jobs within the country. Planners and policy makers are now trying to give a fresh lease of life to manufacturing industries to generate more employment.

Bindeshwar Pathak's low-cost latrine drive called *Sulabh Shauchalaya* has revolutionised India's sanitation sector.¹⁹ NGOs such as the Ahmedabad-based Saath have made commendable efforts to transform slum areas into functional neighbourhoods with schools, sewer lines, electricity, water and roads. These efforts have been turned into a national movement by Prime Minister Modi through his popular *Swachha Bharat* (Clean India Mission) and *Open Defecation Free Society campaigns*. These initiatives have ignited people's imagination and quests for change.

Nowadays, there is hardly any glamour attached to promises made for meeting the people's need for '*roti, kapada aur makan*' (bread, clothes and shelter) during state or general elections. Instead, political leaders promise their constituents 'BSP' i.e. '*bijli, sadak, pani*' (electricity, roads, water) to get their votes. There are reports of politicians distributing television sets and laptops to their constituents during elections, besides cash, food mixers, saris, rice and whisky. In the elections of Uttar Pradesh State Assembly in February–March 2012, the Samajwadi Party promised students clearing the Class X board examinations with tablet personal computers (PCs) and laptops to those passing the Class XII board examinations.²⁰

Today, several Indian political leaders are likely to lose in elections if they do not create job opportunities for their constituents. Therefore, they are left with no option but to generate such opportunities if they want to remain in power.

India's progress has been a stunning achievement in human history. That the Indian economy has fared well is not only a matter of pride for the

19 Ibid, p. 176.

20 Times News Network "Akhilesh plays Santa within hours of taking over as CM – Sops to Cost UP Govt Rs. 4,400 Crore Annually," *The Times of India*, March 16, 2012.

people of this country, but also a source of inspiration for those developing countries aspiring to take off.

Factors in Economic Miracle

India has concentrated on both hard and soft infrastructure to achieve phenomenal economic growth. Under hard infrastructure, the focus has been on development of the transport and power systems; while under soft infrastructure, the priority has been on development of education, health care and upgrading of peoples' skills. Some factors that have enabled India to achieve high economic growth are as follows:

Investment in Infrastructure

An enormous amount of investment has been made to construct modern roads, subways, metros, railway trains, sewage, water systems, residential and commercial spaces in the country. Investment in these infrastructural facilities has helped improve the quality of life of urban dwellers, attracted further investment, expanded the tax base, grown new markets, increased the middle-class population and accelerated economic growth.

Investment in the infrastructure sector was initially targeted at \$500 billion in the Eleventh Five Year Plan and was expected to peak to \$1 trillion during the Twelfth Five Year Plan period (2012-13 to 2017-18).²¹

Investment in the infrastructure sector has come from public investment and under public-private partnership (PPP). Increase PPP investment in infrastructure was around 30 percent in the Eleventh Plan and was raised to 50 percent in the Twelfth Plan. Under the new PPP initiatives, build-operate-transfer (BOT) and build-own-operate-transfer (BOOT) models were widely promoted for the development of roads, railways and airports.

21 Montek S Ahluwalia, no.12.

Education

World-class institutions have played a key role in India's growth story. In academics, contributions by Delhi University, Jawaharlal Nehru University and other educational institutions are widely known. The Indian Institutes of Management and the Indian Institutes of Technology provide all necessary manpower to run enterprises in India. There are more than 50 state agriculture universities and one Central Agricultural University for promoting higher agricultural education. Emphasizing the role of agriculture in India's economic development, former Indian Prime Minister Lal Bahadur Shastri had given the slogan of "Jai Jawan, Jai Kisan" (a salute to soldiers, salute to farmers) to denote that soldiers and farmers are the two pillars of Indian sovereignty. Later on, Prime Minister Atal Bihari Vajpayee added *Vigyan* (science) to the slogan, "Jai Jawan, Jai Kisan, Jai Vigyan."²²

Over the years, India has improved its literacy rate from around 50 percent in the mid-nineties to 74 percent in 2011. Female literacy has also improved.²³ Expectations are that India would have a literacy rate of around 90 percent by 2020.²⁴

The government has set an ambitious target of increasing the number of students in higher education, apart from improving the quality of education. In this respect, India plans to provide higher education to 40 million students annually, which is 20 percent of all young people by 2020. Towards this end, the government plans to double the number of colleges to 61,000 from around 26,000 now and the number of universities from 504 to 800. To facilitate this, it would be necessary to add around 600,000 faculties over

22 Punjab Singh, "Indian Agriculture – Retrospect and Prospect," in *Think India Quarterly*, Volume 14, Number 3, July-September 2011, p. 73.

23 B.G. Verghese, "Now we are 1210 million: Need for reforms in urban governance," *The Tribune*, April 7, 2011.

24 Nandan Nilekani, no. 18.

and above those who leave or retire.²⁵

Encouragingly, some business houses have started contributing funds in the higher education sector rather than passing it to their inheritors. In this regard, major contributions have been made to centres of excellence such as the O P Jindal University, the Azim Premji University and the Shiv Nadar University.²⁶ All possible efforts are being made to enhance the quality of teaching and research in some of these universities for which hefty salaries are provided to faculties and other staff.

In a major development, the Supreme Court of India solidly put its weight behind the Right of Children to Free and Compulsory Education Act, 2009 on 12th April 2012 to change the composition of students in all schools in the country. The apex court directed all public and private-run schools, irrespective of the boards they were affiliated with, to admit a minimum 25 percent of students from socially and economically backward families from academic year 2012-13.²⁷ As a result, now students from this disadvantaged category of society would be able to get free education from ages 6 to 14 or from Class 1 until they reach the age of 14. Such a measure is intended to bring about a revolution in the schooling system of the country.

Telecommunications

India has emerged as one of the world's fastest-growing telecom markets. Each month over a million new mobile phone subscribers are added. At the national level, on an average, each Indian has

25 David Finegold, B Venkatesh Kumar, Anne-Laure Winkler and Vikas Argod, "Will They Return? Indian Students in the United States" published in *Economic and Political Weekly*, May 21, 2011, Vol. XLVI No 21, pp. 21-22.

26 *The Economist*, no. 1, p. 12.

27 Dhananjay Mahapatra and Himanshi Dhawan, "SC upholds RTE, paves way for revolution in schooling: 25% Quota for Poor Students in All Boards," *The Times of India*, April 13, 2012.

one mobile connection and, on an average, each person in Delhi has two mobile connections. In the hill state of Himachal Pradesh, on an average, each person living in an urban area has four mobile numbers. Virtually, there is a mobile glut in the country.

Power

Energy is one of the crucial inputs for economic growth and human development. The higher the per-capita energy consumption, the faster the pace of economic development. Without adequate and affordable energy, no country can attain a higher rate of economic growth. There is a need to increase the availability of power as there is a direct co-relation between per capita GDP growth and the per capita electricity consumption.

India has accorded the highest priority to the development of its energy sector. Energy consumption is increasing at a very fast rate due to population growth and economic development. Apart from coal, oil and natural gas, solar and nuclear energy are primary commercial energy sources.

However, the per capita consumption of electricity in India is still low. India consumes only five percent of the globe's energy despite accounting for 17.5 percent of the world's population. Currently, India's consumes 1200 units of electricity per year, which is expected to grow two to three times to be at par with international consumption patterns.²⁸

India has been facing some major challenges as its commercial energy basket is dominated largely by fossil fuels. Thermal source alone accounts for 77.6 percent of total electricity generation.

28 PTI, "Increase in per capita consumption to push power demand, says RK Singh," Times of India, February 13, 2020, <https://timesofindia.indiatimes.com/business/india-business/increase-in-per-capita-consumption-to-push-power-demand-says-r-k-singh/articleshow/67978908.cms>

India is therefore focusing more on generation of clean renewable energy. The Government of India had launched the Jawaharlal Nehru National Solar Mission under the National Action Plan on Climate Change in November 2009 for producing 1,000 megawatts of power by 2013. The government has also targeted production of over 20,000 megawatts of grid-based solar power by 2020. India had set up a hydropower plant in Darjeeling as far back as 1898 and another at Shimsha in 1902, which are regarded as the first initiatives in Asia. In the hydropower sector, the public sector accounts for 97 percent share. However, hydropower accounted for only 18.2 percent of total power in 2007, though the country has the potential to produce 150,000 megawatts of hydropower.²⁹

The development of a civilian nuclear program is an added attraction for multinationals. The country aspired to double its nuclear-installed capacity from 4,780 megawatts in 2012 to 10,080 megawatts in 2017.³⁰

However, nuclear power constitutes only two percent of the total power produced in India.³¹ All 20 nuclear power reactors in the country are in the public sector. India is likely to emerge as first country in the world to have a credible next-generation ultra-supercritical thermal plant. The country is in the process of developing this technology as part of its plan to meet the one million-plus megawatts of electricity target.

The estimate is that the total demand for power in India would be to the tune of 950,000 megawatts by 2030. By that time, the country's population would reach 1.45 billion, overtaking China. The demand for energy in the country is likely to grow to ensure a

29 Rajiv Sikri. 2009. *Challenge and Strategy: Rethinking India's Foreign Policy*. New Delhi: SAGE Publications India Pvt. Ltd, p. 200.

30 The Times of India, February 27, 2012.

31 http://www.dnb.co.in/IndiasEnergySector/Overview_power.asp

better standard of living and to sustain the annual rate of economic growth of nine to ten percent.

Foreign Direct Investment (FDI)

There is not an only inflow of FDI in India mainly through foreign multinational companies, but also an outflow of investment through Indian multinationals. With the Indian economy growing, Indian multinationals have started targeting the international market.

Inflow of FDI

FDI (Foreign Direct Investment) is treated as fuel for the national economy's take off. India is among the top ten nations with high FDI inflows. FDI in this country increased from \$393 million in 1992-93 to \$6.1 billion in 2001-2002 and further to \$34.3 billion in 2007-2008.³² In 2016-17, FDI inflow into India reached an all time high to \$60.1 billion.³³

In March 2019, India received FDI amounting to \$64.37 billion.³⁴

Recognising the importance of FDI in economic growth, India aspires to increase its volume from its present 0.1 percent of GDP to 3.5 per-cent by 2020. The country wants to use FDI, particularly in areas like infrastructure, high technology-oriented units and sectors that can generate massive employment opportunities.³⁵ Investment in infrastructure provides scope for 100 percent foreign ownership, apart from certain tax benefits.³⁶

32 Rajiv Kumar and Pankaj Vashisth, "The Global Economic Crisis: Impact on India and Policy Responses" ADBI Working Paper Series, No. 164, November 2009, p. 5.

33 Raj Kumar Ray, "India's FDI inflows at a record \$60.1 billion in 2016-17," The Hindustan Times, May 19, 2017.

34 PTI, "India attracts highest-ever FDI inflow of \$64.37-billion in FY19: Report," Business Standard, July 30, 2019, inin https://www.business-standard.com/article/pti-stories/india-received-highest-ever-fdi--worth-usd-64-37-billion-in-fy19-119073001428_1.html

35 Jonathan Holslag. 2010. *China and India: Prospects for Peace*. New York, Columbia University Press: pp. 66.

36 Kamal Nath, no. 17, p.245.

In recent times, India has been able to make significant investments in rural areas to create employment and develop rural infrastructure. This is contrary to China where the focus is more on generating urban employment and developing urban infrastructure.³⁷

Because of prospects of higher returns due to macroeconomic stability, labour competitiveness and an attractive FDI environment, there has been a spectacular growth in the number of multinationals operating in India. Multinationals operate in almost all important sectors of the Indian economy. Some major multinationals operating in India are *Finnish Nokia*, *Fiat*, *Piaggio*, *Ford Motors*, *LG Electronics*, *Hyundai*, *Vodafone*, *McDonald*, *ArcelorMittal* and *Posco* and the list is growing. Multinationals from most parts of the world, particularly from Europe, including Britain, France, The Netherlands, Italy, Germany, Belgium and Finland, have established a strong presence in India. Asian countries such as Korea and Japan have also set up their companies in this country.

These multinationals are interested in tapping India's huge market where a new baby is born every second. This immediately creates demand for a majority of the population.

Air Connectivity

Economic prosperity has led to an unprecedented growth of air services in India. As per estimates made by America's Boeing Company, India would need as many as 1,320 new aircraft worth \$150 billion over the next 20 years (till 2030). This is mainly due to a strong middle class' growing demand for travelling by air. As compared to the global growth of 5.1 per cent, air passenger traffic in India is likely to grow by 8.1 percent per annum from a long-term perspective. India would likely outpace China in aeroplane demand as there is growth both in air travel and air cargo. Boeing India President Dinesh Keskar has said: "Robust growth with new economic prosperity amongst a massive Indian population,

37 Ibid.

discretionary incomes, business progress and access to airports will increase aeroplane demand.”³⁸

With the surge in aeroplanes, the number of passengers travelling by air has increased remarkably in India. About domestic air travel, the country has emerged as the second fastest-growing market in the world, next only to Brazil. As more and more people have started travelling by air in India, the airline industry has started competing even with the railways. Also, the huge demand for automobiles provides a major attraction for foreign multinationals.

Outflow of FDI

It is not that only foreign multinationals are making inroads into India. Indian multinationals are also equally competitive in expanding their network in other countries of the world mainly due to the strong technical base in this country.

India's growth story is now led by the private sector rather than the public sector. Indian entrepreneurs have expanded their activities to almost every part of the globe. Investment by Indian firms in other countries shot up from almost zero levels in 1991-92 to 16.7 billion in 2010-11³⁹ and further to 24.9 billion in 2016.⁴⁰ As per the recent World Investment Report of UNCTAD, India's total Overseas Foreign Direct Investment (OFDI) amounted to \$155 billion in 2017.⁴¹

Over the years, Indian industrialists have performed outstandingly. They have acquired over 250 firms abroad. Indian automakers

38 The Pioneer, July 7, 2011.

39 The Times of India, May 5, 2011.

40 Oindrila Sarkar, “India's investment abroad soars, but still behind China,” *The New Indian Express*, February 15, 2018.

41 Business Standard, “Indian Companies' Overseas Foreign Direct Investment Set to Rise – CII,” July 4, 2018, in https://www.business-standard.com/article/news-cm/indian-companies-overseas-foreign-direct-investment-set-to-rise-cii-118070400317_1.html

such as Tata Motors and Mahindra & Mahindra have entered the international market. Expectations are that India would have more multinational companies than China as the latter is unresponsive to foreign companies. By 2025, India is likely to have over 2,200 companies opening their operations in other countries, thus overtaking China.⁴²

India is a major foreign investor in Britain. With 97 new projects, it emerged as the third largest investor in Britain in 2010-11, next only to the United States and Japan. Those projects have generated 6,096 jobs in that country.⁴³ Indian investment is crucial to Britain's economy, which is plagued by growing unemployment and recession. In terms of dynamism, Indian companies are better managed. Most Indian firms have higher profit margins and their returns on equity are also high. In contrast, Chinese firms are burdened by debt.⁴⁴

Today a new set of entrepreneurs are emerging in India. They are outward-looking and capable of competing wherever there is room for investment or opportunity. These entrepreneurs are not altogether traditional business houses, but are first generation business persons. They have played an important role in propelling India forward.

Even traditional business houses such as Tatas have transformed themselves to become an international firm. Their headquarters in Mumbai has turned to be a global centre of business. They have expanded in Europe, the United States and Asia. They made their biggest ever global acquisition by purchasing the British steel firm Corus. In its aggressive expansion programme, Tata Motors even

42 Hari Bansh Jha, no. 13, p. 9.

43 The Asian Age, July 12, 2011.

44 Michael Schuman, "Will One Economic Model Prevail? The Case for India: Free to Succeed," Time, November 21, 2011, p. 42.

acquired top automobile brand names like Land Rover and Jaguar from Ford.

Indian entrepreneur Rahul Bajaj has expanded his business network in Brazil and Indonesia. Another entrepreneur Mukesh Ambani has developed plans to address massive infrastructure gaps between farms and the market in India through his initiative of 'from farm to fork.'⁴⁵

Such Indian firms as *Tata Consultancy Services*, *Infosys* and *Wipro* have made their presence felt in the information technology sector at the global level. China just wants to copy them.

Demographic Dividend

The total population of India in 2020 is nearly 1.37 billion. One out of every six persons in the world is from India. An important feature of the Indian population is that it is not merely a country of just 1.37 billion that equals to the combined population of US, Indonesia, Brazil, Pakistan, Bangladesh and Japan together, but more than that, the decadal growth rate of the country fell by 3.9 per cent. This is the lowest growth rate since 1921.⁴⁶

In India, the fertility rate is declining.⁴⁷ As a result, there has been a decline in the population of kids aged between 0-6. This was more so in the state of Uttar Pradesh where the decline in the population in this age group was recorded at 4.1 percent; while it recorded a decline of 3.5 percent in Rajasthan, 3.4 percent in Madhya Pradesh, 3.1 percent in Chhattisgarh and 2.3 percent

45 Nandan Nilekani, no. 18, pp. 79-80.

46 R.K. Luna, "How India can reap demographic dividend," *The Tribune*, April 15, 2011.

47 Kounteya Sinha, "Fertility rate in India drops by 19 per cent in 10 yrs," *The Times of India*, April 1, 2012.

in Bihar.⁴⁸ The decline in the population in the 0-6 group also means that parents want to reap the demographic dividend in north and central India almost in the same way in which parents of comparatively more developed southern and western Indian states have reaped. What this shows is that Indian parents want to have fewer children with a corresponding increase in their income so that they can attain a higher standard of living. This also means that more women can now join the workforce rather than be eternally homebound.

Nevertheless, even with a low population growth, India is still expected to overtake China as the country with the largest population by 2030.⁴⁹ By that time, China would be having an aging citizenry, while India would be swelling with a youth brigade, driving growth with productivity, entrepreneurship, savings and incomes.⁵⁰ India looks unbeatable as 60 percent of its population is under the age of twenty-five. Perhaps, this is also one of the reasons why India has emerged as the world's number one country in terms of manpower exports.

As per projections made by the UN, the working-age population in India was expected to increase from 691 million in 2005 to 829 million in 2015. By 2025, India's working-age population is likely to grow to 942 million before it stabilizes around 1050 million in the late 2030s when the country would have the single largest pool of workers in the world, bypassing China.⁵¹ This would be sufficient to plug the gap likely to be created in which the developed countries would have 37 million less population and

48 Swaminathan S Anklesaria Aiyar, "Poor states reap big demographic dividend," *The Times of India*, April 10, 2011.

49 K Kanagasabapathy, "Census 2011: The population-resource balance," *Business Line*, April 15, 2011.

50 *The Times of India*, April 4, 2011.

51 Sanjeev Sanyal, 2008. *The Indian Renaissance: India's Rise after a Thousand Years of Decline*. Penguin-Viking: New Delhi, p. 127.

China would have 63 million less population making the total loss of population at the global level at 100 million. Indians are likely to manage key industries and service sector units in developed countries and meet the demand for labour in the age group of 20 to 49 years in both developed countries and China.⁵²

Strong Middle Class

India's middle-class is emerging as the new 'caste'. This is the single most important development of the Indian economy.⁵³ According to the Whirlpool Corporation, India and Brazil are ahead of China primarily due to strong growth and the mammoth size of their middle-class populations.⁵⁴ Until 1984-85, India's middle-class formed only ten percent of its total population. But now their number has swelled to 350 million, which is nearly a third of the country's total population. The estimate is that half of the Indian population would enter into the middle-class group between 2020 and 2040. By all likelihood, much of the West and South Indian population would turn into the middle class by 2020.⁵⁵

Amazingly, 25 million people are elevated to the middle class in India each year.⁵⁶ These are the people who come from both urban rural areas. This means that the urban-rural divide in terms of income and opportunities is gradually getting bridged due to economic growth.

India's growing middle-class has generated many opportunities. They are demanding and assertive. They are the source of business

52 The Financial Express, May 26, 2011.

53 The Economist, no. 1, p. 7.

54 The Economic Times, June 24, 2011.

55 Minhas Merchant, "A New World Order: India is regaining its place as one of the world's great economies, but major hurdles remain," the Times of India, December 10, 2011.

56 Kamal Nath, no. 17, p.242.

for different corporations. They are the main buyers of automobiles, mobile phones, computers and other electronic items. Due to the presence of 365 round-the-clock satellite channels, the television business is experiencing a boom.⁵⁷ They are also major buyers of services in financial, educational, health and other sectors. Because of the larger size of the middle-class population, IKEA was allowed in India.

A survey conducted by industry body ASSOCHAM reveals that urban teenagers belonging to the uppermiddle-class are becoming more brand conscious. On an average, they spend Rs. 4,000 to Rs. 5,000 each month upgrading their wardrobes.⁵⁸ The craziness developing among Indian youth for using branded products in a way symbolises the country's prosperity. There are reports that boys, especially among the wealthier population, are 4.5 centimetres taller and four kilograms heavier than what they used to be in 1992.⁵⁹

Because of the huge middle-class population, McKinsey Global Institute (MGI) estimates that India might emerge as the world's fifth-largest consumer economy by 2025.⁶⁰ On the other hand, in 2017, the Boston Consulting Group (BCG) had said in its report: "The New Indian" mentioned that India will be the third-largest consumer market in the world by 2025.⁶¹ India is likely to have \$ 1 trillion worth of the market shortly, which will be the centre of gravity for the entire global community. India has already emerged as the largest buying economy in Asia. Given this trend, the Indian

57 The Economist, no 1, p. 7.

58 The Hindustan Times, July 25, 2011.

59 The Economist, "Indian politics: Unfinished journey," March 24, 2012.

60 Hari Bansh Jha, no. 13.

61 Kenneth Ropoza, "India Poised To Be Third Largest Consumer Economy," Forbes.com, March 21, 2017, in <https://www.forbes.com/sites/kenrapoza/2017/03/21/india-poised-to-be-third-largest-consumer-economy/#2cc1405c1abe>

middle class might assume the traditional role that was hitherto occupied by the European and American middle classes.

Urbanisation

India's urban population has grown by 31.8 percent against a rural population growth of 12.18 percent. In Tamil Nadu, 48.5 percent of the population lives in urban areas, in Kerala, it is 47.72 percent, in Maharashtra it is 45.23 percent and in Gujarat, it is 42.58 percent.⁶²

Most importantly, India's urban population might touch 590 million by 2030. A recent report on "India's Urban Awakening" by the McKinsey Global Institute suggests that in 20 years, India would have 68 cities with a population exceeding one million. It is 42 at present. According to current estimates, 53 Indian cities have populations in excess of a million.

Within a decade, each of India's six major cities, including Ahmedabad, Bangalore, Delhi, Mumbai, Hyderabad and Chennai are likely to have bigger populations than that of New York. Currently, the 100 largest cities in India account for 16 percent of the country's total population and 43 percent of the national income. After two decades, the Indian cities are expected to generate 70 percent of the net new employment, contribute 70 percent of the country's GDP and quadruple the national per capita income.⁶³ Even slum-dwellers in the country have emerged as productive entities.⁶⁴

Grain Reserves: Problem of Plenty

India had to import ten million tons of food grains when there was a famine in several parts of the country in 1965-66. In the subsequent year in 1966-67, the country imported food-grains worth 11 million tones. But

62 Business Line, July 18, 2011.

63 Axel C Heitmann, no. 29.

64 The Economist, no. 1, p. 13

later on, the famine proved a blessing in disguise for the country. There was a realisation of the inherent danger in importing food grains into the country from 12,000 miles away.⁶⁵ To meet the challenge, the leadership determined to achieve self-sufficiency in food grains. Accordingly, India took advantage of new technologies, with which it experimented in local conditions and then vigorously launched agricultural extension services on a large scale. As a result, the production of wheat doubled within three years and the country achieved self-sufficiency in food grains in the 1970s.

Now, in India, famine has become history. People hardly bother much even when the monsoon fails.⁶⁶ India sits on a mountain of grain reserves, which is growing every year. On account of normal monsoon and improved level of productivity in the eastern states of Bihar and Jharkhand, the food grain output reached almost 250.42 million tons in 2011-12. In 2016-17, the food grain production in India recorded a high of 273.38 million tons.⁶⁷ Due to good monsoon rainfall, food grain production in India was likely to touch a record 284.83 million tonnes in the crop year of 2017-18.⁶⁸

The Green Revolution that began from the western region of Punjab and Haryana has now been extended to the eastern regions of Assam, Bihar, Chhattisgarh, Jharkhand, Orissa, eastern Uttar Pradesh and West Bengal. This new development in the agricultural sector is the outcome of “bringing a Green Revolution in eastern India programme (BGREI)” scheme implemented by the Government of India.⁶⁹

65 A.P.J. Abdul Kalam with Y.S. Rajan. 2002. *India 2020: A Vision for the New Millennium*. Penguin Books: New Delhi. pp. 59-60.

66 Gurcharan Das. 2002. *India Unbound: From Independence to the Global Information Age*. New Delhi: Penguin Books. p. 6.

67 Raj Kumar Ray, “India foodgrain output up 8.7% at a record 273.38 MT in 2016-17,” Hindustan Times, July 19, 2017.

68 PTI, “India’s foodgrain output to touch new record of 284.83 million tonnes in 2017-18,” The Economic Times, August 28, 2018.

69 AGE Correspondent, “Big push to achieve 4per cent farm growth,” Asian Age, March 17, 2012.

BGREI, a part of the Rs. 400 crore *Rashtriya Krishi Vikas Yojna* programme, focuses on rice and wheat production by making strategic interventions in areas like crop production, water harvesting and recycling, asset building and site specific activities.⁷⁰ Within such a short period, the scheme has resulted in a robust increase in food grain production.

India is the second largest producer of wheat in the world, next only to China. Most importantly wheat production in the country is on the rise whereas in countries like China and the US, it is on the decline. Russia, Canada and Australia have also been experiencing a downturn.

India happens to be the largest producer of pulses in the world, though it has to import three to four million tons to meet the annual domestic demand of 18-19 million tons. To achieve self-sufficiency in the production of pulses, India aspires to produce 20 million tonnes a year partly by bringing fallow land under cultivation and partly through introduction of an intercropping system.⁷¹

India has emerged as the world's largest food-producing country. The record output of rice and wheat has enabled the government to address the growing high food prices on the one hand and increase the exports of these products, on the other. Considering India's 1.37 billion strong population, the per capita food grain consumption in the country has averaged over 500 grams each day. This is indeed a comfortable position.⁷²

There is a growing demand for organic produce, especially in the metros. Currently, organic farming is performed on nearly four billion hectares of land in India. Studies suggest that around 40 percent of Indian organic products are exported to the European Union. The Agriculture and

70 Times News Network, "Now, a green revolution in the east: Region Turns Food Surplus, Expected To Ease Pressure on Food Inflation," *The Times of India*, February 25, 2012.

71 *The Financial Express*, no. 21..

72 Achintya Ray, "Fairytale India: The Eradication of Hunger, Starvation, And Malnutrition" *The Statesman*, June 23, 2011.

Processed Food Products Export Development Authority in India expects organic food exports to grow further.⁷³

A new breed of innovative farmers is growing in India. They have grown coffee in Himachal, tea in Kolhapur and apples in Rajasthan, which is quite non-traditional. They have been doing things differently to get higher returns on their investment in the agricultural sector. They made an investment for the production of such products after studying the climate of the regions.⁷⁴

Today, the real problem in India is not the lack of food grains, but its distribution. When India's population crossed the one billion mark in 2000, the warehouses were bulging with grains. The Food Corporation of India (FCI), the main procuring arm of the Centre, failed to handle the stocks efficiently, leading to them being covered by plastic sheets and piled up along railway yards for months.⁷⁵ The Government of India has been struggling to prevent food wastage.

To ease the pressure on the FCI, it was felt necessary to allow the private sector to procure, store and distribute food grains from the open market. It was expected that such a move would not only reduce costs of handling the business in food grains but also bring the subsidy bill down.⁷⁶

There are suggestions that the government should give rations to the poor for six months at a time. Such an effort might cut both storage costs and wastage. But it is feared that the poor who survive on Rs. 22.43 a day might not afford to pay for the bulk supply of food grains at one time and store them properly. Presently, there is a system to provide rations to the poor every month.

73 Business Line, June 3, 2011.

74 The Economic Times, May 28, 2011.

75 The Tribune, May 28, 2011

76 The Economic Times, June 22, 2011.

In a major development, the Supreme Court of India suggested free grain distribution among the poor. On February 3, 2012, it nominated a secretary-level officer at the Centre to act as the nodal officer to monitor the implementation of the food distribution programme of the government for the poor.⁷⁷ Besides, plans are afoot to provide cash to the target population so that they could be free to buy food in the market and avoid bureaucratic hassles.

Poverty Reduction

Over the years, millions of people in India have been lifted above the poverty line. As per the Planning Commission, the poverty level declined by 7.4 percent from 37.2 percent to 29.8 percent between 2004-05 and 2009-10 based on the benchmark of Rs. 22.43 per day for rural areas and Rs. 28.65 per day for urban areas.⁷⁸ The decline by 7.4 percentage point in poverty ratio is the fastest in India in any five years in the past. According to a report compiled by the Brookings Institution in May 2018, India is no longer the country with the world's highest number of people living in extreme poverty, which is defined as living on less than \$1.90 a day. The figures explain that India had 70.6 million people living in extreme poverty, while Nigeria had 87 million which has got the top spot.⁷⁹ This was mainly due to high growth averaging close to nine percent over the five years to 2009-10, agricultural growth of three percent, rise in wage rates, welfare programmes like the *Mahatma Gandhi National Rural Employment Guarantee Scheme* (which entitles 100 days of guaranteed work at a minimum rate of Rs. 100 per day to all rural households), *Pradhan*

77 The Indian Express, February 4, 2012.

78 Times News Network, "Montek sticks to figures, says poverty down," The Times of India, March 21, 2012.

79 Joanna Slater, "India is no longer home to the largest number of poor people in the world, Nigeria is." Washington Post, July 11, 2018, <https://www.washingtonpost.com/news/worldviews/wp/2018/07/10/india-is-no-longer-home-to-the-largest-number-of-poor-people-in-the-world-nigeria-is/?noredirect=on>

*Mantri Gram Sadak Yojana, and Rashtriya Swasthya Bima Yojana.*⁸⁰

More women have started getting an education; while many others in the rural areas have withdrawn from work voluntarily. This is because most of the girls are on record as having been enrolled in schools and also due to the fact that economically better-off women now want more time for leisure.

Expenditure on vegetables, milk, eggs, fish, meat and beverages is growing faster in rural areas as compared to sales in urban areas. Cereals which accounted for 22.2 percent of the total expenditure among rural households had declined to 15.6 percent in 2009-10. This indicates the growing level of prosperity in rural areas.

An increase in labour wage rates was one of the most important reasons for the decline of the poverty level in the country. Agricultural wages increased not only in the richer Indian states but also in the poorer ones.

Various development activities, even in the poorer states, have generated employment opportunities on a huge scale. So, there is now less of migration from the poorer states to comparatively developed states in India. Punjab and Haryana are facing a severe shortage of migrant workers from states like Bihar and Orissa.

There are four key reasons for the phenomenal growth in agricultural wages of labourers. Firstly, agricultural wages increased due to higher GDP, secondly, it was due to different employment guarantee schemes, thirdly it was due to inflation, and fourthly it was due to the growth in farm profitability and its spillover effect on farm wages on account of higher growth in the prices of food products at the global level.⁸¹

80 Editorial, "Growth Busts Poverty: Poverty numbers bring cheer, but not room for complacency," *The Times of India*, March 21, 2012.

81 Ibid.

Industrial Growth

Today, India is widely known in the world for its hold in the software sector. India's industrial growth is fundamentally software-led. Yet in recent years, plans are afoot to give a further boost to the manufacturing sector to generate income and employment opportunities on a much higher scale.

Software Growth

The Internet is a critical element in India's economic growth. It is more for exports rather than for domestic consumption. Credit is largely given to late Prime Minister Rajiv Gandhi for the realization of the potential of information technology (IT), which is at the core of the Indian economic miracle. This industry grew from the 1980s, providing employment opportunities to many educated young Indians.

By 1990, the sales revenue of IT and other related services accounted for half-a-billion dollars. In 1996-97, software exports grew to \$1 billion. This increased to \$23.4 billion by 2005-6.⁸² IT sector revenue rose from \$63 billion in 2008⁸³ to \$160 billion⁸⁴ in 2017. In 2018, the figure was \$167 billion, a growth of eight percent.⁸⁵ Bangalore alone accounts for a third of total exports of IT services from the developing to developed countries.

The annual growth rate of the IT sector was 50 to 60 percent in the 1990s, which subsequently stabilized at 30 to 40 percent in the 2000s.⁸⁶ Despite the global economy being in the doldrums, India's rate of growth in the

82 Jagdish N. Bhagwati and Charles W. Calomiris (Ed.). 2008. "Introduction" in *Sustaining India's Growth Miracle*. New Delhi: Stanza, p. 4.

83 Prem Shankar Jha. 2010. *India and China: The Battle between Soft and Hard Power*. New Delhi: Penguin Books India Pvt. Ltd., pp. 31-32.

84 Wikipedia, "Information technology in India," in https://en.wikipedia.org/wiki/Information_technology_in_India

85 IANS, "Indian IT industry revenue to grow by 8% to \$167 bn in 2018-19: Nassacom," *Business Standard*, October 4, 2018,

86 Ibid.

software sector was 18 percent in 2011-12. In 2019-20, its contribution to GDP was 7.5 percent.⁸⁷

In recent years, the software domestic market has been growing faster than exports.⁸⁸ To cope with the growing demand for software, both within and outside the country, the knowledge workforce in the Indian software sector has been increasing. India has coped with the demand for manpower in the software sector because more than half of the world's computer graduates are available in the country alone.

Manufacturing Strides

Though modestly, the manufacturing sector in India has been making giant strides. The liberalisation of the economy brought about qualitative and structural changes in the manufacturing sector to enable it to face external competition. Many of the capital and technology-intensive industries have opened in areas such as automobiles, pharmaceuticals, chemicals and petrochemicals, electrical goods and electronics.

Encouragingly, Indian manufacturing units import cotton from the United States, convert it into yarn and fabric and then sell the textile back to that country.⁸⁹ In iron castings, US imports from India increased by 30 per cent (\$19.8 million) against only 2.6 per cent (\$5.5 million) from China.⁹⁰ India has gained an edge over China as it has been able to sell denim at prices 20 percent lower than China. As such, international companies like Walmart and VF Corporation are more interested in buying denim from India.

87 Ellora De, "Informal sector: the backbone of Indian Economy," *Business Economics*, January 2019, in <http://businesseconomics.in/informal-sector-backbone-indian-economy>. Also read, Kanchan, "Contribution of IT Sector in Indian economy," *International Education and Research Journal*, Vol 2, No. 10, 2016, in <http://ierj.in/journal/index.php/ierj/article/view/570/540>.

88 Editorial, "IT looks closer to home," *Business Standard*, February 10, 2012.

89 Kamal Nath, no. 17, p.246.

90 R. Srinivasan, "India story is about manufacturing," *Business Line*, December 22, 2011.

The planners and policymakers in India have planned to divert 100 million people from agriculture to the manufacturing sector by 2025, particularly in such areas as pharmaceuticals, biotech, IT and medicines.

India has massive manufacturing and engineering capabilities. Over 10,000 motorcycles are sold in the country each day. The television industry too has expanded fast. With its pool of skilled workers and large market, India has acquired a strategic advantage in the services market.

According to the market research firm JD Power Asia Pacific, India would emerge as the third-largest market in the world by 2020 after the United States and China for light vehicles, which includes passenger cars and light commercial vehicles.⁹¹ India has already emerged as the second-fastest growing auto market in the world next to China. Major global manufacturers such as Ford, GM, Nissan, Honda, Skoda, Maruti Suzuki and Hyundai are all in the race of producing small cars in India.

Yet, India still has to go a long way to go to emerge as a global manufacturing hub. The manufacturing sector accounts for only 16 percent of India's GDP, whereas in China it accounts for 45 percent. But there is a plan in India to raise the manufacturing sector's GDP contribution to 25 percent.

To contribute 25 percent of India's GDP, India's manufacturing sector needs to achieve an annual average growth rate of 15 percent.⁹² Inadequate infrastructure, credit constraints, low labour productivity and higher overhead cost are some of the major challenges confronting India's manufacturing sector. In recent years, the manufacturing sector is also facing problems related

91 The Statesman, June 14, 2011.

92 Hari Shankar Singhania, "For a manufacturing revolution" in Business Line published on May 19, 2011.

to land, environment, forest and tribal land rights. Therefore, it is increasingly being realized that manufacturing centres should be opened in each district of the country specializing in the production of goods based on locally available resources such as labour and raw materials.

In 2007, Capgemini Consulting Services published a report based on a survey of 340 Fortune 500 global manufacturing companies. The report revealed that India might overtake China as a global manufacturing hub.⁹³ Since then, many Japanese automakers and telecom equipment manufacturers have started moving their operations to India. Even Siemens is likely to enter India. A new scenario is developing in which the manufacturing sector might overtake the services sector as an engine of growth. Until today, the services sector contributed significantly to GDP and the country's economic growth was identified with the IT sector in which only a few firms hold control.

Efforts are afoot to make India a manufacturing hub for the auto industry, pharmaceuticals, etc. In the auto sector, India has already become the fastest-growing market for passenger cars. Japanese automobile manufacturer Nissan has made India its hub for global production.

Virtually, India stands to become a world leader in frugal engineering in the automobile sector. It has demonstrated how production costs of certain items can be reduced without compromising quality. Nano, manufactured by Tata Motors, is an outstanding example. It is not only the cheapest car in India, but also the cheapest in the world.

Interestingly, GKN Driveline, a leading supplier of automotive driveline systems, is so impressed with the low-cost Tata Nano that it is making plans to manufacture such cars in China in

93 The Hindu, May 23, 2011.

pursuit of its low-cost vehicle production programmes.⁹⁴ With a reputation of being the cheapest car in the world, Tata Nano has reached Sri Lanka's lucrative taxi market.

However, when Tata Nano was launched in Nepal in June 2011, its price was almost thrice of what it costs in India. This was on account of higher import duties in Nepal. Unfortunately, Nepalese buyers have to pay 240 percent as import duty and have to bear the transportation costs as well.

In a marked departure, plans are afoot in India for promoting the growth of hardware manufacturing industries. Production of cheap hardware is expected to bridge the digital divide between the rural and urban population. Manufacturing of electronic hardware has been accorded priority because this sector is expected to create lots of jobs.

Cheap electronic hardware is necessary to promote India's national e-governance programme and also to connect each Panchayat of the country. Given the fact that India's domestic market is huge, the country expects to produce high-quality electronic hardware at most competitive prices. The Indian government has introduced the *Aakash* tablet computer for Rs. 2,000 only. This has helped the country reduce imports of such products from abroad. Prospects for job creation in the hardware sector are huge and, therefore, India is planning to introduce a skills upgrade program in all manufacturing units.

Moreover, the Indian government has come out with a policy to jump-start the indigenous defence industry as it currently procures over 70 percent of its defence needs from outside. As per data released by the Stockholm International Peace Research Institute, India has displaced China as the world's largest importer of

94 Murali Gopalan, "GKN Driveline to use Nano lessons in China," Business Line, June 10, 2011.

conventional weapons.⁹⁵ India imports ten percent of the world's total arms. Now there is a growing realisation in India that the country should produce a majority of its defence needs rather than import from outside. A focus on indigenous defence production will provide economy synergies to the manufacturing sector.⁹⁶

Most importantly, India has adopted a new National Manufacturing Policy (NMP) to boost growth of the manufacturing sector and generate employment opportunities for the 12 million strong labour force that is added to the country's total labour force annually.⁹⁷ The NMP envisages creating 100 million additional jobs by 2025, which is a positive message to potential investors. By doing so, the share of the manufacturing sector would increase from 15 percent of GDP at present to 25 percent by 2025. Besides, a sizeable part of the surplus labour would be reallocated from agricultural to the industrial sector.⁹⁸ For this, mega investment regions equipped with world-class infrastructure are planned.⁹⁹

Expanding Trade

A joint research study conducted by the University of California, Harvard University and Duke University has found that India provides better economic opportunities for businesses than even the USA. In the IMD World Competitiveness Yearbook, India ranked higher than China in the matter of business and government efficiency. India was ranked 29th in government efficiency while China was ranked 33rd. Similarly, in terms of business efficiency, India ranked 22nd to China's 25th position.¹⁰⁰

95 Express News Service, "India top weapons importer, displaces China," *The Indian Express*, March 20, 2012.

96 Business Standard (Editorial), July 25, 2011.

97 Rajiv Kumar, "Manufacturing momentum" in *The Financial Express*, June 14, 2011.

98 Business Standard, June 13, 2011.

99 The Tribune, June 10, 2011.

100 The Financial Express, May 18, 2011.

Statistics show that India has emerged as a fast-moving trading nation. Given this reality, it might not be that difficult for this country to catch up the average annual growth rate in exports to 25 percent. Indian exporters have matured as traders in the global market. The country is vigorously promoting exports while opening up its market to the global community.

Competitive Labour Sector

The estimate is that 90 percent of the Indian population would be literate by 2020. By that time, most workers entering the job market would be literate. The government has come out with an ambitious policy to skill/up skill 500 million Indians by 2022.¹⁰¹ Indian agricultural and industrial workers have proved their competitiveness at the global level. Many of the Indian engineers and workers in the automobile sector, denim factories, mobile phone manufacturing units and casting industries have proved as efficient as their European or Japanese counterparts in terms of quality of outputs and as low-cost as the Chinese workers.¹⁰²

Employment Generation

In India, the development opportunities in various sectors resulted in exponential growth in the job market. Between 2000 and 2005, India generated 11.3 million jobs. Perhaps, that was the highest expansion of jobs in any country. During that period, China could generate only seven million jobs. Thus, it would be wrong to call Indian growth as jobless growth.

Mega projects started by India's giant corporations like Reliance, Tata Group, Aditya Birla Group and Bharati have generated employment opportunities on a huge scale. DLF and *Unitech* had plans to create new townships throughout the country, which could generate massive employment opportunities. Some of these development activities have not only created jobs for construction workers, but have also opened

101 Sunil Jain, "Is India a Brazil or a South Korea,?" *The Financial Express*, July 25, 2011.

102 R. Srinivasan, no. 90.

up prospects for permanent jobs for the electricians, carpenters, shop assistants, security guards, taxi drivers and other activities. Newspapers are full of advertisements for the employment of blue collar workers, who are in short supply in many parts of the country.

Social Protection Schemes

The importance of social protection schemes is well understood in India. The Government of India spends a healthy two percent of its GDP on core safety net programmes such as the public distribution system, the *Mahatma Gandhi National Rural Employment Guarantee Scheme*, the *Indira Awas Yojna*, etc. Such investments in the social protection sector are impressive. China, Indonesia and other South Asian countries do not invest much in this sector. Some of these activities aim at uplifting economically disadvantaged groups through education and skills and by giving them an adequate share in governance at various levels in democratic institutions. This has enabled them to restore self-esteem and added to their efficiency in creating national wealth.

New Class of Dalit Millionaires

For ages, Dalits in India have remained at the bottom of the social pyramid in terms of status and income, and have largely been exploited. Certain efforts were made to improve their lot through job reservations, but this has not brought tangible results. Following the introduction of economic reforms in 1991, a new class of wealthy people has emerged from the downtrodden section of Dalits. Over the years, there has been a spectacular improvement both in their social status and incomes.

Now there are so many Dalit millionaires who ironically don't believe in reservation of jobs in their business units. In certain Dalit-run business empires, the share of the Dalits in the total workforce is as low as one percent. The share of the Dalits owning their own business has increased from 4.2 percent to 11 percent in eastern Uttar Pradesh; whereas it has stepped up from six percent to 36.7 percent in western Uttar Pradesh. Most importantly, a Dalit Chambers of Commerce and Industry has

been established by Dalits entrepreneurs in Mumbai. Many Dalits are no longer objects of pity.¹⁰³ In the past, many Dalits were forced to work as bonded labourers, but even this practice has ceased to exist. There is a social revolution going on in Uttar Pradesh, which is largely attributed to the economic reforms and Dalit empowerment programmes in the state.

Growing Competition among States:

Focus on Bihar

Gone are the days when India's poorest states such as Bihar, Madhya Pradesh, Rajasthan and Uttar Pradesh constituting almost 40 percent of the country's population, used to be called *BIMARU* states (meaning sick in Hindi) in the 1980s.¹⁰⁴ In those times, these states were virtually 'sick' by all indicators such as in terms of poverty, education and health. Now these populous states of India are credited with having a very young and productive labour force. Expectations are that the so-called BIMARU states in India would contribute significantly to maintaining the sustainable rate of economic growth.

An environment for growth and development has been created not only at the level of the federal government, but also at the level of the states. Each state is now trying to achieve a higher rate of economic growth. Many of the states in India have started competing with the federal government to ensure a higher rate of economic growth.

Chief Ministers from several Indian states have been touring foreign countries for attracting investment and seek their cooperation for the development of different economic sectors. Be it Bihar's chief minister, or the chief minister of Uttar Pradesh, they all undertake tours to countries with whom they think their states can collaborate and get support for one or the other development activity. They feel free to go to the US, Europe,

103 Swaminathan S Anklesaria Aiyar, "The unexpected rise of dalit millionaires" in *The Times of India*, July 31, 2011.

104 Nandan Nilekani, no. 18, p. 55.

Australia, Africa and the Asian countries to promote their economic interests in all such spheres as trade, investment and employment generation.

It is because of this zeal to transform the economy that states like Gujarat and Bihar are having an economic growth rate of more than 11 percent, which even exceeds the national growth rate of around 7 to 8 percent. Also, governors from various US states undertake visits to different Indian states to seek greater economic engagement.¹⁰⁵ In May 2012, the then US Secretary of State Hillary Clinton visited Kolkata to talk with West Bengal Chief Minister Mamata Banerjee on the prospects for collaboration between West Bengal and the USA.¹⁰⁶ This was not the case before when the investment and trade were primarily treated as in the domain of the federal government and social issues were taken as the exclusive domain of the state governments.

Developments in Gujarat

With an \$85 billion economy, Gujarat is not India's largest state, yet it has consistently grown at a rate higher than the national average. The state economy at current prices recorded an annual growth rate of 16.99 percent for six years (2004-05 to 2010-11) with 2004-05 as the base year, and at an annual growth rate of 13.56 percent for the last seven years (2011-12 to 2017-18) as per base year 2011-12.¹⁰⁷

The progress that Gujarat has made is not on account of natural resources, or fertile farmland, but more to do with good planning. Gujarat is perhaps the only state in India where both big businesses and small farmers receive uninterrupted 24x7 power supply¹⁰⁸ Ford and Peugeot announced

105 Kamal Nath, no. 17, p.243.

106 Republica, "Reaching out: Clinton's India visit," My Republica May 8, 2012.

107 DNA Correspondent, "Gujrat's economy logs 9% growth in 2017-18," DNA, February 21, 2018, in <https://www.dnaindia.com/ahmedabad/report-gujarat-s-economy-logs-9-growth-in-2017-18-2586964>

108 Jyoti Thottam, "Boy from the Backyard," Time, March 26, 2012, pp. 34-35.

a billion-dollar investment in the state in 2011 in the wake of the auto industry thriving there beyond expectations. Box 1 below presents Gujarat's development scenario.

Box 1: Development now a people's movement

By: Narendra Modi, Gujrat Chief Minister

What Gujrat has achieved is there for everyone to see. It is a model state because it has used government mechanism for development – utilizing the same files, same officials and same rules and regulations – by following an approach that is both forward-looking and integrated.

After achieving success in industrial and agriculture sectors, Gujrat is now focusing on the service sectors, such as tourism. The biggest success, however, has been in removing the culture of negativity among people and giving them hope. The route lies in education. Skills get you jobs, but knowledge creates jobs. Hence Gujrat has created separate universities for a whole range of subjects – petroleum research to forensic sciences. The last Vibrant Gujrat Global Investment Summit in Gandhinagar saw participation by representatives of 33 universities from across the world.

We are focusing on the human and social aspects in our developmental planning. The state activated a public movement in 2005 for restoring its skewed sex ratio. After five years, the sex ratio has gone up from 820 to 924.

Gujrat has had a history of being communally sensitive. Not a single month passed without curfew being imposed somewhere in the state, earlier. We can say with pride that there has not been a single incident of violence since 2002, not a single curfew. Not even incidents of violence that was common earlier during kite festivals or cricket matches. When there was a terrorist attack on Akshardham, Gujrat remained peaceful. When there were bomb blasts in Ahmedabad, it remained calm. If you look at how tranquil Gujrat is now, you will realize it is a state that is developing.

Source: India Today: April 4, 2011

Tamil Nadu: Rebuilding the Economy

A positive business climate exists in Tamil Nadu due to maintenance of law and order. The state government has a vision to make Tamil Nadu the most developed region in Asia. The annual economic growth rate of the state was recorded at 8.17 percent in 2019.¹⁰⁹ The state government has announced a second Green Revolution to increase agricultural production

109 T. Ramkrishnan, "T.N. clocks good growth despite 'shocks,'" *The Hindu*, September 20, 2019, in <https://www.thehindu.com/news/national/tamil-nadu/tn-clocks-good-growth-despite-shocks/article29462987.ece>

and boost farmers' income. Besides this, software exports are being given a major thrust. The manufacturing sector too has performed well. A glimpse of the investment climate in Tamil Nadu is presented in Box 2 below:

Box 2 : Fast track to industrial growth

According to the State Industries Minister, P Thangamani, the proposed sectoral policies are on biotechnology, aerospace industry, automobiles and auto components. The minister has said that companies like Yamaha, Danfoss, Hitachi, Enfield, Sundaram Clayton, TI Group, Amway, Saint Gobain, Sanmina-SCI, Phillips Carbon Black, Nokia, Harsha-PPG and Daimler have proposed to make large investments on new projects or expand existing projects. Several other companies are in discussion with the state government to finalise their investment proposals.

Source: The Times of India, May 16, 2012.

Investment in Uttarakhand

Newly formed states like Jharkhand, Uttarakhand and Chhattisgarh have achieved a faster rate of economic development. Box 3 gives an account of how Uttarakhand is generating an investment climate to facilitate economic growth at a rapid rate.

Box 3: Uttarakhand as an Investment Destination

According to the State Industries Minister, P Thangamani, the proposed sectoral policies are on biotechnology, aerospace industry, automobiles and auto components. The minister has said that companies like Yamaha, Danfoss, Hitachi, Enfield, Sundaram Clayton, TI Group, Amway, Saint Gobain, Sanmina-SCI, Phillips Carbon Black, Nokia, Harsha-PPG and Daimler have proposed to make large investments on new projects or expand existing projects. Several other companies are in discussion with the state government to finalise their investment proposals.

Source: The Times of India, May 16, 2012.

Food Scheme in Jharkhand

Economic growth in Jharkhand has encouraged the state government to introduce a food scheme that has made it easier for people to buy food at a nominal price of Rs. 5. Box 4 on "Lunch for Rs. 5" presents details of '*Dal-Bhaat-Sabji*' scheme:

Box 4: Lunch for Rs. 5

The Jharkhand government in India is introducing a food scheme called 'Dal-Bhaat-Sabji' scheme from August 15, 2011 with a view to providing 200 grams of cooked rice, a pulses dish and a vegetable curry at the cost of Rs. 5 to the people at 100 centers in the state from 12:30 pm to 3 pm each day. Such centers would be located close to the Panchayat offices, bus depots, railway stations, government offices and the hospitals.

Source: Manoj Prasad, "Lunch for Rs. 5: Munda's new scheme for poor," in *The Indian Express*, July 25, 2011.

Bihar on Growth Path

In ancient times, Bihar was regarded as being at the centre of India's civilization. During the rule of King Janak in *Treta Yuga* some 10,000 years ago, Mithila was widely known for its spiritual knowledge. In the eighth century, enlightened master Shankaracharya was defeated in *Shastrartha* by, Ubhay Bharati, the wife of Mandan Mishra in Mithila of Bihar. Nalanda lying some 55 miles south-east of Patna had the credit of being the second oldest university in the world, next only to Takshashila developed some 2,700 years ago in present-day Pakistan. From the fifth century onwards until 1197, Nalanda served as a centre for higher learning, attracting scholars and students from as far off places as Tibet, China, Greece and Persia. Even in modern times, Mahatma Gandhi started his independence movement from Bihar. The state played a key role in India's independence movement in the first half of the 20th century.

Economically, Bihar has always remained affluent. The Ganges and many other rivers flowing through this state have made agricultural land most fertile, thus enabling farmers to grow crops in abundance.

In the last three decades, Bihar, with a population of over 100 million,¹¹⁰ has a lost most of its past glory following the country's independence from British colonial rule. Gradually, the state has earned a bad reputation and

110 India Today, "Top 10 highest population states in India," New Delhi: October 8, 2018, in <https://www.indiatoday.in/education-today/gk-current-affairs/story/top-10-highest-populated-states-in-india-1358387-2018-10-08>

been identified with crimes, abductions, extortions and lawlessness. The people of Bihar have become the laughing stock of others. Infrastructural facilities in the state such as roads and electricity are in shambles, while standards of education and health have suffered major setbacks. The state had virtually, turned into a *Jungle Raj* as the corrupt and criminals manoeuvred to gain control over state affairs. Because of lack of opportunities at home, a large number of Biharis were forced to migrate to other Indian states in search of a livelihood, education and security. Many of these migrants had even given up hope of seeing their state improve.

But ever since Nitish Kumar became the Chief Minister of Bihar in 2005, the scenario has changed. Biharis are now reclaiming their identity with pride. The state has transformed itself miraculously. There has been sizeable improvement in the schooling system with teachers largely engaged in teaching. Free meals and school uniforms have been provided to the school-going children. Once a girl or boy passes the eighth grade, she/he is entitled to get a free bicycle. As a result, the percentage of school dropouts in the state has reduced from 12 to 3 percent. There has also been an improvement in the higher education system.

Doctors have started discharging their duties at hospitals. Engineers have returned to their duties. Government officials are attending their offices regularly and the police has become dutiful. An improvement in the law and order situation on the one hand and infrastructural development on the other has generated huge opportunities for domestic and foreign investment. Even in the rural areas, each household is now assured of 100 days of minimum wage work on demand under the *National Rural Employment Guarantee Scheme*. The opening of different employment opportunities at home has reduced the flow of migration from Bihar to states like Punjab and Maharashtra by 26 percent.¹¹¹

A new zeal and hope has returned to Bihar. It was not as if education, health or government institutions did not exist in the past. They were

111 Naziya Alvi, "Bihar can ground capital, says Nitish," The Times of India, March 19, 2012.

there. But they did not function effectively for the welfare of the people due to the misgovernance. As the work culture resumed, the state has been making all-round development.

Bihar offers exciting prospects of development to all its neighbours in India and particularly to Nepal with whom it has an international open border. Economic transformation in Bihar has come mainly due to improvement in the governance system. A provision has been made for reservation of 50 percent seats for women at each level of the state. As the chief guest at the Global Bihar Summit in Patna in February 2012, the then Nepalese Prime Minister Baburam Bhattarai described Bihar as a role model for development, economic advancement and social inclusion for many Nepalese.¹¹²

Major Achievements

Some of Bihar's achievements in such sectors as banking, investment, afforestation and agricultural in recent years have been given below:

Banking

Bankers in India are thrilled to find a favourable investment climate in Bihar. At a recent state-level bankers' committee meeting in Patna, State Bank of India (SBI) Chairman Pratip Chaudhury said there was a favourable environment for development in Bihar. He said he wanted to set up one bank branch per 15,000-strong population across the state.¹¹³ S. Sridhar of the Central Bank of India observed that there were ample opportunities for promoting banking activities in rural Bihar. Allahabad Bank CMD J.P. Dua was in favour of more investment in the state given the marked improvement in law and order and the existence of proper roads and other infrastructural facilities. Arun Kaul of UCO Bank

112 Ram Kumar Kamat, "Bihar role model for development: PM," *The Himalayan Times*, February 17, 2012 in <http://www.thehimalayantimes.com/fullNews.php?headline=Bihar+role+model+for+developmentper+cent3A+PM&NewsID=320863>

113 *The Hindu*, May 15, 2011.

wanted to promote medium and small enterprises in the state due to the availability of infrastructural facilities.

Industries

ITC, long known as a cigarette-to-hotels conglomerate, is set to make an investment in the dairy sector in Bihar. The company has already launched a dairy project in Munger for production of pasteurized milk, skimmed milk powder, cheese and chocolate. A dairy plant has recently been inaugurated at Hajipur in Vaishali district for the production of four lakh litres of milk per day at the cost of Rs. 100-crore.¹¹⁴ A plan is afoot to set up another plant to produce 30 metric tons of milk powder.

Britannia Industries Ltd. is set to invest in the bakery business. The ailing sugar industry is gradually being revived and, in this process, some of the sick mills run by the State Sugar Corporation have been sold off. The private sector is showing new zeal in crushing more sugarcane in the state.¹¹⁵

Driveway

The Bihar government has made a plan for the construction of 40 km driveway similar to London's world famous Thames Path or Mumbai's

Marine Drive to facilitate a pleasant walk or a drive along the banks of the Ganges.¹¹⁶

New Bridge over Kosi

On February 8, 2012, Chief Minister Nitish Kumar and Central Road Transport and Highways Minister C. P. Joshi inaugurated a 1.8 km-long

114 Nava Bihar, April 19, 2012.

115 Business India, September 18, 2011, p. 112.

116 Deepshikha Sikarwar, "With marine drive, will Patna be the new maximum city" in <http://timesofindia.indiatimes.com/business/india-business/With-marine-drive-will-Patna-be-the-new-maximum-city/articleshow/10700951.cms>

bridge over the Kosi River. The old bridge built by the Britishers had collapsed in 1934 when Bihar was badly hit by an earthquake. Due to the lack of a bridge over the Kosi, people in the region had no choice but to cross the river by boat or follow a circuitous road route through Nepalese territory to reach their destination.¹¹⁷

Bicycle: A Status Symbol

The Bihar government has chalked out a plan to encourage officials to use bicycles for commuting purpose. To make bicycle use popular, the Bhagalpur district administration has ordered the collectorate staff to come to their offices by bicycle at least for a day each month. This plan intends to make staff members physically fit and reduce pollution. Enthusiastic district magistrate Narmadeshwar Lal said, “The move will not only cut fuel expenditure of our staff, but will also protect the environment from air pollution caused by the smoke emissions of vehicles.”¹¹⁸

Agri Roadmap

Because Bihar's soil is most fertile, the state government has prepared a 10-year growth plan for the agricultural sector. The *Krisshi Road Map* (Agriculture Road Map) was prepared for the period 2012 to 2022. Most importantly, the Bihar government has involved farmers in preparing the state's agriculture roadmap.

An international organisation such as the International Panacea Ltd. is providing certificates to *litchi* producers to market the product globally. In vegetable production as also for the production of pulses, organic farming is encouraged. An ASSOCHAM survey shows that Bihari farmers might raise their income to the level of 1,000 crores through the production and export of those products.¹¹⁹ Understanding the role of connectivity

117 Amarnath Tewary, “Nitish bridges 78-year promise on river Kosi,” *The Pioneer*, February 9, 2012.

118 News service, “Bihar takes a cue from China,” *The Statesman*, February 7, 2012.

119 *Business India*, no. 137.

in agricultural production, the Bihar government is developing roads and increasing the supply of power in the state.

There is a vision that each Indian should have at least one vegetable or fruit item grown in Bihar. As many as 14 committees have been formed in different districts of Bihar to translate this vision into reality. Sufficient attention is being given to seed development, improvement in farming practices and mechanization of agricultural sectors. Even the state government has planned to send a team of farmers from Bihar to China to enable them to benefit from agriculture techniques practised by the Chinese farmers.

Greening Bihar

Bihar has drawn up a plan to bring 15 percent of the total land area of the state under forest cover.¹²⁰ To promote afforestation, the Nitish Kumar government for the first time hired two Bell-407 private helicopters from Arrow Aircraft Company to give way to the aerial plantation on the steep mountains, hills and hillocks in the state. The helicopters were used to carry out spraying of different varieties of chemicals on medicinal, fruit-bearing and wood-giving trees and also certain varieties of grass initially in the Rajgir hill range.¹²¹ Use of new technology was given priority as the traditional method of planting seeds on the hills was found to be most difficult. There was a programme for aerial spraying of seeds in other parts of Bihar once this trial brought encouraging results. Such an effort was intended to increase the forest cover in the state on the one hand and restore ecological balance on the other.

The effort to make Bihar green is in line with the campaign of Chief Minister Nitish Kumar's political party, Janata Dal (United). For this, the party made it mandatory for every worker joining the party to plant at least one sapling in one's village in the bid to make Bihar green.

120 Vishleshna, "Bihar Bikas: Ke ho yatharth?" (in Nepali), March 14, 2012.

121 Manoj Chaurasia, "Bihar goes Green, from the air and on the ground," *The Statesman*, August 11, 2011.

Some Economic Challenges of India

While the west and south of India are increasingly becoming wealthy; the east and central parts of the country are lagging in economic development. Whereas the governments of the developed states can implement the economic reform programmes aggressively; the lagging states find it increasingly difficult to do so.

Besides, India's fast rate of economic growth has created a certain level of inequality in income and wealth. The share of the lowest 20 percent people in India in total national income is merely eight percent; while the share of the top 20 percent people in national income is 45 percent.¹²² Wealth is concentrated more in the urban areas compared to the rural areas, even though the rural population is much more than the urban population in the country.

Still, millions of Indians are below the poverty line. Many of them do not have easy access to housing, education and health facilities. Similarly, quite a big chunk of the Indian population is still illiterate. An even greater challenge is the abysmal quality of government-run primary and secondary schools in the country.

Each year about 2.4 crores babies are born in India, but nearly 2,500 of them die because of malnutrition. Malnutrition among children is partly due to poverty and partly due to the poor public distribution system of subsidised food grains. Estimates are that 60 percent of the grains released under this system fail to reach the targeted population.¹²³ This means that only 40 percent of the poor benefit from this food safety net.

There was huge food wastage during the harvest, procurement and storage. The estimate is that each year Rs. 58,000 crores worth of food grains is

122 Jayshree Sengupta, "Terror threatens economy: Investors losing confidence in India," *The Tribune*, July 20, 2011.

123 *Business Standard*, May 19, 2011.

wasted on account of poor or non-existent storage facilities.¹²⁴ Food and vegetables worth \$7.3 billion are wasted in the country each year.¹²⁵

Additionally, there is wastage of food at public gatherings and social functions. On such social functions as marriages, 15 to 20 percent of the cooked food is wasted.¹²⁶ It is estimated that the wastage of food made by starred hotels in Mumbai can feed all slum dwellers in the city. The loss is recorded in billions of rupees.

India is suffering from infrastructure deficits, though there has been commendable progress in this field over the past years. Many of the roads in the country are still in wretched condition. Railways in India have not benefited much from economic reforms, though this sector plays a crucial role in freight transportation.

Land acquisition has emerged as a great challenge in India. The country is finding it tough to acquire land for different developmental activities. Protests often take place when efforts are made to acquire land for mining, infrastructure development, power plants, industries and industrial parks, lucrative residential zones, etc.

Moreover, there is a problem of black money in the country. There are reports that the Indians have as much as \$1.5 trillion¹²⁷ illicit funds parked in foreign accounts.

Over the years, the Government of India has commissioned several studies to get an estimate of the size of the black economy in the country. As far

124 PTI, "Poor storage facilities leading to food wastage: Sharad Pawar," DNA, May 8, 2010, in http://www.dnaindia.com/india/report_poor-storage-facilities-leading-to-food-wastage-shared-pawar_1380606

125 BBC News, "India's food going to waste," December 6, 2001, in http://news.bbc.co.uk/2/hi/south_asia/1695954.stm

126 Bimal Mukherji and Banikinkar Pattanayak, "New Delhi Starts Drive to Root Out Hunger," *The Wall Street Journal*, June 8, 2011, in <http://online.wsj.com/article/SB10001424052702304259304576372813010336844.html>

127 *The Pioneer*, July 18, 2011.

back as 1955, noted economist Nicholas Kaldor said the black economy formed four to five percent of India's GDP, which amounted to Rs. 600 crores.¹²⁸ Thereafter, Justice Wanchoo estimated the size of the black economy to the tune of Rs. 7,000 crores in 1969. The National Institute of Public Finance and Policy in 1980-81 estimated the black economy to be 20 percent of GDP. In 1992, S. B. Gupta estimated black money to the tune of 42 percent of GDP. In 2005-6, Arun Kumar, Professor of Economics at Jawaharlal Nehru University estimated the size of the black economy to the tune of 50 percent of GDP.¹²⁹

Furthermore, since 1990s sporadic attempts have been made by terrorist organisations to shake the people's confidence in the system of governance in the country. The terrorist attacks such as the one's that took place in Mumbai and other cities have tried to send a chill down in the Indian economy. India's economic success would be greatly hampered if these terrorist threats are not checked. Moreover, the Maoist insurgency in recent years has eroded the confidence of many investors and industrialists in the political system of the country. In states like Andhra Pradesh, Orissa, Chhattisgarh, Bihar, Jharkhand and parts of West Bengal and Maharashtra, Maoist's activities have affected the mining and metal sectors. However, the improvement in law and order situation and aggressive policy of the Narendra Modi's government for infrastructure development has weakened the base of Maoists. Recent reports indicate that there has been a remarkable decline in the Maoists' area of influence in different parts of the country.

Future Growth Potential of India

Many of the economic challenges that India has been facing are an evolving phenomenon of growth. In India, credit is largely given to the fast-developing media sector for bringing such problems to the knowledge of the population. People in India are now more aware and want political

128 The Times of India, June 8, 2011.

129 Ibid.

leaders to take drastic action where required. It is estimated that many of the Indian economy's anomalies are in existence because of factors such as inequality of incomes, hunger, malnutrition, corruption, black economy, terrorism or even Maoist insurgency. If these negatives are brought within manageable limits, the country would be under less pressure and in a position to address such problems more efficiently and effectively. All this is largely due to the transparency revolution in the country. In their bid to curb corruption and black money, many people, particularly the youth, have extended support to social activists like Anna Hazare and Swami Ramdev. Concerning this development, A. K. Antony, a politician, once commented, "Our country is passing through a transparency revolution. The walls of secrecy are crumbling in every field - in politics, in administration, in the judiciary, in business and even in journalism. The government cannot stop [the trend] mid-way."¹³⁰

Even amidst the economic challenges, India's prospects for phenomenal economic growth are high. The management consulting firm, Boston Consulting Group, in its Annual Global Wealth Report in 2011 outlined India as one of the four fastest wealth creators in the world; the other three countries being the USA, China and the UK. Wealth in India has grown remarkably by 9.2 percent per annum since 2000, which is faster than the global average of six percent with a population growth of 2.2 percent annually.¹³¹

US Treasury Secretary Timothy Geithner remarked that India's role in the G20 process was important as this country presented itself as a role model for balanced economic growth in an equitable free-market system.¹³² Furthermore, Goldman Sachs predicted that India's rate of economic growth would not be less than four times in 2020 as compared to the situation in 2007.

130 The Hindu, June 9, 2011.

131 Economic Times, "India's wealth growth story in 5 charts," November 20, 2017, in <https://economictimes.indiatimes.com/markets/stocks/news/indias-wealth-growth-story-in-5-charts/change-in-total-wealth/slideshow/61723979.cms>

132 The Times of India, June 29, 2011.

The per capita income in the country grew five-fold from \$100 in 1971 to \$500 in 2004. Significantly, it took a mere five years from 2004 for the per capita income to double to \$1,000.¹³³ There is a prospect for the Indian economy to double itself every nine years if the economic growth rate is eight percent. But it has the potential to grow to even 12 to 13 percent per annum.¹³⁴

The Indian economy is fast moving towards integration with the world economy. India's democratic structure is more accommodative and a catalyst for social and economic transformation. As such, even social unrest in the country is not as serious as it is in China because democratic institutions provide outlets for the aggrieved to ventilate their grievances. India's advantage over China is that it can change its policy to address issues related to unrest in comparatively shorter periods, which is not so in the case of China where a single party dominates the governance structure. Besides, inequality in income has grown in an unprecedented manner in China. The authoritarian political structure has enabled the country to develop a physical and social infrastructure and ensure effective implementation of all projects. Perhaps, this was also due to official denial of egalitarianism by the party ideologues in the Communist system in which the rich were allowed to become richer with the underlying notion that others would follow suit.

China opened up its economy in 1978 and made remarkable progress, but India is catching up fast after opening up its economy in 1991. China has overtaken Japan and emerged as the second-largest economy in the world. However, India with a nearly three trillion dollar economy, has indicated its ability to grow at a faster pace than China. With this rate of growth, India might catch up with China in the foreseeable future.

What also gives India the upper hand over China is the freedom that the central bank of the country enjoys in shaping interest rates. China, on the

133 Ibid.

134 Ibid.

other hand, has many limitations in doing so. The private sector is coming up faster in India, which has in many ways helped in containing high fiscal deficit and thereby reducing government debt. Tax collections are more than government expenditure, which is the outcome of a higher growth rate, an efficient tax collection mechanism and a growing base of people in the tax net.

Significantly, India has over 50 percent of the population below the age of 25. The population below 35 years is 65 percent.¹³⁵ Over the next twenty years, the working age population in India is expected to grow by 200 million; while in China it could grow by a mere four million or so.

India also has an advantage over China as its economic growth is largely driven by domestic consumption and investment. According to the market research firm TNS, India has more investor families. The country has three million affluent households with over \$100,000 of investment money. The entrepreneurial spirit of the people is paying off. As a result, the country has even surpassed major European markets such as Germany and France. On the other hand, China's economic growth is driven more by exports.

Increasingly, many countries now see India as their preferred economic partner. They regard India as a better alternative to China, even though the Indian economy is almost a third of China. With the steady growth that India is making, the gap between India and China is likely to be reduced. India has a certain comparative advantage over China in areas like the democratic system, legal system, developed service sector, finance and banking system, information technology and the strength of the English language. India is a potential competitor of China in investment, energy and markets.¹³⁶ And more than anything else, India is emerging as one of the poles in a multi-polar world. Hence, if at all China's dominance in Asia is challenged, it would be by India, given its size, resources and demographic profile.

135 Iqbal Singh, "Enjoy life, but live within means," *The Times of India*, May 8, 2012.

136 Rajiv Sikri, no. 43, p. 104

Standard Chartered in its report '*India in the Super Cycle*' reveals that India would emerge as the world's major economic power by 2030. Estimates are that its rate of economic growth would exceed that of China in the next two decades.¹³⁷ Global property firm Knight Frank and Citi Private Bank have forecast that by 2050 India with a GDP of \$86 trillion might overtake the \$80.02 trillion Chinese economy and \$39.07 trillion US economy.¹³⁸ The forecast is based on the estimate that India's rate of economic growth between 2010 and 2050 would be fastest, averaging eight percent per annum.

Trickle Down Effect on Nepal

Nepal has a 1753 kilometre long open border with India. People are free to move between both countries. Though the open border system has been in existence since time immemorial, it only got due recognition through the Treaty of Peace and Friendship concluded between the two countries in 1950. Nepal and India though separated by an international boundary are *de facto* borderless. Such people-to-people contacts have encouraged cross-border marriages on a large scale between border inhabitants. No two nations of the world are as closely linked as Nepal and India in terms of history, geography, culture, religion, commerce, trade and people-to-people relations. Mutual trust and friendship and also a desire for peace and stability are the cornerstones of the relationship between both countries.

Understanding the special position that Nepal enjoys in India's neighbourhood, New Delhi has been extending extensive economic assistance to Kathmandu since the country achieved independence. Special privileges in trade and commerce have been granted to Nepal. The transit facilities as enjoyed by Nepal are something unique. No other landlocked country in the world has ever enjoyed such transit facilities as enjoyed by Nepal from India.

137 The Economic Times, May 26, 2011.

138 Times News Network, "India will be No. 1 economy in world by 2050: Report," The Times of India, March 29, 2012.

On the Indian side of the Indo-Nepal border, India has a huge population of 405.4 million people, which includes Uttarakhand (10.1 million), Uttar Pradesh (199.6 million), Bihar (103.8 million), West Bengal (91.3 million) and Sikkim (0.6 million).¹³⁹ This total is almost a third of India's total population, more than a third of Africa's population and over half of Europe's population. Given the proximity between Nepal and India, this is a great advantage to Nepal to explore the booming Indian market across its border.

Moreover, India does not count Nepal as its competitor. The complementarities between the Nepalese and Indian economies are likely to continue undiluted for a long time. Rather, it is more Nepal's underdevelopment than its development that is India's challenge. Industrialisation and economic growth in Nepal are not going to affect India's interest in so far as they are genuine.

There is a growing realisation in India that the country could maintain a sustained rate of growth only if its neighbouring countries are economically betteroff. Against this background, there is a greater need to promote further economic interdependence between Nepal and India. There is also the prospect for Nepal to benefit most from India's fast-growing economy. The growing strength of the Indian economy has a certain spillover effect which is to the advantage of Nepal. This is mentioned below:

Growing Aid and Assistance

The economic boom in India has enabled the Government of India to provide 3,000 scholarships to Nepalese students each year to pursue higher academic courses at the Ph.D., Masters, Bachelors and Plus-two levels in India and Nepal.¹⁴⁰ Nepali students benefit a great deal from those scholarships for it provides them opportunities in their immediate

139 The Economist, no. 1, p. 4

140 <https://www.indembkathmandu.gov.in/page/about-education-and-scholarship/#:~:text=Around%203000%20scholarships%2Fseats%20are,XI%20for%20study%20in%20Nepal.>

neighbourhood, to study subjects ranging from engineering, medicine, agriculture, pharmacology, veterinary sciences, computer application, business administration, music and the fine arts.

Besides, the Government of India provides both technical and financial assistance for multi-sectoral development in Nepal. Between 2004 and 2015, the number of small, intermediate and large projects in Nepal shot up from 26 to 510. Of the total 510 Indian projects, the number of small projects was 474; while the large and intermediate level ones were 36. Under the small projects, 462 ambulances were provided to 73 districts of the country; 90 buses were made available to health and educational institutions to facilitate the movement of teachers, students, doctors and nurses.¹⁴¹

Each part of Nepal, including the Terai, Hills and Mountain, has benefited from Government of India assisted Small Development Projects since this programme was initiated in 2003. A large number of projects with a focus on infrastructure development and capacity building were completed in such areas as education, health and community development. Such projects are undertaken at the request of the local government, communities and organisations. Transparency is one of the important features of these projects. All funds allocated under these projects are directly spent by the executing agency – usually a local entity of the Government of Nepal – based on the recommendation of the oversight committee, composed of grassroot-level local community leaders and members of the beneficiary groups. These committees ensure effective implementation of the project; while the role of Government of India is confined to disbursement of grant assistance based on a physical monitoring of the projects. Such projects have brought about tangible social and economic transformation in the lives of the people.

In the health sector, the Government of India has funded large projects such as the construction of the B.P. Koirala *Institute of Health Sciences*

141 <https://www.indembkathmandu.gov.in/page/about-development-partnership/>

at Dharan, the *Bharat-Nepal Maitri Emergency and Trauma Centre* in Kathmandu and the *Nepal Bharat Maitri Bakhtawari Hari Eye Hospital* at Krishnanagar. Other large/intermediate projects financed by India in Nepal, include a 904 kilometer-long *Optical Fiber* project, which serves as the backbone to the telecommunications network in Nepal. India has also constructed 807 kilometres out of a total road length of 1024 kilometres of the *East-West Highway* along with 22 bridges in the Kohalpur-Mahakali section.¹⁴²

Nepal is likely to benefit from India's economic growth through physical connectivity. India's cooperation to Nepal in constructing 41 roads covering 1,450 kilometres blacktopped and an all-weather road in the Terai region at an estimated cost of Rs. 16,000 million is a welcome development. Some of these projects are important not only for providing physical infrastructure to the people of Nepal but also for developing connectivity between Nepal and India.

Connectivity between Nepal and India is likely to be developed further if railway lines along five routes, including the 17.65-kilometre stretch between Jogbani (India) and Biratnagar (Nepal), the 70-kilometre stretch between Jaynagar (India) and Bardibas (Nepal), the 12.11-kilometre stretch between Nepalgunj Road (India) and Nepalgunj (Nepal), the 15.30-kilometre stretch between Nautanwa (India) and Bhairahawa (Nepal) and 46.30-kilometre stretch between New Jalpaiguri (India) and Kakarbhitta¹⁴³ (Nepal) are completed with Indian assistance. Of these projects, the Indian government almost completed the broadgauge railway line from Jaynagar (Bihar, India) to Kurtha (Janakpur, Nepal), which will be further extended to Bardibas. The total length of this railway line from Jaynagar to Bardibas is 70 kilometres.¹⁴⁴ India also plans to undertake

142 Ibid.

143 The Kathmandu Post, July 1, 2011.

144 PTI, "First India-Nepal passenger train on broad gauge likely to begin from December," The Economic Times, November 4, 2018, in <https://timesofindia.indiatimes.com/india/pm-modi-nepalese-counterpart-inaugurate-check-post-at-jogbani-biratnagar/articleshow/73473347.cms>

a giant 130 kilometers railway project in Nepal's mountain region by connecting Raxaul (Bihar, India) with Kathmandu (Nepal).

India constructed a 69-kilometre cross-border oil pipeline from Motihari (Bihar, India) to Amlekhgunj (Nepal) at the cost of Indian Rs. 324 crores in 2019.¹⁴⁵

Besides, the Indian government built the Jobgani-Biratnagar integrated check post (ICP) in 2020 to promote bilateral trade and facilitate people-to-people contact between Nepal and India at the cost of Indian Rs. 140 crores.¹⁴⁶ In 2018, it constructed the Raxaul-Birgunj integrated check post.¹⁴⁷ The ICPs are expected to boost trade between both countries by providing a single-window system; for which all such units as customs, immigration, warehousing, health, shopping complex and parking would be developed under one roof.¹⁴⁸

To control floods, the Government of India has been involved in the embankment of Lalbakeya, Bagmati and Kamla rivers. India's assistance in river training works of Gagan, Trijuga, Lakhandei, Kali Gandaki, Kankai and Banganga rivers are important to the people living in different parts of Nepal.¹⁴⁹

The Indian government's role in the cultural field is equally important. With Indian assistance, restoration work was done on two sacred ponds -- *Ganga Sagar* and *Dhanush Sagar* --, at Janakpur, the birthplace of Goddess

145 Elizabeth Roche, "Cross-border oil pipeline to boost India, Nepal relations," *Mint*, September 11, 2019, in <https://www.livemint.com/politics/news/india-nepal-inaugurate-cross-border-pipeline-1568100296421.html>

146 PTI, "PM Modi, Nepal PM KP Oli jointly inaugurate integrated check post via video conferencing: call for enhancing ties," *Time of India*, January 21, 2020, in <https://timesofindia.indiatimes.com/india/pm-modi-nepalese-counterpart-inaugurate-check-post-at-jogbani-biratnagar/articleshow/73473347.cms>

147 Ibid.

148 Research and Information System for Developing Countries. 2008. *South Asia Development and Cooperation Report 2008*. Oxford, pp. 100.

149 <http://www.indianembassy.org.np/economic-cooperation.php>

Sita. Work on the renovation of the *Rang Bhumi Maidan* of Janakpur was also completed.¹⁵⁰ In the past, the Indian government built the *Yatru Niwas* at Janakpur for visitors to this land. Such support to Janakpur by the Indian government is expected to facilitate the visit of pilgrims to this place from all over the world. Besides, India is involved in the restoration of nine historical sites at various places in Nepal. India has undertaken a project for the construction of Convention Centre in Birgunj sub-Metropolitan of Nepal with a seating capacity of 1000 persons.

Indian investment

Indian investment has made a great difference in Nepal by generating massive employment opportunities. However, very few joint venture projects have come from India to Nepal in recent years. This is possibly so because certain joint ventures which have been in operation in Nepal, have been increasingly suffering from a sense of insecurity. At times, the hydropower projects with Indian investments, including the GMR Group, working on *Upper Karnali* and *Upper Marshyangdi* were targeted. Other Indian joint ventures such as *United Telecom Limited (UTL)* and *Surya Nepal* also faced problems of physical security. Understandably, India has sought the protection of all its investment projects in Nepal. After the Bilateral Investment Promotion and Protection Agreement (BIPPA) was signed between Nepal and India on October 21, 2011, a fresh confidence has developed among Indian investors about the protection of their investments in Nepal.

Favourable Trade Treaty

On October 28, 2009, Nepal and India signed a new trade treaty, which was the revised version of the 1991 treaty. Under the provisions of the new treaty, even laboratory facilities in Nepal have been recognised as a competent body to issue quality certificates. Equally important was the provision of enhanced capacity building of Nepali laboratories with Indian assistance. Moreover, the duty-refund process was scrapped, which

150 Ibid.

enabled Nepalese traders to import goods from India in Indian currency at par with the trade-in convertible currency without even paying excise duty to India. Importantly, some new items like floriculture, wheat flour, bran, husk, bristles, herbs, stone aggregates, boulder, sand and gravel were added to the list of primary products to enable them to reap the gain of duty-free access to India. The treaty also made a provision for additional Land Customs Stations and open-air traffic between Nepal and India.

Employment and Remittance

Developmental activities in India have opened huge opportunities for many Nepalese to engage themselves in gainful employment in India. Currently, the number of Nepalese workers in India is estimated at over five million.¹⁵¹ The open border system between the two countries has largely facilitated the migration of population from Nepal to India. However, the share of Indians among total Nepalese migrants has declined from 85 percent in 1995-96 to 65 percent in 2003-04.¹⁵² During that period, there was a major shift in the flow of Nepalese migrants from India to other overseas destinations.

Among the Nepalese migrants, there are 25,000 Nepalese Gurkhas currently serving in seven Gurkha Battalions of the Indian Army. Nearly 68,697 Gurkhas receive military service pension through seven Pension Paying Camps in Nepal.¹⁵³ Nepal benefits tremendously from the remittance as well as from the pension of the Gurkhas serving in India. Indirect benefits from the Gurkhas in terms of social welfare and such other activities as related to health care, education and infrastructural development are huge in Nepal.¹⁵⁴ However, in a major development, the

151 Lalita Panicker, "It is time to see red" in *Hindustan Times*, 2 May 2011.

152 Hari Bansh Jha. 2010. *A Rapid Situation Assessment on Agriculture and Migration in Nepal*. (Unpublished Report). Kathmandu: International Organization on Migration. p. 13.

153 Sangeeta Thapliyal, "Movement of Population Between India and Nepal: Emerging Challenges," in <http://www.idsa-india.org/an-aug9-6.html>

154 Chandan Sapkota, "Un-feathered cap: Ending Gurkha Recruitment," *My Republica*, March 28, 2012.

Government of Nepal has proposed to halt the recruitment of Gurkhas in Indian, British and other armies in line with the recommendations made in a parliamentary report on “Nepal’s Foreign Policy in the Changed Context, 2012.”¹⁵⁵

Over the years, the employment of Nepalese in India has worked as a safety valve in Nepal as it has been able to release much of the tensions that exist within the country. Remittances earned from India are a great support to family members of the migrants based in Nepal.

Tourism Industry

With the growing purchasing power of the Indian population, many people from this country go for tourism outside the country. India is the most important market for Nepal’s tourism industry. Indian airline carriers *Air India*, *Jet Airways* and *Spice Jet* cover certain destinations between India and Nepal. Some Nepalese Airlines, including *Buddha Air*, also provide air services between both countries.

Trade with India

India was the largest trading partner of Nepal. In 2017-18, Nepal exported goods worth US \$ 0.42 billion to India; while its imports from that country recorded \$ 7.39 billion.¹⁵⁶ Whereas India’s share in Nepal’s total exports was 57 percent in 2017-18; its share in Nepal’s total imports was 65 percent.¹⁵⁷ Nepal has a huge balance of trade deficit with India because of its inability to produce exportable items.

155 Rajat Pandit, “Nepal may bar Gurkhas from Indian Army,” *The Times of India*, March 20, 2012.

156 Embassy of India, “About Trade and Commerce,” in <https://www.indembkathmandu.gov.in/page/about-trade-and-commerce/>

157 Ibid.

Pegging to Indian Currency

The Nepalese currency is pegged to the Indian currency. The last adjustment that was made between the Nepalese and Indian currencies was on February 1, 1993,¹⁵⁸ when the old exchange rate of Nepalese rupees 160 equivalent to Indian rupees 100 was revived. Since then the exchange rate between the Nepalese and Indian rupees has been the same, even though the Foreign Exchange Regulation Act 1962 has allowed convertibility of Nepali rupees with all other currencies.¹⁵⁹

Because India has emerged as the world's faster-growing economy with an annual growth rate of eight percent or so, the value of the Indian rupee is increasing in the international market due to the growing strength of the Indian economy. But in Nepal, Nepalese currency has gradually been losing its value on account of poor economic growth. If there was a floating exchange rate arrangement between the Nepalese and Indian rupees in the place of the fixed exchange rate, the value of the Nepalese currency would have been far lower than what it is today.

Whither Nepal?

According to the National Population Census 2011, Nepal has a population of 26.6 million. The Terai region constitutes 50.15 percent of Nepal's total population followed by the Hills (43.1 percent) and the Mountain (6.75 percent).¹⁶⁰

In 2019-20, Nepal's GDP growth rate was recorded at 6.4 percent;¹⁶¹ whereas India's GDP growth rate that had dipped to an 11 year low was

158 <http://www.ekantipur.com/the-kathmandu-post/2011/06/19/money/no-revision-in-nc-ic-exchange-rate-soon/223086.html>

159 Mukesh Khanal, "Time to ditch the peg," My Republica, June 13, 2011.

160 <http://www.nepalnews.com/archive/2011/sep/sep27/news13.php>

161 Wikipedia, "Economy of Nepal," in https://en.wikipedia.org/wiki/Economy_of_Nepal.

found to be 5 percent.¹⁶² However, India's per capita GDP of US \$2,010 was almost double Nepal's GDP per capita of 1,033 in 2018.¹⁶³

Due to lack of opportunities at home, each day over 1,500 people have been leaving Nepal for employment in countries other than India. As a result, agriculture and other sectors have been the hardest hit because the working group population has mostly left the country.

But it does not mean that Nepal's miseries are due to lack of planning and policy initiatives. As far back as in 1956, Nepal introduced its First Five Year Plan. Over the years, Nepal has experimented with different development models. Between 1960 and 1990, under the Panchayat regime, the country adopted a mixed economic system with larger government intervention in different development activities. The private sector was allowed to operate, but the thrust was on import substitution industries in the public sector. A license system governed economic activities. Quantitative restrictions were imposed on import and export trade.¹⁶⁴ The government was solely responsible for undertaking projects related to the development of roads, electricity, drinking water, hospitals and educational institutions.

After the political change in 1990, Nepal adopted liberal economic policies. The importance of the private sector in economic growth was acknowledged. Quantitative restrictions and import-license regimes were given up in the domain of trade and commerce. Except for a few sensitive items, permit-free exports regime was encouraged. The Nepalese currency was made convertible. In the process of bringing out reforms in the tax system, the value added tax system was introduced. Even commercial banks were allowed to fix interest rates. The Foreign Investment and

162 Press Trust of India, "India's GDP growth rate for 2019-20 estimated at 5% against 6.8% in FY19," *Business Standard*, January 7, 2020.

163 The World Bank, "GDP per capita (current US \$), in <https://data.worldbank.org/indicator/NY.GDP.PCAP.CD?locations=IN>

164 Prithvi Raj Ligal, "A Progress Report" in Devendra Raj Pandey and Ramesh C Arya (Ed.). 1997. *Liberalization and Development in Nepal*. Kathamndu: Nepal South Asia Centre, pp. 17-18..

Technology Transfer Act came into effect to promote FDI for which a one-window system was introduced.¹⁶⁵

Besides, several public sector undertakings, including agricultural farms were privatised. Those public sector units which were not privatised were accorded greater autonomy to fix the prices of their products on their own and run the units on commercial terms. The price control regime on sugar industries was given up. The private sector was allowed to set up schools, colleges and universities. Private sector investment in the hydropower sector was permitted. Banks airline companies were opened to the private sector too.¹⁶⁶ Administrative reforms were introduced to make the bureaucracy more efficient. Under the federal system, village councils/municipalities were given lead roles in development affairs. Elected representatives were made responsible for running local development activities with the help of funds provided by the state.¹⁶⁷ A social security system was introduced as support to the deprived and weaker sections, and the ageing population.

Yet, the manufacturing sector's share in GDP plummeted from 10 percent in 1996-97 to 6 percent in 2011-12.¹⁶⁸ The construction sector also got squeezed. The onset of a power crisis hit private sector investment prospects. There was a lack of integrated agriculture development plan for the areas that have the potentiality to produce round the year.

Nepal's domestic savings was as low as 5.26 per cent of the GDP in 2016.¹⁶⁹ Investment was also low at 18 per cent of the GDP. The crisis in the banking sector began in 2009 when the central bank tried to control lending to the real estate sector without giving any outlet for investment

165 Ibid.

166 Kamal Raj Dhungel, "Economic progress proved elusive" published in the Himalayan Times on May 22, 2011

167 Prithvi Raj Ligal, no. 160, pp. 18-19.

168 Central Bureau of Statistics. 2014. Development of Manufacturing Industries in Nepal. UNIDO.

169 Rupak D Sharma, "Nepal's saving habits worst in 2 decades," The Himalayan Times, May 4, 2016.

in alternative areas of the economy.¹⁷⁰

Nepalese exports have almost remained stagnant; while imports have skyrocketed. The country's imports are nine times larger than exports. Of the country's total GDP, exports fell to 5.2 percent; while imports increased to 40 percent between 2004-05 and 2016.¹⁷¹

Export of hydropower has the potential to narrow down Nepal's huge balance of trade deficit with India, but the country can't benefit much on this front. Of Nepal's total potential to harness 83,000 megawatts of hydropower; it is possible to harness 43,000 megawatts technically and economically. Nepal's peak electricity demand is 1,240 megawatts; whereas, its installed capacity is around 1,000 megawatts. To bridge this gap, the country imports almost 380 megawatts of electricity from India through different cross-border transmission points.¹⁷² As of today, Nepal has not been able to produce enough hydropower to export to India.

Also, Nepal is constrained by inadequate infrastructures, such as dilapidated roads and poor water supply. The supply of petroleum products, including cooking gas is not only limited but also irritatingly undependable. Several industries are closed partly due to labour militancy and partly due to poor supply of raw materials. The country is also plagued by the decline in the production of carpet, garment, handicraft and *pashmina*, which remain the main exportable items of the country. The stagflation is eroding the purchasing power of the people; whereas inefficiently, corruption and poor governance have affected the prospect of growth of the Nepalese economy.¹⁷³

170 Ibid.

171 Lal Shanker Ghimire, "Nepal's Widening Trade Deficit" Economic Management Division: Staff Discussion Paper, No. 3 (2016), in http://www.npc.gov.np/images/category/Nepals_Trade_Deficit1.pdf

172 PTI, "Nepal requests India for more electricity," *The Economic Times*, March 25, 2017, in <https://economictimes.indiatimes.com/industry/energy/power/nepal-requests-india-for-more-electricity/articleshow/57827303.cms>

173 Madan Kumar Dahal, "The Ten Commandments," *The Himalayan Times*, April 12, 2012.

Missing the Bus of Economic Growth

Nepal has remained virtually poor not so much due to lack of physical resources, but more due to its inward-looking policies. It is not because of the country's landlocked geography, but more so on account of being mind-locked. It is untrue to say that Nepal has been squeezed due to the boulders around it. It is sometimes described as 'yam between two boulders' solely because the country's rulers have had little interest to develop it.

In the past no vigorous effort was made for human capital formation by improving education, skills and health of the people. No significant effort was made to improve technology in any sector of the economy. It was loyalty rather than efficiency that was the rule of thumb in the administrative machinery. The backwardness of the country is the result of wrong policies framed either immaturely or by vested interests and lack of accountability.

There has hardly been any motivation to strengthen the country's productive base, or expand its domestic market. Also, there has been no noteworthy progress in delivery of services to the people and in establishing the rule of law. This is due to long years of political instability.

Quite often, growth does not trickle so easily from one to the other part even within a country automatically in the absence of connectivity. This is also true concerning Nepal and India where the trickle-down effect of India's economic growth on Nepal remained slow mainly due to absence of proper connectivity.

In India itself, growth in Delhi, Haryana, Maharashtra, or in the southern Indian states does not trickle to Uttar Pradesh, Bihar, Bengal and Orissa that easily. One state benefits from the higher economic growth of the country; while the other lags behind. What it holds in India, it also holds elsewhere.

Merely having open borders between Nepal and India does not ensure automatic transmission of growth. Growth trickles from comparatively developed to the underdeveloped regions only through cross-border connectivity. This is far from satisfactory between Nepal and India.¹⁷⁴

Winds of Change

After several decades, Nepal now seems to be heading towards political stability. The left alliance of the Communist Party of Nepal – Unified Marxist-Leninist (CPN-UML) and the Communist Party of Nepal (Maoist-Centre) which, after their merger, is now called the Communist Party of Nepal (CPN), has won close to a two-thirds majority in the House of Representatives, the lower house of the country's parliament. The left alliance also swept elections to the National Assembly, the upper house of parliament and in six out of seven provinces of the country.

Despite the deadly earthquake of April 25, 2015 and the economic blockade by the *Madheshis* in 2015-16, Nepal's GDP growth rate was merely 0.6 per cent in 2016 and rebounded to 6.7 percent in 2018.¹⁷⁵ Favourable monsoons and a robust growth in remittance mainly from the Gulf were the main drivers of higher economic growth in the country.

Significantly, the government has also made a plan to lay down 4,000 kilometres of railway lines in the country within 20 years. This includes the East-West Railway, the Kathmandu-Pokhara Railway, the Kathmandu-Tibet Railway and other railway lines to facilitate connectivity between the major border towns of Nepal and India.¹⁷⁶ Among some of these railway projects, the East-West Railway is categorised in the list of projects of pride, which is given higher priority in the implementation process.

174 Shyam Saran, "Re-Imagining India's Borders," *Business Standard*, June 24, 2011.

175 Asian Development Bank. *Development Outlook 2019 Update*, 2019, in <https://www.adb.org/countries/nepal/economy>

176 Bhoj Raj Poudel, "Railway dept won't get a single penny in 2012/13," *My Republica*, May 10, 2012.

Furthermore, the decade-long conflict between 1996 and 2006 compelled many Nepalese youth to flee to India and other countries in search of jobs. The momentum that was gathered in terms of population outflow during the conflict period intensified more in the post-conflict period. This proved a blessing in disguise as there has been a massive inflow of remittance into the country.

According to reports, Nepal's total foreign exchange remittance from the overseas countries increased from \$139 million in 2001 to \$808 million in 2004. It increased further to \$2.7 billion in 2009 and touched \$4 billion in 2011-12.¹⁷⁷ In 2018, the remittance inflow in Nepal nearly doubled to \$8.1 billion, which is 28 percent of the country's GDP.¹⁷⁸ Nepal happens to be the 19th biggest beneficiary of funds sent by migrant workers from around the world. In South Asia, the country is only behind Bangladesh (\$15.5 billion), Pakistan (\$21 billion) and India (\$78.6 billion). Remittance in the past had helped reduce the poverty level from 42 percent in 1996 to 31 percent in 2004 and further down to 25.2 percent in 2011.¹⁷⁹ Remittance from foreign countries has been of great help in bridging the huge balance of trade deficit.

Can India be a Model for Nepal's Growth?

India has not only been the world's largest democracy, but also a successful democracy. In every election, the voter turnout has grown consistently, showcasing the increasing support of the people at the ballot and so to say, in a democracy. The mixed economic growth model in the country has exhibited that a higher rate of economic growth is possible not only in a centrally planned economy like that of China but also in the democratic system of India.

177 Purushottam Ojha, "Tipping Nepalis Abroad Away from home" My Republica May 8, 2012.

178 Sangam Pradhan, "Nepal is 19th largest recipient of remittance with \$8.1 billion," The Kathmandu Post, April 10, 2019, in <https://kathmandupost.com/money/2019/04/10/nepal-is-19th-largest-receiver-of-remittances-with-81-billion>

179 The Himalayan Times, October 21, 2011.

India is one of the very few countries that has transformed itself so fast within a short period. Unlike the manufacturing-based export-oriented growth model of East Asian economies, India adopted a model of rapid internationalisation in which the focus was on the growth of the service sector, including software and information technology, telecommunications, cable television, hotels, finance, travel agencies, retailing, airlines, advertising and publishing.¹⁸⁰ Such an approach enabled India to turn into a 'country of charmers,' which until some years ago, was discredited and known merely as a country of 'snake charmers.'

India today is on the path of sustained high growth on account of higher rates of domestic savings, high quality of entrepreneurial and managerial skills and also due to the cumulative effect of economic reforms on productivity.¹⁸¹ The public-private partnership approach in the mixed economic growth model has started giving results.

Interestingly, in 1956 after introducing the first Five Year Plan, Nepal also adopted the mixed economic system like India. It is unlikely that Nepal would switch over to an extreme form of capitalism or even a centrally planned model as it would not suit local conditions. Hence, Nepal could promote the public-private partnership model in its mixed economic system like in India in which the state mostly plays the role of a facilitator and the private sector becomes the main driving force towards the internationalisation of the economy with a focus on the growth of the service sector.

The Way Forward

The success story of the Indian economy has been made possible due to its integration with the world economy, particularly through trade; economic freedom by allowing the market forces to operate; and political freedom by bringing all the segments of the society, including women and other disadvantaged sections, in the governance system. As a result of some of

180 Sanjeev Sanyal, no. 51, pp.71-73.

181 Montek S Ahluwalia, no. 6, pp. 88-89.

these measures, there has been significant growth in both the GDP and per capita income of the people.

The Indian experience reveals that technocrats if given a free hand, can bring better economic results through the medium of reforms. India's economic reform programme was successful because of conviction, consensus and commitment of political leaders on the one hand and the competence of technical personnel to give practical shape to economic reforms on the other.

It is but natural for India's closest neighbour, Nepal, to benefit from its fast-growing economy under the normal trickle-down effect. But Nepal's potentiality to benefit from the Indian economic miracle is much higher, which the country has not been able to exploit effectively. This is firstly due to the lack of political determination in Nepal to take advantages from India's economic growth; secondly, the state has failed to adequately develop infrastructure facilities and link them up with the infrastructural facilities of India; and thirdly the governance system has remained restrained due to prevailing political instability and conflict.

Nepal has the potential to emerge as an economic power, for which a breakthrough needs to be made in economic relations between Nepal and India, particularly in hydropower, tourism, agriculture, industrial and service sectors.

If a congenial environment is created, India might further pump its FDI in Nepal and thereby transfer tested technology in agriculture, industry, trade and other sectors in Nepal. India could back up Nepal in its urge for the development of hydropower, mining, roads, railways, education and health in a big way. India's support to Nepal in high-value agro products like the cultivation of vegetables, fruits, dry flowers and medicinal herbs for export to India could prove crucial to the Nepalese economy. Equally important would be India's support in bringing about a Green and White Revolution in the country. Such measures could help Nepal reduce the balance of trade deficit with India as well as enable it to emerge as an

Asian economic power.

Economically poor and politically unstable Nepal is a liability to India. It would be difficult for India to emerge as a pole in a multi-polar world until Nepal and other neighbouring countries of India are also economically well-off. Nepal's prosperity is most likely to pave the way for the emergence of India as a global power.

On its part, Nepal also needs to realise that its future lies in developing connectivity with India, which is in sync with India's policy of collective prosperity with its neighbours. The adoption of the mixed economic system with a focus on public-private partnership under a democratic dispensation provides ample ground for India to take interest in Nepal's development. In such a situation, what Nepal needs most is to develop cross-border connectivity with India through efficient transport mechanism, communications and plugging digital divide.

Part II

India needs to revamp its working style in Nepal*

During her two-day good-will visit to Nepal on February 1-2, 2018, India's then Foreign Minister, Sushma Swaraj, did all that India could have done to rebalance bilateral relations after it touched its lowest ebb in 2015-16 during K P Sharma Oli's, first term as Prime Minister. In recently held local, provincial and central elections, Oli's Communist Party of Nepal Unified Marxist (CPN UML) party led left coalition forces won a resounding victory. Given this reality, Swaraj focussed more on mending relations with the CPN-UML and Oli.

Swaraj, however, was careful not to overlook Nepal's other political players. Her meetings with Madheshi and other important leaders were also given equal importance.

Before Swaraj visited Kathmandu, Indian Prime Minister Narendra Modi had congratulated K P Sharma Oli after his party won a landslide victory in the elections in Nepal. Modi expressed his keen desire to maintain working relations with the Left Front government in Nepal. As if this was not enough, he called Oli a second time and invited him to visit India.

Oli also invited Modi to visit Janakpur and Muktinath, the two important centres of pilgrimage for Hindus in Nepal. During his second visit to

* Observer Research Foundation, February 7, 2018.

Nepal in 2014, Modi wanted to visit these two places and Lumbini, the birthplace of Lord Buddha, but the visit was aborted by certain elements who wanted to create glitz in Nepal-India relations.

These initial gestures by India to develop a working relationship with the new government in Nepal were commendable. This was reinforced by India in 2018 with the government almost doubling its aid commitment for developmental projects in Nepal from INR 375 crores to INR 650 crores.

This was not the first time that India had worked with the Left Front government in Nepal. In 1994-95, India had worked well with the government led by Prime Minister Man Mohan Adhikari. Even after the Maoist insurgency had led to the formation of new governments in quick succession, India had worked for prolonged periods, including twice with Maoist leader Pushpa Kamal Dahal in 2008-09 and 2016-17. Subsequently, India also worked with governments headed by CPN-UML leader Madhav Kumar Nepal (2009-11), CPN-UML leader Jhal Nath Khanal (2011), Maoist leader Baburam Bhattarai (2011-13) and KP Sharma Oli (2015-16).

However, in certain quarters, it is feared that this time around, the Left Front government might not be of the same nature as previous ones. K P Sharma Oli, who for a long time had the reputation of being a pro-Indian element in Nepal, all of a sudden turned his leanings towards China, particularly during the constitution-making process (2015) and after he became the Prime Minister in 2015-16.

Unfortunately, Oli had developed certain misconceptions about the Madhesh agitation and the five-month-long economic blockade in 2015-16. He felt they were instigated by New Delhi. It took him some time to understand that the agitation and the economic blockade had been engineered by Madhesh-based political parties in their fight against intrinsically discriminatory provisions in Nepal's Constitution and that New Delhi had nothing to do with it. He was convinced of this

reality only after visiting India in the early part of 2016. He publicly acknowledged that his misconceptions about New Delhi had been cleared.

Nevertheless, in his current tenure as Prime Minister, Oli has been aggressively pushing his country closer to China by signing a 10-point agreement to bring China's railway into Nepalese territory and use a Chinese port for trade with third countries. Even more recently, after winning elections in Nepal, he not only visited the Kerung-Rasuwadghi border between Nepal and Tibet (China) and vowed to expand the road from the border point to other parts of Nepal, but also went to the extent of reinstating a rejected Chinese company in the Budhikandaki project. It is also to be noted that Pushpa Kamal Dahal, the other partner in the Left alliance, signed the Belt & Road Initiative with China last year to pave the way for greater Chinese investment in Nepal.

With these developments coming in quick succession, it can be safely concluded that today China has emerged as the strongest power centre in Nepal's political, economic and strategic calculus. This cannot be so easily ignored in Nepal. As before, China would like to dwarf India's influence in Nepal.

The West has also started making a strong push in Nepal through its network of INGOS and NGOs whose total budget is almost at par with Nepal's total budget. Unfortunately, many of those INGOS/NGOs, though opposed to China, are not friendly to India either. Massive efforts made by these unbridled INGOS/NGOs in influencing political leaders, particularly from the Left Front, and converting people to an alien faith, will bring new strains in Nepal and India relations.

In such a situation, merely conducting a high-level visit to Nepal by Indian leaders like the Foreign Minister or even the Prime Minister will not be enough. India will need to have far greater and more intense engagements with Nepal both at the Track I and Track II levels.

Also, what is necessary for India to do is to revamp its working style in Nepal. India's comparative advantage in Nepal is its soft power and the people-to-people relations in all important fields. The geography, culture, religion and open border system between the two countries have bound the two countries together since time immemorial. Now is the ripe time for India to cultivate, strengthen and rebuild these relations in some aspects.

Sadly though, India's working style in Nepal is not much different from what it was in the 1950s when China was not a factor to be reckoned with and also, the West did not have much of a clout or strategic ambitions in this country. Perhaps, very few people in India are much aware of some of these realities as the late Sushma Swaraj. This is not merely because she travelled to Nepal seven times during her tenure as Foreign Minister, but also because as a very senior politician and statesperson of the country, she had built up a personal rapport with leaders of each political party in Nepal.

Given the fact that the Narendra Modi government continues to accord high priority to its neighbourhood first policy, Swaraj had made fresh initiatives to strengthen and consolidate Nepal-India relations by fostering greater cooperation in the development sector and by diluting the existing negativity that had proved to be bottlenecks in revamping the bilateral relationship between the two countries.

Modi's Cultural Diplomacy: Bearing Fruit in Nepal*

During his Premiership of over five years now, Indian Prime Minister Narendra Modi has visited Nepal four times – twice in 2014 and twice in 2018. He has not visited any other South Asian country as many times as he has visited Nepal, which amply demonstrates his interest in this Himalayan country. During these visits, he has sincerely tried to develop a working relationship with Nepal mainly through cultural and politico-economic diplomacy.

In keeping with his 'Neighbourhood First' policy, Modi first visited Nepal in August 2014 just after Bhutan. His speech in Nepal's parliament was significant, where he suggested the need to address the issues of each ethnic group in the country while making the Constitution. He also emphasized the importance of the southern Terai belt between the hill region of Nepal and India in promoting historical-cultural relations. He prayed at the Pashupatinath Temple in Kathmandu. Before leaving for India, he also expressed a desire to visit the holy city of Janakpur on his next visit.

Modi came back to Kathmandu shortly after to attend the 18th South Association for Regional Cooperation (SAARC) Summit in November 2014, and held meetings with leaders of different political parties. Even though his visits to the holy places of Janakpur, Lumbini and Muktinath

* Vivekananda International Foundation, September 17, 2018.

were not possible on grounds of security, he took a major initiative in getting the twin city agreement signed between Janakpur and Ayodhya.

Unlike his first two visits, Modi's third visit was entirely different in the sense that it was designed solely as a pilgrimage to such holy places as Janakpur, Muktinath in Mustang, and Pashupatinath in Kathmandu. Modi's pilgrimage to Janakpur was unique in several respects. He was the first head of government or state of any country to land in Janakpur before going to Kathmandu. Over 300,000 people from Janakpur and different districts of Nepal, apart from those from the neighbouring regions of Bihar in India attended the civic reception organised in his honour by Janakpur Sub-Metropolitan Mayor Lal Kishor Sah at Barabigha Maidan in Janakpur.

It may be recalled that an earlier planned visit to Janakpur had been cancelled due to an alleged conspiracy by a certain section of the Nepalese political leadership, who feared that Modi's growing popularity in Nepal, and particularly in the Terai region, would go against their interests. To vent their anger, locals from Janakpur resorted to hunger strike against the Kathmandu-based politicians for playing a mischievous role.

In 2018, however, people gathered in record numbers to listen to Modi. This had never happened in Janakpur before for any leader from India or any other country. Before Modi, former Indian Prime Minister Chandrashekhar had also visited Janakpur but failed to find a connect with the people. He had given a political speech at *Barabigha Maidan*, without bothering to pay homage to Goddess Sita at the world-famous Janaki Mandir. On the other hand, Modi first offered *puja* to Goddess Sita at the temple even before addressing the civic reception.

Modi delivered, as only he can, a very emotional address to the mammoth gathering at *Barabigha Maidan* in Janakpur on May 11. He not only spoke about the glorious contributions made by philosopher King Janak of ancient Mithila State in the spiritual and cultural life of India, but also dwelt on the role played by Janakpur in strengthening historical

and traditional relations between Nepal and India. Modi observed the complementarities in relations between Nepal and India, citing how Indian culture was incomplete without Nepalese culture and vice versa.

Taking the traditional links between Nepal and India forward, Modi inaugurated a direct bus service between Janakpur and Ayodhya. As is well known, Janakpur is the birthplace of Goddess Sita while Ayodhya is the birthplace of Lord Ram. Both were bound by marriage as described in the epic Ramayana during the *Treta Yuga* some ten thousand years ago.

The connectivity between Janakpur and Ayodhya and consequentially ties between Nepal and India will get strengthened when the Janakpur Railway that will connect Janakpur with Jaynagar becomes operational. Besides this railway route, Janakpur is connected to India through the Janakpur-Jatahi/Pipraun/Darbhanga Road and the Janakpur-Bhithamore-Sitamarhi Road. Discussions are on over the possibility of establishing air connectivity between Janakpur and Ayodhya.

Remarkably, the people of Janakpur established an easy connect with Modi. In his comments on the visit, Minister of Physical Planning of Province-2, Jitendra Sonal, rightly observed that Janakpur had become *Modimaya* (Modi oriented) while Modi became *Janakpurmaya* (Janakpur oriented). Many important places in Janakpur, including the *Barabigha Maidan*, were painted in bhagwa (fire) colour to symbolise the shared spiritual traditions between Nepal and India.

During his fourth visit to Nepal to attend the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) Summit meeting in Kathmandu in August 2018, Prime Minister Modi had wanted the BIMSTEC Motor Vehicle Agreement to be concluded at the earliest so that people-to-people connectivity between India, Bangladesh, Nepal, Bhutan, Bangladesh, Sri Lanka, Thailand and Myanmar, could be facilitated. Easing visa processing for BIMSTEC-member citizens was also one of the focal points during the summit.

Cultural ties between the BIMSTEC member countries in general and Nepal and India in particular, are likely to be boosted through such activities.

In recent history, no leader of Nepal or India has played such an active role in fostering cultural and traditional relations between two countries as has Prime Minister Modi. Relations between Nepal and India are bound to reach greater heights with this kind of understanding that Modi has developed through cultural diplomacy. This has already started bearing fruit. The two countries have now taken a major initiative to harness Nepal's water resources and develop connectivity through railways, waterways and airways. Given the fact that India has emerged as one of the leading countries in the world in science, technology and economy and Modi's commitment to develop Nepal, the time is ripe for Nepal to benefit in these fields.

Modi in Janakpur: Cementing bilateral ties*

Never in the past has any high-level government dignitary from India — or any other country of the world — ever thought of touching the holy land of Janakpur before visiting Kathmandu, Nepal's capital.

This unusual gesture by Modi to visit Janakpur seems to have been on his mind even in August 2014 when he first visited Nepal. During his speech to the Nepal Parliament, he had expressed his desire to visit Janakpur, the birthplace of Kishoriji, widely known as Sita or Janaki who married Lord Ram of Ayodhya some 10,000 years ago during the Ramayana period.

Janakpur lies in the Madhesh/Tarai region of southern Nepal about 14 kilometres from the Nepal-India border. Modi realised his wish to visit Janakpur during his third visit to Nepal as prime minister. He also visited Muktinath, another religious site of Hindus and Buddhists, before landing in Kathmandu.

In ancient times, Janakpur, the capital city of Mithila, was the educational, cultural and spiritual hub of the Indian subcontinent.

Following the Sugauli Treaty of 1816 between the Nepali rulers and the British East India Company, the northern part of ancient Mithila state, including Janakpur, became a part of Nepal, while the southern part went to India.

* My Republica, May 7, 2018.

However, the open border between Nepal and India ensured that social, cultural, religious and economic ties between the people of both countries remained intact. As a result, each year hundreds of thousands of Nepalis and Indians, particularly those living in the border regions, conduct marriages and this has cemented Nepal-India relations.

Modi's love for Janakpur is more due to his spiritual connection with this land. As it is well known, Siradhvaj Janak, the King of Mithila, was not merely a statesman of his time; he was also a karmayogi, the one who remains connected with god even while performing his or her worldly duties. Modi seems to be heavily influenced in his day-to-day life by King Janak of Mithila.

Like King Janak, who is widely renowned as Videha, lived beyond the body by remaining detached from worldly pleasures, Modi too seems to be least attached with the world, just while he undertakes the duty of being the prime minister of, the world's largest democracy.

Detached as person, Modi practices a humanistic approach to issues and problems.

King Janak was the disciple of Ashtavakra, one of the most spiritually enlightened masters of the world. In the same way, Modi has also been influenced by a guru who changed his desire to remain a yogi deeply rooted in meditation, abandoning all the worldly duties, to one who meditates while performing his worldly duties.

Perhaps, few people know that Modi holds the Bhagawad Gita, the spiritual text in which Lord Krishna enlightens his disciple Arjuna in the battlefield of Kurukshetra near Delhi in India some 5,000 years ago, in high esteem. In this discourse, Lord Krishna makes Arjuna spiritually sound for the cause of Dharma (Truth and Justice).

Coincidentally, King Janak also gets enlightened by engaging in a discourse with his Guru Ashtavakra. This discourse was later on named as the Ashtavakra Gita, the most influential spiritual text of the world. The

sum and substance of this Gita, is to develop a feeling of liberation, a guiding force to become enlightened. Possibly, Modi might have been influenced by the Ashtavakra Gita and the Bhagawad Gita, which have had a profound impact on his life.

Thus, the “Janakpur First” mission of Modi was not without reason. The visit was more inclined towards uplifting the traditional, spiritual, cultural and social relations between Nepal and India.

This is the reason why he came to Janakpur first to worship Kishoriji at the Janaki Temple before addressing a public gathering at the Barahbigaha Maidan where people from different parts of Nepal and India, and especially from the newly formed Province 2, greeted him.

Nepal should take it as a matter of pride that the Indian prime minister is so much influenced by the enlightened Nepali philosopher King Janak and Sita, who is the daughter of this country.

Mahakali Treaty: Now, Implement It*

Nepal's former Prime Minister Sher Bahadur Deuba and his then Indian counterpart P V Narasimha Rao signed the Mahakali Treaty in New Delhi on February 12, 1996 for the integrated development of Mahakali river to produce nearly 6,000 megawatt of electricity through the Pancheshwar Multipurpose Project, to irrigate vast tracts of agricultural land and to control floods in the far-western part of the country. Soon after, parliamentarians belonging to the Nepali Congress, CPN-UML, the Rashtriya Prajatantra Party (RPP) and the Sadbhavana Party (SP) ratified the treaty by a two thirds majority and paved the way for its implementation.

Realising the potential benefits of the treaty, citizens, intellectuals, civil society leaders, journalists and academicians of both Nepal and India welcomed it. They described the treaty as 'historic' development in Nepal-India developmental cooperation.

One of the major attractions of the Pancheshwar Project was that it ensured the supply of non-polluting 'clean energy' around the year which was not possible through existing thermal or nuclear power plant sources. The project envisaged checking the depletion of forests and its resources by providing alternative sources of cheap energy to consumers for cooking and other commercial purposes.

* My Republica, August 3, 2017.

It raised prospects for development of new towns, growth in education and health institutions, and the opening of new industrial and commercial units in surrounding areas of Nepal and India. The project was expected to generate massive employment opportunities for unskilled, semi-skilled and skilled workers as well as those having most advanced scientific and technical know-how in engineering, medicine, agriculture and other fields.

Sadly, this project is in limbo even today. A Detailed Project Report (DPR) of the Pancheshwar Project which was to be prepared jointly by Nepal and India within 'six months' of the signing of the agreement, has not been completed as yet. In the absence of the DPR, construction work, which was to be accomplished by 2002, has not even started.

So, what went wrong with Pancheshwar? In terms of the modality of the project, one cannot find fault. The project design was prepared not only on 'equal footing,' but on Nepal's terms to ensure greater benefit to this country. Certain benefits that we were not able to extract from India in the Koshi and the Gandaki deals in the 1950s and 1960s due to lack of technical know-how, were addressed in the Pancheshwar deal. Credit for this part goes to the Nepali negotiating team which tried to extract maximum benefits from India in power, irrigation and flood control sectors. And, part of the credit also goes to Indian side for their generous attitude towards Nepal to allow this country to benefit from the project cost and other deals.

Significantly, both Nepal and India agreed to have equal entitlement in the utilisation of water of the Mahakali River without any prejudice to their respective consumptive uses. The provision was made in the treaty to construct and operate power stations of equal capacity on each side of the Mahakali River to share energy equally between the two countries. The two countries also agreed to divide the total investment cost of USD four billion and mobilise financial resources jointly from external sources.

Had the Pancheshwar Project been started and completed in time, Nepal would have been a different country today. Over the years, the economic

cost of not implementing the project has become huge. The country lost a great opportunity to emerge as one of the leading economic powers in Asia.

And, more challenging is the scenario in which India's interest in Nepal's hydropower sector is declining because of it developing new sites in Arunachal Pradesh, Uttarakhand and some other Himalayan regions to harness its water resources for hydropower production. On top of it, India has emerged as one of the largest producers of solar power globally. India is also producing nuclear energy to meet its demand for power. Because of these developments, India has emerged as a power 'surplus' country and has started exporting power to countries in its neighbourhood such as Nepal and Bangladesh.

Nevertheless, India's interest in Nepal's hydropower sector cannot be overlooked at least in the near future because of its great attraction as 'clean' energy. In this changing scenario, time demands that Nepal should not allow the flow of water from Mahakali or any other river to go in vain. Each second we are losing the prospect of revenue generation from the export of power to India, apart from its use in domestic application in agricultural, industrial and other sectors.

Even amidst the gloomy situation in which we could not harness our water resources for power and other purposes, there is a silver lining. Sher Bahadur Deuba, who as Prime Minister of Nepal, had signed the Mahakali Treaty with India in 1996, made an official visit to New Delhi in August of 2017. The only difference was that when he had signed the Mahakali Treaty with Prime Minister P V Narasimha Rao, the architect of modern India, today, it has Narendra Modi, who is a statesman with a still greater vision of benefitting India's neighbours.

If Prime Minister Deuba had been able to work out ways to implement the Mahakali Treaty during his India visit, his visit would have been truly historic. Deuba had an obligation to do so because the Mahakali Treaty was his brainchild.

Evolving Nature of Nepal-India Relations*

Nepal-India relations are unparalleled and unique. Because of this reality, it is sometimes said that Nepal and India are like twins, which share only one soul. In the past, Indian Prime Minister Atal Bihari Vajpayee during his visit to Nepal had said that relations between the two countries are 'higher than the Himalayas and deeper than the ocean'.

The open border system between both countries leading to unrestricted cross-border movement of people has played a key role in fostering Nepal and India bilateral relations. Together with this, common roots in our traditional values, languages and religions have also unified the people of both countries. Relations between Nepal and India are also dynamic due to familial relationships among the border inhabitants of the two countries.

Nevertheless relations between Nepal and India at government-to-government level have not always been smooth. For example, during the five-month-long economic blockade by the Madheshi community between September 23, 2015, and February 8, 2016, a major misunderstanding cropped up in relations between the two countries. Nepal charged India with being responsible for the economic blockade, which India denied. As if this was not enough, Prime Minister K P Sharma Oli signed major agreements with China to develop connectivity with that country through the railways and seaport network for trade with third countries. Students

* India Foundation, October 21, 2016.

affiliated to Oli's CPN-UML were freely allowed to carry out anti-Modi demonstrations and burning of his effigies. Such activities were aimed at reducing Nepal's dependence on India. Even the decisions to recall Nepal's ambassador from New Delhi and cancel the visit of President Bidya Devi Bhandari to India were intended to dilute the warmth in relations between the two countries.

Whenever Nepal's head of government/state visits India, a voice is raised not to sign any new agreement with this country. On the other hand, during the visit of such person to another country, open calls in public are often repeated to make this or that agreement. Not only this, even if a joint-press release comes out at the end of the visit of the head of state/government to India, it is opposed by certain groups. But not a voice is uttered in opposition when certain controversial agreements are signed with another country.

As is well known, India went out of the way in supporting relief measures for victims of the April 25, 2015, earthquake in Nepal, which was highly appreciated by most Nepalese and the international community. Yet a significant section of the Nepalese opposed India and asked its rescue teams to 'go back,' which was a kind of humiliation to them.

In 2008, relations between the two countries soured when Prime Minister Pushpa Kamal Dahal 'Prachanda' visited China first before his visit to India. In 2005, relations between the two countries deteriorated due to the import of sophisticated war weapons from China against the letter and spirit of Nepal's 1950 Treaty of Peace and Friendship with India. In 1988-89 too, relations between Nepal and India touched the low ebb on the same ground when Nepal imported war weapons from China.

Opposing the 1950 Treaty of Peace and Friendship has almost become most fashionable for certain elite groups in Nepal, though it provides several concessions to the Nepalese on a non-reciprocal basis. So was Nepal's 'Zone of Peace' proposal that was mooted in 1974 at the coronation ceremony of King Birendra aimed at undermining the Treaty of Peace

and Friendship? Of course, Nepal could abrogate this Treaty as per its clause. But it is not doing so, despite the Government of India asking Kathmandu for alternate proposals. Instead, this treaty is used as a ploy to create a feeling of ill-will against India. The fact is that this is the only treaty between the two countries that acknowledges Nepal as a sovereign nation.

However, what is unique in the relations between Nepal and India is that differences at the government-to-government level do not last long. Even K P Sharma Oli, ultimately acknowledged during his visit to New Delhi in February 2016 that his misunderstanding with New Delhi had come to an end. Pro-monarchical forces who at times tried to create ruptures in Nepal's relations with India, also now admit their mistakes. Also, the CPN (Maoist Centre) leader Pushpa Kamal Dahal 'Prachanda' before becoming Prime Minister for the second time admitted that he had committed mistakes regarding Nepal-India relations due to lack of experience.

After the change of guard in Nepal when Prachanda became Prime Minister for the second time in August 2016, he expressed his desire to improve Nepal-India relations that had soured for quite some time. India responded positively. Towards this end, three agreements were signed when he visited India in September 2016, which included upgradation of the Terai highways, an additional line of credit for new projects like Phase 2 of the Terai roads and power transmission, and a credit of \$ 750 million for post-earthquake reconstruction. Also, certain hurdles concerning the implementation of Pancheshwar, 900 MW Arun III and Upper Karnali were removed.

But if past developments are to be taken as a guide, it is quite obvious that all is not well in Nepal-India relations. Nepal today is not the Nepal of yesterday. Certain external forces want to neutralise India's influence in Nepal by playing the 'money game.' Others want to use NGOs/INGOs as their basic tool to convert the people to an alien faith. And, still, certain external forces in the country want to disturb peace and prosperity in the surroundings through different criminal activities related to fake currency,

smuggling of gold, and drugs. Such activities without political patronage are not possible.

Under the given situation, India is bound to face turbulence with Nepal at least in the foreseeable future, no matter whether the government in Nepal is friendly or otherwise. India does have friendly masses in Nepal and people-to-people relation is largely amicable. But this does not work much when certain well-organised lobbies in the country are bent upon using propaganda tools to downgrade India's influence in the country. India needs to realise that something is missing in its foreign policy with Nepal. Today's challenges could be major opportunities tomorrow if right efforts are made to improve the situation.

India, Nepal Need to Plan a Joint Strategy to Tackle Floods*

The floods of 2017 caused by incessant rains wreaked havoc in different parts of Nepal, particularly in the low Terai region. Floods and landslides claimed 123 lives.¹ Nearly 35 persons were reported missing and about 100,000 families were displaced. Altogether 2,847 houses were destroyed. Of Nepal's 28 million-strong population, six million in the Terai region are directly affected by floods.²

With this region bordering the Indian States of Bihar and Uttar Pradesh, the impact of the Nepal floods were felt across the border immeasurably. As many as 6.5 million people in 12 districts of north Bihar, including Kisanganj, Araria, Purnea and Katihar, were severely affected by flood waters flowing from Nepal. About 78 people in Bihar lost their lives due to the monsoon floods. In Uttar Pradesh, 22 out of 75 districts were affected by the flood waters from Nepal and at least 33 people died.³

Preliminary estimates suggest that 135 major irrigation projects, including the Bagmati Irrigation Project, the Narayani Irrigation

1 160 Nepali rupees is equivalent to 100 Indian rupees.

2 Chandan Kumar Mandal, "Tilathi villagers not to accept govt relief," the Kathmandu Post, August 16, 2017.

3 PTI, "Death toll in Nepal floods climbs to 91," The Times of India, August 15, 2017.

* Observer Research Foundation, New Delhi, August 19, 2017.

System, the Nepal Gandak West Canal, the Koshi Pump Irrigation Project, the Sunsari Morang Irrigation Project, the Chandra Nahar Irrigation Project and the Kamala Irrigation Project were severely damaged by the floods.⁴

Property worth billions of rupees was destroyed. Nearly 80 per-cent of the arable land in the Terai region was submerged in water.⁵ Planted crops worth over Nepali Rs. 8 billion was swept away.⁶

Because the telephone lines and signal towers were disrupted due to the floods, many of the villages lost contact with other parts of the country. As a result, millions of people in Terai neither had access to electricity nor drinking water and food.

The Government of Nepal claimed that 26,700 people were engaged in rescue operations, which include 8,300 trained security personnel, 5,600 personnel from the Nepal Police, 1,700 personnel from the Armed Police Force and 1,000 personnel from the Nepal Army.⁷ As claimed by the government, those people immediately started distributing aid and relief materials like food, water, clothes, utensils, makeshift shelters, tarps and medicines among the affected families. For this purpose, 13 helicopters along with motorboats, rubber boats and other equipment were dispatched to the affected areas.

Moreover, the government decided to provide Nepali Rs. 15,000⁸ to flood survivors as an immediate relief measure. The decision was also taken to provide Nepali Rs. 200,000 as compensation to the families of

4 Associated Press, "Flooding maroons people in Indian states, eases in Nepal," *The Himalayan Times*, August 17, 2017.

5 Republica, "Damage to irrigation amounts to Rs. 2.42 billion," *My Republica*, August 17, 2017.

6 Republica, "Floods, landslides toll climb to 111," *My Republica*, August 16, 2017.

7 Sujan Dhungana, "Floods swept away crops worth Rs 8bn," *The Himalayan Times*, August 17, 2017.

8 Republica, no. 5.

those who had lost their lives in the floods.⁹

To ensure proper coordination in the distribution of relief materials, the Ministry of Home Affairs in Nepal prohibited individuals and organisations from collecting funds for distributing relief materials to the flood victims. The concerned units were asked to deposit the donations only in the accounts of the Prime Minister's Disaster Relief Fund as per 'One Door Policy' of the Government of Nepal, which could be spent for the flood victims.¹⁰

However, reports from several flood-affected districts suggested that people were not getting rescue and relief support as claimed by the government. Most of the flood victims were compelled to take shelter in public places like schools and were on empty stomachs. Therefore, Shyam Chandra Jha of Nepali Congress stated, "I feel ashamed that the government led by my party failed to distribute relief to victims."¹¹

In certain regions of the Terai such as in Tilathi in Saptari district, the flood-affected victims were so fed up with the government that they even refused to accept any government relief materials. They felt that the government had done little for them.¹² What they wanted was a permanent solution to the flooding crisis and not the lollipop relief. Tilathi locals felt that their problems would be over once an embankment was made to tame the waters of the Khado and Jitta rivers.¹³

9 Republica, "Govt decides to provide Rs 200,000 each to families of those killed in flood," My Republica, August 16, 2017.

10 THT Online, "Govt bars NGOs, individuals from collecting funds," The Himalayan Times, August 16, 2017.

11 Himalayan News Service, "Flood victims await relief, rehabilitation," The Himalayan Times, August 16, 2017.

12 Chandan Kumar Mandal, "Tilathi villagers not to accept govt relief," The Kathmandu Post, August 16, 2017.

13 Ibid.

There is a common perception in Nepal that the flooding problem in the Terai region is due to the construction of roads, dams and embankments across the border in India. There are 18 such structures close to the border. Such dams and embankments as the Kalkalwa embankment, the Laxmanpur Dam, the Mahali Sagar Dam, the Rasiawal Khurdlotan Dam in India breach international law in terms of obstructing the natural flow of river water from Nepal.¹⁴

High profile persons like Nepal's Minister for Energy, Mahendra Bahadur Shahi, have stated that India had constructed 1,620 kilometres of highways near to Nepal-India border along no-man's land. These were ten feet high and sixty feet wide.¹⁵ He added, "The highways made by elevating the land next to the Nepal-India border have restricted the natural flow of water, leaving Nepal's Terai plains submerged during the rainy season."¹⁶ Even the Koshi and Gandaki Dams that are within Nepalese territory, as built by India, are said to have submerged certain areas of the Terai.¹⁷

Other factors that have aggravated the flood situation in the Terai are man-made, but that has hardly come into the picture. Over encroachment of Chure or the Sivalik region of the Himalayas apart from the massive depletion of forests, sand and gravel mining in the region have worsened the flood situation in the Terai. Because of landslides and soil erosion in the region, there is heavy siltation of rivers, which in turn cause river beds to rise. Earlier the forests used to suck much of the floodwaters, but now in their absence, the waters cause immeasurable devastation across the Terai region and in north India.

14 Narendra Upadhyya, "Khanal says Indian dams causing Nepal floods," My Republica, August 16, 2017.

15 Ibid.

16 Rudra Pageni, "Indian roads next to border caused Terai floods: Minister," My Republica, August 14, 2017.

17 Republica, "Indian dams caused flood havoc in Nepal: Bhim Rawal," My Republica, August 16, 2017.

The intensity of the disaster caused by floods has increased in recent years. Environmental experts believe that such havoc is more likely to aggravate in future if no action is taken to check encroachments in the Chure region which acts as a lifeline for people of the Terai region and in northern India.

The Chure range of the Himalayas are the youngest hills covering almost 13 percent of the total land area of Nepal.¹⁸ This region is threatened due to the surge of activities like the mining of the sand, gravel, stone and heavy construction of infrastructural facilities like roads, dams and embankments.

Though some efforts have been made in Nepal in the recent years to protect the Chure region in 29 districts of Terai and inner Terai under the *President Chure Terai Madhes Conservation Programme*, the encroachment in the region is yet to be stopped.¹⁹ It is for this reason that the rivers passing through this region now bring merely silt rather than manure, thereby adversely affecting the production and productivity of agricultural land. As a result, the Terai region along with the regions in northern India is likely to turn into desert and bear the brunt of more floods if encroachments continue unabated.

Ironically, India did not make any response about the floods in the Terai, even though its impact on the life of the people is more severe than an earthquake. During the earthquake in Nepal on April 25, 2015, India went out of its way to support victims in the hill and mountain regions of the country. But this time when the Madheshi people living right across the Indian border in the Terai were experiencing disaster, there was no such response from India.

On the contrary, China which has very little to do with the Madheshi people tried to exploit the situation caused by the conspicuous absence

18 Republica, "Experts blame Chure exploitation for Terai flood severity," My Republica, August 17, 2017.

19 Ibid.

of India in the flood-affected areas. During his tour to Nepal, the Vice-Premier of State Council of the People's Republic of China, Wang Yang, announced a donation of one million US dollars as an emergency fund to Nepal in support of the flood victims.²⁰ Subsequently, the Chinese ambassador to Nepal even distributed certain relief materials among the flood victims in the winter season.

Now, many people in the flood-affected regions of the Terai are worried about the possible outbreak of communicable water-borne diseases such as cholera, typhoid, dysentery, Hepatitis A and Hepatitis E. So, it is necessary to provide clean water to the flood victims or at least chlorine tablets to them to kill germs in available drinking water.

Also, it is necessary to bring coordination between various wings, including the government, its security agencies, NGOs, civil society and political parties to provide temporary shelters to the flood-affected families, apart from daily meals such as packaged food. Because Nepal's major political parties have hundreds of thousands of volunteers, they can offer commendable service to flood victims in such crises.

The government can also make plans to deploy medical doctors and epidemiologists in affected areas to save precious lives exposed to diseases such as cholera, dysentery and other ailments. Also, it is necessary to protect victims from mosquitoes so that they are not further victimised by diseases like malaria and dengue.

As the government has taken the responsibility to provide rescue and relief services through its apparatus, it has the added responsibility to see that there is adequate distribution of relief materials among the affected population. The government is also expected to construct houses for those who have become homeless in the same way as it has been doing in the case of earthquake victims.

20 Post Reporter, "Chinese govt to provide one million US dollar as an emergency fund," The Kathmandu Post, August 16, 2017.

But what is feared is that the government does not have the adequate capacity to distribute relief materials and provide rehabilitation to the flood-affected the population in the entire Terai region and that too at a time when roads are cut-off from one place to the other at most of the locations. In such a situation, the idea of 'one window system' for the distribution of relief materials seems to be impractical.

In certain quarters, there is a feeling that the 'one window system' is intended to deprive the Madhesi of relief materials from outside. When there was an earthquake, there was no such policy. Hence, the provision could be made whereby donors are allowed to provide support to flood victims by simply informing local government bodies about it.

Because of the geographical proximity and same destiny, Nepal and India have been facing common problems from rivers originating in Nepal. As such, neither of these countries can easily escape devastations caused by floods or possible desertification if the encroachment of the Chure range of the Himalayas continues.

Time has now come for both countries to develop a joint strategy to prevent the floods and desertification by making the best use of floodwaters through river interlinking projects. Besides, both countries could also jointly work for environmental preservation of the Chure range and other parts of the country through massive afforestation programmes. Such a strategy could also address irritants like the inundation problem in Nepal during the monsoon season on account of construction of roads, dams and embankments across the border in India. Also, India should maintain the same zeal in addressing the plight of the flood-affected victims of Terai as it exhibited in the case of earthquake victims in the mountains and hills through rescue, relief and rehabilitation schemes. It is time for action rather than indulging in a blame game to sort out the flooding problem permanently.

Visakhapatnam Port: More Beneficial to Nepal*

As part of Indian Prime Minister Narendra Modi's neighbourhood connectivity policy, India allowed Nepal to use the Visakhapatnam Port of Andhra Pradesh in 2016 for trade with third countries. Nepal had been making this demand for the use of this Port as an alternative to the Kolkata/Haldia Port in India.

During a workshop on "Nepal-India Trade, Transit and Connectivity: Issues and Facilitations" organised jointly by the Nepali Embassy in India and Delhi-based Institute for Defence Studies and Analyses (IDSA) in Visakhapatnam on July 12, 2017, this author visited various sites of the Visakhapatnam Port to get first-hand information on its operational aspects. Information gathered from port authorities and through interactions with workshop participants revealed that the use of the port for Nepal's trade with third countries was most beneficial for the country.

The distance between Kolkata Port (India) and Birgunj (Nepal) is 706 kilometres; while the distance between Haldia Port and Birgunj is 818 kilometres. Dhamra Port Company Limited (DPCL), which is a private port, is 941 kilometres from Birgunj and Visakhapatnam Port is 1,439 kilometres from there.

With the increase in distance, the freight cost between Birgunj and different ports in India also increases. For example, the base freight of coal

* VIF, New Delhi, August 16, 2017.

traffic between Kolkata Port and Birgunj is INR 1,093, INR 1,208 for Haldia, INR 1,400 for Dhamra and INR 2,003 for Visakhapatnam.

The Kolkata port has a geographical advantage over all other Indian ports because of its nearness to Nepal. The distance between Birgunj and Kolkata Port is almost half the distance between Birgunj and Visakhapatnam Port. Accordingly, the freight charge between Birgunj and Kolkata Port is also nearly half of the charge between Birgunj and Visakhapatnam Port.

Yet the net gain to the business community is far more from Visakhapatnam Port as compared to what it would be from the Kolkata Port. With 16.5 meters deep water, the Visakhapatnam Port is the deepest one in India. Four ships of small size or three ships of larger size could discharge and upload goods at this port simultaneously.

Because of its nearness to the Malacca Strait, the transportation cost is less at Visakhapatnam Port as compared to Kolkata Port. It also offers direct connectivity to China, South East Asia and the Middle East. Moreover, the transportation of goods between Visakhapatnam and Birgunj is Cost Insurance Freight (CIF), but this facility is not available at Kolkata Port. Presently, the Visakhapatnam Port is operating below its capacity. Unlike the Kolkata/Haldia Port which is over-utilised, only 60 percent of Visakhapatnam's capacity has been utilised. Additionally, the services at Visakhapatnam Port are so efficient that imports are discharged and exports loaded in the shortest possible time. Therefore, there is no room for demurrage charge and other undocumented expenditures in transporting goods through the Visakhapatnam Port, which is quite common at Kolkata Port.

Equipped with the latest technology, the Visakhapatnam Port offers advanced logistic services of global standards 24x7. It is fully automated and most modern in South Asia where manual interventions are least. Almost all customs formalities at Visakhapatnam Port are performed through computers. As such, the transactions are paperless and fast.

Each activity at Visakhapatnam Port is transparent. It provides end-to-end solutions from the port to destination and also from source to destination. Because of its linkages with the internet, the importer and exporter might track the location of the containers from the point of “origin” to the “destination.”

There are two railway sidings with a full rake handling facility at Visakhapatnam terminal. It has adequate arrangement for refrigeration of goods. Now an X-ray plant has been introduced to identify the goods carried by the containers.

Service between Birgunj and Visakhapatnam Port has already resumed. The first train with containers from Visakhapatnam Port reached Birgunj in June 2017. It took five days for the railway containers to reach Birgunj from Visakhapatnam as compared to the normal ten days for the containers to reach Birgunj from Kolkata, though the distance between the two places is almost half of Birgunj and Visakhapatnam.

Because of the railway links between Visakhapatnam Port and Birgunj, Nepal could import dry fruits from Andhra Pradesh in India far cheaper than what is available in the local market. Also, the Visakhapatnam Port is the hub for fish and seafood, which could also be imported into Nepal cheaper. Additionally, a great opportunity waits for Nepal to do business in South India, which is until today an unexplored land. The containers returning from Birgunj to Visakhapatnam Port could be used for exporting goods produced in Nepal. Thus, Nepal could export to the South Indian states, including Andhra Pradesh, all such items as spring water, herbs, *Pashmina* and various agricultural and industrial goods at minimal transportation cost.

There is no need for transshipment of goods in Singapore for the vessels that are destined to Visakhapatnam Port because of its deep water. But the vessels have to be transshipped in Singapore if they are destined to Kolkata Port as it is not so deep. The cost of transportation of goods is higher through Kolkata Port because of transshipment of goods to Singapore

and also due to a lesser volume of vessels.

Today, Visakhapatnam Port handles vessels carrying up to 7,000 containers, but it can handle vessels of the size of 10,000 containers. Normally, the cost of transportation per container is the \$700 to \$800 through the Visakhapatnam Port; whereas it is as high as \$12,000 per container if it comes through Singapore.

The Visakhapatnam Port is far more cost-effective to Nepal than any other port of China for trade with third countries. Tianjin Port, which is closer to Beijing and at the distance of 5,000 kilometres from Nepal, is made available to Nepal for trade with third countries as per the Transit Transport Agreement signed with China in March 2016. But it cannot compete with Visakhapatnam Port in terms of cost-effectiveness. The fact is that Nepal has not been able to use the Chinese port so far. Use of the Visakhapatnam Port has just begun on an experimental basis. However, the prospect of the use of a Chinese port seems to be a remote possibility as it is politically motivated rather than commercially viable. The longer distance of the Chinese port from Nepal and also the higher altitude through which it would have to pass in China is its greatest disadvantage.

Today 98 percent of Nepal's imports and exports with third countries take place through the Kolkata Port, which could be substantially reduced if the Visakhapatnam Port is widely used. Considering that a four-lane bridge is likely to be constructed over the Mahakali River, the country could find it more convenient in the future to have trade with Gulf and Western countries from its western region through India's western seaports in Gujarat rather than through Kolkata or even Visakhapatnam.

Finally, the Visakhapatnam Port at present appears to be more advantageous to Nepal for trade with third countries than the Kolkata Port considering the time and overall freight cost factors. Any diversion of goods from Kolkata Port to Visakhapatnam Port on Nepal's trade with third countries will also compel Kolkata Port authorities to improve their services and be competitive.

Given the generous attitude of India towards Nepal's development, the country could now ask India to allow it to use not only the Kolkata/Haldia and Visakhapatnam Ports for trade with third countries, but also to use any Indian port that could be of use to it. Such cooperation between both countries could take our friendly relations to greater heights and provide Nepal unlimited scope to change itself from 'landlocked' to 'land-linked' and further to a 'sea-linked' country.

Demonetisation of Indian Currency and Nepal*

In Nepal, Indian currency is not legal tender for financial transactions, yet in practice, it is widely accepted in every part of the country – be it in the Terai, hills or the mountain regions. Indian currency is next to Nepali Rupee in the country in terms of circulation and its acceptability. It forms one-fifth of Nepal's total monetary transactions.¹

Indian currency is widely in circulation because Nepal's working population brings with them huge amounts of currency notes from India in the form of remittances. Especially in the bordering Terai region of the country, Indian currency is more in use as compared to the Nepali Rupee for trade and other commercial transactions with India. The people of Terai have to visit India for buying or selling products across the Nepal-India border for which they use only Indian currency. In Chandani and Dodhara Village Defence Committees in the Mahakali Zone, for example, people use mostly Indian currency for financial transactions. Over 95 percent of the transactions in the region takes place in Indian currency alone.² So is the case in many other parts of the Nepal-India border regions.

1 IANS, "Nepal also hit as India bans its Rs. 500, Rs. 1000 notes," *The Economic Times*, November 9, 2016, in <http://economictimes.indiatimes.com/news/politics-and-nation/nepal-also-hit-as-india-bans-its-rs-500-rs-1000-notes/articleshow/55336526.cms>

2 Himalayan News Service, "High circulation of Indian currency in Chandani, Dodhara VDCs," *The Himalayan Times*, February 18, 2017.

Because of the interdependence of Nepalese and Indian people in the border regions, the announcement made by Indian Prime Minister Narendra Modi on November 8, 2016, to demonetise high-value banknotes of Indian Rupees. 500 and Indian Rupees 1000 made an immediate impact on the Nepalese economy.

Indian currency in Nepal

Significantly, Indian currency notes of Rs. 500 and Rs. 1000 were banned in Nepal until 2014 at the request of India. This was on account of the growing problem of counterfeit notes being smuggled from Nepal to India. The ban was withdrawn in August 2015 and this allowed people, coming from India to Nepal, to carry with them Indian notes of Rs. 500 and Rs. 1000 denominations up to Rs. 25,000.

However, there is no information about the extent to which traders, migrant workers' families, border inhabitants and common people hold Indian currency of these higher denominations in Nepal. It is speculated that some Nepalese have billions of Indian rupees.³

Reports say that certain Indian companies/individuals panicked after demonetization was announced and rushed to Nepal to get the banned currency exchanged into Nepalese rupees at certain commercial banks or at unauthorised units. Despite the official exchange rate of Indian Rs. 100 equivalent to Nepalese Rs. 160, such big houses/individuals even exchanged Indian Rs. 100 for just Nepalese Rs. 100.⁴

It is believed that Nepalese financial institutions, including banks, have far more reserve of banned Indian notes than what they have declared. Officially, the Nepal Rastra Bank, the central bank of the country, has declared that Nepal has Indian notes of Rs. 500 and Rs. 1000 worth

3 IANS, No. 1.

4 Based on an interview with a businessman in Kathmandu.

33.6 million in banking channels.⁵ But Pashupati Murarka, the chief of the Federation of Nepalese Chambers of Commerce and Industry (FNCCI), estimated that the individuals and informal sectors in Nepal had with them banned Indian Rs. 500 and Rs. 1000 notes worth Rs. 10 billion.⁶

Meeting new challenge

Immediately after the notes ban in India, the financial institutions in Nepal, including the Nepal Rastra Bank and the commercial banks, stopped exchanging banned Indian notes. It continues even with the new Indian notes of Rs. 500 and Rs. 2000, with the Nepal Rastra Bank saying these new Indian notes are “unauthorised and illegal.”⁷ The new notes are expected to become legal only after getting the Foreign Exchange Management Act (FEMA) notification from India.⁸ It is, however, not known if Nepal has received any such FEMA notification from India.

In an important development, the Nepal Rastra Bank also lowered the limit of exchange of Indian bank notes in Nepal. A provision was made whereby a person could exchange Nepalese rupees into Indian rupees up to 2,000 rupees by producing a citizenship certificate to the bank. On producing copies of air or train ticket to travel to India, a person could

5 Anil Giri, “Demonetization affects Nepal, black marketing of currency rampant at the border,” *Hindustan Times*, November 21, 2016, in <http://www.hindustantimes.com/world-news/rs-500-100-notes-being-illegally-exchanged-at-nepal-india-border/story-sMDe2sYgVnhozJphA6yVxM.html>

6 Gopal Sharma, “Nepali migrant workers unwitting victims of India cash crackdown,” *REUTERS*, November 24, 2016, in <http://in.reuters.com/article/india-modi-corruption-nepal-idINKBN13J14Q>

7 PTI, “Nepal bans new Indian Rs. 500 and Rs. 2,000 notes,” *The Indian Express*, November 24, 2016, in <http://indianexpress.com/article/india/india-news-india/nepal-bans-new-indian-demonetisation-rs-500-and-rs-2000-notes-4393536/>

8 IANS, “New Indian notes of Rs 500, 2,000 ‘illegal’ in Nepal for now,” *The Economic Times*, November 24, 2016, in <http://economictimes.indiatimes.com/news/economy/policy/new-indian-notes-of-rs-500-2000-illegal-in-nepal-for-now/articleshow/55605314.cms>

exchange Nepalese rupees into Indian rupees up to 10,000. And, on medical grounds, for treatment in India, a person is entitled to exchange up to 25,000 Indian rupees.⁹ But in actual practice, the common people can hardly benefit from such an arrangement.

Supply of Indian currency

Because of India's growing clout in the international market, Indian currency is in huge demand in many countries of the world. Significantly, Indian currency is more in circulation in Nepal and Bhutan than in any other country of the world. However, over the last few years, the central bank, commercial banks and other financial institutions in the country have failed to meet the demand for Indian currency. This is one of the reasons why one has to pay far more than the official exchange rate while buying Indian rupees against Nepalese rupees.

The shortage of Indian currency is not a new phenomenon in Nepal. For so many years, the people in general and those in Terai, in particular, have been experiencing a severe crunch of Indian currency. The Nepal Rastra Bank and the commercial banks have not been able to supply enough Indian currency as per their needs. Demonetisation has further aggravated the situation. Never before in Nepal has there been so much of shortage of Indian currency as has happened.

People who need Indian currency, mostly have no option but to approach unauthorised dealers on the black market. They charge exorbitant rates to get Indian currency. And, due to the growing demand for Indian currency, the Nepalese currency is devalued in the market, though unofficially. Officially, the value of Nepalese currency seems to be stable simply because the Nepalese currency is pegged to Indian currency. If the free exchange rate were allowed in an open market between Nepalese and Indian rupees, the value of the Nepalese rupees would sink further.

9 IANS, "Reserve Bank of India to give Nepal rupees 1 billion in 100-rupee notes," The Economic Times, January 7, 2017, in <http://economictimes.indiatimes.com/news/economy/finance/reserve-bank-of-india-to-give-nepal-rupees-1-billion-in-100-rupee-notes/articleshow/56377356.cms>

At a time when Nepal experienced an enormous shortage of Indian currency, the smuggling of gold through its territory to India helped a lot in meeting its requirement. For quite some time, the smuggling of gold from a third country, or countries through Nepal has been increasing on an enormous scale. The existing supply of gold in the Indian market does not meet the entire demand. Because of that, gold smuggling is rampant and of late, Nepal has emerged as an important transit country for the smuggling of gold to India. Many Indians pay in Indian currency to the Nepalese to buy gold in the Nepalese market, which is one of the major sources of supply of Indian currency in the country.

Therefore, many of those who are involved in currency exchange, buy Indian currency from gold dealers at higher than the official exchange rate. Such Indian currency is mostly made available to needy people at a still higher rate. The situation could have reached a panic level in Nepal if there were no such supply of Indian currency from Nepalese gold dealers.

Relief to security agencies

The black cash in the Indian economy accounts for 9.2 percent of the black economy, which is estimated at 25 percent of the GDP.¹⁰ Whether in black or white form, most of the money that remains idle; returns to the banking channel. Nearly 97 percent of the notes of higher denominations are returned to the bank accounts.¹¹ All such money is likely to be invested in one or the other economic activities. This will not only raise incomes, but also generate employment opportunities in India.

10 Surjit Bhalla, "Black cash in India," *The Indian Express*, December 6, 2016, in <http://indianexpress.com/article/opinion/columns/demonetisation-black-money-india-economy-gdp-4412283/>

11 Siddhartha Singh and Bibhudatta Pradhan, "India Said to Get 97% Banned Notes is Setback to Graft Crackdown," *Bloomberg*, January 4, 2017, in <https://www.bloomberg.com/news/articles/2017-01-04/india-said-to-get-97-banned-notes-in-setback-to-graft-crackdown>

It is not yet known how Nepal would be benefited from the notes ban in India, but it is widely believed that elements indulging in supply of fake Indian currency from or through Nepal to India have turned bankrupt overnight. This has provided great relief to the security agencies who were facing enormous difficulties in controlling such activities.

Impact on the economy

In its recent report on *Global Economic Prospects – Weak Investment in Uncertain Times*, the World Bank noted that “Spillovers from India to Nepal and Bhutan, through trade and remittances channels, could negatively impact growth in India’s neighbourhood.”¹² Accordingly, it was found that trade and other commercial activities between Nepal and India were largely affected. Local share markets in the country dropped by 27 points.¹³

Demonetisation has badly affected the flow of tourists from India to Nepal. Indian tourists, whose share in total tourist arrivals in the country is still quite high, bring with them a huge amount of Indian currency. But their number fell drastically following this event. The tourism industry in Nepal that had started picking up after the earthquake of April 25, 2015, got a big jolt due to the demonetisation of Indian notes.

The other sector that was hit badly by the demonetisation was the casino industry in Nepal. Indian tourists largely stopped coming to Nepal to play at the casinos. This was because they faced a liquidity crunch for being unable to withdraw the required money from their bank accounts. Hotel occupancy rates were also affected severely.¹⁴

There are ten big casinos in Kathmandu, including Hotel Soaltee, Hotel

12 Himalayan News Service, “India’s demonetisation could impact Nepal,” *The Himalayan Times*, January 12, 2017.

13 IANS, No. 1.

14 Onlinekhabar, “Bharatiya Notbandile Thala Pare Nepalka Casino,” (Nepali), *Onlinekhabar.com*, January 27, 2017.

Yak and Yeti, Hotel Hayat Regency and Hotel Shangri-La. Besides, there is one mini-casino in Kathmandu and four running along Nepal-India border. Nearly two-thirds of the customers of the casinos are Indians. And in the mini-casinos, 95 percent of the customers are Indians.

Finding a mechanism

The notes ban in India affected people across the country. But people of Nepalese origin who had access to India somehow managed to exchange banned notes into new ones. Yet, there are people who for one or the other reason failed to do so. Those who were affected the most were genuine people who failed to exchange banned notes into new ones by the deadline of December 30, 2016.

Understanding the seriousness of the situation caused by the notes ban, Nepal's Prime Minister talked to his Indian counterpart to develop a mechanism to allow Nepalese possessing old Indian currency to exchange them into new Indian notes. The news was also pouring that the Nepal Rastra Bank and the Reserve Bank of India were in dialogue on this issue. There was news of dialogue between the two countries at the level of finance ministries and diplomatic levels also. Besides all these, a committee was also formed between the two countries to resolve the crisis. But as yet, no mechanism has been developed.

The Nepal Rastra Bank was expecting an Indian team to come to Nepal on February 22, 2017 to facilitate the exchange of banned Indian notes of Rs. 500 and Rs. 1000. But the team did not come.¹⁵ Initially, the Nepal Rastra Bank proposed to India that a Nepalese could be allowed to exchange maximum up to Indian Rs. 25,000.

But in certain quarters it was feared that unscrupulous elements in India might bring to Nepal whatever banned notes they had in their

15 Onlinekhabar, "Bharu Satahima Bharat Udasin, Toli Nai Pathayen," (Nepali), Onlinekhabar.com, Kathmandu, Falgun 12, 2073 in <http://www.onlinekhabar.com/2017/02/547140/>

possession and get them exchanged for new notes. This is also one of the factors why there is so much delay in developing a workable mechanism to exchange old notes into new ones in Nepal.

Nevertheless, certain groups of people are still hopeful in Nepal that some mechanism would be developed. Others, however, are losing hope of any such solution.

It is true that many Nepalese – be it in the hills, mountain or the Terai regions – have somehow or the other managed to exchange the old currency notes into new ones, using their access to India through their contacts or relations. However, there are still many in the country who have not been able to exchange the banned notes into new notes. They should not be punished. Some mechanism needs to be developed to address the issue urgently while not allowing any unscrupulous elements to bring black money and turn it into white money.

The Gujarat Model of Development: Can it Work for Nepal?*

The 'Gujarat Model of Development' has become synonymous with Narendra Modi, formerly the chief minister of Gujarat state between 2001 and 2014 and now the Prime Minister of India. Sometimes, this model is also called 'Modionomics,' in which development is treated as a movement and the primary role for development is given to private enterprises. A strong focus is given to the development of sound infrastructure, the creation of a business-friendly regulatory environment, simplification of procedures, promotion of entrepreneurial spirit and adoption of an intolerant attitude towards bureaucratic red tape. The underlying principle is to give a vigorous boost to the economy by increasing the supply-side economics.

In Gujarat, red tape was slashed at the state level. To maintain an unnerving grip on administration, interference in transfers and postings was disapproved. Each year, the state administration was equipped to achieve one or the other new goal. If in one year the goal was to make Gujarat Nirmal (sanitary); in the other, it was to achieve Nirogi Balak (a healthy child).

Most importantly, the idea of 'minimum government, maximum governance' was executed in letter and spirit to secure the utmost participation of people in development activities. Since 2003, Chintan

* Vivek: Issues and Options, Issue III, No IV, July-August 2014, New Delhi.

Sibirs (Thought camp) were organised each year for two-and-half days to make governance least formal, reducing the communication gap between the top and bottom rungs of officialdom and also developing networks to get the work done on the spot. Apart from the chief minister and ministers, Indian Administrative Service (IAS) officials, top police officials and the principal forest conservators participated in the camp right from early morning till 8 p.m. Each participant, including the chief minister, was expected to follow the queue and they were free to sit anywhere for meals. Interestingly, Yoga exercises and cultural events were also organised to trace out the inherent talent among participants.

In the infrastructure sector, modern ports were constructed in Gujarat. A network of high-speed roads was created to connect all important cities of the state. A congenial environment was created for guaranteeing energy security to the investors. A huge chunk of resources was invested in the thermal, atomic, hydel, and renewable energy sector. Altogether 23 conventional power plants were installed. Production of wind power was raised to 3,147 megawatts in 2013. The installed capacity of solar power reached over 900 megawatts. A 2,200-kilometre-long gas grid was constructed. Within a short period, Gujarat began to produce surplus power.

As industrial peace was guaranteed in Gujarat, the number of unrest cases declined drastically from 42 in 2003 to 28 in 2011. Trade unions were made more compromising than confrontational. As many as 200 industrial estates were established to accommodate most of the small and medium enterprises. Many of the industries were located in enclaves like Vapi.

Following the agitations against the location of the Tata Motor factory at Singur in West Bengal, Modi offered 1100 acres of land at Rs. 900 per square yard to this company at Sanand, adjacent to Ahmedabad, for the establishment of the Nano car factory. The manufacturing of Nano did not prove that much of a profitable venture for Tata Motors, but for Gujarat, it was a blessing. Sanand has now been able to attract internationally famous

companies like Ford and other auto component manufacturers.

A survey conducted in 2010-11 revealed that Gujarat had 21,300 factories, which formed 10 per cent of total factories in India. The manufacturing sector accounted for one-fourth of the state's GDP. This state alone has been able to employ nearly one-tenth of the country's total factory labour force. All such factories are large entities as they employ on an average of fifty workers.

While the industrial sector was given a key role in the Gujarat model, the agricultural sector was not overlooked. To promote this sector, the land records were computerised and information about the land use was provided on the website. Irrigation was given top priority. The Narmada dam project proved to be a game changer. An agricultural extension programme was launched on a vigorous scale. Agricultural planning activities reached the blocks and villages and even to the doors of the farmers. Several Krishi Mahotsavs was organised as part of the agricultural outreach. Over 100,000 officials from 18 departments of the state had to visit the farmers in their villages for a month before the onset of monsoons. Their job was to test the soil, prescribe nutrients, suggest hybrid seeds and give advice for making agricultural activities profitable. The traders, processors and even the retailers were allowed to purchase agricultural products from the farmers directly. Consequently, agriculture no more remained a subsistence activity; it emerged as a business-like venture. Despite being a semi-arid state, Gujarat was able to achieve an eight percent farm growth against the national average of 3.1 percent over the last decade.

A vigorous drive was launched in the state for increasing the enrolment of students in the education sector. The number of schools was doubled; many of these were government schools. Almost 79 percent of the total population in Gujarat above seven years became literate. In the knowledge sector, several universities related to agriculture, petroleum, defence and security, Sanskrit and Yoga were established.

In the social sector, the infant mortality rate fell from 64 per thousand live births in 2001 to 38 in 2013 and further to 30 in 2016.¹

People below the poverty line dropped down to 14 percent. Investment commitment in the state rose spectacularly to \$450 billion in 2011. All this helped Gujarat to achieve over a 11 percent rate of economic growth, which was the highest among all Indian states.

The success achieved in Gujarat took a new dimension as the focus on development shifted from the state to the national level when Narendra Modi became the Prime Minister of India in May 2014. Modi, now as Prime Minister, developed a new vision to transform India into a modern, vibrant and fast-growing economy. A tough decision was taken to upgrade the level of technology. An ambitious project to connect Mumbai with Ahmedabad is in the offing. One hundred megacities are being developed. Nearly 800 million toilet houses are being constructed within five years until 2019 to end the problem of open defecation in the country. The Sagarmala project has been introduced to interconnect all the coastal cities in the country through roads, rail, ports and airports. An effort is on to ensure transparency in government functioning, increase the performance in education, healthcare and commercial sector, which are likely to have a trickle-down effect on the Indian economy sooner than later.

So, there is growing public opinion that the Government of India should make the Gujarat development model as the main tenet of India's foreign policy, especially in relation to the neighbouring countries. There are ample opportunities for Nepal to emerge as an economic powerhouse in South Asia if an effort is made to execute this model by slashing red tape, developing infrastructure, and modernising agricultural, industrial, trade and service sectors.

1 Himanshu Kaushik, "Infant mortality rate in Gujarat at now30," The Times of India, February 13, 2018, in <https://timesofindia.indiatimes.com/city/ahmedabad/infant-mortality-rate-in-guj-now-30/articleshow/62892293.cms>

Better Government to Government Efforts Needed to Rejuvenate Nepal-India Relations*

Background

People-to-people relations are always pivotal for maintaining long-term bilateral relations between two countries. Such a relation gets a new lease of life if it is backed by due understanding at the level of heads of government of the two countries. This is true anywhere in the world, but it is more so with context to Nepal and India. Relations at a people-to-people level between both countries have remained harmonious since time immemorial. But at times jerks have been experienced at the government-to-government level in relations between the two countries to the great disadvantage of their peoples’

Because of the proximity between Nepal and India, any development in Nepal would have far-reaching implications in India and vice versa. Hence, it bestows greater responsibility on the heads of Governments of Nepal and India for developing a better understanding at the government-to-government level. Such an understanding might not only prove beneficial in opening new vistas of economic cooperation, but might also remove distrust, if any between the two countries. It is all the more necessary to develop due understanding at the government-to-government level between the two countries as Nepal is constrained by political logjam and there is a growing influence of foreign forces in the country.

* Vivekanand International Foundation, 30th March, 2012.

Unique relation

No two countries in the world are bound as much by cultural, religious, geo-economic, political and strategic ties as Nepal and India. Therefore, people in India regard the Nepalese as closest to them and so is the attitude of people of Nepal towards the Indian people. Such a people-to-people relation is unique, which is also made possible through the open border system for the people of one country to the other. Thousands of Nepalese and Indians marry each other taking advantage of the open border regime. Millions of Nepalese benefit from employment opportunities across the border in India. Many Indians also work in Nepal. Each day, the Nepalese go shopping in India and Indians come to Nepal. This uniqueness in relations has made the Nepal-India border borderless.

It is this unique relationship between Nepal and India that was given shape in the 1950 Treaty of Peace and Friendship. Security interests of the two countries were locked through this treaty. Each country committed to taking the joint initiative in case there was an external threat to any of them. Perhaps, this bond of common security made the Nepalese Prime Minister Martika Prasad Koirala to publicly announce in the 1950s that the defence of India was the defence of Nepal. Equally, true is the fact that the defence of Nepal is the defence of India.

No less remarkable are the views expressed by the Nepalese Prime Minister K.I. Singh on Nepal-India relations. A foreign journalist asked him, "Why is it that the Nepalese value India so high when the Western countries and multilateral institutions pour so much money in Nepal in the form of foreign aid?" In his reply, Singh asked, "Why is it that Sita, the daughter of Nepal, had none else than Ram, son of India, to marry? Why is it that Ram had no one else other than Sita to marry?"

For the purity of one's household chores or religious activities in Nepal, it is unavoidable to sprinkle *Gangajal* i.e. the holy water of the *Ganga* River flowing through Indian Territory. No ritual is possible from birth to death in this country without *gangajal*. Even the ashes of dead bodies

in Nepal have to emerge into the Ganga. Souls of the ancestors in this country rest in peace only after certain rituals are performed in Gaya in India. People in Nepal have as much faith in Kashi, Ayodhya, Mathura, Vrindavan, Balaji or Rameshwaram in India as the people in India have in Janakpur (the birthplace of Sita), Pashupatinath and Muktinath in Nepal.

Long Gap in Visits by Indian Prime Ministers

However, it is a pity that there was, for one reason or another, a long gap in the high-level visit of an Indian Prime Minister to Nepal. For nearly 15 years, no Indian Prime Minister visited Nepal. I.K. Gujral was the last Prime Minister of India to visit Nepal. Atal Bihari Vajpayee visited Nepal in January 2002, but the purpose of his visit was not bilateral but to participate in the 11th SAARC summit.

Turbulence in Nepal

In a strange coincident, these 15 years was also the most turbulent period in Nepal's history. Official records show that 17,828 people were killed during the Communist Party of Nepal (Maoist) led People's war between 1996 and 2006.¹ There was a colossal loss of property and widespread destruction of government schools, offices, roads and other infrastructural facilities in the country during that time.

Following the historic peace accord between the government and the Maoists in 2006, the 239-year old institution of monarchy collapsed in 2008. But even after six years of the signing of the peace accord, the Maoist combatants only partially laid off under the voluntary retirement scheme. The law and order situation in the country remained fragile. Armed groups have proliferated, particularly in the Terai region of Nepal. Most of the industries have remained closed on account of growing labour militancy, political instability, strikes, *bandh*, inadequate supply of power and raw materials. Forced donations and abductions have plagued the entire

1 RSS, "Displaced haven't received relief," The Himalayan Times, March 28, 2012, in

society. Because of the lack of employment opportunities at home, the number of youths fleeing the country for overseas employment (countries other than India) touched a high of 1,500 in 2011-12, compared to 600 per day until 2010.

Nepal's Challenges

The greatest challenge that Nepal faced was the failure of the Constituent Assembly to draft the new Constitution. As it is well known, the elections for the 601-member Constituent Assembly were held in 2008 to draft a new constitution within two years. Yet there was no substantial progress in constitution-making even though the tenure of the Constituent Assembly was extended several times. The Constituent Assembly was not able to make the Constitution until May 27, 2012, when its tenure finally expired. It was a great setback to political stability in Nepal.

According to the World Development Report 2012, Nepal's per capita income is as low as \$490. Even in Nepal's neighbourhood, the per capita income in India is \$1,340 – almost three times more than what Nepal does have. In 2010, Bangladesh's per capita income was \$640, Pakistan's per capita income was \$1,050 and Sri Lanka's per capita income was \$2,290.²

Nepal recorded an economic growth rate of 2.7 percent in 2009-10; whereas during that period India's rate of economic growth was 8.3 percent and China's rate of economic growth was 9.9 percent.

Though many of the schools, colleges and universities opened in Nepal, the quality of the academic institutions is often questioned. They do not meet the expectations of students. So there is a tendency on the part of many students to pursue education in countries outside Nepal. However, certain country/countries admit Nepalese students not for imparting quality education but for other political interests.

2 The World Bank. 2012. World Development Report 2012. Washington, D.C., pp. 392-93.

Issues of Concern between Nepal and India

Even after the signing of the 6000 megawatt Mahakali Treaty between Nepal and India in 1996, it has not been implemented. So much so that even hydropower projects with Indian investments, including the GMR Group working on the 900 megawatt Upper Karnali and Upper Marshyangdi, has been targetted even though the nation is facing acute load shedding of 14 hours a day. At the moment, Nepal produces 692 megawatts of power during the summer season against a demand of 860 megawatts. In winter, the country produces only 393 megawatts of power as opposed to a demand of 588 megawatts.³

Some other joint venture projects between Nepal and India, including Dabur Nepal and Surya Nepal, have also been targetted. For several years no new joint venture project has come from India to Nepal and even existing joint ventures are experiencing a sense of increased insecurity. Unfortunately, the investment climate in Nepal has not been able to improve inspite of the signing of the Bilateral Investment Promotion and Protection Agreement (BIPPA) between Nepal and India on October 21, 2011.

The shortage of Indian currency has affected trade and increased the hardships of the common people, travellers and consumers along the Nepalese-Indian border. In 2008-09, Nepal sold \$1.5 million to buy Indian currency worth Rs. 73.4 billion.⁴ Furthermore, the Nepal Rastra Bank sold \$2.7 million in 2010-11 to buy Indian currency worth Rs. 123.8 billion. Given the shortage of Indian currency, Nepalese bankers asked the Nepal Rastra Bank, the central bank of Nepal, to allow them to purchase Indian currency either directly from the market in Nepal or from across the border in India. The shortage of Indian currency is partly due to Nepal's trade deficit with India and partly due to a demand to finance illegal imports, mainly gold. A Nepal Rastra Bank directive allows banks

3 Editorial, "Lacking steam," The Himalayan Times, February 25, 2012.

4 The Himalayan Times, September 22, 2011.

to exchange Indian currency up to Rs. 25,000 a day or up to Rs. 200,000 in a month. But it hardly complies with this directive.⁵

Nepal's trade deficit with India almost doubled from Rs. 121 billion in 2008-09 to Rs. 218 billion in 2010-11. The country imports goods worth Rs. 261 billion from India against exports of Rs. 43 billion to that country.

Of particular concern is the growing duplication of popular Indian trademarks by some unscrupulous elements in Nepal. This has not only harmed Indian interests but also harmed the interests of Nepalese consumers. Nepalese consumers have had to compromise with the quality of such products, which is detrimental to their health. Cases of duplication of popular trademarks of India by the local Nepalese companies are found in areas such as soap, detergent, shampoo, adhesive, TV sets, hair oil, cosmetics, powder, stationery, toilet paper, furniture, textile and garments, footwear, vegetable ghee, oil, razor, incense, medicines, toothbrush, battery, fan, electric bulb, pressure cooker, tobacco, chocolate, shaving cream, alcohol, Gutka, spices, Pan Masala, biscuits, rice, *atta*, etc. Such activities also create a negative environment for investment in Nepal.

Quite often, news regarding smuggling of fake Indian currency notes through Nepalese territory to India is published in the media, which by all accounts is counter-productive and against the interests of both countries. There are reports that about Rs. 20 crore worth of fake Indian currency is smuggled through Nepalese territory to India each year.⁷

The development of the Nepal-India border region has been neglected all through history, though it is of crucial interest to the growth of both countries. Because of the British legacy to keep this region underdeveloped, very little could be done by the Indian government even after its independence, for the growth of the region. In Nepal, too, the rulers have

5 My Republica, March 1, 2011.

6 My Republica, March 1, 2011.

7 Lalita Panicker, "It's time to see red" in the Hindustan Times, 2 May 2011.

been reluctant in developing the peripheral border region of the Terai for their vested interests.

On the pretext of launching development work, there are NGOs, INGOs and foreign missionaries that have been luring mostly the weaker sections of the population in Nepal for religious conversion. If they are not tamed, more than half of Nepal's total population would likely be converted into an alien faith in next twenty years. Such activities could have far-reaching implications on Nepal-India relations in the long-term.

Besides, certain groups of people in Nepal suffer from the notion of 'small country' syndrome vis-à-vis India. They do not want to have any positive deal with India – be it in water resources or other sectors. These are the people who target infrastructural facilities, including hydropower projects in Nepal, even at the cost of plunging the country into dark. The government has no control over elements who want to make the country hostage to perpetual poverty.

Even on the Indian side, many bureaucrats dealing with Nepal suffer from a 'big country syndrome' mentality. They take it for granted that Nepal should do all at their command. Both the 'small country syndrome' and 'big country syndrome' mentality among certain elite groups in Nepal and India are detrimental to initiating economic cooperation between both countries.

What is that India should do?

To start with, India could establish a few Delhi Public Schools in Nepal. Besides, academic institutions like that of Jawaharlal Nehru University, Indian Institute of Technology and Indian Institute of Management could be established in Nepal. India could also establish medical colleges of the same standard as the one established by this country at Dharan. Besides, India might think of opening standard journalism courses as there is no such institution throughout Nepal's Terai region. With the opening of such world-class academic institutions, much of the resources

that are spent by Nepal on the education of its students in third countries will be saved.

Since India has achieved outstanding success in the Information Technology (IT) sector, it could establish its unit/units in Nepal. In 1996-97, India exported software to the tune of \$1 billion, which increased spectacularly to \$23.4 billion in 2005-6⁸ and \$63 billion as of March 31, 2008.⁹

Prospects are also quite high for the development of Export Processing Zones along the Terai region of Nepal to take advantage of the proximity factor with India. Such zones, if established along the dry port region and having all the infrastructural facilities such as road, rail and air connectivity, apart from electricity, raw materials and cheap labour, could accelerate the pace of industrialisation and generate huge employment opportunities in the country. Prospects are also high for the growth of industries such as pharmaceuticals, water resource-based ventures like water supply and sanitation, fruit and vegetable processing, textiles, carpet, garment and local handicrafts.

To help Nepal reduce its balance of trade with India, there could be a provision of free trade with common tariff with India. With this development, many Indian industries would make further investment in Nepal. Goods thus produced in Nepal could be exported to India. Besides, the consumers in Nepal would be getting products at the same price as is available to the Indian consumers.

Nepal's rate of economic growth largely depends on the growth of infrastructural facilities. India, therefore, should speed up the construction of its projects in Nepal, which include Postal/Hulaqi highway, Broad Gauge Railway line connecting Jaynagar (India) to Bardibas (Nepal)

8 Jagdish N. Bhagwati and Charles W. Calomiris (Ed.). 2008. "Introduction" in *Sustaining India's Growth Miracle*. New Delhi: Stanza, p. 4.

9 Prem Shankar Jha. 2010. *India and China: The Battle between Soft and Hard Power*. New Delhi: Penguin Books India Pvt. Ltd., pp. 31-32.

via Janakpur and Mechi-Mahakali Railway Line, and Kamala diversion project. India could also speed up the construction of link roads connecting the Terai region of Nepal with India along with such points as Janakpur-Pipraun-Darbhangha, Japakpur-Bhitamore-Sitamadhi & Birgunj-Raxaul-Motihari. Besides, the Indian government could complete the work of the Brihattar Janakpur Parikrama Sadak (Larger Janakpur Circumambulation Road) that covers part of Nepalese territory and part of Indian territory. India might also think of developing such religious-cum-historical regions of Nepalese Terai as Birat, Baraha, Salhesh, Simraungadh and Lumbini and try to link them with the other religious spots in Bihar and Uttar Pradesh for the growth of religious tourism in Nepal and India.

India could also take up with Nepal the proposal to set up a high-level umbrella organisation like a “Nepal-India Border Authority” to address such problems as flood, drought, crimes, counterfeit currency, smuggling and other such activities taking place along the border. There should also be increased cooperation between security agencies of both countries to address some of these problems.

Both Nepal and India should ensure that political instability and a weak socio-economic structure in Nepal should not give room to certain external power/powers to have free play in the country. Such foreign powers in their game plan have been trying to erode if not eliminate age-old special relations existing between Nepal and India.

A Way Forward

There is tremendous scope for improving government-to-government cooperation between Nepal and India at various levels. Considering India's growing strength in the economic front, the country needs to share a part of its resources for the establishment of academic institutions of excellence at all the levels, be it school, college or university in Nepal. Both Nepal and India should see to it that the bottlenecks in the implementation of hydropower projects, including in Pancheshwor project and Upper Karnali are removed. Free trade areas with the provision of the common tariff

regime are established to address the problem of growing trade deficit between the two countries. Work in the Indian aided projects in road, rail and other sectors also need to be speeded up. There is also the requirement of focussing on the development of the Nepal-India border region by establishing a high-level duly-empowered body such as a “Nepal-India Border Authority.”

However, the roadmap for Nepal-India cooperation does not appear to be that smooth, given the turmoil in Nepalese polity. Yet, India should use its diplomatic acumen to bring war-torn and underdeveloped Nepal to the forefront of the economic growth of South Asian countries through cooperation at all levels. Peace and prosperity of Nepal is in the best interest of India. Therefore India should extend all possible support to Nepal even if a certain cost is involved.

Benefits of the Pegging Arrangement Between Nepali and Indian Currencies*

In Nepal, both the Nepali and Indian rupees were legal tender until 1956. Each day the exchange rate between the two currencies used to be determined by private money changers based on demand and supply. Sufficiency of Indian rupees or their lack has resulted in swings in exchange rates. However, the change in the exchange rate on a day-to-day basis was an irritant for the people. Quite often, it affected trade and other economic activities between the two countries.

Therefore, as soon as the Nepal Rastra Bank, the central bank of the country, was established in 1956, it began to work towards making the Nepali rupee the sole legal tender and tried to do away with the existing dual-currency system in Nepal. Accordingly, the dual currency system was abolished under Nepal Currency Circulation and Expansion Act of 1957.

A new single currency regime was established under which the Nepal Rastra Bank pegged the Nepali rupee to the Indian rupee and fixed the exchange rate at 160 Nepali rupees for 100 Indian rupees. Such a provision entailed that the Nepal Rastra Bank could buy and sell any amount of Indian currency at the given exchange rate.

Consequently, many exchange counters were opened in different parts of the country to provide this service. Also banking institutions in

* IDSA, July 21, 2011

Nepal were authorised to facilitate the exchange of these currencies at a fixed exchange rate.

Significantly, on June 6, 1966, the Indian government substantially devalued its currency. Nepal on its part had to do little as the Nepali rupee had already been pegged to the Indian rupee. But the result was that the Nepali currency automatically appreciated vis-à-vis the Indian currency on account of the pegging factor. As such, the new exchange rate between the two currencies was established almost at par with Nepali rupees 101 equivalent to Indian rupees 100.

The last adjustment that was made between the two currencies was on February 1, 1993,¹ when the earlier exchange rate of Nepali rupees 160 equivalent to Indian rupees 100 was revived. Thus, for quite a long time the exchange rate between the Nepali and Indian rupees has largely been the same, although the Foreign Exchange Regulation Act 1962 allows for convertibility of Nepali rupees with all other currencies.²

But in certain quarters the rationality of the pegging of Nepali rupee with the Indian rupee is questioned. An impression is being created that the pegging of the Nepali rupee with the Indian rupee is not in Nepal's national interest. Several efforts have been made to remove this provision.

As is well known, the only alternative to the pegged currency regime is the introduction of a floating exchange rate system between the Nepali and Indian rupees. Under that regime, the exchange rate between the Nepali and the Indian rupee would be determined each day based on the demand and supply of the respective currencies as it happens in determining the exchange rate of Nepali currency with all other currencies, including the Euro and the US dollar.

1 <http://www.ekantipur.com/the-kathmandu-post/2011/06/19/money/no-revision...>

2 Mukesh Khanal, "Time to ditch the peg," My Republica, June 13, 2011.

But the central bank in Nepal does not dare to follow the floating exchange rate regime though it is free to do that. It is feared that any attempt to do so on a day-to-day basis would increase the instability in Nepal's economy. Besides other things, it would further erode the people's confidence in the Nepali currency as well as in the banking and other financial institutions.

On the other side of the border, India has emerged as the world's fastest-growing economy with an annual rate of economic growth of over eight percent. In the international market, the value of the Indian rupee is increasing due to the growing strength of the economy. But in Nepal, the Nepali rupee has been losing its value on account of poor economic growth of 3.4 percent. If there was a floating exchange rate arrangement between the Nepali and Indian rupees in place of the existing fixed exchange rate, the value of the Nepali currency would be far lower than what it is today. Perhaps, this could have a more adverse impact on Nepal's economy.

Moreover, a floating exchange rate does not appear to be practical for Nepal as the central bank of the country is not fully equipped to run an independent monetary policy. It can do very little to control inflation through its monetary policy. Until inflation is controlled in India, the central banking authority can do little about it in Nepal.

The economic instability in Nepal is being kept within manageable limits since the Nepali rupee is pegged to the Indian rupee. Realising this fact, Yuva Raj Khatiwada, the governor of Nepal Rastra Bank, said that the Nepali currency is strengthening only because it is pegged to the Indian currency. Khatiwada's counterpart, D. Subbarao, the then governor of India's central bank, the Reserve Bank of India, also said, "For now, we do not have any plan to adjust the exchange rate. It is possible if both Nepali and Indian governments feel necessary."³

3 <http://www.ekantipur.com/the-kathmandu-post/2011/06/19/money/no-revision...>

In the existing situation, any effort to do away with the pegging arrangement would further invite capital flight from Nepal and thus affect businesses, trade and other economic activities. Besides, it would also bring about hyperinflation in the country. Hence, it will be a mere waste of time and energy to even consider doing away with the pegging arrangement between the Nepali and Indian currencies. There are more important things that Nepal's central bank and other institutions need to concentrate upon, including restoring the people's confidence in the country's banking and financial institutions to ensure economic stability which is at its lowest at present.

Indian Investment in Nepal: Challenges and Opportunities*

Because of the importance of foreign direct investment (FDI) in employment creation, technology transfer, export promotion and overall economic growth of a country, Nepal has tried to create investment-friendly environment to encourage FDI, particularly after the political changes in 1990. As a result, over 1000 foreign investment projects have been registered in Nepal covering all important sectors like hydropower, mineral exploration, construction, agro-based, chemicals, tourist hotels and restaurants and other specialized services.

In terms of the approved amount of FDI, India is Nepal's largest source of FDI. Some of the major joint ventures with India in Nepal include Surya Nepal – a joint venture with ITC India, Dabur Nepal, Nepal Lever and United Telecom Nepal, Everest Bank, SBI Bank, LIC Nepal, Asian Paints, GMR India, IL&FS and Manipal. Considering the growing demand for power both in Nepal and in India, Sutlej Hydro Electric Project of India has invested in the construction of 402 MW in Arun III. On the other hand, GMR, an Indian infrastructure developer has invested in the construction of 300 MW Upper Karnali at Tunibagar in Dailekh district. Also, Himtal Hydropower Company Pvt Ltd (in which GMR has 80 percent share and the Nepalese have 20 percent share) has invested in the construction of the 600 MW Upper Marshyangdi-II hydropower project. IL&FS has a 15 percent share in the 750 MW West Seti project.

* Himalayan Times on 25 February 2010.

The low labour costs and liberal trade and economic policies resulting in the lower tariff rate structure are mainly responsible for attracting Indian investment into Nepal. Additionally, the climatic advantage to the terrain ranging from almost sea level up to Mount Everest merely within an average distance of 200 kilometres, provides wider scope in Nepal for growing a large variety of agricultural products such as medicinal herbs, fruits, high-quality tea, coffee and saffron. Also, there is huge scope for the commercial production of hydropower (at least 44,000 megawatt). Due to the booming Indian economy, Nepal's trade with India has increased enormously from the USD 209.5 million in 1995-96 to the USD 2 billion in recent years.

But at the same time, Nepal's trade deficit with India has also widened to over USD 1 billion. This also suggests the need for expanding the volume of Nepal's export base for which Indian investment is quintessential. Understanding the importance of Indian investment for the economy, the Government of Nepal has identified infrastructural facilities like hydropower, education, health, agri-business, tourism and some financial areas as priority sectors for Indian investment.

Yet, there has been a growing concern in India not only about the health of Indian investment in Nepal but also about the investment climate in the country. Today, an average Indian investor in general feels quite insecure about investing in Nepal as the business environment there has been badly shattered by frequent *bandhs* (*shutdowns*), the prevailing culture of strikes, labour disputes, forced donations, poor law and order situation and above all the long period of political instability in the country. Though the work in most of the projects, particularly in the hydropower sector, in which India has made a major investment, has already begun, there are reports that certain forces have mixed up politics with economics and obstructed the implementation of different activities.

Besides, on account of outmoded national laws regarding the acquisition of land for the development of hydropower projects, there have been problems related to it for the development of roads, construction of

project sites and also for the rehabilitation of those to be evacuated due to the project activities. The ILO Convention 169 on Indigenous and Tribal Peoples of which Nepal is a signatory is also a problem in the implementation of the projects.

In such a situation it is unlikely that Indian investors would make further major investment in Nepal. Such a setback might seriously affect the growth of agricultural, industrial, service and trade sectors of Nepal and thereby further aggravate the balance of trade deficit with India. It will also send out a wrong message to the international community and further aggravate Nepal's investment prospects at a time when the entire banking and other financial institutions are virtually in a state of severe crises. It is in Nepal's national interest that existing hydropower projects are allowed to move smoothly. If such projects are completed, they would change the entire fabric of the national economy and have a multiplier effect on different sectors such as education, health, transport, communication, industry, trade and service sectors.

Nepal-India Cooperation in River Water Management*

Background

Over 6,000 rivers exist in Nepal with a combined run-off of about 200 billion cubic metres. All river systems in the country finally end in the Ganges. These rivers contribute 46 percent of the flow in the Ganges, but in the lean season, their contribution to the flow of the Ganges increases to 71 percent.¹ In 1920, the British Indian government had entered into an agreement with Nepal in the water resource sector for the construction of the Sarada Canal project on the boundary river, the Mahakali. After India achieved independence in 1947, the Governments of Nepal and India signed the landmark agreement for the construction of the Kosi Project in Nepalese territory in 1954. Another important agreement between Nepal and India was the Gandak Irrigation and Power Project signed between the governments of the two countries in 1959. And finally, the Treaty on Integrated Development of the Mahakali River, including Sarada Barrage, Tanakpur Barrage and Pancheshwar Project was signed between the Governments of Nepal and India in 1996.

The Kosi Agreement

For a long time, the Kosi River was regarded as the ‘River of Sorrow’

1 Dwarika Nath Dhungel, “Historical Eye View” in Dwarika N. Dhungel and Santa B. Pun (Ed.). 2009. *The Nepal-India Water Relationship: Challenges*, Springer, p. 11.

of Bihar (India) as it used to bring along with it massive destruction of life and property through floods each year. During British rule over India, certain British officials visited the Barahachhetra area along the Kosi River in Nepal as far back as 1779. But nothing concrete developed in terms of taming the river.

After India achieved independence in 1947, leaders of Nepal and India realised the need for taming the Kosi River through joint efforts. Accordingly, Nepal and India signed the Kosi Agreement in 1954. Following this, a barrage was constructed at Hanuman Nagar/Bhim Nagar in 1962 to control floods and also providing for irrigation facilities to lands in Nepal and Bihar. In the process of building the 1.1 km-long barrage in Nepal, about 41 square kilometres of Nepalese upstream territory had to be submerged.

Among all irrigation projects in Nepal, the Kosi project is the largest and it irrigates 164,000 hectares of agricultural land,² including 117,000 hectares from the Chatara Project, 26,000 hectares from the Western Canal and 14,000 hectares from the Chandra Canal Project.

Initially, the Chatara Canal Project was expected to irrigate 66,000 hectares of land in Sunsari and Morang districts. Upon its completion in 1974, however, it could irrigate only up to 20,000 hectares of land.³ Subsequently, the capacity of the Chatara project was increased with the help of the World Bank.

Major Highlights of Kosi Agreement

The Kosi Agreement has altogether 18 articles. Some striking parts of the agreement are given below:

2 Hari Bansh Jha. 1998. Profiles of Partnership: 50 Years of Nepal-India Cooperation. Kathmandu: Foundation for Economic and Social Change in cooperation with B.P. Koirala Nepal-India Foundation, p. 26.

3 Bhubanesh Kumar Pradhan, "Personal Reflections: Nepal-India Water Relations" in Dwarika N. Dhungel and Santa B. Pun (Ed.). 2009. The Nepal-India Water Relationship: Challenges, Springer, p. 246.

Prior Approval of the Nepalese Government

As per the agreement, the Government of India needs to take prior approval from His Majesty's Government (HMG)⁴ of Nepal before undertaking certain construction activities under the project. But in certain cases, it was just enough for the Indian government to intimate the Government of Nepal. Clause (iii) of Article 1 of the revised Kosi Agreement reads: "(iii) Any construction and another undertaking by the Union in connection with this project shall be planned and carried out in consultation with HMG,

Provided that such works and undertakings which, pursuant to any provision of this Agreement require the prior approval of HMG shall not be started without such prior approval;

And further provided that in the situation described in Clause 3 (iii) and Clause 3 (iv) intimation to HMG shall be sufficient."

Guarantee of Nepalese Sovereignty over its Territory

The revision of Kosi Agreement on 19th December 1966 guaranteed Nepal full rights over the Kosi River.⁵ Nepal got the right to withdraw water from the Kosi River and the Sunkosi River or within the Kosi Basin from any of the Kosi tributaries for irrigation or any other purpose. This is well reflected in Article 4 (i) of the revised Kosi Agreement, which reads as:

"HMG shall have every right to withdraw for irrigation and for any other purpose in Nepal water from the Kosi River and the Sunkosi River or within the Kosi Basin from any other tributaries of the Kosi River as may be required from time to time."

4 After the political change in 1990, the name of the Nepalese government was changed from His Majesty's Government (HMG) to Government of Nepal (GoN).

5 Spotlight Weekly, June 13, 2008 in http://www.wafed.org/budhigandaki_news_eng001.php

Lease of Land

In the 1954 agreement, there was a provision made in Clause 5 that India had the ownership of all lands acquired and leased by Nepal and transferred to India for project-related activities. But later on, in the revised agreement, India accepted Nepal's sovereign right on all such lands acquired by the Government of Nepal and leased to the Government of India. Under Clause 5 of the revised agreement, India made it amply clear that the land so made available as a 'lease land' given for the project activities for 199 years at an annual nominal rate. Clause (i) of Article 5 of the revised Kosi Agreement reads:

“(i) All the lands acquired by HMG under the provisions of Clause 3 hereof as of the date of signing of these amendments shall be leased by HMG to the Union for 199 years from the date of the signing of these amendments at an annual Nominal Rate.”

Royalties

The Government of India made provisions in the Kosi Agreement to pay a royalty to the Government of Nepal against the generation of power or the use of stone, gravel and ballast obtained from the Nepalese territory and used for construction, maintenance of the barrage and other related activities of the project. There was also provision made in the agreement for due payment of compensation against the use of timber for the construction of works in the project. Clause (i), (ii), (iii) and (iv) of Article 6 of the revised Kosi Agreement reads:

(i) HMG will receive a royalty in respect to power generated and utilised in the Indian Union at rates to be settled by agreement hereafter: Provided that no royalty will be paid on the power sold to Nepal.

(ii) HMG shall be entitled to receive payment of royalties from

the Union in the response of stone, gravel and ballast obtained from Nepal territory and used in the construction and future maintenance of the barrage and other connected works at rates to be settled by agreement hereafter.

(iii) The Union shall be at liberty to use and remove clay, sand and soil without let or hindrance from lands leased by HMG to the Union.

(iv) Use of timber from Nepal forests, required for the construction, shall be permitted on payment of compensation.”

Use of Bridge for Public Traffic

Until the completion of the Kosi barrage, Nepal's eastern region was almost cut off with the western region due to the absence of a bridge. But the barrage served the purpose of bridge between the eastern and western regions of Nepal. This helped foster economic, social and cultural ties between the people of two sides of the Kosi River. Before the construction of the barrage/bridge, the only means to cross the mighty river was through the ferry, which had the very little capacity to transport goods and services from one side of the river to the other. On its part, the Indian government in clause (iv) of Article 9 of the Kosi agreement opened the Hanuman Nagar Kosi bridge to public traffic. The construction of the bridge initiated a new era for the development of not only the eastern and western part of the Kosi River, but it also played a crucial role in the modernisation of Nepal.

Navigation

Article 10 of the Kosi Agreement presents details about the use of watercraft and navigation rights in the Kosi River. The Indian government treats the use of watercraft as the exclusive domain of the Government of Nepal. However, there are provisions for putting restrictions on the use of water-craft like boats, launches

and timber rafts within two miles of the barrage and head-works for safety reasons. It is only after getting special permission from the competent authority of the Nepalese government in consultation with the Executive Engineer (Barrage) that it would be possible to use water craft near the barrage area.

Fishing rights

Under Article 11 of the Kosi Agreement, Nepal enjoys exclusive fishing rights in the Kosi River. It is only due to security reasons that such activity is restricted within two miles of the barrage and head-works area. Provision is made in the revised Kosi Agreement for permitting a person for fishing within proximity of two miles through the permits to be issued by the competent authority of Nepal government in consultation with the Executive Engineer (Barrage).

Use of Nepalese Labour

In all the project related activities, provision was made for giving preference to the Nepalese labourers. Article 12 of the Kosi Agreement presents:

“The union shall give preference to Nepali labour, personnel and contractors to the extent available and in its opinion suitable for the construction of the Project but shall be at liberty to import labour of all classes to the extent necessary.”

Kosi High-Dam Project

Before undertaking the work on the Kosi River Barrage, a detailed survey had been carried out. It was found that a high dam could be constructed for this purpose at the height of 783 feet lying at a distance of 1.6 kilometres from the foothills at Barahachhetra Temple, Chatra.⁶ This project had

6 Dwarika Nath Dhungel, no. 2, p. 16.

tremendous potentiality to generate hydropower, provide irrigation to a vast tract of land and promote navigation facilities to the sea. More than anything else, the Kosi Dam could produce more power than the total power available in India at that time.

But the idea of building a high dam could not materialize. Perhaps, the planners and policymakers in India lacked foresight and vision to implement that project. But for some years now, both governments have been trying to initiate work on the Sapta Kosi High Dam project. Towards this end, both governments signed an MOU on January 9, 1997 to carry out joint a Detailed Project Report (DPR) study for the Kosi High Dam-cum-Sunkosi Storage-cum-Diversion Scheme.⁷ Significantly, the Indian government was expected to bear all the costs involved in the course of the investigation and studies of the DPR, which was expected to be completed within three years.

The Sunkosi-Kamala diversion project is a part of Sapta Kosi High Dam project, which aims at diverting 72m³/s of water from the Sunkosi River to Kamala River through a 16.6-kilometre-long tunnel. It carries the prospect for the production of hydropower up to 61.4 megawatt along with this point in the Kamala River. The water diverted from the Sunkosi and the natural water of Kamala is expected to be re-regulated at Kamala Dam nearly 20 kilometres of Chisapani, which could generate an additional 32 megawatt of hydropower, apart from providing round the year irrigation facility to nearly 160,000 hectares of agricultural land from Saptari district in the east to Sarlahi district in the west.⁸

It is estimated that the Kosi High Dam together with Sun Kosi Storage cum Kamala Diversion Scheme could irrigate as much as 721,000 hectares of agricultural land in Nepal, apart from generating hydropower to the

7 Damodar Bhattarai, "Multi-purpose Projects" in Dwarika N. Dhungel and Santa B. Pun (Ed.). 2009. *The Nepal-India Water Relationship: Challenges*, Springer, p. 87.

8 Ibid, p. 92.

extent of 4,689 megawatt.⁹ Also, new vistas of economic cooperation between Nepal and India could open through the development of the 165 kilometre-long waterway from Chatara in Nepal to Kolkata Port in India.

Agricultural production and productivity in the region are expected to multiply substantially due to this project.

But the investigation work at Sapta Kosi High Dam Site (269 m) has been suspended on account of opposition from the local groups ever since May

2007¹⁰, though there has been repeated assurance by the Government of Nepal to provide all possible security to the staff engaged in such work.

Benefits from Kosi Agreement

It might be a moot point of discussion whether the Kosi project benefited India more than Nepal or the other way around? But it cannot be negated that the benefits from the project even to Nepal have been substantial. There was no cost involved to Nepal for the construction of Kosi Barrage and the appurtenant works. The entire cost of such activities was borne by the Government of India. But then Nepalese territory was protected from the floods in Kosi that used to bring about massive destruction of life and property each year. Besides, it provided irrigation facilities in Nepal. The country also got 10 megawatt of hydropower from the canal drop. And more than anything else, Nepal benefited from the Kosi Barrage for it has been able to connect the eastern region of Nepal with the western one. Before the construction of the project, the eastern region of Nepal used to remain almost disconnected from the western region.

Besides, Nepal received a royalty from the Government of India for the use of construction materials like gravel and boulders in the construction,

9 Hari Bansh Jha. 2010. *The Economy of Terai Region of Nepal: Prospects for its Sustainable Development*. Kathmandu: Centre for Economic and Technical Studies, pp. 49-50

10 Ibid.

repairs and maintenance of the project activities. The Government of India offered Rs. 30 million¹¹ to construct a separate canal in the eastern side for the benefit of the Nepalese in the Terai region, but the government of Nepal took away this amount for the construction of the Trisuli Hydro-Electric Project located north of Kathmandu in Nuwakot district.

However, the local people living in Morang and Sunsari districts of Nepal became dissatisfied with the Government of Nepal for its bid to divert the amount of money sanctioned by the Indian government for the irrigation of land in the eastern part of Kosi River in the Terai region to the construction of Trisuli Hydro-Electric Project in the hills. So, a

further request was made by Nepal to the Indian government in 1964 to concede the demand of the people of Morang and Sunsari districts for the development of the irrigation project. Accordingly, the Indian government extended an additional Rs. 40 million for the construction of Chatra canal project as part of the Kosi agreement in November 1964 to provide irrigation facilities to 66,000 hectares of land in those two districts lying east of the Kosi River.

Subsequently, the Nepalese government increased irrigation facilities further to 41,800 hectares of land in Morang and Sunsari districts at the cost of US \$145.5 million with the support of the World Bank.¹² On the Western side of the Kosi, Nepal was capacitated to irrigate 34,690 hectares of land, including 10,210 hectares from the Chandra canal. On the Indian side, 969,110 hectares of land was irrigated through the Kosi river water.¹³

Some Concerns

In Nepal, there are concerns about the Kosi Agreement. A notion prevails that the agreement has been more favourable to India than Nepal and that

11 Dwarika Nath Dhungel, no. 2, p. 18.

12 Ibid, p. 19.

13 Ibid.

Nepal was unfairly treated in the deal. The Indian perception is that Nepal has been taking so many benefits from the agreement without having to make any investment except the submergence of certain parts of its territory. The Indian feeling is that the Nepalese authorities have 'stymied effective water cooperation for narrow political gains' On many occasions. They feel that there are fewer faults with the existing treaty and more due to the lack of 'will' on the part of the Nepalese authorities to implement it. On several occasions, the Nepalese authorities failed to co-operate with Indian technical teams during maintenance and other works related to the barrages and other project structures.¹⁴ This is one of the reasons why at times there is so much loss of life and property in Bihar due to monsoon floods.

Gandak Treaty

The history of exploiting the waters of the Gandak River goes back to 1871-72 when British Indian officials first thought of using the river for irrigation. But it was not until 1909 that the Tribeni canal created from this river was completed. By 1960, the command area of the canal was extended up to 161,871 hectares on the Indian side of the border.¹⁵

Initially, the irrigation of the agricultural land through the Tribeni Canal was carried out on a small scale when there was far greater potentiality to use the river water for irrigating vast tracts of agricultural land both in Nepal and India. Realising this, the Governments of Nepal and India signed the Gandak Irrigation and Power Project agreement in December 1959. The agreement, however, came into force only when it was amended in 1964.

In 1968-69, the Gandak Barrage (a part of the Gandak Project) was constructed over the Gandak River to provide irrigation to lands in Nepal and India. The barrage over the Gandak River is 2,749-foot-long

14 IDSA Task Force Report. 2010. *Water Security for India: The External Dynamics*. New Delhi: Institute for Defence Studies and Analyses, p. 61.

15 Ibid, p. 22.

at the international border at Valmikinagar (Bhainsaloton). The Gandak Project is the second-largest project in Nepal next to the Kosi project. It irrigates 63,000 hectares of agricultural land¹⁶ in Nepal and 1,850,520 hectares of land in India¹⁷. Nepal had virtually no financial investment in the construction of the Gandak Project, but it gains from it in diverse ways such as through the irrigation, flood protection and to some extent through the hydropower generation. But here also, there is a feeling among certain experts that the Gandak Project would have proved more beneficial in terms of irrigating still larger tracts of land in Nepal and India if the barrage of the project were located upstream closer to Dev Ghat in Nepal instead of its present location at Bhaisalotan along the border of the two countries.

Main Highlights of Gandak Treaty

The Gandak Treaty contains 13 articles. Major highlights of the Treaty are presented below:

Protection of Riparian Rights

One of the important aspects of the Gandak Treaty is that it helped Nepal to restore riparian rights. As per the amended version of the Treaty, the Government of Nepal has secured the right to withdraw water from the river or its tributaries in Nepal for irrigation or any other purpose. The revised version of Article 9 of the Gandak Treaty states:

“His Majesty’s Government will continue to have the right to withdraw for irrigation or any other purpose from the river or its tributaries in Nepal such supplies of water as may be required by them from time to time in the Valley.

For the Trans-Valley uses of Gandak waters, separate agreements

16 Hari Bansh Jha, no. 10, pp. 49.

17 Damodar Bhattarai, No. 8, p. 83.

between His Majesty's Government and Government of India will be entered into for the uses of water in February to April only.”

In the initial Gandak Treaty, Article 9 had curtailed Nepal's right to use water. But Nepal succeeded in convincing India to amend the treaty to safeguard Nepal's interest. Significantly, India reciprocated positively. The revised Gandak Treaty was a substantial improvement over the one done in 1959.¹⁸ As is the lower riparian country, India believed that even the upstream riparian country, Nepal, had the right for consumptive use of water.

Irrigation and Control

The treaty stipulated to construct the Western Nepal Canal, including the distributaries with a minimum discharge of 20 cusecs for irrigating 16,187 hectares of land in the gross command area. Besides, there was also a provision in the treaty to provide additional 20 cusecs of water for irrigating 41,884 hectares of land through the Eastern Nepal Canal.¹⁹

Later on, the Government of Nepal improved the Eastern Nepal Gandak Canal System with World Bank assistance to remove certain project deficiencies. Similarly, the Nepalese government also mitigated deficiencies of the Western Nepal Gandak Canal with the Asian Development Bank (ADB) assistance to ensure the flow of 300 cusecs of water from the Gandak Barrage.²⁰

Most importantly, Nepal was given the responsibility of operating even the head regulator of the Don Branch Canal so that the irrigation requirements of people on both sides of the Nepal-India border region are addressed. Clause (V) of Article 7 of the

18 http://www.wafed.org/budhigandaki_news_eng001.php

19 Dwarika Nath Dhungel, No. 2, p. 23.

20 Bhubanesh Kumar Pradhan, no. 4, pp. 245-46..

amended Treaty presents:

“Also, the head regulator of the Don Branch Canal shall be operated by His Majesty’s Government keeping in view the irrigation requirements of area irrigated by this branch canal in India and Nepal.”

Power Development

Both Nepal and India agreed to construct one powerhouse to generate electricity with an installed capacity of 15 megawatt with the provision to transfer to Nepal. Subsequently, the powerhouse was constructed and handed over to Nepal in 1981.

Sovereignty and Territorial Jurisdiction:

In Article 10 of the Gandak Treaty, Nepal’s sovereignty and territorial jurisdiction were kept intact concerning the lands acquired by the Nepalese government and transferred to the Indian government for investigation, execution and maintenance of the project.

Right to Prior Use of Water

Nepal restored its right of prior use of water in the Gandak project. It is sovereign in withdrawing water from the rivers or their tributaries within the country. The revision of the treaty marked remarkable success for Nepal.

Compensation for Land Acquisition

The Indian government was committed to paying to the Government of Nepal due compensation for the use of either the acquired land or government land transferred by the latter to the former in course of the investigation, construction and maintenance of Gandak project. Clause (i) and (ii) of Article 3 presents:

“(i) His Majesty’s Government will acquire or requisition, as the case may be, all such lands as are required by the Government of India for the Project, i.e., for investigation, construction and maintenance of the Project and the Government of India shall pay reasonable compensation for such lands acquired or requisitioned.

(ii) His Majesty’s Government shall transfer to the Government of India such lands belonging to His Majesty’s Government as are required for the Project on payment of reasonable compensation by the Government of India.”

Royalty against Quarrying

The Government of India agreed to pay to the Government of Nepal ‘reasonable royalty’ if the former made use of Nepalese quarry materials like block stones, boulders, shingles and sand in the course of the construction and maintenance of the Gandak project.

Establishment of Link

The treaty allowed the free movement of people and transportation of goods between Nepal and India by agreeing to open the Gandak Barrage to public traffic. It was only during the period of repairing or construction of the bridge that the movement of people or transportation of goods was halted. Without the bridge, people of both countries couldn’t cross the river easily. They used to cross the river with small boats or ferries, but the economic, trade and other benefits was few and far between. Against this background, the opening of the barrage ensured greater opportunities for people of both countries.

Some Concerns

In 1964, certain existing deficiencies in the Gandak project were corrected, but one anomaly still prevails i.e. Nepal being barred from trans-valley use

of Gandak water between February and April, the dry months. Therefore, some people think that Nepal might put in a claim for a further revision of the 1964 Gandak Treaty before implementing the Budhi-Gandaki storage Dam project. As it is well known, the Budhi-Gandaki River is one of the major tributaries of Gandak. With the completion of Budhi Gandaki Storage dam, the dry season flow of the river in February to April would be doubled. Expectations are that a further revision of 1964 Gandak Treaty will place Nepal in as much of an advantageous position as the 1966 revised Kosi Agreement on water usage rights.

Mahakali Treaty

After taking Nepal's consent the British constructed the Sarada Barrage on the Mahakali River at Banbasa in 1928. Since the construction of the barrage, India has been using water from this river for irrigating lands in the state of Uttar Pradesh. Besides, India also produces about 40 megawatts of power from the river at the Lohia powerhouse. By allowing the British to construct the barrage, Nepal was authorised to receive 460 cusecs of water from the river. Besides, the country was entitled to receive up to 1,000 cusecs of water between May 15 and October 15 in the summer season and up to 150 cusecs of water between October 15 and May 15 in the winter season in case surplus water was available.²¹ But Nepal was able to make use of the allocated water from the Mahakali River only after several decades with the completion of the World Bank-supported Mahakali irrigation project in 1997-98. The project has a command area of 11,600 hectares of land in Nepal's Kanchanpur district.

Moreover, the Integrated Development of the Mahakali River, including the Sarada Barrage, the Tanakpur Barrage and the Pancheshwar Project (Mahakali Treaty) was signed at the highest level between Sher Bahadur Deuba, Prime Minister of Nepal and P.V. Narasimha Rao, Prime Minister of India on February 12, 1996, in New Delhi. The Pancheshwar Project under the Treaty was expected to produce 6,000 MW of hydropower with

21 Dwarika Nath Dhungel, no. 2, p. 14.

the investment cost of \$4 billion for eight years till 2002. There was also provision for irrigation of vast tracts of agricultural land both in Nepal and India, apart from the benefit of flood control.

Ratification of the Treaty

As per Article 126 of the Nepalese Constitution, the Mahakali Treaty was presented to the joint session of Nepalese parliament for ratification on September 11, 1996. Over two-thirds of parliament endorsed the treaty. The treaty, which was valid for 75 years, came into force on June 5, 1997, and subsequently, the instruments of ratification were exchanged between the two countries. The DPR of the treaty was expected to be prepared within six months of the exchange of documents of ratification.²²

Wider Support

The signing of the Mahakali Treaty in 1996 was perhaps the only occasion when Nepal demonstrated rare boldness to move forward towards economic nationalism. All major political parties in Nepal, including the Nepali Congress, CPN-UML, Rashtriya Prajatantra Party and the Nepal Sadbhavana Party supported the treaty as they found it to be in Nepal's best interest.

The CPN-UML was fractured when certain factions within the party could not reconcile with the stand of the party concerning the Mahakali Treaty. But the party did not give up its stand and demonstrated its solidarity with other political parties in supporting the treaty. It was not a small event that a national political party like the CPN-UML remained firm on the issue of the treaty even at the cost of divisions within the party.

Cutting across party lines, the Mahakali Treaty was hailed by all political parties, intellectuals and academicians. Only a few opposed it. The treaty was described as historic as it was prepared mostly on terms agreeable to Nepal.

22 Ibid, pp. 46-47.

The Government of Nepal claims that this deal is better than all previous ones. Whether it was the Tanakpur Barrage, the Sarada Barrage or the Pancheshwar project, Nepal got its due share of power, irrigation and benefits in other sectors.

It was the negotiating skill of Nepalese leaders in the government and the maturity demonstrated by political parties, including the Nepali Congress, the CPN-UML and the Rastriya Prajatantra Party that helped bring about a consensus and Nepal was able to achieve something concrete from India on an equal footing with regard to the Mahakali integrated development project. Indian political leaders, intellectuals and journalists were equally happy and satisfied about the deal.

Main Highlights of the Mahakali Treaty

Under the Mahakali Treaty, Nepal and India agreed that an integrated project, including power stations of equal capacities would be constructed and operated on each side of the Mahakali River and the total energy thus generated would be shared equally between them. Since the investment in the project was huge, both sides agreed to make a joint effort for mobilising financial resources for the implementation of the project.

Under Article 9 of the treaty, there was a provision for the formation of a Mahakali River Commission to provide expert evaluation of the projects and to coordinate and monitor the plan of action in the course of the implementation of the treaty.

Under provisions of the treaty, the Pancheshwar Multipurpose Project was to be constructed on the stretch of the Mahakali, the boundary river between Nepal and India, as there was provision for equal entitlement in the utilisation of the waters. The treaty was based on the principle that the cost of the project would be borne by the respective countries based on benefits in the form of irrigation and flood control. Section 3 of Article 3 of the treaty stipulated that the “cost of the Project shall be borne by the Parties in proportion to the benefits accruing to them.”

Because of the above provisions, Nepal claimed 8,000 cusecs of water in the Mahakali River out of the total excess water of 16,000 cusecs. Of the 8,000 cusecs of water in Nepal's share, the maximum that country could use was 4,000 cusecs to irrigate the entire 930,000 hectares of land of Kailali and Kanchanpur districts. In such a situation, Nepal made a provision to allow India to use the extra 4,000 cusecs of water with the condition that it would have to seek a lesser loan and India would have to invest more funds in the project, which many believe was in Nepal's national interest.

To implement the project, both countries agreed to jointly prepare the DPR within six months. But nothing tangible developed thereafter until Nepal and India signed a pact to set up Pancheshwar Development Authority (PDA). This was made possible due to more accommodative provisions of Nepali concerns. India agreed to establish a PDA office in Nepal's Mahendranagar and not in any other place in India. A provision was made that the Chief Executive Officer for the PDA would be selected through open competition from among Nepali and Indian candidates. There would also be an equal number of staff in PDA from both countries.

Benefits from the Treaty

The Pancheshwar project happens to be most viable and cost-effective, though some of its adverse impacts like the displacement of 21,621 people from the area cannot be ruled out. However, there have been plans to minimise the adverse impact of the projects related to resettlement, rehabilitation and other environmental issues. The return in the project is estimated at 25.4 percent and on this basis, the country could reap the returns in just three to four years. Significantly, the cost of electricity after the completion of Pancheshwar will be Rs. 2.55 per unit; which is quite low. Currently, Nepal imports electricity from India at the cost of Indian Rs.6 per unit.²³

23 My Republica, February 20, 2010 in http://archives.myrepublica.com/portal/index.php?action=news_details&news_id=15401

As power production in the Pancheshwar project was expected to be pollution-free, there was high potentiality for the growth of the tourism industry. The agricultural production in the region was expected to boost up due to the access to irrigation facility. Infrastructural facilities such as roads, education and health were expected to develop. There was also a prospect to save the lives and property in the region from the flood in the Mahakali River.

More than anything else, the Mahakali Treaty was expected to open new vistas of economic cooperation between Nepal and India through interdependence. Various articles and clauses of the treaty stipulated that neither Nepal nor India would be able to do anything without each other's cooperation in any matter related to the harnessing of the water resources of the Mahakali River. If Nepal was dependent on India for the export of water for irrigation or for power to be produced from Pancheshwar, India too, was dependent on Nepal for the import of water for irrigation and the purchase of power. This could remove the monopoly of either side in making use of the Mahakali River.

Some Concerns

Even though the Mahakali Treaty was applauded by all major stakeholders in Nepal and India, certain concerns have been expressed about the treaty's credibility in both countries. There is a feeling in certain quarters in Nepal that there are unequal benefits in the water-sharing deal with India. They feel that the regulated water from the river projects is value-added and so it must carry a certain price for its benefits to the lower riparian state. They want India to be more accommodative to this stand of Nepal.²⁴

Conclusions

In certain quarters in Nepal, there is a sense of mistrust about the Kosi and Gandak deals. Certain clauses of the initial Kosi Agreement and the Gandak Treaty favoured Indian interests more than Nepalese interests.

²⁴ Damodar Bhattarai, no. 8, p. 97.

The agreements on those rivers were revised only when they were opposed. Even the Mahakali Treaty is sometimes criticised for not making adequate provisions to enable Nepal to charge an additional price for its share of regulated water intended to benefit the lower riparian country, India. Some of these aspects of the hydropower deal between Nepal and India cannot altogether be overlooked.

Yet, it would be unjust to raise doubts about the Indian intention to benefit Nepal. India lacked vision and prior experience in executing megaprojects like Kosi and Gandak in a foreign land. The Kosi and Gandak Agreements were signed in the 1950s when India did not have adequate experience in dam technology. But there was no hesitation on the part of India to amend such clauses of the Kosi Agreement or even the Gandak Treaty when they were found deficient. On several occasions, India positively reciprocated to Nepalese complaints and removed the deficiencies in the original agreement/treaty through revisions. India's response towards Nepalese concerns was prompt and action-oriented.

Sometimes, the question is raised about the way the waters of the Kosi, Gandak or Mahakali rivers are shared between Nepal and India disproportionately. Either India took away a larger portion of water from these rivers or a provision was made in the Mahakali Treaty for irrigating vast tracts of land in Indian territory and quite less in Nepal. But often it is forgotten that it is not possible to provide irrigation to larger areas of agricultural land in Nepal under the existing structure due to the limited availability of land. More of Nepalese land could have been irrigated if the barrage of the rivers, particularly in the case of Kosi and Gandak Rivers, were made upstream. But it is still a moot point as to why Nepal agreed to the existing structure and did not press India to make the barrage upstream while signing such agreements. If there is any fault, it does not lie on only one side.

Most importantly, the positive dimensions of the water deals with India have not been properly understood. If India took away a sizeable portion of water for irrigation in its territory, it tried to compensate Nepal by

constructing the Trishuli hydropower project north of Kathmandu, apart from building roads in the Terai region and Kathmandu Valley. The Kosi Barrage linked the eastern part of Nepal with the western part and the Gandak Barrage linked Nepal with India. And more than anything else, all the investment in the Kosi and Gandak Rivers was made by India. What Nepal had given was the mere piece of land used for certain structures. In the case of the Mahakali Treaty, the provision for investment in the project is based on the benefits accrued from the river water. Accordingly, if India wants to take a larger chunk of water over and above half of its portion, it was expected to make an additional investment in the Pancheshwar project.

In the absence of the Kosi and Gandak projects, Nepal would not have been able to irrigate agricultural land that it is irrigating now. The country would not have been able to benefit from the infrastructure such as roads, electricity and several other components of these projects. No country or international agencies so far have taken so much interest in developing Nepal's water resources as India has done.

Moreover, Nepal entered into a new era of cooperation with international organisations after it gained certain experience with the Kosi and Gandak projects. Experience of working with India in the water resources sector enabled Nepal to develop expertise in both technical and economic terms. Nepal thereby developed linkages with other countries, donor agencies and multilateral agencies such as the World Bank and the Asian Development Bank (ADB) for further cooperation in the water resources sector in subsequent projects. It was also due to the previous experience in the Kosi and Gandak projects that Nepal was able to make a pioneering deal with India like the Mahakali Treaty, which is regarded by many in Nepal as the best possible.

But the tragedy is that Nepal has been hostage to vested interests represented by the rightist and radical leftist forces who are not reconciled with any positive development with India – be it related to water resources development or any other such deal. Poor policymakers and planners in

the country are helpless as far as taking any initiative on their own as they are mere tools in the hands of those vested interests.

As a result, the Mahakali Treaty which is so important to Nepal has not been implemented so far. Never in the past has any water deal got as much public support in Nepal as the Mahakali Treaty because India addressed all genuine demands of the Nepalese. Perhaps, no country has achieved any better deal in hydropower development on the river serving as a common boundary between two countries as Nepal has done in this case. It was for this reason that the treaty was supported by more than two-thirds of the members of Nepalese parliament in 1996.

Given the above analysis, the following factors need to be taken into account while making any future deals in the water resource sector between Nepal and India.

- Until there is a change in the basic mind set, there is not going to be any progress in water deals between Nepal and India – be it concerning the Mahakali, Sapta Kosi High Dam project or any other project.
- India should be cautious to see that there are no flaws in the treaties/agreements that could create doubts in the minds of the Nepalese about the intention of Indian projects in Nepal.
- The outcome of researches on the positive dimension of water deals between Nepal and India should be regularly disseminated through print and electronic media.
- The intention of vested interests who create hurdles on the implementation of hydropower projects in Nepal, including on the Pancheshwar Project, need to be exposed.
- It is not practical to allow the water from the Mahakali River to flow to India without harnessing it for power and irrigation and dream for something that is not likely to be achieved.
- Dialogues for implementation of water deals should continue despite hurdles.

Prologue

The Corona-War

Just as the final manuscript of this book was on its way to the publisher, the entire global community was engaged in an existential war against the COVID-19 pandemic. In South Asia, this unfortunate development has had and continues to have a major impact in India, and therefore, a need was felt for strong cooperation between countries of the region, particularly between Nepal, Bangladesh and India. This is particularly critical since, apart from human misery and wellbeing, economic development and a continued march to prosperity are inextricably linked in achieving success in the war against Corona. Below is a brief account of the cooperation between Nepal and India in this regard.

The Background

No two countries of the world are as close to each other as Nepal and India in terms of geography, culture, socio-economic and political factors. It is for these reasons that both countries maintain an open border system for their respective nationals to crossover and enjoy benefits available in each country mutually.

People residing along the border between both countries are known to enter into matrimonial ties, which ensures that relations remain

young and strong. Indians and Nepalis also enjoy access to education, medical treatment, employment, tourism, pilgrimage, shopping and other activities in each other's country.

Religious shrines like the Pashupatinath Temple in Kathmandu, the Janaki Temple in Janakpur, the Muktinath Temple in Mustang are as revered by Indians as the Kashi Vishwanath Temple in Varanasi, Gaya in Bihar, Vaishnodevi in Jammu and Rameswaram in Tamil Nadu are revered by the Nepalese. The River, Ganga and its Jal (water) are equally revered by Indians and Nepalese. Some of these factors not only strengthen people-to-people relations between both countries, but also integrates them emotionally.

However, government-to-government relations between Nepal and India are subjected ups-and-downs, which is natural, given that foreign policies of the two countries are guided by their own perceived national interests. But the people-to-people relations is so strong that on occasions, it helps to moderate government-to-government relations before it gets out of control.

Even after the outbreak of the coronavirus pandemic, the cooperation between Nepal and India in addressing the issue is exemplary. At one front, both countries are cooperating with each other in fighting the pandemic; while on the other front, they are working together for the development of hydropower, roads, railways and other projects in Nepal.

India recently completed a gas pipeline from Motihari in Bihar to Amlekhgunj in Nepal well within the given time frame. This pipeline will ensure uninterrupted supply of gas to Nepal. India's role in Nepal's drive for modernisation through development of infrastructural facilities like roads, irrigation works, airports, communication, forestry, hydropower, education and health is immense. Of Nepal's total East-West Highway that stretches from one end of the country to the other, India alone has built 75 percent of it. So many schools

and health institutions, apart from other development projects, have been completed under the Small Development Projects of India in almost all districts of Nepal, including in the Terai, the Hills and the Himalayan regions for the benefit of people living at the grassroots level. Over and above this, India also happens to be Nepal's largest trading partner. Indian investment is still very high in this country. The number of Indian tourists visiting Nepal also far exceeds the number of tourists from other countries.

During the time of natural calamities in Nepal, India has always played an exceptional role. India was the first country to send relief materials to Kathmandu within a few hours of the devastating earthquake of April 25, 2015, in which over 9,000 people were killed and hundreds of thousands were injured. India also exhibited its generosity in supporting the earthquake-affected people in the hills/mountain regions through the construction of houses for families of victims.

The COVID-19 Campaign

Even at a time when India itself is fighting hard to control coronavirus pandemic in its territory, the Indian government didn't forget its neighbours and announced a major initiative in creating SAARC fund in cooperation with the member nations, including Nepal, to respond to the growing menace of coronavirus. On May 17, 2020, India gifted 30,000 COVID-19 Test Kits manufactured by the Indian company, Pune-based Mylab, to Nepal to help fight the pandemic (My Republica, May 17, 2020).

The Global Scenario of COVID-19 Pandemic

Before proceeding further, it may be useful to briefly recount the magnitude of the problem in its global perspective. Never before in the history of mankind, has the entire globe been affected as much by an event as the Coronavirus pandemic, also known as COVID-19. Not even World War

I or World War II made so much of impact as this pandemic has done. As many as 210 countries of the world have been hit by this pandemic. The movement of over half of the global population is restricted due to lockdowns imposed by most of the badly affected countries. At the global level, until May 18, 2020, over 4.71 million people stood affected by the virus and over 315,000 people had died. Till May 17, 2020, the fatalities caused by the virus had crossed 162, 000 in Europe. In USA alone, confirmed Coronavirus infection in over 1,500,000 with over 90,000 deaths, the highest number for any single country in the world. Other countries that have been massively affected include Italy (32,000 deaths) followed by Spain (28,000), France (28,000), Britain (34,000 deaths), Germany (8,000 deaths) and Russia (2,700 deaths).

The following table presents the status of COVID-19 cases in some selected countries as of May 13, 2020..

Covid-19: Status as on 13 May 2020 at 08:59 GMT

Country	Total Cases	Total Deaths	Total Recovered
World	4,357,357	293,134	1,611,031
USA	1,408,636	83,425	296,746
Spain	269,520	26,920	180,470
Russia	242,271	2,212	48,003
UK	226,463	32,692	N/A
Italy	221,216	30,911	109,039
France	178,225	26,991	57,785
Brazil	178,214	12,461	72,597
Germany	173,273	7,754	148,700
Turkey	141,475	3,894	98,889
India	74,925	2,436	24,887

Source: Based on reports issued by the Ministry of Health and Family Welfare, Govt. of India.

The South Asian Perspective

Before examining the measures initiated by India to deal with this unprecedented challenge, a look at the table below will help appreciate the impact of the virus in the regional perspective:

Covid-19: Status as on 13 May 2020 at 08:59 GMT

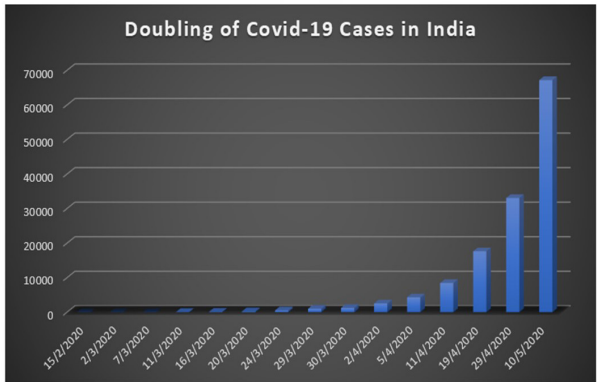
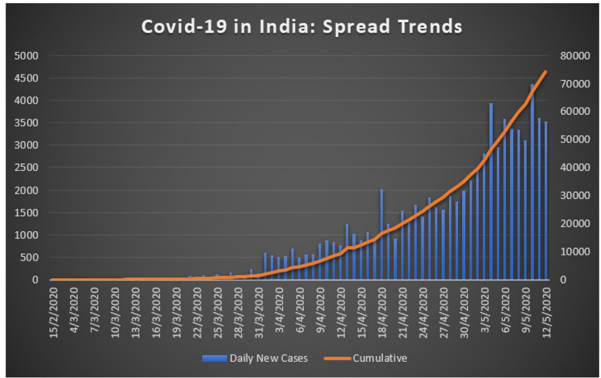
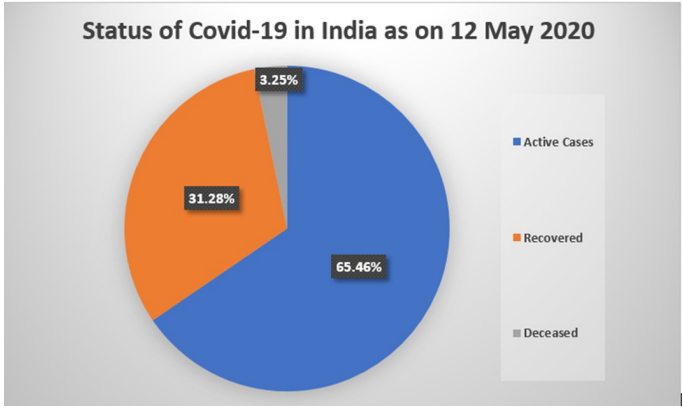
Country	Total Cases	Total Deaths	Total Recovered
India	74,925	2,436	24,887
Pakistan	34,336	737	8,812
Bangladesh	17,822	269	3,361
Afghanistan	4,963	127	610
Sri Lanka	889	9	382
Maldives	904	3	29
Myanmar	180	6	76
Nepal	219		33
Bhutan	11		5

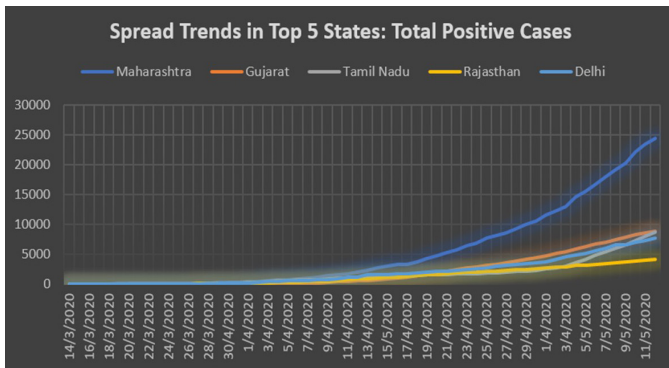
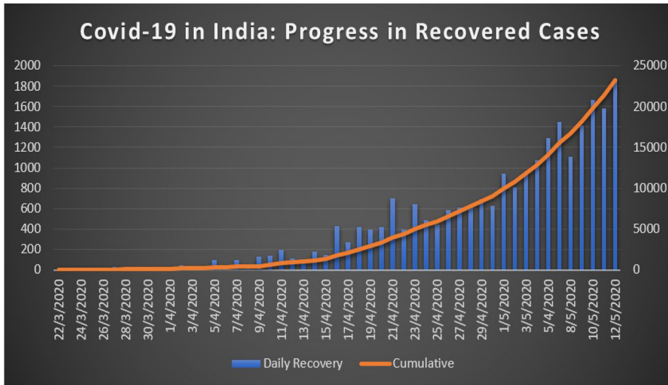
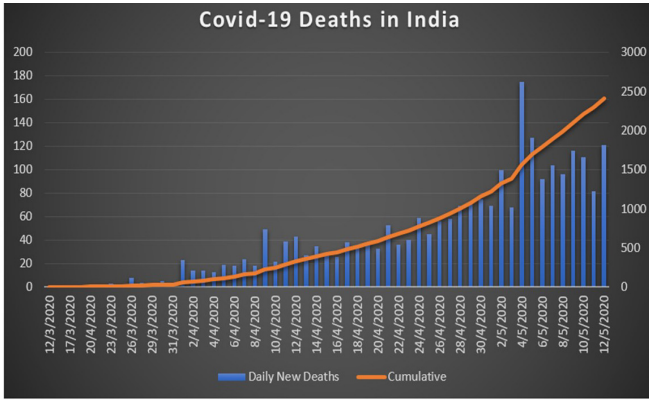
Source: Based on reports issued by the Ministry of Health and Family Welfare, Govt of India.

As can be seen from the above, there are not many surprises in the figures. India has not done too badly and also, given the long and sparsely managed borders with both its giant neighbours, Nepal too deserves credit for containing the number of affected cases to just 33.

India after a slow start, faces a major upsurge

As far as India, the second-most populous country in the world, is concerned, it was a bit late in reporting the first infected case on March 2, 2020, and the first corona death 23 days later on March 25. It may be recalled that China, where it all began, had by then already taken some firm measures, unfortunately with minimal transparency. However, the number of cases and the spread of the virus has been growing since, as can be seen in the tables/charts below: -





As can be seen from the above, the total number of positive cases has nearly hit the 75,000 mark and the number of deaths are pegged at over 2,400 in India. Understandably, the worst affected states are Maharashtra, followed by Tamil Nadu, Delhi, Gujarat, Rajasthan and so on. Interestingly, Kerala in the south, where from it all began, the numbers have now started stabilising on account of some excellent management efforts.

India unleashes war against COVID-19

Writing for the Yale School of Forestry and Environmental Studies website, journalist Beth Gardiner has appropriately written, “The virus has shown that if you wait until you can see the impact, it is too late to stop it.” Understanding this reality, Indian Prime Minister Narendra Modi began by ‘persuading’ the people to observe a one-day “Janata Curfew” on March 22, well in time when certain symptoms of the spread of the virus were still shaping up. Subsequently, India imposed a 21-day lockdown (LD 1) beginning from March 25 but halfway through, it was realised that the numbers were growing fast and the spread too was expanding to new areas. Prime Minister Modi on April 14, further extended the lockdown period by another 19 days (LD 2), making it a total of 40 days of harsh restrictions on the movement of people, goods and services up to May 3, 2020. Now, the lockdown in the country has been extended to May 31.

Expectations are that smaller areas within badly affected districts, as determined by the State administration, could be sealed off. Keeping in view the special needs of the farming sector, businesses and industries, the situation will be reviewed and further limited relaxation might be implemented.

About the need for clamping the (LD-1) lockdown, Prime Minister Modi had then said, “If you can’t handle these 21 days, India will go back 21 years.” In his speech on the war against Coronavirus, Modi

not only boosted the morale of the people, but also laid down clear directions as to how this war could be won. He reiterated the need for 'social distancing' and adopting different hygiene and sanitary measures as weapons to 'cut off the chain' and defeat the enemy.

The administration faced serious challenges in implementing LD conditions. These included massive mobilisation of manpower for deployment in every street, shopping areas, grocery/vegetables/fruit and other outlets providing essential items, inter-state supply chains, closing down city entry points and state borders, regulating the flow of personnel manning essential services etc. As if these measures were not enough, there was a sudden mass movement of migrant labour from factories, farms and construction sites trying to rush back to their home states like Uttar Pradesh, Bihar, West Bengal, Odisha, Rajasthan, etc. to name a few. Lakhs of families rendered homeless and jobless had to be sheltered, fed and even medically tested to ensure against them becoming carriers of infection to their remote villages.

Indians returning home particularly from badly affected countries had to be not only evacuated by special flights, tested and quarantined but even foreigners stuck in India had to be repatriated. All modes of public transport within cities, all interstate movements, all train services, domestic and international flights etc. were suspended and will remain so till May 31, 2020.

These massive efforts needed a huge mobilisation of resources as well. As many as 30,000 relief camps/shelters were formed to accommodate 12.5 lakh, migrant workers. Besides, over 20,000 food camps were launched. On top of this, 75 lakh people are being provided food and 13.6 lakh workers are provided food and shelter by the employers of various entities. Nevertheless, in a country like India where the population of workers constitutes 45 crores, these relief measures still fall short of requirements.

As part of the resource mobilisation exercise, the Indian government announced a \$22.6 billion economic package by providing support to needy people through cash transfers and food security. The Government of Bihar announced Rs. 1000 crore coronavirus relief fund for providing shelter and food to the workers, rickshaw pullers, roadside vendors and other poor people.

The Union Cabinet of India suspended the Local Area Development Fund assigned to each Member of Parliament for local area development activities for the years 2020-21 and 2021-22. The total amount of money from this source (Rs. 7,900crores) will go to the Consolidated Fund of India. Also, there will be 30 percent cut in the pay of the President, Prime Minister, Union Ministers and MPs for a year and the amount thus mobilised will be spent on controlling Coronavirus related activities. Voluntary donations from the people, business houses, philanthropic institutions too have started pouring into the Central and State kitties.

On the technical/medical fronts, the challenges are huge for India to try to win this war against Coronavirus. India has just around 0.5 hospitals for every 1000 people; while Italy has 3.2 hospitals and China has 4.3 hospitals. More than that, India has some of Asia's largest slums with virtually no medical facility and public health infrastructure worth the name. Metro cities such as Mumbai, Delhi, Kolkata or Chennai are overcrowded. There are 36,155 people per square kilometre in Delhi. As far as specialised collection and testing facilities and personal protection equipment (PPE) are concerned, the less said the better.

These inadequacies notwithstanding, lockdown in India seems to be moving quite effectively at least in terms of containing primary infections. But then all the euphoria quickly vanished in mid-March when the campaign received a severe jolt by way of the Coronavirus infections erupting from the Tablighi Jamaat (TJ) congregation held in the thickly populated Nizamuddin area of central Delhi.

According to reports, there were over 2000 participants, including international delegates from countries such as Nepal, Malaysia, Indonesia, Myanmar and Sri Lanka. In statistical terms, this gathering alone 'doubled' the rate of increase of coronavirus cases in India from 7.4 days to 4.1 days.

The latest update on the Indian situation is reflected in the decision of the state and central governments to identify 'hotspots' and clamp down severe restrictions on movements therein as also to further extend the lockdown up to May 31, 2020, confirming the suspicion that the corona chain has not been broken. This had to be done since in most countries, the exponential rise in the number of positive cases after reaching a base figure of 10,000 infected cases is simply disastrous.

Nepal's Experience

Nepal and India, though closest of neighbours, represent a contrasting scenario. Nepal has land borders with both India and China, one an open border and the other a controlled and regulated one; the two being the most populous countries in the world.

One would have normally expected some common characteristics between India's experience and Nepal's narrative. However, as against India's current tally of over 96000 people infected by the Coronavirus with over 3,000 deaths as on May 18, 2020, in Nepal, there are 357 confirmed cases of Coronavirus, with two deaths from this disease. Nepal also reached the third stage of Coronavirus like India where community transmission of infection has begun.

What did Nepal do to deal with Coronavirus? Like India, it also announced a nation-wide lockdown from March 24th for a week, , which was then extended first to April 7, then to April 15, further to April 27 and now up to June 2, aligning its efforts with India's. Nepal too focussed on social distancing measures and on personal

and environmental hygiene.

Besides, the Government of Nepal took some key measures such as suspension of cross border movement to India and China. To provide relief packages, local bodies were asked to collect details of labourers engaged in the informal sector. Employers in the formal sector were, like in India, asked to pay wages and salaries to employees. Certain discounts were also offered to domestic consumers for use of electricity. The medics and staff offering services to Coronavirus-affected persons were given insurance coverage of 2.5 million Nepalese rupees. For tenants working in the informal sector, house owners were asked not to take rent for one month. Similarly, private schools were asked not to take fees from the students for one month. All these measures seemed well-aligned with Indian decisions.

Some irritants-similar concerns

The Terai region of Nepal that borders the Indian states of Bihar, West Bengal and Uttar Pradesh is mostly densely populated. Thousands of migrant workers of Nepal have returned from India, Qatar and other countries. Many Chinese tourists are reported to have visited Nepal after the outbreak of Coronavirus in that country. Apart from that, many of the Nepalese also travelled between Nepal and China before flights between both countries were suspended.

There are reports that quite a few of the Nepalese who attended the Tablighi Jamaat congregation in New Delhi are back in their homes. According to a media report (Deccan Herald, April 12), three Indian nationals who entered Nepal after the Nizamuddin Markaz, were staying in a mosque in Birgunj and had tested positive. Local administration, the report added, put 26 people residing in the mosque under quarantine. Afterwards, 12 more Indian nationals were found Coronavirus positive in a local mosque in Udaypur district in eastern Nepal. They have now been placed under quarantine (Live Mint, April 17).

As compared to other countries, the situation is under more effective control in both India and Nepal. So, there is no need to panic excessively. Nevertheless, both countries need to be extra cautious to see that the situation does not deteriorate. Both Nepal and India have been cooperating with each other in sealing the border to stop the movement of people.

It was heartening to note that Prime Minister Oli spoke to Prime Minister Modi on April 10 and discussed 'challenges raise by COVID-19' and to keep intact the supply chain of essentials like medicines, food, gas, etc. from India to Nepal. They also discussed the plight of a large number of their stranded nationals (Kathmandu Post, April 11). After reports that thousands of Nepalis and hundreds of Indians were stranded at the border, the two governments have decided to care for each other's citizens in their territories. In a televised address, Oli said that around 2,147 Nepalis were in quarantine on the Indian side and over 700 Indian nationals are in quarantine on the Nepali side.

Also, by coordinating the timing of the lockdowns, both countries have maintained a high level of government-to-government cooperation. Finally, the silver lining is that the people of Nepal and India have exhibited an unusual level of solidarity in their fight against Coronavirus when at 9 p.m. Indian Standard Time on April 5, they together lit candles and lamps and blew conches to emphasize their determination to neutralise the Coronavirus pandemic and thus set an example at the global level.

Economic Impact

The economic impact of the Coronavirus pandemic seems to be worrisome for Nepal. According to a World Bank Press Release dated April 12, Nepal's growth is projected to plummet to 1.5 and 2.8 percent in FY20 due to COVID-19. In this context, Faris Hadad-Zervos, World Bank Country Manager for Nepal said, "We are closely monitoring how

the COVID-19 pandemic is evolving across Nepal...Our immediate priority is to coordinate our action with the government, private sector and international development partners to ensure that health supplies and equipment are readily available and that a comprehensive recovery package is in place to support the poor and most vulnerable”

(The World Bank, April 12, <https://www.worldbank.org/en/news/press-release/2020/04/11/nepal-must-ramp-up-covid-19-action-to-protect-its-people-revive-economy>).

Need for Closer Cooperation

Currently, both Nepal and India are under extended lockdown regimes to contain the spread of the Coronavirus, which has infected 357 people in Nepal and over 96,000 people in India.

While only two deaths have been reported in Nepal, in India as on May 18, 2020, death count exceeded 3,000. The current phase of containment will have to be followed by well-crafted policies and programmes. The war against COVID-19 will be won by the people by strictly observing the prescribed routine of personal care and hygiene. The government can act only as facilitator and enabler. The people of the two countries can contribute in a significant way, particularly in the border areas, by ensuring effective and critical cooperation at the ground level.

After the ‘COVID-19 war’ is won, bilateral cooperation between Nepal and India has to shift to a higher platform to ensure quick repairs to the ravaged economy of the two countries in general and of the border regions in particular for which connectivity between the two countries would have to be further enhanced. As India has extended cooperation to Nepal in its overall development, including in planning, administrative reforms and disaster management during the earthquake, its responsibility has increased all the more to share its experience how its model of self-reliance will work for Nepal as well.



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Dr. Jha was Vice Chairman of the Policy Commission, Province No. 2 in Nepal in 2018-19. In 2016-17, he was a Visiting Scholar at Indian Council of World Affairs in New Delhi. In 2013, he was a Visiting Professor at the Chengdu American Center for Study Abroad, Sichuan University (China). He was also senior ICCR Fellow at the Institute for Defence Studies and Analyses in New Delhi (2011-12) and Visiting Scholar at the Institute of Asian Studies, German Institute for Global and Area Studies (GIGA), Hamburg, Germany (2011). Between 1976 and 1998, he was a Professor of Economics at Nepal's Tribhuvan University.

Dr. Jha's areas of interest include planning and policy making, and commenting and writing on issues related to Nepal, China, India, and South Asia. He has worked on Madheshi/Terai issues, strategic affairs, border management, conflict and peace, international migration, child labour, human trafficking, agriculture, international trade, micro-financing, environmental health and sanitation, Dalit and indigenous communities. He has organised several workshops and seminars and authored/edited 30 books on national and international affairs. Being a prolific writer, he contributes articles on topical issues regularly both within and outside the country.

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