

ORAL HISTORY

Nepal: Diplomacy between Unequal Neighbours in Our Times

Jagat S. Mehta,

Jagat S. Mehta, Foreign Secretary of India from 1976 to 1979, recollects a phase of India's relations with Nepal that saw the separation of Trade and Transit Treaties 1978, events leading to it and its repercussions.

Indian Foreign Affairs Journal (IFAJ): Sir, thank you very much for agreeing to talk to us. You have chosen a very interesting and challenging subject of Nepal, with which of course, India has a very comprehensive relationship.

Jagat S. Mehta (JSM): I have chosen Nepal because it illustrates a serious problem of diplomacy in our times. No two countries in the world are as intertwined as Nepal and India. The problem of the twentieth century is that political equality has emerged where there was transparent inequality of size, strength and military capability. We are seeing the manifestation of the same problem in the baffled dilemmas of United States in Iraq, but nobody is talking of India and Nepal. However, the fundamentals are similar.

You know the background but it is worth recalling. Of course, through history, Nepal being culturally and religion-wise tied to India, the common faith was reinforced by geographical connections. The British treated Nepal as nominally independent but really exercised suzerainty over it. They did not allow Nepal to have relations with any other country. Independent India, however, started with a prophetic new kind of approach: Nepal must be treated as fully sovereign; what was to be the internal regime, was for the Nepalese people to decide, modify and fashion. You would remember that India's treaty with Nepal signed in 1950 was with the last Rana Prime Minister, Mohan Shamsheer Jang Bahadur. The King then was no more than a constitutional monarch chaffing at being virtually in a gilded cage until he turned to initiate modernisation. This principle of treating Nepal as an equal sovereign in practice was, however, often

overlooked and at times the Nepalese thought India behaved as if our envoys were like the old Viceroys in Delhi. Some Ambassadors treated Nepal as if it was a dependency just as the British did. There were others who understood India's new enlightened approach. In my experience, one of the best ambassadors anywhere was Bhagawan Sahay. He humoured the Nepalese and treated them with dignity and equality. It was during his time that the domestic constitution was prepared. An Indian lawyer, Murdeshwar had helped and elections took place under a new Constitution. Contrary to King Mahendra's expectations that there would be many factional parties, a two-third majority for the Nepalese Congress emerged in the new legislature. But in the 1950s itself, especially after India's crisis with China, the Nepalese began practising their own variant of non-alignment between her two neighbours, India and China. We, in India, did not fully appreciate that there was a simmering desire for the show of independence in the country. Nepalese nationalism smarted at overbearing attitudes, real or suspended, on the part of India. The slightest manifestation of differences offended the Nepalese and we in India were not sensitive to anticipate and assuage them. The Sino-Indian crisis was seen as an opportunity to show off Nepalese independence. India expected a sense of shared strategic concern but the expectation of self-interest in harmonisation was starkly opposed to a new found sense of international independence. It led to tensions and even some slowing down of the economic cooperation between the two countries.

IFAJ: There was oscillation between accommodation and nationalism.

JSM: Nepal's full economic potential rested on the combination of the height of the Himalayas, the falling snow-fed waters and the generation and export of surplus power for the adjoining Indian market. If the potential had been rationally developed, Nepal's per capita income might have been equal to Japan by now. This, of course, is a speculative thought. With Bhutan we were eminently successful. But in Nepal there was failure.

IFAJ: Whom would you hold responsible for this?

JSM: Several people including we in the bureaucracy. Even stray remarks made by Nehru gave unexpected fuel to Nepalese sensitivity about India. The one

great failure in Nehru's time was that we never even gave him the draft for his Parliamentary speeches. Extempore loose remarks can have serious consequences. When the Nepali Congress government with two-thirds majority was dismissed in December 1960 by King Mahendra, Nehru spontaneously expressed regrets at the death of democracy in Nepal. This, however, was deemed interference and King Mahendra never forgot it.

IFAJ: But Mahendra's action was really uncalled for.

JSM: Certainly, but criticism could have been made in private. It was after all another sovereign country which suspected Indian interference. We never expressed regrets that there was no democracy in the Soviet Union. The equality of all nations is the UN's fundamental feature and it is also an attribute of non-alignment. It was a palpable fact that our neighbours were sensitive at being next door to an elephant. At times the fears were not justified but it was a diplomatic reality. It has been the cause of problems in Nepal and with other neighbours. As a contrast, Panditji showed great sensitivity in the conversation in Bhutan. We should not have been surprised that Nepal rejoiced in neutralism on the India-China problems. It annoyed us and continues to cause us irritation, but for Nepal it was an opportunity to demonstrate its independence or rather non-total permanent identification with India. In 1973 after his coming to power, King Birendra urged the Non-aligned conference that Nepal should be accepted as a "Zone of Peace". This hurt us specially when asserted in an international forum. After all, Nepal has no other neighbour except India and China. Nepal overlooked that we had a very special treaty relationship with the country which provided free movement and an open employment market for the Nepalese nationals. It annoyed Mrs. Gandhi and the relationship deteriorated further.

After we took over Sikkim, many in Nepal, possibly on the encouragement of the Palace, thoughtlessly speculated that it was Sikkim today, it would be Bhutan tomorrow and Nepal the day after. Considering the help we had given, public opinion in India was enraged at this speculation. When our envoy admonished the King who was considered as Vishnu's Avatar (incarnation of Lord Vishnu), national sentiments took it more amiss as in Nepal the King was deemed a divine incarnation.

Let me come to the concrete problem, which illustrates the twentieth century complications. In the British period, even up to the late 1950s, Nepal had no international sea-borne trade. Everything which the Ranas and the rich

elite wanted could be bought or ordered in Calcutta. When Nepal liberated itself from the Ranas, they wanted the right of independent trade. In 1961 we had given them an independent foreign exchange account. It is well-known that India had taken the initiative to sponsor the country for the membership to the UN. The Soviet Union initially opposed Nepal's membership. We persisted and Nepal was admitted the following year. But once Nepal was in the United Nations, it had the opportunity of talking to other countries, which like Nepal, were landlocked and geographically handicapped. In due course, there were more Nepalese studying the rights of landlocked countries in Nepal than there were in India. Our relations soured and Nepal refused to renew the "Trade" treaty unless we separated Trade and Transit issues.

IFAJ: Which year was this roughly?

JSM: The objection was raised in 1971 when the old Trade and Transit Treaty was due for renewal but it was categorically re-affirmed in 1976. Our plausible viewpoint was that since our boundary was open and goods and persons could come across at will, it enabled a lot of smuggling. Nepal was importing items like transistors for use in its domestic market. Steel sheets and factories to make trunks had been set up on the border. There were abuses of privileges to promote generous economic relations and facilitate internal development in the country and we were justified to have a common umbrella treating – carrying a threat of restraint against abuse of transit facilities.

IFAJ: Sir, if you recall, a foreign exchange voucher scheme actually encouraged smuggling into the Indian market.

JSM: Yes, and so we resisted the separation of Trade and Transit. Two of our eminent Commerce Secretaries, K.B. Lall and P.C. Alexander refused the Nepalese plea for separate transit rights. Our relations were quite tense when I became the Foreign Secretary. This worried me, as after all, Nepal was a kind of extension of India's strategic parameter.

IFAJ: When did you become Foreign Secretary?

JSM: In April 1976. I found that the old Trade Agreement was continuing even though it was due for renewal. The Nepalese were insisting that in any new negotiations, there should be separate treaties of Trade and Transit. Mrs. Gandhi

could not accept the Nepalese demand because there was such rampant smuggling and evasion of tax with official connivance. I was of the view that this was an example of accepting political equality emerging between economically unequal countries. When the Janata government came to power, I again reported that relations with Nepal would not improve without correcting what was considered a symbol of independence. I submitted to the then Prime Minister Morarji Desai, “It was immoral for us to appear to deny them their rights as a sovereign country.” I wrote a paper for the consideration of the Cabinet. It led to a heated discussion. Our Finance Minister opposed giving into this suggestion as it was undermining our policy of development by restricting imports. He mentioned that there was smuggling worth 100 million from the Nepal side of the border.

IFAJ: What did you argue in that paper?

JSM: I argued that in the larger political interest, we must agree to separate Trade and Transit, otherwise our political relations would continue in its downward side.

IFAJ: You provided economic reasons for that.

JSM: The quantum of smuggling was not disputed, but I also provided some economic reasons. Basically, it was a political issue. The opportunity costs of the alternatives were far greater even in economic terms.

The members of the Cabinet alone are entitled to participation in the discussions. Even when officers are permitted to sit through Cabinet meetings, they are not supposed to talk, but only to provide answers and detail. When the Finance Minister said that there was 100 million worth of smuggling – as had been estimated by the Directorate of Customs – I chipped in, “There was more than 100 million worth of smuggling from Dubai where there was the Arabian Sea, custom posts on major ports and coastguard patrols to prevent illegal trading. People in Mumbai apparently can order specific electronic goods and within a stated period the most sophisticated items were delivered. With Abu Dhabi we have no strategic interdependence as has been with Nepal. Prime Minister, Morarji Desai got persuaded and authorised me to negotiate; in fact, he approved that the negotiations should be handled by External Affairs and not the Commerce Ministry.

IFAJ: The Indian traders, dealing in textiles and steel, must have been hurt as a result of the smuggling being stopped.

JSM: They may have suffered a setback but they were circumventing the development policies of India. The MEA was concerned with foreign policy and Defence with consequential military contingencies. The only method of effectively preventing smuggling was to put a customs cordon all along the Nepal border, but to enforce such a barrier would require enormous resources of paramilitary forces. It would, in effect, shift the strategic frontier from the Himalayas to the edge of the Gangetic Plains.

IFAJ: I understand that even a study was done to see how much we would need to guard this border.

JSM: That's correct. After I got the authorisation, I went to Kathmandu with a delegation in 1978. I was prepared to make some concessions but we agreed to separate Trade and Transit treaties with a third agreement covering commitment to prevent illegal trade, i.e. smuggling. The Nepalese were delighted. They felt that this was the first time that India was treating Nepal fully as an equal and sovereign nation. They even hinted to me privately that we could now look more sympathetically into the question of hydropower projects again. As you know, the potential of hydropower from Nepal is attributed around 85,000 megawatts but so far not a single unit of the surplus comes to India. Meanwhile, we are desperately stumped by the shortage of power for our development. What made it worse is that the Commerce Ministry agreed to list timber as an item for import into India. Of course, we need timber for our railways sleepers and for furniture, but nothing could have been more short-sighted. It accelerated Nepal's deforestation. Every year, perhaps a billion tons of silt and top soils come to India as an unrequited export and add to the intensity of floods in our plains.

IFAJ: But we also requested for hydel power

JSM: Yes, but I am sorry to say we were again short-sighted. We wanted such projects to be entrusted to India or only India approved parties. The successive feasibility reports commissioned after agreements of Nepal with other countries – Australians, Japanese, Americans, were sometimes approved by the World Bank. Suspicions went back to the 1950s. At the time, Nepal had no or few

engineers to construct or scrutinise such projects. We designed the Kosi and Gandak projects at the cheapest possible cost, showing concern only for the mitigation of floods in downstream Bihar, but we ignored the consequences in Nepal. Later the damage from submergence came to light. The Kosi and Gandak projects in the 1950s destroyed the blind trust in India, which had existed after King Tribhuvan displaced the power of the Ranas. After concluding the separate treaties, my greatest ambition was to begin to undo the suspicions and initiate talks on the Karnali project of great benefit to both countries. The first report on Karnali was in hand since the 1960s. Of course the completion would require many years but hydel power was the imperative for Nepal's viability. Anyway, my tenure as Foreign Secretary ended in 1979.

IFAJ: Did the trade matter get sorted out in one meeting or did you have more negotiations?

JSM: It took only a three-day meeting. Udhav Deo, then Foreign Secretary of Nepal became my opposite number. I had established a good rapport with him. His delegation, of course, included officers representing the Commerce and Industry Ministries. There were still some difficulties but the heart of the difference was to make a clear distinction between trade and the freedom of transit for a landlocked country. We conceded that we obtained this de-linkage by making the Transit Treaty valid for seven years and the Trade Treaty initially for five years. The Nepalese wanted to have the transit right pledged indefinitely. In my mind, there could be contingencies when the transit could affect our security and so we limited the duration to seven years. The separate treaties, rather the agreement in principle, changed the climate. This became obvious during the visit of our Prime Minister and Foreign Minister to Kathmandu. Vajpayee, then India's Foreign Minister, made a very moving public speech in Hindi in Kathmandu, "Jis desh ke har kankar me Sankar virajman hein, aur jiski nadiyaam Ganga mei milthi hei, us desh ke sath Bharat ki mitratha nahi hogi to kya hoga." (There can only be friendship for India with such a country where God is manifest in every stone and its rivers mix with the Ganges.)

The importance of trustful India-Nepal relations however was not fully sustained. Years after I retired, in fact, in 1989, the two treaties were deliberately made to expire at the same time. Where earlier 13 points were

listed, we restricted the entry to two points only. This caused alarm and criticism in government circles as well as in the media in Kathmandu. The Indian spokesman argued that under the law, only one point of such entry was required and so two points were double the entitlement. But this was seen as coercive and not as a friendly attitude. The Chinese had echoed the Nepalese sentiments in Hsinhua comments. Soon after the V.P. Singh government came into office, I.K. Gujral as Foreign Minister, restored the points of entry.

The refusal of transit rights and the imposed restriction in 1989 had underlined to the Nepalese the importance of the road connection with China through Tibet. We thus played into pro-Chinese sentiments. The resultant alienation must be considered as an example of insensitive diplomacy. As stated, it illustrated that in the twentieth century big countries must treat small ones as political equals. We ourselves have criticised great powers for exploiting and pressurising poor countries but we showed we were not immune to the same temptation. We compounded the alienation and delayed Nepal's modernisation and development.

IFAJ: What was the reaction to this separation in India, particularly in the Commerce and Finance Ministries?

JSM: As I recall there were no serious adverse reactions. Smuggling probably continued as before till we liberalised our policy of import substitution. In the Cabinet discussions I had mentioned, India sells many billions worth of goods to Nepal. How was Nepal to pay for it? Smuggling was an unorthodox method of partly correcting the imbalance in the payment capacity. There was a time when Nepal was earning a lot of foreign exchange from tourists. On some occasions they actually sold convertible foreign exchange to outsiders to buy Indian rupees. In my view, it was short-sighted for us to let Nepal get estranged from India. No doubt, Nepal was partly to blame but scapegoatism or casting blame is still bad diplomacy. It becomes tinder to irrationality in nationalism.

One problem is subjective amnesia. The fact that an Indian Ambassador held a Nepalese Cabinet meeting in the Indian Embassy is little known in India but not forgotten in Kathmandu – just as we were sensitive about the India-America relationship, the Nepalese inwardly resent being “India-locked.” The “Zone of Peace” was a ridiculous idea but it was thrown up because of this fear

of domination and our behaving like the big brother. Thirty years after India became independent, and started the process of decolonisation; we were open to the charge of placing disabilities on Nepal's independence.

IFAJ: How did separation of the Trade and Transit Treaties affect the overall political context?

JSM: The separation of Trade and Transit Treaties was done in 1978 and it was greatly welcomed. In 1979, the Janata Government fell and in January 1980, Mrs. Gandhi returned to power. I ceased to be Foreign Secretary in November 1979, but I have the impression that Mrs. Gandhi remained unsympathetic towards Nepal.

In the case of Bhutan, Prime Minister Nehru's approach carried conviction of respecting Bhutan's independence. If Nehru had not gone to Bhutan in 1958, I do not know what might have transpired. There was no road into Bhutan from Jalpaiguri. Panditji was the last person to go by the mountain pathway across Nathula and through the high passes. This pathway was used by the Political Officers posted in Gangtok. But right up to 1950 the whole of Tibet was more or less detached from China. If Panditji had not gone to Bhutan in 1958, probably he could never have gone; the authorisation for the road from India would not have been given by the Bhutan King; the Chukka project which required heavy construction equipment, could not have been taken except by the Indian constructed road. Bhutan might well have been Tibetanised by now.

Our relations with Nepal have had ups and downs. The people of Nepal are now suffering because of the aggravated poverty. Both India and Nepal have been myopic and must share the responsibility for the rise and spread of Maoist insurgency in the country.

IFAJ: Thanks for commenting on our approach to Nepal and Bhutan and the difference between the two. But were there any other intricacies in the negotiations you carried out on the Trade and Transit?

JSM: The Nepalese became aware of the rights of landlocked countries like Austria, Switzerland and others. Incidentally, I recalled that when Pakistan stopped the trade through Karachi because of the demand for Pakhthunistan, India favoured unrestricted rights for landlocked Afghanistan. This had a telling effect when I mentioned it in the Cabinet discussions.

Many in India do not know that in 1960 after the Nepal Government was dismissed, there were raids from Gorakhpur to pressurise against the undemocratic dispensation imposed by King Mahendra. We were actually “interfering” in the same way we complain against the intrusions from Pakistan. Such forays, however, never succeed unless the ordinary people help the intruders on a massive scale. Every Nepalese knows about them but it sometimes slips even from the analysis of intellectuals and policy-makers in India. The basic principle in twentieth-century diplomacy must be to recognise the growth of political nationalism even when there are fundamental inequalities of size and strength.

IFAJ: But the trade problem continues to persist even after that.

JSM: Naturally. How can bilateral trade be balanced? If Karnali had been completed, by now with the surplus hydropower sold to India, trade would have been nearer a balance: the market for Indian goods would have correspondingly increased and the legal bilateral trade would have flourished. This is happening with Bhutan. There is even greater natural compatibility with Nepal. It was estimated that Karnali had power equal to the total electricity then required by the State of UP with 100 million people. The heart of the crisis of development in India today is non-availability of power. Nepal has more hydel potential than almost any other country. When we told them, I think, rather tactlessly and possibly jokingly that if they developed the largest power and it came to India and we became dependent on it, we may want to ensure the security of the Karnali dam. This remark alarmed Nepal’s sensitivity about sovereignty. India and Nepal have negative lessons of reviving nineteenth century notions being nurtured in the twentieth century.

IFAJ: What is the way out?

JSM: The way out is not easy. Both sides must confess at having made great mistakes and to facilitate a new beginning. India will have to stoop to conquer but the conquest has to be diplomatic, not appear hegemonic. Currently, we are now offering discreet not impetuous advice. This could catalyse improvement but it primarily depends on the internal evolution in Nepal. We must, of course, aim to make SAARC meaningful for all countries and bring back the economic rationale. Each nation must see a stake and none should feel that its benefit is not being optimised. This demands statesmanship to bury the past.
