



House of Commons
Foreign Affairs Committee

South Asia

Fourth Report of Session 2006–07



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Report, together with formal minutes, oral and written evidence

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Foreign Affairs Committee

The Foreign Affairs Committee is appointed by the House of Commons to examine the administration, expenditure and policy of the Foreign and Commonwealth Office and its associated agencies.

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Conclusions and recommendations

India rising

1. We conclude that the UK and India enjoy excellent bilateral relations on a wide range of shared interests. We recommend that the Government sets out in its response to this Report how bilateral relations between the UK and India could be strengthened further in the future. (Paragraph 20)

India and the international system

2. We conclude that, given India's size, economic growth and large contribution to the work of the United Nations, there is a compelling case for granting it a permanent seat on the Security Council, as part of wider reforms of the United Nations. We recommend therefore that the British Government should continue its support for India's bid. We further recommend that the Government should encourage India to work to reassure other G77 members of the benefits of a more efficient United Nations. (Paragraph 30)
3. We conclude that the weakness of the existing nuclear nonproliferation regime was seriously exposed when non-signatories India and Pakistan carried out nuclear tests in 1998. We welcome the fact that the Indo-US nuclear deal will bring India's civilian facilities further within the broader non-proliferation framework. However, the political significance of the US offering civilian nuclear cooperation to a non-signatory of the NPT has seriously undermined the NPT. We recommend that the Government work to ensure the NPT is updated to take account of the reality of India and Pakistan's possession of nuclear weapons. We further recommend that urgent steps are taken to assist security and confidence-building measures between India and Pakistan. (Paragraph 45)
4. We welcome the leading role India is playing in developing renewable energy sources. Nevertheless we conclude that India's growing use of non-renewable sources of energy will pose a major threat to global climate security in the future. India is right that the developed world has a responsibility to take the lead in reducing global emissions. However, it must also acknowledge its own likely future impact on climate change and recognise that it is in its own interests to enter the framework that succeeds Kyoto. We recommend that the United Kingdom continue to work together with India to build trust on the climate change agenda, including through joint cooperation on developing renewable sources of energy and climate change impact and adaptation projects. (Paragraph 57)
5. We conclude that an agreement for India to build a gas pipeline through Pakistan would be likely to have a positive impact on the two countries' relations. However, India should be cautious about becoming too reliant on Iran for energy. We recommend that the Government set out in its response to this Report what representations it has made to India with regard to the proposals for both the Tajikistan-Afghanistan-Pakistan and the Iran-India-Pakistan pipelines. (Paragraph 67)

6. We conclude that India could gain large benefits from a successful Doha Development Round and we recommend that the Government continues to urge India to take the most constructive approach possible in the newly resumed World Trade Organisation negotiations. (Paragraph 72)
7. We welcome India's large contribution to the Commonwealth to date and recommend that the Government encourage India to continue to play an important role in the Commonwealth in the future. (Paragraph 77)
8. We welcome the India–Brazil–South Africa (IBSA) Dialogue Forum as a mechanism for cooperation between rising democratic powers. (Paragraph 82)
9. We recommend that the Government sets out in its response to this Report the impact of Russia's developing energy relationship with India on the UK. (Paragraph 89)
10. We recommend that the Government urge its EU partners to work together to build stronger relations between the EU and India. In particular the UK should encourage Member States to agree on a negotiating mandate for a Free Trade Agreement with India. (Paragraph 97)

Security in South Asia

11. We welcome the recent Confidence-Building Measures between India and Pakistan over the Kashmir question and their cooperation against terrorism. We conclude that the UK should encourage India and Pakistan to make further progress on the peace process, but that the Government should not get directly involved in negotiations nor try to suggest solutions to the question of Kashmir, unless requested to do so by both India and Pakistan. (Paragraph 147)
12. We recommend that the Government continue to urge the governments of Pakistan and Afghanistan to take steps to improve security on their border. (Paragraph 160)
13. Good relations between China and India are going to be very important to the international community in the future. We recommend that the Government welcomes areas of cooperation between India and China and encourages even closer relations between the two nations in the future. (Paragraph 168)
14. We are very concerned about the situation in Sri Lanka. We recommend that the Government urge India and the international community to take a stronger lead in pushing for peace. (Paragraph 176)
15. We recommend that the Government continues to monitor closely the situation in Bangladesh and that it consider a possible role for Commonwealth mediation or other assistance to help establish a stable democratic process. (Paragraph 189)
16. We recommend that the Government offer support through its Global Opportunities Fund and assist the Westminster Foundation for Democracy to help develop democratic institutions and political parties in Nepal. (Paragraph 196)

17. We further recommend that the Government pushes for and supports a strong international observer presence in Nepal for the elections planned for June. (Paragraph 197)
18. We conclude that there is potential for increasing conflict over access to water in South Asia. We recommend that the Government monitor this situation carefully and that it encourages South Asian nations to use water in a more sustainable way. (Paragraph 203)
19. We conclude that the South Asian Free Trade Agreement (SAFTA) is unlikely to greatly increase internal trade between countries in the South Asian Association for Regional Cooperation unless further agreements can be reached on trade issues, such as items on 'sensitive lists', which remain to be negotiated. The Government should welcome the steps taken so far to develop an institution that strengthens relations between countries in South Asia and encourage further progress in future. (Paragraph 210)
20. We welcome the fact that India has joined the Shanghai Cooperation Organisation (SCO) as an observer. We recommend that the Government should urge India to discourage the SCO from becoming an organisation hostile to the West. (Paragraph 215)

India's economic growth

21. We conclude that the Indian economy is beginning to show signs of the major impact it could have on the world's economy in the future, in particular in the high end knowledge-driven sector. The Government must ensure the UK is able to compete in this new environment. (Paragraph 226)
22. We recommend that the Government encourage businesses to comment on the quality of advice and information they have received from UKTI. We also recommend that the Government set out in its response to this Report what progress is being made relating to the review of the representation of devolved bodies and Regional Development Agencies overseas, with reference to those in India. (Paragraph 236)
23. We recommend that alongside WTO and EU India negotiations, the UK Government should continue to call strongly in JETCO and in the Economic and Financial Dialogue for India to remove restrictions to Foreign Direct Investment and to emphasise to India that liberalisation of its markets should have benefits for its economy. The Government must also ensure that businesses are kept informed whenever restrictions on FDI are reduced. (Paragraph 241)
24. We welcome Indian investment into the UK and the work being done by UKTI to encourage further investment. However, we conclude that the Government needs to do more to continue to attract Indian business into the UK. In particular it should focus on promoting the opportunities for low-cost start-ups and on building links with Indian scientific institutions and journalists. (Paragraph 247)

25. We conclude that restrictive labour laws are a key barrier to employment generation, and therefore poverty reduction, in India. We recommend that the Government continue dialogue with the Indian government on the benefits of liberalising labour laws. (Paragraph 254)
26. We recommend that the Government point out to the Indian government that removing restrictions to Foreign Direct Investment in retail could provide opportunities for the agricultural sector to develop. (Paragraph 259)
27. We recommend that the Government should continue to support improvements to public education in India. (Paragraph 265)
28. We recommend that the Government encourages the Indian government to take steps to tackle corruption and excessive bureaucracy and that it continues to offer assistance to improve police training. (Paragraph 272)
29. We recommend that the Government promotes opportunities for investment in Indian infrastructure to UK businesses and that it raises with the Indian government, at national and state level, the need to reform the power sector. (Paragraph 277)

The Work of the Foreign and Commonwealth Office in South Asia

30. We recommend that the Government should make a long-term investment in premises in Mumbai to ensure the United Kingdom is not left behind in a city that is driving India's economic growth. (Paragraph 281)
31. We welcome the work being done by the FCO's consular services in South Asia. (Paragraph 284)
32. We conclude that the outsourcing of visa applications in India has made a big improvement to the application process. We recommend that the FCO work with the Department for Education and Skills to ensure that its register of recognised educational institutions is well policed. (Paragraph 286)
33. We welcome the British Council's decision to target more funding on South Asia. We also conclude that the British Council is right to change its approach in order to make itself more relevant to the new generation of Indians. (Paragraph 293)
34. The establishment of the UK-India Education and Research Initiative is very important for the UK to maintain a strong position in the higher education market and we recommend that the Government continue to work to strengthen the promotion of bilateral educational links. (Paragraph 294)
35. We recommend that the Government set out in its response to this Report what representations have been made to remove Indian restrictions on broadcasting news so that BBC World Service can broadcast on the FW wavelength. (Paragraph 297)

1 Introduction

1. Inhabited by approximately 1.4 billion people,¹ nearly a quarter of the global population, South Asia is one of the world's most dynamic economic regions.² India, the geopolitical centre of South Asia and the world's biggest democracy, is expected to overtake the United Kingdom as the fifth largest economy within a decade.³ The wooing of India by the United States with full civilian nuclear cooperation is a sign that India is beginning to play a major role on the international stage. Yet South Asia continues to face considerable developmental hurdles and significant security risks. It is home to half the world's poor⁴ and the entire region is affected by several unresolved conflicts, including the dispute over Kashmir, the insurgency in Afghanistan and the conflict in Sri Lanka.

2. In August 2006, we published a Report on East Asia.⁵ This focused on the impact of the emergence of the People's Republic of China on British foreign policy. We decided then that it would be important, too, to inquire into the rising economic and political importance of the other 'Asian giant', India. The UK has strong historic links to South Asia and large communities of Indian, Pakistani, Kashmiri, Bangladeshi and Sri Lankan origin live in the UK. Prime Minister Tony Blair and Indian Prime Minister Dr Manmohan Singh established a "strategic partnership" between the UK and India in 2004. We also noted that while we and our predecessor Committees had considered aspects of Indian security policies and human rights in South Asia in broader inquiries,⁶ we had never examined the region as a whole in detail in a specific report.

3. We announced our inquiry in July 2006 and agreed the following terms of reference:

- political and economic developments in India and its growing importance;
- relations between India and Pakistan, and the question of Kashmir;
- India's role in the region and its links with its neighbours;
- India's contribution to the international system, including to the United Nations and other multilateral fora, such as the non-proliferation regimes; and
- the roles of the United Kingdom and the European Union in South Asia.

4. We received almost thirty memoranda from a range of individuals and organisations. We also heard evidence from the following witnesses: Rt Hon Margaret Beckett MP, Secretary of State, Richard Codrington, Head of Afghan Group, and Antony Stokes, Head

1 www.worldbank.org/

2 Ev 157

3 "Indian economy 'to overtake UK'", *BBC News Online*, 24 January 2007, www.bbc.co.uk/news

4 www.worldbank.org/

5 Foreign Affairs Committee, Seventh Report of Session 2005–06, *East Asia*, HC 860–I

6 For example Foreign Affairs Committee, Eighth Report of Session 1999–2000, *Weapons of Mass Destruction*, HC 407, paras 9–13; Foreign Affairs Committee, Seventh Report of Session 2003–2004, *Foreign Policy Aspects of the War against Terrorism*, HC 441, paras 255–256; and Foreign Affairs Committee, First Report of Session 2005–2006, *Human Rights Annual Report 2005*, HC 574 paras 198–202.

of South Asia Group, Foreign and Commonwealth Office, Mr Rahul Roy-Chaudhury, research fellow for South Asia, International Institute for Strategic Research, Dr Gareth Price, head of Asia programme, and Dr Chris Smith, associate fellow, International Security programme, Chatham House, Lord Desai, retired Professor of Economics and Director, Centre for the Study of Global Governance, London School of Economics, Martin Wolf, Associate Editor and chief economics commentator, Financial Times, Victoria Schofield, journalist and author of “Kashmir in the Crossfire”, Professor Sumantra Bose, Professor of International and Comparative Politics, London School of Economics, Michael Griffin, journalist and author of “Reaping the Whirlwind: The Taliban Movement in Afghanistan” and Dr Matthew Nelson, lecturer in the politics of Asia and Africa, School of Oriental and African Studies. We thank all those who made submissions, whether in written or oral evidence.

5. As part of our inquiry, we visited India, Pakistan and Afghanistan, splitting into three groups. The first group travelled in India, visiting New Delhi, Chennai (Madras) and Mumbai (Bombay). The second group also started in New Delhi, but then travelled to Amritsar and crossed the Wagah border by road to Lahore in Pakistan for meetings in Islamabad. The final group began its visit in Islamabad then flew to Afghanistan, spending three days in Kabul before returning to Islamabad. Our programmes included meetings with government leaders and ministers, security forces, parliamentary committees, business representatives, non-governmental organisations and religious figures. Full details are listed in Annex 1. We are most grateful to those who took the time to meet us. The discussions we had were very useful and are reflected in this Report.

SOUTH ASIA



Map No. 4140 Rev. 3 UNITED NATIONS
January 2004

Department of Peacekeeping Operations
Cartographic Section

Source: United Nations Cartographic Section

2 India rising

Background

6. The FCO strategy document outlining the UK's international priorities, published in March 2006, describes India as a major actor that will have significant strategic influence in the future. It states:

As the world's largest democracy, India will have a growing influence in international affairs and on the global economy. It will have particular strengths in the service and knowledge sectors, while broadening the base of its growth. Like China, India will face challenges in maintaining the pace of reform and managing the pressures of rapid growth and uneven development between regions. But its traditions of democracy and rule of law will help it to seize the opportunities and manage the tensions created by rapid change. India will be an increasingly significant strategic partner for the UK, building on our close links, shared values and common interests.⁷

7. Two main factors have enabled India's recent rise in political and economic importance to the UK: economic reforms, and the end of the Cold War.⁸

Economic reforms

8. India's economy was stagnant in the first half of the 20th century, averaging only 0.8% annual GDP growth.⁹ After India gained independence from British rule in 1947, its economy improved a little. From 1950 to 1980, GDP growth averaged 3.5%. However, this did not compare well with the high economic growth rates achieved in this period by some other Asian countries, such as Japan and later South Korea, Taiwan, Thailand and Malaysia.¹⁰ Moreover India's population grew almost as quickly between 1950 and 1980 so income per head increased by an average of just 1.3% a year.¹¹ A key factor in the low rate of growth was Prime Minister Nehru's vision of India as a self-sufficient secular country with a state-dominated economy. Although commended at the time by the international community, his policies are now seen by many commentators to have created an inefficient public sector, stifled private business and prevented India from benefiting from the post-war boom in world trade.¹²

9. In the 1980s some liberalising economic reforms were introduced. These enabled average GDP growth to increase to 5.6%. Yet the turning point came when India experienced a balance of payments crisis in 1991. This triggered more significant reforms.

7 Foreign and Commonwealth Office, *Active Diplomacy for a Changing World: The UK's International Priorities*, Cm 6762, March 2006, pp 24–25

8 C. Raja Mohan, "India and the Balance of Power", *Foreign Affairs*, vol 85, number 4 (July/August 2006), p 19

9 Gurcharan Das, "The Indian Model", *Foreign Affairs*, vol 85, number 4 (July/August 2006)

10 Edward Luce, *In Spite of the Gods: The Strange Rise of Modern India*, (London, 2006), p 27

11 Gurcharan Das, "The Indian Model", *Foreign Affairs*, vol 85, number 4 (July/August 2006)

12 Edward Luce, *In Spite of the Gods: The Strange Rise of Modern India*, (London, 2006), pp 27–28

Although many of the measures taken were gradual, they signalled a clear break from the past¹³ and “set India on its present growth path”.¹⁴ Dr Chris Smith, associate fellow, International Security programme, Chatham House, told us:

Twenty years ago, when you went to a major city [...] the economy was cash-only. The Raj economy still existed, and it was very much inward-looking. Suddenly, liberalisation occurred in the '90s, and the economy has not looked back. It has travelled a tremendous distance over the past 10 or 15 years.¹⁵

10. Since 1991, India has seen an average GDP growth of 6.2% a year. Over the last three years, economic growth has been even higher: it was 7.2% in 2003, 8% in 2004 and 8.5% in 2005.¹⁶ As Mr Rahul Roy-Chaudhury, research fellow for South Asia, International Institute for Strategic Studies, told us, such high levels of growth have resulted in:

a sea change in India's perception of itself. Today, India's economic growth is driving its foreign policy agenda and influencing its engagements and contacts with the outside world. Primarily, we are looking at an Indian perception of itself as a rising global power and a country that could move from being the 13th largest economy to the third or fourth largest in the next 25 to 30 years.¹⁷

The end of the Cold War

11. A key pillar of India's foreign policy in the decades immediately following independence was Third World solidarity.¹⁸ Nehru was one of the founders of the Non-Aligned Movement in 1955, comprised of a large section of the developing world which declared itself neutral in the Cold War. However, despite its 'non-alignment', India became a close ally of the Soviet Union in the 1970s. It signed a formal treaty with the USSR in August 1971. This treaty included mutual defence provisions¹⁹ and gave India the arms it needed to fight and defeat Pakistan in the then East Pakistan and assist the creation of Bangladesh. India also failed to condemn the Soviet invasion of Afghanistan in December 1979.

12. The collapse of the USSR in 1991 opened up new diplomatic possibilities for India, both with regard to its neighbours and to the world's great powers.²⁰ Federico Bordonaro wrote:

After the end of the Cold War, India has progressively emerged as the South Asian potential hegemon and as a power with global ambitions.

13 Gurcharan Das, “The Indian Model”, *Foreign Affairs*, vol 85, number 4 (July/August 2006)

14 Q 67

15 Q 7

16 Percentage GDP growth given by calendar year. Figures from the International Monetary Fund's World Economic Outlook Database, September 2006

17 Q 2

18 Edward Luce, *In Spite of the Gods: The Strange Rise of Modern India*, (London, 2006), p 267

19 Articles 8, 9 and 10 of the Treaty of Peace, Friendship, and Cooperation committed the parties “to abstain from providing any assistance to any third party that engages in armed conflict with the other” and “in the event of either party being subjected to an attack or threat thereof [...] to immediately enter into mutual consultations.”

20 C. Raja Mohan, “India and the Balance of Power”, *Foreign Affairs*, vol 85, number 4 (July/August 2006), p 19

India's traditional pro-Russian stance was mitigated in favour of a more independent foreign policy, and the U.S. rapidly emerged as a potential strategic partner rather than adversary.²¹

India's foreign policy

13. In recent years, India's foreign policy has focused on elevating India's regional and international standing and achieving energy security. Federico Bordonaro explained that India's strategy divided the world into three geopolitical circles:

The first one is the near or immediate neighbourhood and it encompasses India and its territorial waters. No intrusion from external powers into this space is, or will be, permitted by Delhi. The second circle is the so-called extended neighbourhood of South Asia and encompasses the whole Indian Ocean littoral. Here, competition with China and Pakistan will likely be stiff both for strategic dominance and political influence. Finally, the third circle is the global stage itself on which India aims to play an increasingly influential role.²²

14. Mr Roy-Chaudhury told us that New Delhi policy makers wanted India to play “an increasingly important role in the international system” and “to take on greater responsibilities and tasks in the international community.”²³ Dr Gareth Price, head of Asia programme, Chatham House added:

one of India's big new drivers is energy security. It is not so much about India's economy now, but its economic needs in the next 10 or 20 years [...]. As the economy has opened up, a whole new range of drivers has come in over the past 10 or 15 years.²⁴

15. At the same time, India has not entirely shifted away from its traditional interests. The FCO described India's international relations as trying “to find a balanced way through its traditional NAM [Non-Aligned Movement] loyalties and emphasis on south-south cooperation, and its increasing interest in the US.”²⁵

UK–India bilateral relations

16. The FCO told us that relations with India were “now closer than they have ever been across a broad range of policy areas”.²⁶ In 2004 Prime Minister Tony Blair and Indian Prime Minister Dr Manmohan Singh launched a Joint Declaration (the Prime Ministers' Initiative) which established annual summit meetings and detailed five main areas of

21 Ev 178

22 Ev 177

23 Q 2

24 Q 3

25 Ev 42, para 99

26 Ev 46, para 133

cooperation: foreign and defence policy, security challenges, public diplomacy, including educational and cultural links, economic and trade issues, and sustainable development.²⁷

17. At the 2005 UK–India summit, the Prime Ministers announced the UK–India Education and Research Initiative to improve educational and research links between India and the UK. At the last UK–India summit the Prime Ministers announced a new package of measures for cooperation between the two nations on counter-terrorism and a new area of cooperation on climate change.²⁸

18. The Foreign Secretary, Rt Hon Margaret Beckett MP, told us:

I think the summits have been extremely effective. More to the point, we are not the only ones to say that they have been; the Indian Government have also said so in warm terms. I think that the summits led to a strengthening and deepening of the bilateral relationship between different Ministers and between the Governments as a whole. Quite a number of specific outcomes stem from, as I see it, the strengthening and intensification of those links at the summits.

[For example we...] had been talking to officials in India for some time about the possibility of developing a demonstration power plant, using carbon capture and storage for coal power, in partnership with India [..]. It was not making as much headway as people had thought, for no particular reason that anyone could put their finger on. I raised the issue with the Prime Minister and I am delighted to say that the obstacles seem to have been miraculously waved away.

[...] We have seen quite a strong increase in student numbers—we have the largest number of Indian students ever in this country this year. [...] So there are a number of concrete areas—in the economy, education, trade and so on—where links are strengthening.²⁹

19. The Joint Declaration also established the UK–India Joint Economic and Trade Committee (JETCO) to "enhance bilateral trade and investment in specific sectors". A UK–India Investment summit was held alongside the political summit in October 2006.³⁰ The UK and India also have a forum to discuss bilateral economic issues and economic policy agendas, in the context of globalisation, the Economic and Financial Dialogue, which meets annually.³¹

20. We conclude that the UK and India enjoy excellent bilateral relations on a wide range of shared interests. We recommend that the Government sets out in its response to this Report how bilateral relations between the UK and India could be strengthened further in the future.

27 Ev 46, paras 133–134

28 10 Downing Street, *Press Conference with Prime Minister of India*, 10 October 2006

29 Q 139

30 Ev 46, para 134

31 *Ibid*, para 135

3 India and the international system

India and the United Nations

India's contribution to the United Nations

21. India was a founder member of the United Nations and since 1945, it has played an important and constructive role in the work of the international organisation. One of its key inputs is in peacekeeping. India has provided more than 55,000 military and police personnel to UN missions over the last 60 years.³² The FCO stated that:

India is the third largest contributor to UN peacekeeping, with over 9000 troops and civilian police deployed on 12 UN peacekeeping operations. Over half are deployed to the UN Mission in the Democratic Republic of Congo (MONUC). The Indians have also supplied MONUC with attack helicopters, which have played an important role in disarming and demobilising the belligerents.³³

In June 2006, India, together with the four other leading providers of peacekeepers, Bangladesh, Ghana, Nigeria and Pakistan, was elected as a member of the newly-created Peacebuilding Commission.³⁴

22. India is active in the United Nations in other ways too. The FCO described India as “an influential member of the G77”, the group of 130 developing countries in the United Nations.³⁵ In May 2006, India was elected onto the newly-established United Nations Human Rights Council, receiving 173 out of 191 votes.³⁶ India is one of the largest contributors to the core resources of the United Nations Development Programme (UNDP) (of which it is also a recipient), and also gives significantly to the United Nations Population Fund (UNFPA), the United Nations Children’s Fund (UNICEF) and the World Food Programme (WFP).³⁷ After the US it was the principal donor, pledging \$10million, to the UN Democracy Fund (UNDEF).³⁸ India also put forward a candidate for the post of Secretary-General. Shashi Tharoor, the UN’s current Under-Secretary-General for Communications and Public Information, came second in the final ballot to Ban Ki-moon.

India's bid for a permanent seat on the Security Council

23. India is one of the Group of 4 (G4), also comprising Brazil, Germany, and Japan, who have called for six more permanent seats on the UN Security Council: two from Asian states; one from Latin American and Caribbean states; one from western European and

32 UN System in India, *To Unite Our Strength: 60 Ways: Six decades of the United Nations in India 1945–2005*, p 1

33 Ev 42, para 102

34 www.un.org/peace/

35 Ev 42, para 101

36 “India elected to Human Rights Council”, *The Hindu*, 10 May 2006

37 UN System in India, *To Unite Our Strength: 60 Ways: Six decades of the United Nations in India 1945–2005*, p 7

38 “U.S., India and Qatar contribute to U.N. Democracy Fund”, Embassy of the United States: New Delhi, India press release, 9 March 2006, www.newdelhi.usembassy.gov/

other states; and two from African states.³⁹ India first raised a bid for a permanent seat in 1994.⁴⁰ It argues that membership of the Security Council does not reflect the composition of the General Assembly, which has a majority of members from developing countries, and that developing countries, which are most often the objects of the Council's actions, must be involved in the decisions that affect them. India also points out that while membership of the Council increased from 11 to 15 in 1965, no new permanent seats have been added. It proposes that any expansion of permanent members should be on "agreed criteria, rather than by a pre-determined selection".⁴¹

24. The FCO explained that the UK has supported India's bid since 2003 because of its "contribution to the work of the UN, the size of its population, and the importance of its emerging economy."⁴² During a visit to India in January 2007, the Chancellor of the Exchequer, Rt Hon Gordon Brown MP, reiterated the UK's support for India's bid in a keynote speech which called for the reform and modernisation of international institutions.⁴³ France⁴⁴ and Russia⁴⁵ also support India's candidature. Pakistan opposes India's bid.⁴⁶ China has remained silent on the issue,⁴⁷ although some quarters have indicated support.⁴⁸ The US has not expressly supported India's bid.

25. On balance, witnesses to our inquiry thought the UK was right to support India's bid. While noting that institutional difficulties would need to be overcome, Mr Roy-Chaudhury stated:

In the next 25 years, India will become the largest country in the world in terms of population and the third or fourth largest economy, so if you look at India using various parameters, it will be able to contribute to international security. There are structural requirements, but the disadvantages of not having India as a member of the Security Council may outweigh the advantages.⁴⁹

39 Tabled Draft Resolution A/59/L.64, Security Council Reform, 6 July 2005. This resolution included the concession that the new permanent members would not be given the right of veto for at least 15 years. It was retabled by Brazil, India and Germany, without Japan, on 6 January 2006.

40 Shairi Mathur, Voting for the Veto: India in a reformed UN Briefing Policy Centre, (London, 2006), Executive Summary

41 India's Position on UN Reform, Permanent Mission of India to the United Nations New York, www.un.int/india

42 Ev 42, para 101

43 Speech by Rt Hon Gordon Brown MP, Chancellor of the Exchequer, at the Confederation of Indian Industry, Bangalore, 17 January 2007, www.hm-treasury.gov.uk/newsroom_and_speeches/

44 France was a co-sponsor of the G4 draft resolution of 6 July 2005.

45 During his visit to India in 2004, President Putin stated that "India is our candidate number one in terms of reforming the geographical representation of the Security Council". "Putin backs India's UN seat bid", *BBC News Online*, 4 December 2004, www.bbc.co.uk/news

46 It is part of the Uniting for Consensus Group which have instead called for ten new non-permanent members eligible for re-election.

47 Baldev Raj Nayar, "India in 2005: India Rising but Uphill Road Ahead", *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 98

48 "The Chinese government values India's influence and role in international and regional affairs and is willing to see a greater Indian role in the international arena, the United Nations included." Tang Jiaxuan, Chinese State Councillor during his visit to Indian, reported in "Beijing boosts Delhi's bid for UN council seat", *Asia Times*, October 26 2004

49 Q 7

Moreover he suggested that by “moving forward more effectively” on India’s bid, the UK might be able to “capitalise” on the US’ apparent reluctance to advance India’s aspiration and strengthen bilateral relations with India.⁵⁰

26. Dr Smith told us that India faced much competition for a seat and that high levels of poverty, ongoing regional conflicts and India’s record on human rights and civil liberties were factors that would have to be considered. However, he also emphasised India’s economic progress: “India has progressed over the past 10 or 15 years. I cannot stress too much just where India has gone during that time.”⁵¹

27. Due to wider complexities, including China’s opposition to Japanese permanent membership, progress on reform of the Security Council now appears to have stalled. We questioned the Foreign Secretary about the prospects for India’s bid and expansion of the Security Council. She responded:

I certainly would not say that it is likely to happen very soon, not least because, as always, there is resistance to change among many people. The new UN Secretary-General has indicated to us that he is in favour of reform, [...]. We will have to see how it goes, and whether it is a process that he can initiate.⁵²

28. India has now also bid for a non-permanent seat in the Security Council for the 2011–12 term, although it says that its ambitions for a permanent seat have not diminished.⁵³

India’s position on United Nations secretariat and management reforms

29. On the question of UN secretariat and management reforms, the FCO argued:

Reform should be increasingly in India’s interest, as its own contribution to the UN regular budget will increase as its economy grows.⁵⁴

India has stated that work on these reforms should be “intensified”.⁵⁵ Yet with its G77 partners, India has expressed concern that reforms might decrease the influence of developing countries in the General Assembly and increase the control of major financial contributors over the Secretariat.⁵⁶ India also criticised the US’ attempts to impose a budget cap on expenditure if sufficient progress was not made, which nearly caused a financial crisis in the UN in June 2006 until the US dropped this insistence.⁵⁷ India believes that member states “must pay their contributions unconditionally, in full and on time”.⁵⁸

50 Q 8

51 Q 7

52 Q 92

53 “India stakes claim for non-permanent seat”, *The Indian Express*, 4 February 2007

54 Ev 43, para 103

55 India’s Position on UN Reform, Permanent Mission of India to the United Nations New York, www.un.int/india

56 Ev 43, para 103

57 “US Drops Insistence on UN Budget Cap for 2006”, *Reuters*, 26 June 2006

58 India’s Position on UN Reform, Permanent Mission of India to the United Nations New York, www.un.int/india

30. We conclude that, given India's size, economic growth and large contribution to the work of the United Nations, there is a compelling case for granting it a permanent seat on the Security Council, as part of wider reforms of the United Nations. We recommend therefore that the British Government should continue its support for India's bid. We further recommend that the Government should encourage India to work to reassure other G77 members of the benefits of a more efficient United Nations.

Indo-US relations

31. As a large democracy, India is sometimes seen as a natural partner of the USA. Indeed India began its civilian nuclear energy programme in the 1950s with US assistance.⁵⁹ However, Indo-US relations have historically been limited. They hit bottom in 1971, when the US ordered the USS Enterprise into the Bay of Bengal to deter Indian support for the Bengali secessionist movement in the then East Pakistan.⁶⁰ After India first tested a nuclear device in 1974, the USA ended nuclear co-operation and imposed tough requirements for US nuclear exports.⁶¹ Successive US governments took the view that India's development of a nuclear arsenal was deeply irresponsible and should not be recognised, given India's status as a non-signatory of the Nuclear Nonproliferation Treaty (NPT).⁶²

32. Although the USA immediately responded to India's public nuclear tests in 1998 by introducing sanctions,⁶³ concerns about a possible Indo-Pakistani nuclear war forced the USA to start making diplomatic approaches to India.⁶⁴ The then US Deputy Secretary of State, Strobe Talbot, began a period of intensive engagement and in 2000, the then President Bill Clinton visited India—the first US presidential visit to India in 22 years.⁶⁵ Relations were also strengthened by the development of a rich and increasingly politically influential Indian diaspora in the US.⁶⁶

33. Under the Bush administration, the USA began to see India beyond the “prism of India-Pakistan”.⁶⁷ It removed many of the sanctions imposed on India following its nuclear tests.⁶⁸ June 2005 saw the signature of a ten year defence agreement between India and the USA. The USA and India also signed an “open skies” agreement in April 2005 allowing unlimited civilian flights between them.⁶⁹ India also moved closer to the USA. It supported President Bush on the International Criminal Court and missile defence, provided assistance to the US operation in Afghanistan by protecting US assets transiting the

59 India's Tarapur nuclear reactors were built by the US as part of the Atoms for Peace programme.

60 Edward Luce, *In Spite of the Gods; The Strange Rise of Modern India*, (London, 2006), pp 268–269

61 The 1978 Nonproliferation Act required non-nuclear-weapon states, which included India under the NPT and US law, to place all of their peaceful nuclear activities under the safeguards of the International Atomic Energy Agency (IAEA) in order to receive nuclear exports.

62 India did not sign the treaty as it saw it as discriminatory.

63 “India Sanctions”, The White House Office of the Press Secretary, 13 May 1998, www.state.gov/

64 Ashton B. Carter, “America's New Strategic Partner?”, *Foreign Affairs*, vol 85 no. 4, p 35

65 C. Raja Mohan, “India and the Balance of Power”, *Foreign Affairs*, vol 85, number 4 (July/August 2006), p 27

66 Qq 10 and 14 [Dr Price]

67 Q 10 [Dr Price]

68 C. Raja Mohan, “India and the Balance of Power”, *Foreign Affairs*, vol 85, number 4 (July/August 2006), p 27

69 Baldev Raj Nayar, “India in 2005: India Rising but Uphill Road Ahead”, *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 96

Malacca Straits, voted twice with the US against Iran at the International Atomic Energy Authority (IAEA) and even came near to sending troops to Iraq.⁷⁰ Strengthened ties culminated in an announcement in July 2005 of a “global partnership”, including full civilian nuclear co-operation.⁷¹

The Indo–US nuclear deal

34. The Indo–US nuclear deal includes a commitment by the USA to provide fuel to safeguarded reactors at Tarapur, as well as to consult on Indian participation in the International Thermonuclear Experimental Reactor (ITER), the international project to develop fusion power. In return India agreed to: separate its civilian and military nuclear facilities;⁷² place all its civilian facilities under IAEA safeguards; sign an Additional Protocol for civilian facilities; continue its unilateral test moratorium; work with the USA to establish a Fissile Material Cut-off Treaty; refrain from transferring technology to non-nuclear states; and secure its technology and materials by harmonising its export control systems through adherence to the Nuclear Suppliers Group (NSG) and the Missile Technology Control Regime.⁷³ However, the agreement entered into by India did nothing which would limit its nuclear weapons programme. Dr Gareth Price and Federico Bordonaro argued that while the US was not gaining immediately from the deal, it wanted to develop a partnership with India so that it could have a strategic counterweight to China.⁷⁴

35. The UK Government supports the Indo–US deal and has amended its policy on the export of items on the NSG Dual-Use List accordingly.⁷⁵ The UK has also introduced the UK–India Civil Nuclear Contact Scheme to supervise and encourage contacts on civil nuclear issues.⁷⁶

36. Critics argue that the US deal with a nuclear power which has remained outside the NPT undermines the fundamental bargain of the NPT, whereby non-nuclear states give up their right to nuclear weapons in exchange for peaceful co-operation on nuclear technology,⁷⁷ as well as hard-won measures to limit the proliferation of nuclear technology. Dr Smith commented:

It certainly smacks of double standards. I think that it was President Clinton who said, ‘India will not be allowed to blast itself into the nuclear club,’ [...] That is,

70 C. Raja Mohan, “India and the Balance of Power”, *Foreign Affairs*, vol 85, number 4 (July/August 2006), p 27

71 “Joint Statement Between President George W. Bush and Prime Minister Manmohan Singh”, The White House Office of the Press Secretary, 18 July 2005, www.whitehouse.gov/

72 In March 2006, agreement was reached on the separation of India’s military and civilian nuclear facilities. 14 of India’s 22 nuclear reactors will be classified as civilian and placed under safeguards. The other reactors, including the fast-breeder reactors, will remain as military facilities, outside IAEA safeguards. India can also continue to build additional breeder reactors and to decide whether to place them under safeguards. However, India will not be permitted to withdraw reactors from IAEA inspection once they have been placed under safeguards.

73 “Joint Statement Between President George W. Bush and Prime Minister Manmohan Singh”, The White House Office of the Press Secretary, 18 July 2005, www.whitehouse.gov/

74 Qq 11–12; and Ev 176

75 Ev 38–39, paras 67–70

76 Ev 39, para 71

77 Ev 177

effectively, exactly what it has done. There is a process of acceptance and forgiveness, on the one hand, for a country such as India, but a very different view has been taken, of course, towards a country such as Iran.⁷⁸

37. We asked the Foreign Secretary whether the UK was guilty of hypocrisy, because it was supporting the deal while condemning the nuclear activities of Iran. She replied:

No, I do not think we are, because India does not have the same track record as Iran. Although India is not, as you will know, a signatory to the nuclear non-proliferation treaty, it is voluntarily coming forward with a number of safeguards.⁷⁹

The FCO argued that these voluntary commitments would:

bring India further into, and thereby strengthen, the broader nuclear non-proliferation framework, of which the NPT is the cornerstone. In particular, the [...deal] will reinforce the centrality to this framework of both IAEA safeguards and the Additional Protocol, and can only aid the latter becoming a universal standard.⁸⁰

38. Mr Roy-Chaudhury agreed that the deal would ultimately strengthen the non-proliferation regime. He told us:

[...] one must look at the way in which the nuclear non-proliferation regime has developed over the past few decades. In this case, it is fairly clear that India, though adhering to the nuclear non-proliferation regime, was not a signatory to the nuclear non-proliferation treaty. [...] My sense is that by bringing India into a de facto fold, we are looking at beefing up the non-proliferation regime [...] We are now looking at an emerging world scenario in which the key will be India's greater responsibility towards the nuclear non-proliferation regime.⁸¹

39. The FCO stated that the deal would also bring other advantages:

In addition to its non-proliferation benefits, [...it] can make a significant contribution to energy security, development, economic and environmental objectives for India and the international community.⁸²

On the environmental benefits of the deal, President Bush has argued:

“As India's economy continues to grow, this partnership will help India meet its energy needs without increasing air pollution and greenhouse gas emissions. It will also help reduce India's dependence upon imported fossil fuels.”⁸³

However, Mr Roy-Chaudhury, pointed out:

78 Q 16

79 Q 94

80 Ev 39, para 76

81 Q 16

82 Ev 39, para 75

83 “Statement by the President on Senate Passage of the United-States India Nuclear Cooperation”, The White House, 16 November 2006, www.whitehouse.gov/

The nuclear power element of the deal, if you look at it closely, is minimal. Today, nuclear power accounts for 4% of India's energy demand—with a plan for nuclear reactors in the next 15 to 20 years, we are looking at that figure increasing to 10, 12 or 14% That is, of course, a much larger proportion of energy demand, but it is not going to solve India's energy problem and its energy insecurity.⁸⁴

40. We accept that although India was free to make an agreement with the US having refused to sign the NPT (in contrast to Iran and North Korea), this agreement has exposed the US to accusations of openly double standards.

41. The deal is not yet concluded. Although the US Congress approved a Bill for the necessary waivers to US law in December 2006, it insisted upon being given the opportunity to review the final agreement. Moreover, it demanded that before it did so, the deal had to be submitted for approval to the IAEA, which will negotiate a Safeguards Agreement with India, as well as to the NSG.⁸⁵ Dr El-Baradei, Director General of the IAEA, has supported the deal.⁸⁶ However, the NSG failed to reach a consensus on the deal at its May–June 2006 plenary.⁸⁷ India and the US will have to get support from other NSG members at the next meeting in April 2007.⁸⁸

42. Although India does not have to ratify the deal, it is possible for its opposition parties to force a Parliamentary debate, which might be followed by a vote.⁸⁹ There has been some opposition to the deal in India and other conditions added by Congress to the Bill⁹⁰ received some bad press in India.⁹¹ However, rejection of the agreement in India is unlikely. Antony Stokes, Head, South Asia Group, Foreign and Commonwealth Office, commented:

Obviously, it is a matter for India to negotiate with the US, but given the statements that were made publicly when the deal was announced, the framework within which this will be negotiated is consistent with that sort of approach.⁹²

Dr Price told us:

[...] many people will accuse the Government in India of selling out to the US, but those voices are becoming increasingly marginalised.⁹³

84 Q 42

85 George Bunn, "US–India Nuclear Cooperation Agreement: Final Congressional Approval is Conditioned on Future Steps by India and Two International Organizations", *Lawyers Alliance for World Security*, 20 December 2006

86 "IAEA Director General Welcomes U.S. and India Nuclear Deal", IAEA press release 2006/05, 2 March 2006

87 "The NSG – Strengthening the Nuclear Non-Proliferation Regime", NSG Statement, NSG Plenary Meeting, Brasilia, 1–2 June 2006

88 George Bunn, "US – India Nuclear Cooperation Agreement: Final Congressional Approval is Conditioned on Future Steps by India and Two International Organizations", *Lawyers Alliance for World Security*, 20 December 2006

89 "Bush signs US–India nuclear bill", *BBC News Online*, 18 December 2006, www.bbc.co.uk/news

90 That the US president would be required to end the export of nuclear materials if India tested another nuclear device; that the US would not guarantee uninterrupted fuel supplies for reactors; and that India could not reprocess spent fuel.

91 "India could dump U.S. nuclear deal envoy", *The Scotsman*, 10 January 2007

92 Q 99

93 Q 10

Pakistan's nuclear weapons

43. Pakistan developed nuclear capability in the 1970s and first tested a nuclear weapon in 1998, a couple of weeks after India's 1998 tests. Like India, Pakistan is not a member of the NPT. Pakistan does not have a good record on nuclear non-proliferation—indeed Abdul Qadeer Khan, a leading personality in Pakistan's nuclear establishment,⁹⁴ ran an international black market nuclear network in the 1990s, which has been a matter of great concern to the USA, the UK and many other governments.

44. In July 2006, the US Secretary of State Condoleezza Rice denied that a parallel deal on civil nuclear cooperation could be reached between Washington and Islamabad.⁹⁵ The FCO stated that when the UK revised its export policy to India in August 2005, it had concluded that “it was inappropriate to make similar changes to our policy towards Pakistan” due to the revelation of the proliferation network that had been run by A Q Khan.⁹⁶ Pakistan is placing its hopes for a change of approach and a deal on China. At the NSG plenary in May 2006, China said it preferred a criteria-based approach which would allow a deal for Pakistan in the future. However, Pakistan was disappointed in November 2006 when an expected offer of civil nuclear cooperation from China did not materialise.⁹⁷

45. We conclude that the weakness of the existing nuclear nonproliferation regime was seriously exposed when non-signatories India and Pakistan carried out nuclear tests in 1998. We welcome the fact that the Indo–US nuclear deal will bring India's civilian facilities further within the broader non-proliferation framework. However, the political significance of the US offering civilian nuclear cooperation to a non-signatory of the NPT has seriously undermined the NPT. We recommend that the Government work to ensure the NPT is updated to take account of the reality of India and Pakistan's possession of nuclear weapons. We further recommend that urgent steps are taken to assist security and confidence-building measures between India and Pakistan.

Global climate security

46. In 2004 India had one of the lowest per capita emissions of greenhouse gases in the world.⁹⁸ However, given its expanding economy, its aim of bringing its citizens out of poverty and its anticipated population explosion, India's future energy use is likely to be “phenomenal”.⁹⁹ Furthermore, coal is the most dominant source of energy in India and almost all of India's large coal reserves are of high carbon content and relatively low calorific value.¹⁰⁰ India therefore has the potential to cause significant global climate change.

94 Owen Bennett Jones, *Pakistan: Eye of the Storm*, (New Haven and London, 2003), p 194

95 Ev 177

96 Ev 39, para 72

97 “Good deals, but no nukes for Pakistan”, *Asia Times Online*, 28 November 2006, www.atimes.com/

98 P.R. Shukla, “India's GHG emission scenarios: Aligning development and stabilization paths”, *Current Science*, vol 90, number 3, February 2006, p 384

99 Q 49 [Dr Smith]

100 Ev 160

47. India is a non-Annex 1 country within the UN Framework Convention on Climate Change which means it has no set target to reduce greenhouse gas emissions under the Kyoto Protocol, which it ratified in 2002. India does accept the need to limit emissions. In an address to the Indian Science Congress in January 2007, Prime Minister Singh said:

we, in the developing countries, cannot afford to ape the West in terms of its environmentally wasteful lifestyles.¹⁰¹

48. However, India argues that the burden of reducing global carbon emissions lies with developed countries whose economies were built during their industrial revolutions in the nineteenth century on extensive fossil fuel use.¹⁰² The FCO stated, “India is suspicious of any action that it perceives to be an attempt to lock it into emission reductions targets that might prove harmful to its economic growth.”¹⁰³

The Foreign Secretary reiterated this in evidence to us:

Certainly there is very much an expressed belief in India that they abide by, as we do, the principle of common differentiation of responsibility. They say, ‘You, the developed countries started this problem; you will be the first to show us you can tackle it; and we will continue to discuss what happens next’.¹⁰⁴

49. Mr Roy-Chaudhury told us:

we are seeing greater sensitisation on climate issues. When the British Foreign Secretary was in Delhi just after the report on climate change came out, there was greater receptivity towards it and its conclusions. However, I sense that Delhi would not want India to be seen as the first or only country to go ahead. Its position could be that it would like to see a consensus emerge on the issues, and other countries starting to moving forward. Then it could become a win–win situation. I cannot see India taking the lead on the issue. Whether it admits it or not, it would look towards China and ask whether the British Government were working with China before they tried to work positively with India.¹⁰⁵

In the press conference following the last UK–India Summit in October 2006, Prime Minister Tony Blair thanked India for the way it had participated in the Gleneagles G8+5 Climate Change dialogue and said he thought such dialogues were on their way:

to creating the right type of framework that will allow us once the Kyoto Protocol expires in 2012 to have a way forward that will involve all the major countries in the world, including America and China and India.¹⁰⁶

101 “PM’s address at the 94th Indian Science Congress”, Government of India Prime Minister’s Office, 3 January 2007

102 *India Country Paper: Dealing with the Threat of Climate Change, Gleneagles Summit*, July 2005, para 5, www.meaindia.nic.in/

103 Ev 43, para 106

104 Q 144

105 Q 41

106 “Press Conference with Prime Minister of India”, Number 10 press conference transcript, 10 October 2006, www.pm.gov.uk

50. We questioned the Foreign Secretary about the likelihood of India committing itself to emissions targets post-Kyoto. She answered:

I think we are a long way from that kind of conversation as yet, by which I mean that there is a huge amount of discussion going on about what should happen when the existing Kyoto protocol expires. [...]The whole issue of whether Kyoto is followed up by a second round of target setting is at present in question and under discussion.¹⁰⁷

51. We also asked the Foreign Secretary whether it was hypocritical of the UK to encourage India to use greener sources of energy when our per capita consumption is so high. She responded:

No, because we are not saying to India or any other developing country, 'I am sorry, we've had our growth and development but you can't have yours'. That is the opposite of what we are saying. We are saying that we believe that we should be part of an international move to help countries such as India grow in a sustainable way; [...] not to have to go through the development process that we went through, but to leapfrog into a low carbon economy. [...]¹⁰⁸

She added:

It is almost conventional wisdom that, despite our per capita consumption, we produce 2% of the world's emissions of carbon dioxide. If we saved all our carbon emissions, which I fear we are not likely to find it easy to do, a growing India or China could wipe that out quickly. That is why this is one of the most difficult challenges facing the world community.¹⁰⁹

52. The Foreign Secretary also pointed out that it was in India's own interests to act against climate change:

One of the important aspects of all these discussions [...] is that sadly countries such as India—not just Bangladesh, which is the example that everyone starts with—will be the first and the most severely affected by the impact of climate change.¹¹⁰

The FCO described the impact climate change would have on India and the South Asian region:

[it] could undermine domestic priorities in sustainable economic development and lead to regional conflict, migration and an increase in competition over natural resources. Temperature increase of 3–4 degrees centigrade over the next thirty years could cause Himalayan glaciers to shrink; areas that rely on glacial runoff would suffer severe shortages with 500 million people depending on the glacier-fed Indus and Ganges rivers for water. Desertification, deforestation, soil erosion and a reduced water table are already major problems—more climate change will worsen this. A one-metre sea rise would affect 5,763 square kms, and threaten another 7.1 million

107 Q 144

108 Q 145

109 Q 146

110 Q 145

people. Goa would lose 4.3% of its land, including tourist areas. Rice and wheat production would drop significantly because of climate change. Gujarat, Maharashtra, Karnataka, Punjab, Haryana, and Uttar Pradesh would be worst affected. Temperature rise would lead to increased pest populations and crop losses and vector-borne diseases such as malaria would invade new areas.¹¹¹

53. India's increasing population, growing economy, energy-intensive industry, air transport and travel have already placed considerable strain on its own environment. Air pollution is a growing problem in Indian cities—for example, the Indian city of Ranipet has been listed among the ten most polluted in the world.¹¹² Deforestation has impacted on local ecological cycles and there is evidence of changing coast lines and monsoon patterns.¹¹³

54. India already has a good record on programmes for renewable and cleaner energy sources. The Ministry of Non-Conventional Energy Sources, set up in 1992, is dedicated to providing a coordinated response to renewable schemes. An International Energy Agency report stated that:

India has one of the largest programmes for renewable energy. It covers all major renewable energy sources: biogas, biomass, solar energy, wind energy, small hydropower and other emerging technologies.¹¹⁴

The Foreign Secretary told us:

before the Kyoto protocol came into force [...] the Indians told me then that they had something like 30 CDM [Clean Development Mechanism] projects in the pipeline and ready to be approved. That was more than any other country in the world, so they have been well ahead of the game on that.¹¹⁵

She also commented:

About a year ago, [...] an experienced British business player from the utilities sector, [...] told me [...] that he had gone to India in part because he felt that people such as he should share their expertise, but had come away convinced that the Indians could teach him far more about the use of renewables than he could teach them.¹¹⁶

55. Dr Lawrence Sáez informed us that:

India has taken a leading global role in renewable energy. At present, India is one of the world leaders in wind power generation, ranking fifth in the world (behind Germany, Spain, the USA, and Denmark) in total installed wind power capacity.

111 Ev 45, para 124

112 The Blacksmith Institute, *The World's Most Polluted Places: The Top Ten*, September 2006

113 Ministry of Environment and Forests, Government of India, *India's Initial National Communication to the United Nations Framework on Climate Change*, 2004, pp 59, 60 and 101

114 International Energy Agency: Coal Industry Advisory Board, *Coal in the Energy Supply of India*, 2002, p 23

115 Q 144

116 Q 158

Moreover, India is a world leader in the manufacturing of certain types of equipment for the use of photovoltaic energy conversion. For instance, India is the world's fifth largest manufacturer of silicon solar modules.¹¹⁷

He suggested that UK firms might be able to help India with the manufacture of wind turbines, offshore wind farms, and wave technology.¹¹⁸

56. The FCO told us that the UK was “actively engaged” with India on climate change through the ongoing Structured Dialogue on Climate Change (SDCC). This includes work on climate change impacts in India, vulnerability of certain sectors and adaptation strategies, study of barriers to transfer of low carbon technology and ensuring intergovernmental engagement.¹¹⁹ Most of the UK-funded clean development mechanism projects are in India.¹²⁰ On 23 January 2007, the Secretary of State for Environment, Food & Rural Affairs, Rt Hon David Miliband MP, announced a second phase of bilateral work with India to identify and develop climate change adaptation strategies.¹²¹

57. We welcome the leading role India is playing in developing renewable energy sources. Nevertheless we conclude that India's growing use of non-renewable sources of energy will pose a major threat to global climate security in the future. India is right that the developed world has a responsibility to take the lead in reducing global emissions. However, it must also acknowledge its own likely future impact on climate change and recognise that it is in its own interests to enter the framework that succeeds Kyoto. We recommend that the United Kingdom continue to work together with India to build trust on the climate change agenda, including through joint cooperation on developing renewable sources of energy and climate change impact and adaptation projects.

Energy security

58. India's energy demands will increase well beyond its current domestic capacity.¹²² India has large proven reserves of (low-calorific) coal¹²³ and its Integrated Energy Policy aims to increase civil nuclear production and renewable energy sources.¹²⁴ However, India is “relatively poor”¹²⁵ in oil. Although it has the largest known proven crude oil reserves, 5,919 million barrels, this only constitutes 0.51% of the world's total. It also has “abysmal” levels of gas (1,101 billion standard cubic metres).¹²⁶

117 Ev 161

118 Ev 161

119 Ev 45, para 128

120 Q 144

121 “Defra announces second phase of key Indian climate change adaptation project”, Department for Environment, Food and Rural Affairs press release 18/07, 23 January 2007

122 Ev 44, para 114

123 Ev 160

124 Ev 44, para 114

125 *Ibid*

126 Ev 159

59. India's energy security policy will have a direct impact on the UK's energy interests. The FCO told us:

Indian energy demand is driving up oil prices; India is investing in maritime capabilities to protect transit routes; state owned companies are buying oil and gas assets in countries that will influence their foreign policies in ways the UK may find difficult (eg Burma).¹²⁷

60. India currently imports about 65% of its oil from the Gulf, but the FCO explained that India was now trying to diversify suppliers:

Indian investment in overseas oilfields has reached \$10 billion in the last few years, not including a \$25 billion deal with Iran. [...] India is developing new relationships, for example in Sudan, where India has invested \$750 million in oil; Nigeria where India negotiated a purchase of about 44 million barrels of crude oil per year on a long-term basis; and in Syria, where India recently finalised a contract for the exploration, development and production of petroleum with a Syrian company.

India is trying to gain a foothold in the Caspian basin. India has provided Tajikistan with a \$40 million aid package and undertook to refurbish an air base near the Tajik capital Dushanbe.

The Russian territory of Sakhalin, Vietnam and Myanmar [Burma] are also potential suppliers to the Indian market and areas in which Indian firms have made major investments.¹²⁸

61. India is trying to shift toward gas as a major energy source. Dr Price explained that this was because India did not like being dependent on world oil prices:

if the price of oil goes up, India's current account looks bad. With these longer-term accounts, [...] you do the initial investment, but then you know what the price is, and you are not going to be subject to sudden current account problems.¹²⁹

The FCO stated that India would become a significant importer of gas over the next few decades and that its cheapest option would be through pipelines from Central Asia and the Middle East, via Pakistan.¹³⁰ There are two main pipelines India is currently considering. The first is the Iran–Pakistan–India pipeline. Iran is India's closest source of natural gas¹³¹ and Iran, Pakistan and India have now agreed on a pricing formula for the delivery of Iranian gas for the 2600km-long pipeline, first proposed in 1994. An Iranian energy official has said that he hopes all other decisions will be taken by June this year.¹³²

127 Ev 45, para 123

128 Ev 44, paras 115–118

129 Q 212

130 Ev 44, para 119

131 Ev 159

132 "Iran gas price formula 'agreed'", *BBC News Online*, 26 January 2007 www.bbc.co.uk/news

62. However, a big question hanging over the pipeline is that of security.¹³³ Dr Matthew Nelson, lecturer in the politics of Asia and Africa, School of Oriental and African Studies, told us it was unlikely to happen “any time soon” because:

The pipeline from Iran to India would pass [...] through Baluchistan, where there is a great deal of ongoing unrest right now.¹³⁴

Mr Roy-Chaudhury agreed. He told us:

My money at the moment would be on the deal not happening. [...] Baluchistan in Pakistan, [...] is a very difficult area in which to build pipelines and ensure their security.¹³⁵

63. Another issue affecting the pipeline is India’s new relationship with the United States. Mr Roy-Chaudhury told us:

India and Iran have a strategic relationship of sorts—India has the second-largest Shia community in the world after Iran. At the same time, a relationship is emerging between India and Washington. As we saw at the IAEA, when India voted against Iran and in favour of Washington, its relationship with Iran was predetermined to a large extent by its relationship with Washington. So, my sense is that it is going to be very difficult to keep both balls in the air. In terms of priority, Washington is clearly a far greater priority at this moment than Tehran, so I do not see practical movement on the pipeline proposal between India and Iran.¹³⁶

He also suggested that if India were to become dependent on Iran for energy, Indian companies might violate any sanctions against Iran.¹³⁷

64. However, Dr Price suggested that the US’ concerns about Iran might be mitigated by the positive benefits that the pipeline would bring, as a Confidence Building Measure between India and Pakistan.¹³⁸

65. The other major pipeline which India is considering is the Tajikistan–Afghanistan–Pakistan pipeline. Witnesses told us that this proposal also faced challenges,¹³⁹ but that it was more likely to be built than the Iran–Pakistan–India pipeline because of Gazprom’s interest in the pipeline¹⁴⁰ and because of India’s friendly relationship with the government of Afghanistan.¹⁴¹

66. It might also be possible for India to import small amounts of natural gas from Bangladesh or from Burma via Bangladesh, although the FCO stated that internal party

133 Q 46 [Chaudhury] and Ev 185

134 Q 209

135 Q 46

136 Q 44

137 Q 45 [Chaudhury]

138 Q 211

139 Ev 43, para 110

140 Ev 44, para 120

141 Q210 [Nelson]

politics in Bangladesh mean this was unlikely to occur.¹⁴² Dr Charu Lata Hogg wrote that Bangladesh wanted trade parity with India to be a condition of a pipeline from Burma, a condition that India would not accept.¹⁴³

67. We conclude that an agreement for India to build a gas pipeline through Pakistan would be likely to have a positive impact on the two countries' relations. However, India should be cautious about becoming too reliant on Iran for energy. We recommend that the Government set out in its response to this Report what representations it has made to India with regard to the proposals for both the Tajikistan–Afghanistan–Pakistan and the Iran–India–Pakistan pipelines.

The World Trade Organisation

68. India was a founder member of the General Agreement on Tariffs and Trade (GATT), which preceded the World Trade Organisation (WTO). The FCO described India as “an important and active country within the WTO” and a “leading member of the G20 group of advanced developing countries”.¹⁴⁴

69. India has been a key participant in the Doha Development Round negotiations. It has agreed in principle to grant greater market access for industrial products and services in return for a lowering of agricultural tariffs by the European Union and the USA.¹⁴⁵ The FCO described India's position as:

driven by a mix of interests. India wants to protect [...] about 600 million people who depend directly or indirectly on agriculture, particularly from subsidised imports and on non-agricultural market access—NAMA (protection of its infant industry and a fear of an influx of Chinese textiles and manufactured goods). At the same time, India recognises that an increasing number of its industrial sectors (pharmaceuticals, auto parts etc) are beginning to be globally competitive, hence there has been significant autonomous reductions in industrial tariffs in recent years, and it may be willing to go further as part of a WTO agreement.¹⁴⁶

70. Dr Price agreed. He told us:

India's position on the WTO is almost set by the various interests that determine it. Farmers make up 60 to 70% of the population, and most of them operate on a small scale. That community is certainly fearful of foreign imports coming into India, and that determines agriculture. If you look at the services side—the high-flying IT sectors and so forth—they are much more liberal. They have tax advantages; they are globally competitive, so they want greater access, in terms of services. Industry groups, again, play a large part in determining policy towards manufactured goods

142 Ev 44, para 121

143 Ev 185

144 Ev 44, para 107

145 “Brazil and India to G-7: Will Cut NAMA Tariffs If EU, US Cut Ag Tariffs And Subsidies”, *BRIDGES Weekly Trade News Digest*, vol 9, number 42, 7 December 2005

146 Ev 43, paras 107 and 108

imports. So in some areas India has a very defensive policy and in other areas it is very aggressive [...].

There is certainly no generic support for liberalisation, but India's tariffs are coming down. They have halved over the past five or six years, but India's central Government remain reliant on customs duties and import and export duties for their own finances, so they are in a bind on that level as well.¹⁴⁷

71. We asked the Foreign Secretary if she thought that India had been constructive in the Doha negotiations. She replied:

I think that two thirds of the population in India are still subsistence farmers and that is obviously a source of great anxiety to the Indian Government, as it would be to any Government. So I understand their concerns. Equally, there have been times when we have felt that India was perhaps being particularly cautious and not always taking the same view that we do about the potential value to all players in the world economy of an improved trade round, and of the Doha round in particular—but that is natural. That could be said of many other players and of many other countries.

Certainly we are encouraging—and have encouraged—the Government of India to share our desire for the trade round to succeed.¹⁴⁸

72. We conclude that India could gain large benefits from a successful Doha Development Round and we recommend that the Government continues to urge India to take the most constructive approach possible in the newly resumed World Trade Organisation negotiations.

The Commonwealth

73. India's decision to continue its membership of the Commonwealth after becoming a republic in 1947 is believed to have influenced other Asian and African nations to join the organisation, shaping the modern Commonwealth.¹⁴⁹ India is the Commonwealth's largest state, containing almost 60% of its total population.¹⁵⁰ The FCO told us that India played an important role in the organisation:

It is the fifth largest contributor to the Commonwealth Secretariat's budget after the UK, Canada, Australia, and South Africa. India is an active member of key Commonwealth bodies, including the Committee on Terrorism and played a key role when a member of the Commonwealth Ministerial Action Group on the Harare Declaration (CMAG). India continues to show its commitment to the Commonwealth by being one of the principal donors for the Commonwealth Small States Office in New York.

147 Q 33

148 Q 141

149 Ev 43, para 110

150 Indian Ministry of External Affairs, *India and the Commonwealth*, p 1, www.meaindia.nic.in/

India will be hosting the 2010 Commonwealth Games in Delhi.¹⁵¹

74. We heard mixed views on India's perceptions of the Commonwealth today. Mr Roy-Chaudhury, told us that India saw the Commonwealth as an organisation of narrow importance:

there has been a major change in India's perspective on its foreign policy, especially in its relationship with the world.[...] If you are trying to prioritise it, India's relationship with Washington today is its top priority. Everything else, I think, takes a more limited perspective. My sense is that the Commonwealth would be included in that.¹⁵²

75. However, Dr Smith believed that India would now be more likely to place higher importance on the Commonwealth:

yes, of course the main focus is on Washington, but India now sees itself as an emerging global player, and I think the view of the Commonwealth and the energy that India is prepared to put into the Commonwealth will be reflected in its global perspective, as that becomes a more dominant feature of foreign policy.¹⁵³

76. The Foreign Secretary told us:

I think that India plays a very constructive role in the Commonwealth and is a very much respected and major participant, not least because of its sheer size and general influence. I suspect that the Indian Government might be a little concerned if you thought that they were not really interested in the Commonwealth but I certainly accept that, far more than in the past, they are nurturing and building links and partnerships within their region. That is a feature of what is happening in the region and is true of all players there including, for example, Australia.¹⁵⁴

77. We welcome India's large contribution to the Commonwealth to date and recommend that the Government encourage India to continue to play an important role in the Commonwealth in the future.

India–Brazil–South Africa Dialogue Forum

78. India is a member of the India–Brazil–South Africa (IBSA) Dialogue Forum, which was created in 2003. In a joint declaration after the first IBSA summit meeting in September 2006 the three nations' leaders outlined IBSA's achievements and future objectives:

[It] has become instrumental for promoting ever closer coordination on global issues between three large multicultural and multiracial democracies of Asia, South America and Africa, and contributed to enhancing trilateral India–Brazil–South Africa cooperation in sectoral areas.

151 Ev 43, paras 111–112

152 Q 36

153 Q 36

154 Q 147

The importance of the IBSA Dialogue Forum goes beyond its positive impact on India–Brazil–South Africa relations. The Forum, consisting of three large developing countries, provides a framework that will give additional impetus to further contacts between Asian, South American and African developing countries, thus contributing to strengthening South–South cooperation.¹⁵⁵

79. The FCO described IBSA as follows:

[its] initial purpose [...] was to foster south–south co-operation between three key regional developing nations and present a cohesive voice at the bargaining sessions anticipated for the Doha Rounds of WTO talks. The common challenges of poverty alleviation, economic development and social equity provided the early focus, but specific trade and sectoral issues also featured highly at the September 2006 IBSA Summit in Brasilia. IBSA is also seen by India as a potential gateway to wider regional markets already governed by customs unions (MERCOSUR and SACU) and some work on preferential trade arrangements between India and these two groupings is now underway. IBSA has also pressed for a more representative (multilateral) UN; specifically, India and Brazil support each other's candidature for inclusion as permanent members of the Security Council.¹⁵⁶

80. We asked Mr Roy-Chaudhury about India's views of the significance of IBSA. He told us:

the way in which Delhi sees it is that those three countries could play a critical role in co-operating with one another through what is called south–south co-operation. In no sense does it have the priority that other relationships with India have, such as Washington's, but there is a sense that Brazil, for example, was a major emerging power about a decade or two ago. South Africa, again, has tremendous potential. [...] It is difficult to see too many convergences of interests, if you look at it systematically, among the three countries. One is that there is a nuclear field in South Africa and Brazil. On the UN, also, there is something, but I do not see tremendous dynamism in all this.¹⁵⁷

81. However, in her evidence to us the Foreign Secretary commented that:

The recent formation of IBSA—India, Brazil and South Africa—to work together on a variety of issues is another indication that people are recognising India's role and potential in the world.¹⁵⁸

82. We welcome the India–Brazil–South Africa (IBSA) Dialogue Forum as a mechanism for cooperation between rising democratic powers.

155 "Joint Declaration of First IBSA Summit Meeting", Government of India Prime Minister's Office press release 3:1 1st, 14 September 2006

156 Ev 43, para 113

157 Q 37

158 Q 92

India and Japan

83. India's links with Japan are increasing.¹⁵⁹ Mr Roy-Chaudhury told us:

Japan is playing an increasingly important role, according to Indian perception. The problem essentially was over India's nuclear tests, when Japan came down very strongly—for obvious reasons—on India's tests in 1998, but that period is over, and today there is a strategic dialogue between India and Japan.¹⁶⁰

Japan promoted India's participation in the first East Asian Summit in December 2005.¹⁶¹ Japanese Prime Minister Shinzo Abe visited India in December 2006, a visit which was reported as “paving the way” for Japan to support India's nuclear deal with the US at the next plenary of the Nuclear Suppliers Group.¹⁶²

84. The rapprochement between India and Japan is motivated by a number of factors. First, both India and Japan share an interest in maintaining a stable balance of power with China in the region.¹⁶³ The second factor is increasing levels of trade. Japan was the fourth largest investor in India between 1991 and 2004 and over 70 Indian IT companies are expanding their operations to Japan.¹⁶⁴ Mr Roy-Chaudhury noted these political and economic links, but argued that the

bottom line for Japan is its energy resources. Japanese tankers take oil from the Persian gulf. They sail to the western part of India, and US naval forces are there. From Cape Comorin to the strait of Malacca and Singapore, there is no military presence other than that of the Indian navy. For Japan, strategically, it is important to work with India on security of sea lines of communication [...]¹⁶⁵

85. India is also playing a role in defence diplomacy between Japan and China. Mr Roy-Chaudhury told us:

last June, [...] during a period of difficulty between Japan and China, the Indian Defence Minister flew out to Tokyo, from Tokyo to Beijing, from Beijing to Singapore, and then back to Delhi—a route that very few Defence or Foreign Ministers would have dared to do. They would have not been welcome in either Tokyo or Beijing if they had gone to the other country first.¹⁶⁶

159 Ev 40, para 78

160 Q 30

161 C. Raja Mohan, “India and the Balance of Power”, *Foreign Affairs*, vol 85, number 4 (July/August 2006), pp 24–25

162 “Benefits of Indo-US deal: Nuclear renaissance in the offing”, *The Tribune*, 1 January 2007, www.india-newsbehindnews.com

163 C. Raja Mohan, “India and the Balance of Power”, *Foreign Affairs*, vol 85, number 4 (July/August 2006), p 25

164 Chatham House and Fondation Robert Schuman, Karine Lisbonne-de Vergeron, *Contemporary Indian Views of Europe*, (London, 2006), p 14

165 Q 31

166 Q 30

India and Russia

86. India has continued to have close relations with its traditional partner, Russia. Ties are strong on defence, with Russia selling India conventional weapons to the value of \$9.9 billion between 1997 and 2004.¹⁶⁷ Dr Smith told us:

India is hungry for technology, which will help consolidate that relationship no end. There are cost benefits because of the cost of technology from the west.¹⁶⁸

Mr Roy-Chaudhury noted that Delhi was also concerned about access to spare parts and technology. While Washington had imposed sanctions on India after its 1998 nuclear test, this issue did not exist “in terms of the India–Russia military relationship because the Russians had never imposed sanctions on India.”¹⁶⁹ He argued that India’s military relationship with Russia was now moving into the area of strategic defence. Russia and India were cooperating on the fifth-generation advanced strike aircraft and had both tested a cruise missile.¹⁷⁰

87. India is also developing a relationship with Russia on energy, with Indian firms having made major investments in a joint energy venture in the Russian territory of Sakhalin.¹⁷¹ Russia supported the Indo–US nuclear deal and in January 2007, Russian President Putin and India’s Prime Minister Singh signed a draft deal under which Russia will build four nuclear power reactors in India. As the memorandum of understanding on the new reactors was signed, Prime Minister Singh commented, “Energy security is the most important of the emerging dimensions of our strategic partnership”.¹⁷² Federico Bordonaro suggested to us that Russia “would probably benefit from Delhi’s disappointment” if the US–Indo nuclear deal failed to be implemented.¹⁷³

88. We will consider the impact of Russia’s energy deals with other nations on the UK’s energy security in our forthcoming inquiry into Russia.

89. We recommend that the Government sets out in its response to this Report the impact of Russia’s developing energy relationship with India on the UK.

India and the European Union

90. The FCO stated that “India and the EU have woken up to the importance of a strong relationship”.¹⁷⁴ India and the EU have held annual summits since 2000 and signed a strategic partnership in September 2005. India has agreed to take part in the Galileo satellite navigation project, which will give it an alternative to the American GPS network and should improve cooperation between the Indian and European high-technology

167 Ev 126, para 6

168 Q 31

169 Q 32

170 Q 29

171 Ev 44, para 118; Q 29

172 “India and Russia in nuclear deal”, *BBC News Online*, 25 January 2007, www.bbc.co.uk/news

173 Ev 177, p 4

174 Ev 48, para 148

sectors. India is also contributing 9.09% to the International Thermonuclear Experimental Reactor (ITER) fusion project, which the EU is financing by 50%.¹⁷⁵ In 2005 bilateral trade between India and the EU grew by 20%.¹⁷⁶ A High Level Trade Group to explore ways to deepen bilateral commerce and investment was established in September 2005 and had its first meeting in July 2006.

91. However, we heard evidence that economic and political ties between Europe and India tended to be with individual member states rather than the EU as a whole. A recent report by Chatham House and the Fondation Robert Schuman on India's views of Europe described the strategic partnership between India and the EU as "shallow by any standards",¹⁷⁷ while Mr Roy-Chaudhury told us it existed "on paper".¹⁷⁸ EU Foreign Direct Investment (FDI) into India amounts to a tenth of that into China.¹⁷⁹ Mr Roy-Chaudhury told us:

If you look at trade statistics and at India's trade relationship with the EU, it is very clear that the bulk of the bilateral trade is between India and Britain. [...]

My sense is that for India the EU essentially means Britain, whether that is in terms of trade relations, student and cultural exchanges or the political relationship. The only area where the EU is being seen now as a larger conglomerate of states is in issues such as the nuclear suppliers group, as a large number of EU member states are also members of the nuclear suppliers group. [...] But practically, the EU relationship with India is, for India, largely a British–Indian relationship.¹⁸⁰

92. France also has a longstanding relationship with India, having recognised very early on its potential as a market for high-technology goods.¹⁸¹ In February 2006 both nations signed an Agreement on Defence Co-operation as well as a \$270 million deal between India's Kingfisher Airlines and the French company ATR for 15 aircraft.¹⁸²

93. Dr Smith suggested that relations between the EU and India would improve in the future:

Because of economic dynamics on both sides, there will be a need to recognise that they must work together much more. [...] it tends to be via the UK at the moment, and that will erode over time.

One should not forget that Indian political culture, bureaucracy and so forth is a difficult animal to understand, get to know and deal with. That is getting easier. As

175 Chatham House and Fondation Robert Schuman, Karine Lisbonne-de Vergeron, *Contemporary Indian Views of Europe*, (London, 2006), p 22

176 Chatham House and Fondation Robert Schuman, Karine Lisbonne-de Vergeron, *Contemporary Indian Views of Europe*, (London, 2006), p 20

177 *Ibid*, pp xi–xii

178 Q 26

179 "China could learn from India's slow and quiet rise", *Financial Times*, 23 January 2006

180 Q 26

181 C. Raja Mohan, "India and the Balance of Power", *Foreign Affairs*, vol 85, number 4 (July/August 2006), pp 25–26

182 Chatham House and Fondation Robert Schuman, Karine Lisbonne-de Vergeron, *Contemporary Indian Views of Europe*, (London, 2006), p 5

India becomes more of an internationalised nation state, it is becoming a lot easier...¹⁸³

94. The Seventh EU–India Summit on 13 October 2006 endorsed a report by the High Level Trade Group, which argued for a bilateral trade and investment agreement between the EU and India, that would aim to eliminate about 90% of tariffs in the next seven years. Yet the trade agreement still needs a European Council mandate for the Commission to open negotiations. Discussion on the draft negotiating mandate, presented by the Commission to Member States in December 2006, continues.¹⁸⁴ Analysts have warned that Member States may not be able to agree on the extent of any EU economic concessions with India.¹⁸⁵ However, Dr Smith told us:

It varies a little by sector perhaps. In agriculture, the EU and India are a very long way away, but if you look at services, [...] I think that there might be much greater synergies between the EU and India, which could be taken forward ...¹⁸⁶

95. We asked the Foreign Secretary about the UK’s position on the agreement. She replied:

We certainly welcome the proposal [...] and want to move towards negotiations for quite a broad-based trade and investment agreement with India.¹⁸⁷

However, in a supplementary note to the Committee she emphasised that the UK’s “first priority” remained the Doha Development Agenda:

We want to ensure that the EU’s next steps are consistent with maximising the prospects of an ambitious and pro-development outcome to the negotiations, as well as demonstrating the EU’s continuing commitment to multilateralism. Nothing we or the EU does should undermine the DDA, and we need to ensure that any new regional and bilateral free trade agreements are complementary to the multilateral process, and can be building blocks to future multilateral rounds.¹⁸⁸

96. In March 2007, an “essential elements” clause on democracy and human rights, included in all EU trade and cooperation agreements since 1995, and a clause on Weapons of Mass Destruction, became a “serious stumbling block” to an agreement on the draft mandate.¹⁸⁹ India described the former clause as a “deal breaker” and was also against the WMD clause. The European Commission has now proposed that the clauses be excluded from the agreement. Some Member States do not want to offend India and support a purely technical agreement, but others are concerned that the exclusion of these clauses is a risky precedent.¹⁹⁰

183 Q 27

184 Ev 75

185 “EU and India agree to trade deal”, *BBC News Online*, 13 October 2006, www.bbc.co.uk/news

186 Q 28

187 Qq 136–37

188 Ev 75

189 “EU–India trade pact stumbles”, *Financial Times*, 4 March 2007

190 “EU’s India trade pact draft omits WMD, rights”, *Reuters*, 5 March 2007

97. We recommend that the Government urge its EU partners to work together to build stronger relations between the EU and India. In particular the UK should encourage Member States to agree on a negotiating mandate for a Free Trade Agreement with India.

Africa

98. Dr Smith and Mr Roy-Chaudhury argued that like China, India saw Africa as an alternative source of energy.¹⁹¹ India also has a market for its goods in Africa, where its south–south cooperation built a tradition of sharing technology. Tata recently established a car factory in Senegal.¹⁹² Dr Smith told us that there was a considerable Indian diaspora in Africa, including many important political figures in South Africa.¹⁹³

99. However, Mr Roy-Chaudhury told us that in contrast to the comprehensive Chinese approach to Africa:

India does not have the capacity that China has in moving into Africa, providing financial resources and so on. Its priorities will, I think, relate to certain sectors, whether it is automobiles somewhere, energy elsewhere or whatever. There will not be an Africa-wide policy, and it will look closer to home.¹⁹⁴

191 Q 51

192 Q 50 [Price]

193 Q 50 [Dr Smith]

194 Q 51 [Roy-Chaudhury]

4 Security in South Asia

India, Pakistan and the question of Kashmir

100. There is great potential for trade between India and Pakistan if they can improve their relations. Like India, Pakistan has seen rapid economic growth over recent years, with GDP growth of 8.6% in 2005.¹⁹⁵ Dr Charu Lata Hogg described trade between Pakistan and India as “promising” and noted that;

Bilateral trade has increased from \$157 million in 1997–98 to \$343 million by March 2004.¹⁹⁶

When we crossed via Wagah from Amritsar in India to Lahore in Pakistan we witnessed queues of lorries waiting to unload goods onto lorries on the other side of the border and hundreds of Indian bearers carrying sacks of onions on their heads walking to Pakistan, while hundreds of Pakistanis carried boxes of Afghan dried fruit in the other direction. As we have already discussed, there is a big potential for gas pipelines through Pakistan to India. However, because India and Pakistan’s relations are dominated by the unresolved question of Kashmir, there is at present only limited trade between these two nations. Dr Charu Lata Hogg wrote:

The dispute over Kashmir is central to India’s foreign policy concerns and draws on much of its diplomatic energy and resources.¹⁹⁷

101. The dispute has also had an impact on the UK, not least because of its impact on community relations in British cities where conflicts originating in the subcontinent can be a factor in local politics. In addition witnesses told us that in the past terrorist training camps might have trained British Kashmiris.¹⁹⁸ M J Gohel told us that it was through such experience that some had ended up “as the new generation of recruits for al-Qa’ida and the global jihad movement”.¹⁹⁹ The Foreign Secretary said:

Increasingly across the world, we are seeing a process of informal relationships among a whole variety of groups that might have originated in a particular regional dispute but are now looking more widely. With regard to the disputes that have arisen in that particular area, there has always been the possibility that they may have some resonances here.²⁰⁰

102. Kashmir is also critical to security in the region. As recently as 2002, India and Pakistan, both nuclear powers, came very close to war. At the time, the then Foreign Secretary Rt Hon Jack Straw MP told the House:

195 Ev 36, para 42

196 Ev 185, p 3

197 Ev 184, p 2

198 Q182 [Griffin]

199 Ev 152

200 Q 110

“Intense diplomatic efforts and decisions made in recent days by the Governments of India and Pakistan give grounds for some optimism, and tensions have eased a little. None the less, with 1 million men under arms on either side of the line of control in a high state of readiness, the risks of a conflict remain significant. As both countries are in possession of nuclear weapons, the potential consequences for the region and for the wider world are devastating.”²⁰¹

Background

103. The current “Kashmir question” originated when India and Pakistan obtained their independence from the UK in August 1947. Partition gave the autonomous rulers of the different states the choice to join India or Pakistan, given their state’s geographical position and the religion of their inhabitants. The Maharajah of Jammu and Kashmir, Hari Singh, was a Hindu. However, the majority of the inhabitants of Jammu and Kashmir were Muslims. Maharajah Hari Singh prevaricated, but his hand was eventually forced when in October 1947 Pashtun tribesmen, supported by Pakistani government officials, raided across his borders. Hari Singh then agreed that Jammu and Kashmir would join India.²⁰² Nehru, who was himself a Kashmiri Pandit, also despatched troops into Kashmir that month, although whether India did so before or after the Instrument of Accession was signed is hotly disputed.²⁰³ The first India–Pakistan conflict in October 1947 left two thirds of the state under Indian control, including the majority Muslim Kashmir valley as well as Hindu Jammu and Buddhist Ladakh.

104. In January 1948 India referred the question of Kashmir to the United Nations. Various UN proposals endorsed the idea of a plebiscite in Kashmir, but India and Pakistan could not agree on the prerequisites for such a vote.²⁰⁴ Fighting continued between India and Pakistan throughout 1948, until a ceasefire came into effect on 1 January 1949, which divided Kashmir by the ceasefire line.

105. In 1965 India and Pakistan battled again over Kashmir, after which they agreed a ceasefire line identical to the 1949 position.²⁰⁵ In 1971 India’s provision of military support to Bengali secessionists in the war for independence of East Pakistan triggered another conflict. After the war the then Prime Ministers Indira Gandhi and Zulfikar Ali Bhutto signed the 1972 Simla agreement, which included a provision to rename the ceasefire line the Line of Control.²⁰⁶ In 1984 India and Pakistan fought over the Siachen Glacier, an area so geographically hostile that it had not been defined on the Line of Control, and in 1999 the two armies clashed at Kargil, after Pakistani troops crossed the Line of Control there. In the summer of 2002, the two nations almost went to war again following an escalation of tensions.

201 HC Deb, 10 June 2002, col 595

202 Owen Bennett Jones, *Pakistan: Eye of the Storm*, (New Haven and London, 2003), p 64

203 *Ibid*, p 65

204 *Ibid*, pp 71–72

205 *Ibid*, p 74

206 Q 75 [Bose]

Indian and Pakistani positions

108. Since 1947, India's position has been that the accession of Kashmir to India was legal and final.²⁰⁸ India takes the Simla agreement to be the basis of its relations with Pakistan and contends that the UN resolutions are obsolete.²⁰⁹ It rejects any plebiscite in Kashmir, arguing that the withdrawal of Pakistani troops was a prerequisite and never occurred.²¹⁰ India has also pointed to the autonomy enjoyed by Kashmir under the Constitution of India.²¹¹

109. Pakistan's traditional position is that Kashmir should be governed from Islamabad because of its majority Muslim population.²¹² Pakistan does not accept that the Simla agreement supercedes the UN resolutions. In the past it called repeatedly for India to hold a plebiscite. Professor Sumantra Bose, Professor of International and Comparative Politics, London School of Economics, explained that this did not include an independent or sovereign Kashmir as an option:

The Pakistani sponsorship of the plebiscite is very legalistic [...] The Pakistani understanding of the plebiscite has always been that it should be limited to two options: India or Pakistan, the two sovereign states.²¹³

110. However, Professor Bose, told us that both the Indian and Pakistani governments had shifted from these traditional positions. On the Indian position he explained that:

[t]he Indian stance on Kashmir is characterised by some ambivalence [...] for the home audience in India, Indian officials tend to emphasise that Kashmir, including the 'Pakistani-occupied' portion of Kashmir, is an integral part of India, with the obvious implication that the matter is settled [...] On the other hand, for the international audience Indian leaders do say that there is a bilateral dispute with Pakistan, in which case the matter is not settled. A second dimension of ambivalence is involved, in that India still formally lays claim to the Pakistani-controlled part of Jammu and Kashmir; but at the same time, for the last 50 years [...] Indian leaderships have both privately and publicly made it known that their first preference would be the conversion of the line of control in Kashmir into the formal international border with Pakistan.²¹⁴

111. On the Pakistani side, Professor Bose told us that in 2004 President Musharraf had accepted that the plebiscite was obsolete and that an alternative solution had to be found.²¹⁵ Since then President Musharraf has gone further, outlining an idea for a solution with four elements:

208 Q 76 [Schofield]

209 Q 75 [Ms Schofield]

210 Q 75 [Ms Schofield]

211 Ev 184

212 Ev 184

213 Q 76

214 Q 75

215 Q 76

First, identify the geographic regions of Kashmir that need resolution. At present, the Pakistani part is divided into two regions: the Northern Areas and Azad Kashmir. The Indian part is divided into three regions: Jammu, Srinagar, and Ladakh. Are all these on the table for discussion or are there ethnic, political, and strategic considerations dictating some give and take?

Second, demilitarise the identified region or regions and curb all militant aspects of the struggle for freedom. This will give comfort to the Kashmiris, who are fed up with the fighting and killing on both sides.

Third, introduce self-governance or self-rule in the identified region or regions. Let the Kashmiris have the satisfaction of running their own affairs without having an international character and remaining short of independence.

Fourth, and most important, have a joint management mechanism with a membership consisting of Pakistanis, Indians and Kashmiris overseeing self-governance and dealing with residual subjects common to all identified regions and those subjects that are beyond the scope of self governance.²¹⁶

Independence movements

112. The question of Kashmir is further complicated by calls for Kashmiri independence by some groups in Kashmir and abroad. Following the discredited elections of 1987, in 1989 an indigenous uprising against Indian rule started, led by the Jammu and Kashmir Liberation Front (JKLF) and supported by Pakistan.²¹⁷ Other groups fighting for independence emerged in the 1990s, such as Lashkar-e-Toiba and Jaish-e-Mohammed.²¹⁸ At present, groups calling for independence represent a range of opinions, from extremists to the moderate wing of the All Parties Hurriyat Conference, a loose grouping of Kashmiri political parties opposed to Indian rule.

113. However, independence is not supported by all the inhabitants of Kashmir.²¹⁹ About one-third of the 10 million population in Indian-administered Jammu and Kashmir is Hindu, Buddhist or Sikh.²²⁰ Professor Bose told us:

It is important to understand that the pro-independence sentiment is as much the preserve of an ethno-linguistic community as anything else. It is to do with the sense of Kashmiri culture, history and tradition that revolves around the Kashmir valley.

Obviously, the Hindus, Sikhs and Buddhists of Indian-controlled Kashmir want no part in pro-independence activity. However, pro-independence appeals also largely fall on deaf ears among Muslims in Indian-controlled Kashmir who are not Kashmiri-speaking and part of the cultural orbit of Kashmiriness.²²¹

216 Pervez Musharraf, *In the line of fire*, (London, 2006), p 302

217 Owen Bennett Jones, *Pakistan: Eye of the Storm*, (New Haven and London, 2003), pp 82–83

218 *Ibid*, pp 82–83

219 Qq 76, 83 and 88 [Ms Schofield] and Q 87 [Professor Bose]

220 Ev 35, para 40

221 Q 87

114. Victoria Schofield, journalist and author of “Kashmir in the Crossfire”, added that it was difficult to assess the level of support for the independence movements:

The problem is that, because of the way the elections are set up, those people will not contest any elections controlled by the Indian Government, so it is very difficult to understand what body of public opinion is behind them.²²²

115. Calls for independence in Pakistan-controlled Kashmir [“Azad Kashmir”] are strongest in Mirpur. However, Professor Bose told us, that there were significantly more independence supporters on the Indian side than on the Pakistani side.²²³ Ms Schofield told us that in 1990, it had been a “major political movement” but that now it was:

a completely different genre of revolt [...]While they grumble about their rights and the manipulation of the elections, they do not really think that their situation will change. They see essentially the importance of the Mangla dam and Pakistan will not give up on that, no more than it will give up on Northern Areas with the Karakoram highway. The most that they feel that they can push for is compensation when the level of the Mangla dam rises or falls. It really is not a movement that is comparable with the valley movement.²²⁴

116. Witnesses explained that pro-independence Kashmiris were not always clear about their aims.²²⁵ Dr Nelson told us:

the relationship between the ideal of independence, as a rhetorical and political story, and the practicalities of a movement for independence and what that would mean in negotiations in Kashmir are somewhat different things.²²⁶

He added:

For example, people in Azad Kashmir who appear to favour independence have been asked what they might mean by that. At that point, the notion of a separate Kashmir raises questions about, for example, crossing a border between Muzaffarabad and Islamabad and they will say, ‘Oh, I do not mean independence in that sense, because how would I go to work in Rawalpindi, or how would I visit my sister in Islamabad? Would I need a visa for that?’²²⁷

117. On the objective of a vote on self-determination, Dr Price told us that there were many potential difficulties. For example, there was an issue over whether the many Pandits (Hindu Kashmiris) who had left should be given a vote.²²⁸ Dr Nelson pointed out that

222 Q 83

223 Q 87

224 Q 87

225 Q 76

226 Q 179

227 Q 179

228 Q 180

Mirpuris and Kashmiris from the Valley would have very different views about what a solution might look like.²²⁹ Ms Schofield commented:

It is now a movement of dissent. [...] Increasingly, [...] independence is an idealistic idea [...] Even some of the pro-independence Kashmiris are suggesting that what they mean by that is good governance.²³⁰

Professor Bose added that the movement was very factionalised with inept leadership and weak organisation.²³¹

118. We asked witnesses about the extent to which the insurgency had become an international and Islamist movement rather than a localised struggle. Ms Schofield, responded:

It is a development that really occurred even before the insurgency began, when the Muslim United Front, the group of political parties that contested the [...1987 elections in Indian-administered Kashmir], was formed [...]. It is a known fact that those elections were rigged and the MUF was not able to get its candidates elected. [...] That is where there was more Islamic identification of the political movement. Because it was the MUF it was able to speak from the mosques.

If you speak to the JKLF now it says, ‘No, we are a Kashmiri movement and we want the Hindus back, we want the Sikhs to stay, we want everybody. It is for our independence.’ It very much tries to make clear that [...it] is not a Muslim movement at all. From the outside, you get more identification of it being a Muslim movement, but it does not have the extremism and radicalism that we see in other Islamic movements. That was never part of Kashmir’s make-up. It had a far more Sufistic, softer face of Islam. [U]nfortunately, as the movement was radicalised with more militants coming from Pakistan and the remnants of the Afghan jihad moving over, the speech and appearance of certain elements seemed more Islamic. However, [...] the actual, genuine independence movement is more of a Kashmiri one.²³²

Professor Bose told us:

There are two current factors. First, a lot of people in Indian-controlled Kashmir, in the insurgency-affected areas, feel that they have been abused because they are Muslims by a state—India—that although it might not be a Hindu state, none the less is largely led and run by non-Muslims and whose personnel on the ground in Kashmir, in particular the security forces, are predominantly non-Muslim also. [...]

Current factor No. 2 is that of course this feeling that has developed since the insurgency really took off in 1990 is very much fed and stoked by Pakistani sources and most of all by the groups of so-called Jihadist orientation which see the armed

229 Q 178

230 Q 83

231 Q 84

232 Q 88

struggle in Kashmir specifically as a struggle to liberate a Muslim land and people from alien, infidel occupation.²³³

119. We also heard that the Kashmiri diaspora in the UK might not always reflect views on the ground.²³⁴ Ms Schofield told us:

The diaspora is a very vocal body that I think has formed many opinions in Britain. The fact is that a lot of the diaspora are not from the valley at all. They are from Mirpur.

[...] There has been friction between the two groups [...] On one hand, the [valley Kashmiris] are grateful that the [Mirpuris] have raised international awareness of the Kashmir issue, but on the other they are slightly irritated that the Mirpuris have been putting it about that they suffered. [...] it is the valley Kashmiris who feel that they have suffered. It is arguable that if the state were put back together again, there would be a row between the Mirpuris and the Kashmiris, who do not speak the same language. Isolated from the ground realities, the [Mirpuris] have been much harder on their objectives for an independent Kashmir.²³⁵

Dr Price commented:

Last time I was in Srinagar, what came across was the phrase, ‘We want them to leave us alone.’ That referred to the militants as much as anyone else. There is tiredness of the conflict, which might not always be reflected by people abiding in the UK or the militants themselves.²³⁶

The peace process

120. In April 2003 the then Indian Prime Minister Vajpayee and President Musharraf took the peace process forward with a series of Confidence-Building Measures (CBMs) including the opening of a bus route between the two sides of Kashmir. India restored full diplomatic links with Pakistan in May 2003. A militant attack in October 2003 on Kashmir’s Chief Minister Mufti Mohammad Sayeed’s residence failed to throw the rapprochement off course. In January 2004 President Musharraf and Prime Minister Vajpayee announced the beginning of a “composite dialogue”, aimed at resolving disputes, including Kashmir.²³⁷

121. In our July 2004 Report into “Foreign Policy Aspects of the War against Terrorism” we wrote that it was “encouraging” that the relationship that had been developed between Musharraf and Vajpayee had been transferred to the new Indian Prime Minister Manmohan Singh.²³⁸ Developments under the Congress-led coalition in India have

233 Q 88

234 Q 177 [Dr Price]

235 Q 85

236 Q 180

237 The areas of dialogue agreed were: Peace and Security; the Wular Barrage/Tulbul Navigation project; the Siachen Glacier; Sir Creek; Economic and Commercial Cooperation; Terrorism and Drugs and the Promotion of friendly exchanges.

238 Foreign Affairs Committee, Seventh Report of Session 2003–2004, *Foreign Policy Aspects of the War against Terrorism*, HC 441, para 255

included a Second Round Table conference between Prime Minister Singh and Kashmiri interlocutors, although excluding the All Party Hurriyat Conference owing to its internal fissures, and talks on the Siachen Glacier in Kashmir and Sir Creek in the Rann of Kutch in May 2006 with Pakistan. In September 2006 Prime Minister Singh and President Musharraf agreed to take a series of measures to promote peace, including the establishment of a Joint Control Commission to tackle terrorism in Kashmir. Both sides have also agreed to re-affirm the Indus Water Treaty, to jointly survey the boundary pillars at Sir Creek, to set up a nuclear hot line, and to upgrade an existing hotline between India and Pakistan's senior military officers.²³⁹

122. We asked witnesses about the extent to which a solution was being pursued behind closed doors. In response, Dr Nelson, commented that if backchannels were to produce an agreement it would be “difficult to make public and bring forward”.²⁴⁰ We also questioned witnesses about the likelihood of a quick resolution. Ms Schofield said that she thought this was unlikely. Rather, the process would “just continue ticking over”.²⁴¹ She added:

In a way, it would almost be dangerous if there were [a speedy resolution], because if it were too dramatic, it could be quickly reversed.²⁴²

123. Ms Schofield and Charu Lata Hogg suggested that the dispute over the Siachen Glacier might be resolved more quickly,²⁴³ but Professor Bose said that there had been “no definite forward movement on the issue of Siachen” and that there was “no sign of a resolution to that in sight”.²⁴⁴ Dr Nelson said that even if it were resolved it would not necessarily lead to a broader agreement.²⁴⁵

124. Professor Bose suggested that there were two main obstacles to peace:

The Indian preference is to drag out the peace process as much as possible. By contrast, the Pakistanis are eager for swift results. There is a chance of Pakistani restlessness and impatience piling up and leading to a loss of faith in the peace process as a whole. The second problem [...] is that the substantive positions on what a solution to the Kashmir dispute would look like are very far apart. For example, Musharraf keeps talking about what would amount to a joint India–Pakistan condominium of Kashmir, an idea that has been around for the past 50-plus years. That implies a direct Pakistani role in what is today Indian-controlled Kashmir, and that is unacceptable to the Indians.²⁴⁶

125. Dr Price told us:

²³⁹ Ev 185

²⁴⁰ Q 171

²⁴¹ Q 79

²⁴² Q 80

²⁴³ Q 80 and Ev 184

²⁴⁴ Q 81–82

²⁴⁵ Q 172

²⁴⁶ Q 81

the danger of focusing on proposals is in thinking that there is a magic solution out there. A large part of the issue with Kashmir is the process, and there is a positive process going on.²⁴⁷

He also warned:

Do not have the idea that we are on a steady path to peace—it is far from unfeasible that the situation on Kashmir could deteriorate.²⁴⁸

126. We asked witnesses about the link between Pakistan’s domestic politics and the peace process. The argument has been put forward that Pakistan’s army and its Inter Service Intelligence agency (ISI) do not want progress on the peace process because Kashmir bolsters their position within Pakistan.²⁴⁹ However, Dr Nelson and Dr Price denied that Pakistan’s military establishment was using Kashmir as source of legitimacy.²⁵⁰

127. Nevertheless witnesses pointed out that the Pakistani leadership faced difficulties in negotiating with India. Professor Bose commented:

Kashmir has been Pakistan’s secret national cause since 1947, and there is a wide and prevalent irredentist view about it among the elites and the masses in Pakistan. At the same time it has become increasingly clear that an indefinite conflict or indefinite state of confrontation with India over the Kashmir issue is not a serious strategic option for Pakistan. Pakistan is caught in a bit of a cleft stick.²⁵¹

Ms Schofield told us:

It is clearly a running sore [...] It costs a lot of money and in a way means that Pakistan cannot get on with its life and relations in South Asia. It is a logical area to move forward on. But large segments of Pakistani society have an emotional attachment, and in a way it is a vicious circle, because the Government plays to those emotional attachments. Their domestic community is expecting something more on Kashmir than merely giving up after 60 years and accepting what they refused to accept in 1948–49. In other words, the line of control as the international frontier, which makes it very difficult for any Government.²⁵²

However, Ms Schofield felt that the younger generation would be more likely to accept some compromise with India.²⁵³

128. In light of the forthcoming elections in Pakistan, we asked how important President Musharraf was to the peace process. Ms Schofield told us, “President Musharraf has made some remarkable progress [...] He is determined that it is in Pakistan’s interest to resolve

247 Q 169

248 Q 170

249 Q 78 [Schofield]

250 Q 173

251 Q 78

252 Q 78

253 Q 79

the issue”.²⁵⁴ She believed that the orthodox lobby opposed to the peace process was not likely to “hold much sway” in the elections, but warned:

the danger is that a very discontented member of the lobby manages to get to Musharraf before or immediately after the elections and the whole apple cart is upset.²⁵⁵

President Musharraf has already upset religious hardliners by pushing through legislation to take rape out of the controversial Hudood Ordinance, based on Sharia law, and into the Pakistani Penal Code.²⁵⁶ In March 2007, President Musharraf faced one of the biggest challenges to his rule when his suspension of Pakistan’s Supreme Court Chief Justice, Iftikhar Chaudhry, provoked powerful protests from lawyers. These protests were continuing at the time this Report was agreed.²⁵⁷

129. Dr Nelson argued:

Certainly, when it comes to Musharraf’s role in the process, my sense is that he is quite influential, but he is not the only possible spokesperson from Pakistan.²⁵⁸

Dr Price reminded us:

People in India said the same thing about Vajpayee. [...] Now, Manmohan Singh has come to power, but the process has continued in a similar vein.²⁵⁹

130. On the question of Kashmiris’ participation in the peace process, witnesses argued that Kashmiris had not been sufficiently involved.²⁶⁰ However we learnt that separatists faced difficulties in participation. Ms Schofield told us:

The assassination of Professor Abdul Ghani Lone was a clear indication that, when there is recognition that we actually do have to talk to the Indian Government, one loses one of one’s nine lives pretty quickly. That fear always exists among the All Party Hurriyat Conference that, if they look like they are too close to negotiating with the Indian Government, they will not survive.²⁶¹

Dr Nelson asked, “who would the Kashmiri spokesperson be?”²⁶²

Joint cooperation against terrorism

131. In September 2006 Prime Minister Singh and President Musharraf agreed to establish a Joint Control Commission to tackle terrorism in Kashmir. India and Pakistan have also

254 Q 79

255 Q 79

256 “Strong feelings over Pakistan’s rape laws”, *BBC News Online*, 15 November 2006

257 “Pakistan judge protest escalates”, *BBC News Online*, 13 April 2007

258 Q 171

259 Q 170

260 Q 85 [Schofield], Q 169 [Nelson], Q 181 [Price], Ev 102

261 Q 85

262 Q 169

agreed to convene a joint anti-terrorism panel. After a meeting between Pranab Mukherjee, Indian foreign minister, and Pakistani leaders on 13 January, officials said that this new panel would help to expedite communications in times of crisis, particularly after terrorist attacks.²⁶³

132. The FCO explained that:

[i]n recent times Lashkar-e-Toiba (LeT) and Jaish-e-Mohammed (JeM)—have conducted attacks in both India and Pakistan. [...]

Recent attacks in India include the Delhi bombs (29 October 2005) with around 60 fatalities; an attack on a police Special Task Force station in Hyderabad; shootings at an Indian Institute of Science conference in Bangalore (28 December 2005, one dead); the Varanasi bombings (7 March 2006); the Mumbai bombings (11 July 2006 nearly 300 killed); and the bomb attacks in Malegaon (8 September 2006, at least 30 killed).²⁶⁴

We also received evidence that, following the 2005 earthquake, terrorist organisations had used relief operations as a means of building support.²⁶⁵ On 19 February 2007 another terrorist incident hit the headlines. A bomb had exploded on a train travelling from New Delhi to Lahore, leaving 66 dead.²⁶⁶ Despite this attack, the Indian and Pakistani governments went ahead with their Joint Commission meeting two days later.

133. There has, however, been criticism of the initiatives for cooperation against terrorism. Two statements in particular proved controversial in India, one by the Prime Ministers saying that the fact “is that terror is a threat to Pakistan. And it has been a threat to India. We need to have a collective mechanism to deal with it,” and a second by the Indian High Commissioner in Pakistan and Foreign Secretary designate Menon stating: “We must drive a distinction between terrorist elements in Pakistan and the Government of Pakistan. Pakistan too is a victim of terrorism.” Critics claimed that these statements amounted to an exoneration of Pakistani policy and of the complicity of its government in attacks on India.²⁶⁷ However, Dr Price told us that it was “worth asking about the extent to which that was political point scoring.”²⁶⁸

134. Following the bombings in Mumbai, police there made statements that Pakistan’s Inter Service Intelligence agency (ISI) played a role in support of LeT and the Students’ Islamic Movement of India (SIMI) in planning the July bombings.²⁶⁹ Witnesses told us that Pakistan had supported the insurgency movement in Indian-administered Kashmir. Ms Schofield argued:

263 “India and Pakistan set up crisis panel”, *Financial Times*, 14 January 2007

264 Ev 37, paras 56–57

265 Ev 153

266 “Leaders condemn India train blast”, *BBC News Online*, 19 February 2007 www.bbc.co.uk/news

267 Dr. Subhash Kapila, “India-Pakistan Havana Agreement (September 2006), Perspectives and Implications” South Asia Analysis Group, Paper No 1959

268 Q 183

269 “Pakistan ‘role in Mumbai attacks’”, *BBC News Online*, 30 September 2006, www.bbc.co.uk/news

clearly there has been sustenance and support [of the insurgency] to such an extent that a lot of the local Kashmiris complain that it has been taken over by Pakistan.²⁷⁰

135. Professor Bose commented:

it is difficult to deny the claims of the Indian military and the Indian diplomatic establishment that the Pakistan military have for a long time—since at least 1987—been up to their neck, or even their eyes, in supporting and even sponsoring insurgency in Kashmir. [...] It is clear that, given the sophistication and quantity of weapons and equipment that insurgent groups have, their high calibre of training, and signs of logistical support from across the line of control, a professional military establishment has been at work in supporting insurgents.²⁷¹

However, witnesses suggested that such support was now far weaker than it had been in the past. Dr Price told us:

There has certainly been a big change from five or 10 years ago, when links were much stronger.²⁷²

Professor Bose commented:

Pakistan's support for insurgency in Kashmir is like a tap that is sometimes turned on full blast and at other times is reduced to a trickle. To the best of my knowledge, it has never been entirely shut off, but the speed and velocity has been modulated over the years. Over the past three years, direct and active support by the Pakistani military has been reduced to more or less a trickle following the 1999 and 2002 crises.²⁷³

136. Dr Nelson told us there was a danger that terrorist incidents could increase because of this reduction in Pakistan's support:

recent evidence suggests that many of the jihadi organizations once supported by Musharraf—organizations now increasingly neglected in the context of a wider strategic shift away from clandestine activities in Kashmir towards clandestine activities in Afghanistan (for example, organizations like Jaish-e-Mohammad, now known as Jama'at or Tanzeem-ul-Furqan, and Lashkar-e-Taiba, now known as Jama'at-ud-Dawa)—[...] are likely to become even more aggressive as they begin to feel themselves crowded out or threatened with strategic (and financial) abandonment.²⁷⁴

270 Q 91

271 Q 91

272 Q 184

273 Q 91

274 Ev 80, para 43

Human rights, democracy and the rule of law

137. Initially, India reacted to the insurgency in Kashmir by increasing its military presence and introducing direct rule from Delhi. India's reaction through its paramilitary Special Operations Groups and other policing or military measures were much criticised for ignoring human rights concerns and using practices such as summary detention and torture.

138. Conditions have improved from the mid 1990s low.²⁷⁵ Elections were held in 1996 and 2002. Since 2003 India has held talks with Kashmiri separatists such as the moderate wing of the All Parties Hurriyat Conference (APHC), even allowing them to travel to Pakistan.²⁷⁶

139. However, the FCO stated:

Human rights violations by the security forces have reduced in recent years but are still a cause of concern.²⁷⁷

Amnesty International expressed concern that the National Human Rights Commission in India could not investigate human rights abuses by the army.²⁷⁸

140. India has established five Working Groups to consider ways to improve the situation in Kashmir, which include considering how to strengthen democracy, the rule of law and governance in Kashmir.²⁷⁹

141. At present, the Northern Areas of Kashmir controlled by the Pakistani government are a dependency administered by the federal government. In 2000 a Legislative Council was established, which has some legislative, administrative and judicial powers, including the ability to impose local taxes. Yet the new council has no real financial or legislative autonomy and when Pakistan voted in 2002, the Northern Areas remained outside the political process.²⁸⁰

UK involvement

142. In our July 2004 Report into "Foreign Policy Aspects of the War against Terrorism" we recommended that the "Government encourage both parties to prioritise their work towards a resolution".²⁸¹

143. We heard mixed views from witnesses about the extent to which the UK should get involved in the peace process. Ms Schofield and Dr Nelson argued that the Pakistani government would welcome Britain's involvement in the peace process, but only if Britain

275 Ev 117

276 "Kashmir leaders to visit Pakistan", *BBC News Online*, 25 May 2005, www.bbc.co.uk/news

277 Ev 37, para 53

278 Ev 117

279 Ev 37, para 51

280 "Looking within the other Kashmir", *Asia Times*, 20 February 2003

281 Foreign Affairs Committee, Seventh Report of Session 2003–2004, *Foreign Policy Aspects of the War against Terrorism*, HC 441, para 256

pushed Pakistan's position.²⁸² Ms Schofield told us the Indian government was "absolutely allergic to anything that smacks of third-party mediation." She believed Britain could only play a role in the humanitarian aspects of Kashmir by highlighting human rights abuses on all sides.²⁸³ Dr Price commented:

One of the biggest things that we have seen recently is India's acceptance of the UN involvement in Nepal. So India is growing more accommodating towards multilateral intervention. At the moment, I do not think that that growing accommodation would extend towards Kashmir, whether it was intervention by the UN or another country. That is something that is changing on India's side, but we are not quite there yet, I think.²⁸⁴

144. Professor Bose disagreed. He believed Britain could play a wider role:

Britain is regarded as a relatively benign influence in the subcontinent, so there would not be any great opposition per se to Britain playing a greater role of some sort, as long as that role were played very discreetly and with the utmost attention to diplomacy.

Britain could play a constructive role as part of a broader, concerted, multilateral effort to push the India–Pakistan peace process along. [...] I am fairly sure that without discreet but stronger international support for the India–Pakistan peace process, it will not yield dividends or results.²⁸⁵

Dr Smith also thought the UK could get involved in the peace process and argued that the UK was "still well thought of in the region".²⁸⁶

145. Dr Nelson believed that it was not appropriate for the UK to propose solutions. Instead he argued it could "facilitate and encourage dialogue".²⁸⁷ Mr Roy-Chaudhury argued that there were two areas in which such facilitation could occur:

One, of course, is to ensure that the peace process becomes institutionalised. Today we have a situation where [...]alks are being held at different levels, but there could be a break, if there were a major disaster in either country. [...] It would be useful to find out whether there are stakeholders in both India and Pakistan who could try to ensure that the dialogue remains on track, whatever the political relationship between the two countries, in which case the UK could play an important role in back channel diplomacy.

The second matter that could turn out to be substantial is something that both India and Pakistan have talked about [...] Both President Musharraf and the Indian Prime Minister, Manmohan Singh, have said that the future of Kashmir could lie in making

282 Q 82 [Schofield] and Q 175 [Nelson]

283 Q 82

284 Q 176

285 Q 82

286 Q 40

287 Q 174

the line of control irrelevant—[...] the UK could play a positive role in trying to flesh out what both countries mean.²⁸⁸

146. The FCO wrote:

As a close friend of both countries, we remain in regular contact with India and Pakistan, and we will continue to encourage both countries to seek a durable resolution to all the issues outstanding between them, including over Kashmir.²⁸⁹

The Foreign Secretary said that the UK Government was “encouraging and have always encouraged negotiation”,²⁹⁰ but that

[i]t is for the parties themselves to see what is the best ground on which they can reach agreement and find the best way forward. It might be the kiss of death for us to express a preference one way or the other.²⁹¹

147. We welcome the recent Confidence-Building Measures between India and Pakistan over the Kashmir question and their cooperation against terrorism. We conclude that the UK should encourage India and Pakistan to make further progress on the peace process, but that the Government should not get directly involved in negotiations nor try to suggest solutions to the question of Kashmir, unless requested to do so by both India and Pakistan.

India, Pakistan and Afghanistan

148. The FCO noted, “[d]ifficulties in the India–Pakistan relationship can sometimes spill over into relations with Afghanistan.”²⁹² Apart from the Taliban’s five year rule, India has always had quite good relations with Afghanistan and it is now its largest regional donor.²⁹³ Mr Griffin, journalist and author of “Reaping the Whirlwind: The Taliban Movement in Afghanistan”, told us that during the period the Taliban was in power in Afghanistan,

Afghanistan became associated very much with the 1999 hijacking of Indian Airlines jets flying into Kandahar and its association and support from the ISI made it look like simply another manifestation of Pakistan’s unofficial policy of running proxy terrorist operational wars against India, whether in Kashmir or in the south, or against urban targets.²⁹⁴

He believed that to a large degree, India saw Afghanistan as “part of its security problem with Pakistan.” It was therefore enthusiastic to become a “generous big brother to a new

288 Q 40

289 Ev 37, para 52

290 Q 104

291 Q 106

292 Ev 41, para 90

293 Q 195 [Griffin]

294 Q 195

kind of democracy” there. However, it has avoided any involvement in developing Afghanistan’s military capacity out of fear of antagonising Pakistan.²⁹⁵

149. Afghanistan and Pakistan, on the other hand, have a decades-old relationship of mistrust rooted in Afghanistan’s claims to Pashtun-majority areas on the Pakistani side of the Durand Line.²⁹⁶ Pakistan gave critical help to the Taliban in Afghanistan in the 1990s in an attempt to reduce Indian influence in Afghanistan²⁹⁷ and it is now concerned about its loss of “strategic depth” in Afghanistan following the fall of the Taliban.²⁹⁸ In 2003 the opening of several Indian consulates in Afghanistan became a bone of contention between Indian and Pakistan. Pakistan’s government accused the consulates of carrying out terrorist activities, stating: “we are watching them with anxiety, with deep concern. [...] they are there to disrupt relations between Pakistan and Afghanistan.”²⁹⁹ Pakistan has also been irritated by Indian companies winning construction contracts, such as that for the road from Kandahar to Spin Boldak, the Afghan town that borders the Pakistani town of Chaman.³⁰⁰

150. Afghanistan’s President Karzai has repeatedly and publicly held Pakistan responsible for the current insurgency. However, the FCO commented:

Pakistani help is essential in combating the Taliban threat to Afghanistan, including to UK troops deployed there.³⁰¹

In March 2007 Pakistani security forces announced the capture of Mullah Obaidullah Akhund, a senior Taliban leader, in Quetta.³⁰²

151. Pakistan’s President Musharraf has strongly denied that either Pakistan’s government or its Inter Service Intelligence agency (ISI) have given support to the Taliban.³⁰³ Frédéric Grare of the Carnegie Endowment for International Peace believes that Pakistan is correct when it asserts that Afghanistan is trying to place some of the blame of its own failure to achieve stability on its neighbour, but that there is also clear evidence of Pakistan’s role in the insurgency.³⁰⁴ In January 2007 the US expressed frustration that Pakistan was not doing more to tackle Taliban militants within its borders.³⁰⁵ The following month Vice President Dick Cheney warned Pakistan that the US could cut aid to the country if Pakistan did not increase efforts against the Taliban.³⁰⁶

295 Q 195

296 Frederic Grare, ‘Pakistan-Afghanistan relations in the post-9/11 era’, *Carnegie Papers*, Number 72, October 2006, p 3

297 Ev 35, para 40

298 “Pakistan reiterates charge against Indian consulates”, *The Hindu*, 15 September 2003

299 “Indian consulates in Afghanistan monitored: Pak”, *The Hindu*, 28 July 2003

300 “India–Pakistan rivalry reaches into Afghanistan”, *Christian Science Monitor*, 12 September 2003

301 Ev 32, para 10

302 “Taliban leader captured”, *Financial Times*, 2 March 2007

303 International Crisis Group, *Countering Afghanistan’s Insurgency: No quick fixes: Asia Report No: 123*, 2 November 2006, p 24

304 Frederic Grare, ‘Pakistan-Afghanistan relations in the post-9/11 era’, *Carnegie Papers*, Number 72, October 2006, pp 4–5

305 “US pressures Pakistan over Taliban”, *Financial Times*, 17 January 2007

306 “Aid at risk, U.S. warns Musharraf”, *International Herald Tribune*, 22 February 2007

152. Mr Griffin argued that Pakistan appeared to be practising a dual policy:

there seems always[...] to be a situation where, on the one hand, Pakistan is rooting out and shooting at incursionists and terrorists in Afghanistan, while another element of the Pakistani military-industrial base is encouraging, financing and training them.³⁰⁷

Dr Nelson agreed. He argued that the Pakistani government had distinguished between foreign al Qaeda miscreants and local Taliban sympathisers, assisting with the pursuit of the former while at the same time supporting, or at least failing to oppose, the Taliban resistance in Afghanistan. He argued that from the perspective of Pakistan “these distinctions make a great deal of sense: one side devoted to addressing the scourge of ‘international’ terrorism; the other devoted to preserving a sense of ‘strategic depth’ in the context of regional political affairs.”³⁰⁸

153. Dr Nelson noted that commentators had stated that the Taliban could not be defeated militarily.³⁰⁹ He argued that cross-border Pashtuns should be brought into a dialogue about the political situation:

it is [...] important to understand the domestic politics within each country[...]. Both Governments have found that Pashtuns are an important constituency, and [...] one aspect of Pashtun politics involves the Taliban. [...] Some realism here would be helpful. [...] I think that recognising the politics of the Taliban as opposed to simply its militancy, and separating the politics of the Taliban from the politics of al-Qaeda, can be fruitful in our thinking about the different configurations.³¹⁰

154. A meeting President Bush hosted for the two leaders in September 2006 produced vague plans for tribal jirgas on both sides of the border.³¹¹ These have not yet taken place, but they remain on the agenda.³¹² The idea of a joint jirga is supported by the UK government as a means of reducing tensions in the border area.³¹³

155. In Pakistan, President Musharraf has already held his own jirga in North Waziristan where an agreement was reached with local tribesmen which called upon them to expel foreign militants and end cross-border attacks in return for a reduced Pakistan army presence in the region. On this agreement, Dr Nelson commented:

militarily, that did not have the same impact in Afghanistan as Musharraf was promising in Washington that it would, although it has probably reduced the stress on the Pakistani military, which I believe had as many as 70,000 forces in north and

307 Q 184

308 Ev 78, para 21

309 Q 191

310 Q 187

311 ‘Karzai for jirga to crush Taliban’, *BBC News Online*, 11 October 2006, www.bbc.co.uk/news

312 Q 188 [Nelson]

313 Q 118 [Beckett]

south Waziristan at one point, so there have not been quite as many attacks on Pakistan.³¹⁴

156. A military-to-military tripartite commission of senior military and diplomatic representatives of the United States, Afghanistan and Pakistan has been formed. In June 2006, General Richards, the then British Commander of the International Security Assistance Force (ISAF), also participated. The Foreign Secretary told us that there was some evidence to suggest that this military-to-military Commission was improving relations between Afghanistan and Pakistan.³¹⁵

157. We asked witnesses about the prospects for an improved situation in Afghanistan. Mr Griffin, made the assessment that the Taliban were now “a much more professional fighting force”, in terms of planning, flows of funding, training and military technique and warned that they had the potential to become more successful against air bombs if they coordinated attacks.³¹⁶ He believed the situation was “going to get worse before it gets better”.³¹⁷

158. Dr Price told us:

A lot of international aid and assistance has been given to Afghanistan, but the benefits have been rarely seen by the average Afghan. [...] So there is the assumption of widespread corruption within the Afghan Government, which is creating disillusionment, and a much more profitable arena for the opposition—primarily the Taliban—to operate in.³¹⁸

159. Antony Stokes, the Head of the Afghan Group at the Foreign and Commonwealth Office told us that there was a “momentum to try to generate some mutually beneficial relationships in the economic sphere” between the three countries, such as trade, oil pipelines and water-sharing.³¹⁹ He pointed out that, for example, there had been discussions about creating a regime of international transport routes so that goods would not have to be unloaded from one lorry and then loaded on to another at borders.³²⁰ Afghanistan has also recently joined the South Asian Association for Regional Co-operation (SAARC), which has a commitment to create a free trade area in the region.

160. We recommend that the Government continue to urge the governments of Pakistan and Afghanistan to take steps to improve security on their border.

Sino-Indian relations

161. India and China still dispute a large swathe of territory, Aksai Chin, captured from India by China in the 1962 war between the two nations. This area is very barren but

314 Q 188

315 Q 115

316 Qq 185, 186 and 191

317 Q 191

318 Q 193

319 Q 116

320 Q 119

strategically important for the Chinese as it joins Xinjiang to Tibet.³²¹ India also disputes Pakistan's 1963 border agreement with China, in which China handed over parts of Kashmir under its control to China. Mr Roy-Chaudhury and Dr Smith told us that the war was still remembered in India, which had performed very badly in the conflict.³²² However, Mr Roy-Chaudhury argued that a quick resolution to the boundary dispute was not crucial:

[...] the key is that for both India and China, the sense is that the territorial dispute will continue but it is important to put a political perspective on it. So the border dispute is not expected to hamper the other aspects of the relationship between India and China, whether trade, diplomatic or political.³²³

162. Witnesses told us that relations between India and China were “a mixed bag”.³²⁴ Political ties between China and India are deepening. In April 2005, during the Chinese Prime Minister Wen Jiabao's visit to India, the two nations signed an agreement for a “strategic partnership for peace and prosperity”, which included an Agreement on the Political Parameters and Guiding Principles for the Settlement of the India–China Boundary Question.³²⁵ In 2005 China formally recognised the border state of Sikkim as part of India,³²⁶ and in May 2006 a memorandum of understanding was signed between the two countries' defence ministers. These events were a remarkable turnaround given that as late as 1998, India had given concerns over China's nuclear weapons as a reason for its nuclear tests.³²⁷

163. A key reason for the lowering of Sino–Indian tensions is the state of the two nations' economic relations. Trade is booming between the two giants—China is India's second largest trading partner and is expected to overtake the US as India's largest trading partner within five years.³²⁸ Both recognise the potential in each other's growing markets. During President Hu Jintao visit to India in November 2006, the first visit by a Chinese head of state to India for ten years, the two nations agreed to try to double their levels of trade to \$40 billion a year by 2010.³²⁹

164. However, Dr Price suggested that trade might not drive good relations in the future to the extent being expected:

In the past few years, trade between India and China has soared, but most of that consists of Indian iron ore meeting China's needs. In the first six months of this year, India's trade to China dropped [...] It is too early to say, but the assumption had been that India's exports to China would carry on growing at 30 or 40%, and that

321 Qq 90-91

322 Q 17

323 Q 18

324 Q 17 [Mr Roy-Chaudhury and Dr Smith]

325 “India and China sign pact on 'peace and prosperity'”, *International Herald Tribune*, 12 April 2005 www.ihf.com/

326 “India, China reach new trade heights”, *Asia Times*, 22 June 2006

327 C. Raja Mohan, “India and the Balance of Power”, *Foreign Affairs*, vol 85, number 4 (July/August 2006), p 24

328 Q 17

329 “India and China 'to double trade'”, *BBC News Online*, 21 November 2006

that would put everything else into the background. Now that has stopped; a couple of weeks ago India passed a new law to screen investments from China, which made it more difficult for Chinese companies to invest in a lot of sectors. It might be that an approach emerges that is far from hostile but more sceptical.³³⁰

165. Federico Bordonaro told us that another challenge to India's relationship with China would be "China's thirst for energy".³³¹ India is seeking oil in many of the same places as China, such as Russia, Kazakhstan and Africa, and has lost some contracts to Chinese competitors. For example, in August 2005 the Chinese National Petroleum Corporation (CNPC) beat a bid by an Indian consortium, Oil and Natural Gas Corporation(ONGC)-Mittal, to buy PetroKazakhstan³³² and in October 2005 China won an exploration deal in Angola, despite an initial agreement between Shell and ONGC's overseas arm, because Angola's national oil company wanted the stake to go to Chinese oil companies.³³³ However, dialogues on managing energy competition have taken place between India and China and the two nations signed an agreement on co-operating on securing crude oil in January 2006.³³⁴ In the same month the ONGC and the CNPC made a successful joint bid for a stake in a Syrian oil field.³³⁵

166. There are concerns in the Indian establishment about China's military and naval prowess and fears that Beijing practices containment against India by backing Pakistan's nuclear capacity and in its relations with Sri Lanka, Burma and Nepal.³³⁶ Hsin-Huang Michael Hsiao and Liang-Chi Russell Hsiao told us that India was "growing wary" of China's access to the Indian Ocean.³³⁷ Federico Bordonaro argued that the main motivation for the \$8.13 billion invested by India into Project Seabird, which involved the creation of an air force station, a naval armament depot, and missile silos and the building of a major naval base, INS Kadamba in Karwar, Karnataka state, was increased Sino-Pakistani co-operation:

 faced with geographic constraints, the Chinese successfully proposed to Islamabad in 2001 the sharing of the Gwadar naval base. This latter serves the Chinese purposes in three ways: first, it serves as a tool to secure Beijing's access to the Gulf's resources; second, it is a useful military base to counter Washington's influence in Central and South Asia (in fact, the Sino-Pakistani agreement came into being just four months after U.S. troops entered Kabul in 2001); third, Gwadar functions as an excellent wedge between India and the Middle East and as an offset against India's naval power.³³⁸

330 Q 18

331 Ev 176

332 "India discreet, China bold in oil hunt", *Asia Times Online*, 29 September 2005, www.asiatimes.com/

333 "India, China pin down \$573m Syria deal", *Asia Times Online*, 29 September 2005, www.asiatimes.com/

334 "China and India forge alliance on oil with aim of ending 'mindless rivalry'", *Financial Times*, 13 January 2006

335 "India, China pin down \$573m Syria deal", *Asia Times Online*, 29 September 2005, www.asiatimes.com/

336 Q 17 [Mr Roy-Chaudhury] and Ev 176

337 Ev 180

338 Ev 177

At the same time, India is strengthening its relations with Taiwan.³³⁹ There was also very strong critical domestic reaction in China to the US–Indo nuclear deal.³⁴⁰

167. The FCO wrote that:

Relations between India and China matter to the UK at economic, military and strategic levels. How these two countries get along together will have an impact on the wider world for many years to come.³⁴¹

We agree.

168. Good relations between China and India are going to be very important to the international community in the future. We recommend that the Government welcomes areas of cooperation between India and China and encourages even closer relations between the two nations in the future.

Sri Lanka

169. The Liberation Tigers of Tamil Eelam (LTTE) have been waging a violent campaign in Sri Lanka over the last 20 years to try to achieve a separate state or at least federal devolution in the north and north-east of the country. Violence has increased greatly over the last year; although so far neither party has renounced the 2002 ceasefire, it appears dead in all but name.³⁴² The humanitarian situation continues to deteriorate. There were over 3000 deaths related to the conflict between February and November last year³⁴³ and by 24 January this year there had already been 80 civilian deaths.³⁴⁴ Dr Price told us that “the issue of child recruitment in Sri Lanka has been a major one”.³⁴⁵ In March 2007 tens of thousands of civilians fled for refugee camps following intensified fighting in east Sri Lanka.³⁴⁶

170. We were told in evidence that for the next few months levels of violence was likely to worsen.³⁴⁷ The FCO wrote that:

The absence of a roadmap for a negotiated settlement is increasingly of concern—achieving broad political support in the South for a credible political offer to the Tamils will require a bold lead from President Rajapakse.³⁴⁸

339 Ev 179

340 Baldev Raj Nayar, “India in 2005: India Rising but Uphill Road Ahead”, *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 99

341 Ev 42, para 100

342 Q 19 [Dr Smith]

343 Ev 32, para 15

344 HC Deb, 24 January 2007, 1850W

345 Q 202

346 “Civilians flee Sri Lanka fighting”, *BBC News Online*, 10 March 2007

347 Q 207 [Dr Price]

348 Ev 32, para 15

However, Sri Lanka's president is in a dilemma— if he holds his army back and restarts negotiations with the LTTE he might alienate nationalists in the coalition government, but further military action risks chaos in Sri Lanka.³⁴⁹ Dr Smith told us that one of the problems in Sri Lanka was that the bargaining power of the LTTE had not been recognised by the Sri Lankan government and the international community:

Effectively what [...the LTTE] is being asked to do is go back to the situation before 1983 [...] which of course the LTTE is never going to do [...] when it also knows that it has broken the monopoly of force once controlled by the Sri Lankan Government.³⁵⁰

171. India has had talks with Norway, the formal facilitator in the peace process, about the situation in Sri Lanka, and has called on the Sri Lankan President to end the killing of Tamil civilians and set out his vision of devolution.³⁵¹ However, India prefers to leave the direct role in conflict resolution to Norway,³⁵² despite requests from the Sri Lankan president for it to play a greater role in the peace process.³⁵³ India had a peacekeeping force in Sri Lanka between 1987 and 1990,³⁵⁴ but had its fingers badly burnt by its intervention, not least through the assassination of the then Prime Minister Rajiv Gandhi by a Tamil Tiger suicide bomber in 1991.³⁵⁵ Gandhi's widow, Sonia Gandhi, is leader of the ruling Congress party.³⁵⁶ India has a 60 million strong Tamil population. Mainly based in Tamil Nadu, the Tamil community in India are larger than that in Sri Lanka.³⁵⁷ Tamil Nadu's ruling Dravida Munnetra Kazhagam (DMK) party is a key member of the national coalition government.³⁵⁸ India has been affected by the large number of Sri Lankan refugees that have moved back to India as a result of the renewed fighting.³⁵⁹

172. We asked Dr Smith what the extent of Indian involvement in Sri Lanka should be. He replied:

The best thing that can be said to the Indians about Sri Lanka is, 'Be constructive.' India is involved however you look at it [...] because it is the hegemon in the region and because it does not want outsiders such as China and the United States [...] messing around in the south Asian back yard. [...]

Let me give you an idea of how that works in practice. Several years ago, when the Sri Lankan Government was worried that troops might need to be air lifted from the high security zone in the north, the obvious candidate—which it immediately

349 "Sri Lanka's president poised between war and peace", *Financial Times*, 9 January 2007

350 Q 20

351 Ev 40, para 84

352 Q 203 [Mr Price]

353 Ev 40, para 85

354 Q 21 [Mr Roy-Chaudhury]

355 Ev 40, para 84

356 Q 20 [Dr Smith] and Q 204 [Mr Price]

357 Q 21 [Mr Roy-Chaudhury]

358 Q 20 [Dr Smith]

359 Q 204

approached—was the United States. The United States said, ‘Talk to India.’ The message for India was that it could not have it both ways—if it were to play a major regional role, it had to overcome the problems that it had had and the mistakes that it had made, and to move forward rather than looking back all the time.³⁶⁰

He added:

India [...] could play a constructive role by dealing with the practical political issues on the ground, which I think have been overlooked or ignored by the international community. We know the international community has problems when it comes to looking at partition, confederation and so on.³⁶¹

173. Dr Price pointed to the Indian evacuation of Sri Lankan and Nepalese citizens from Lebanon as an example where it had used its hegemonic status “very beneficially”.³⁶² He commented:

My opinion is that the links between Tamils in southern India and Tamils in Sri Lanka is a justification for not getting involved rather than something real. There are a couple of Tamil parties that make speeches about the LTTE, or Tamils in general, but they are not particularly mainstream.³⁶³

Mr Roy-Chaudhury suggested that India should be urged to consult with other major powers on Sri Lanka.³⁶⁴

174. During our visit to Chennai, we heard a range of views on what the UK’s involvement in Sri Lanka should be. Some Indian commentators believed that the UK should become more involved, but many warned that the UK should not interfere in Sri Lanka as it would not understand the nuances of the conflict. We asked witnesses in the UK about this. Dr Price suggested that the UK could play a specific role and gave the example of policing.³⁶⁵

175. The FCO praised Norway’s work so far.³⁶⁶ The Foreign Secretary told us:

[...]we are continuing to use whatever channels we have to encourage people in Sri Lanka to return to and concentrate on a potential peace process.³⁶⁷

She explained that Rt Hon Paul Murphy MP, the former Northern Ireland Secretary, and others with experience of the Northern Ireland peace process had been to India to share their expertise.³⁶⁸ Rt Hon Ian McCartney MP, the Minister with responsibility for human rights in the FCO, reiterated the UK’s concerns in a meeting on 10 January with his Sri Lankan counterpart and Gareth Thomas MP, the Parliamentary Under-Secretary of State

360 Q 19

361 Q 20

362 Q 22

363 Q 204

364 Q 21

365 Q 200

366 Ev 38, para 62

367 Q 126

368 Q 126

for International Development, has raised these issues with the visiting Minister.³⁶⁹ Paul Murphy has also travelled to Sri Lanka to share his experience of the Northern Ireland peace process.³⁷⁰ However, the LTTE is now a proscribed organisation in the UK³⁷¹ and on the EU list of terrorist organisations. Antony Stokes told us that the FCO was working closely with the Home Office and police to clamp down any fund-raising activity in the UK.³⁷²

176. We are very concerned about the situation in Sri Lanka. We recommend that the Government urge India and the international community to take a stronger lead in pushing for peace.

Bangladesh

177. Despite India's historic role in the creation of Bangladesh, relations between the two nations have always been difficult.³⁷³ Dr Price explained to us that this was largely due to the internal politics of Bangladesh,³⁷⁴ a country in which democracy had not yet bedded down:

Bangladesh has democracy in the sense that it has elections, but in terms of accepting the results of elections, each party that has lost has taken to protesting in the streets from the mid-1990s onwards. [...]n terms of the wider issue of rights and so forth democracy has a long way to go to be entrenched in Bangladesh.³⁷⁵

The International Bangladesh Foundation expressed similar concerns. It explained that thousands of activists were in detention without trial and argued that Bangladeshi minorities were being subjected to an “endless State sponsored campaign of religious and ethnic cleansing”.³⁷⁶

178. The return to power of the “anti-Indian”³⁷⁷ Bangladesh National Party (BNP) in coalition with Islamist parties in 2001 led to a cooling of relations between India and Bangladesh. The FCO told us that India was:

concerned over the influence of the Islamist parties and by the rise of Islamism and terrorism in Bangladesh.³⁷⁸

In August 2005 there were 450 simultaneous bomb attacks in Bangladesh.³⁷⁹ Federico Bordonaro wrote that Islamic radicalism would “continue to pose a threat to India's

369 HC Deb, 17 January 2007, 1214W

370 Q 126

371 Q 129

372 Qq 128 and 129

373 Ev 40, para 80

374 Q 23

375 Q 198

376 Ev 186

377 Q 23 [Dr Price]

378 Ev 40, paras 80-83

379 Ev 38, para 60

stability and to complicate Delhi's political relations with Bangladesh",³⁸⁰ which has "developed Islamist networks".³⁸¹ India believes that Islamic military organisations, including al-Qaeda have structures in Bangladesh.³⁸²

179. Bangladesh has been in political turmoil over the last six months. The situation stemmed from concerns by the opposition party, the Awami League, that the caretaker administration was biased towards the ruling BNP. (In a unique constitutional arrangement introduced in 1996, Bangladesh has a system where an interim government takes power in the run up to an election). The Awami League said it would therefore boycott the polls and called for the elections to be delayed and voters' lists updated. There were hundreds of demonstrations, blockades and clashes.

180. The caretaker administration decided that it would hold elections in spite of the Awami League boycott threat. As a result it faced growing international pressure about the legitimacy of any such polls. The Foreign Secretary for example, called on the caretaker government and the Election Commission to create the right atmosphere and effective mechanisms required to bring all parties to participate in the elections.³⁸³ On January 11, the United Nations, European Union and the Commonwealth suspended their election observation missions in Bangladesh.

181. These factors led to the resignation of the President of the caretaker government, President Iajuddin Ahmed, and a State of Emergency was declared on 11 January. The Awami League have now agreed to contest the elections under the new army-backed interim administration, led by Fakhruddin Ahmed.³⁸⁴ A new party, the Nagorik Shakti (Citizen's Power) party, led by Muhammad Yunus, a Nobel-prize-winning microfinancier, has now entered Bangladeshi politics, for long a two party affair.³⁸⁵ Police in Bangladesh have now filed murder charges against former Prime Minister Sheikh Hasina.³⁸⁶

182. Bangladesh's economy has performed well over the last decade, with GDP growth of over 5% per year—6% in 2005/06.³⁸⁷ However, Dr Price warned that Bangladesh was

coming to a position where the political situation is starting to impact. A small example is the power projects that take more than five years. The parties alternate each time there is an election, so as soon as the new Government come in, they scrap previous power projects because it is assumed that they must have been corrupt, so they start their own ones. Now it is getting to the point where power shortages are becoming more and more of an issue. That is a direct way in which the political situation is starting to impact on the economy.³⁸⁸

380 Ev 176

381 Ev 177

382 "Bangladesh political crisis slams India", *Australian*, 28 October 2006 and Ev 37, para 54

383 Q 133

384 "Bangladesh alliance decides to fight elections", *Financial Times*, 14 January 2007

385 "Another fine mess", *The Economist*, 24 February 2007

386 "Ex-Bangladesh PM in murder case", *BBC News Online*, 11 April 2007

387 Ev 132

388 Q 199

There are also concerns that if problems continue, violent militant Islamist fringe groups, such as the Jagrata Muslim Janata and the Jamaat-ul-Muhajideen, who are opposed to the country's secular liberal tradition, will benefit.³⁸⁹

183. We asked witnesses about the impact of Bangladesh's political problems in the wider region. The Foreign Secretary commented:

I think that there is general concern, because there is a recognition that any failed state always has an impact on its neighbours and on stability in the region.³⁹⁰

184. However, Dr Charu Lata Hogg told us that India viewed Bangladesh "as more of an irritant than a threat".³⁹¹ Dr Price told us that the impact was currently confined to Bangladesh, but that India had "concerns that it could spill over".³⁹² One of these was the potential for a larger influx of refugees into Northeast India. Large scale illegal immigration has been a continuous source of tension between the two countries.³⁹³ New Delhi claims that about 20 million Bangladeshis are living illegally in India and should be repatriated, an allegation Dhaka denies.³⁹⁴ The FCO told us that 12 million was not an unrealistic figure.³⁹⁵ India is building an eight-foot security fence along the 4,000km border with Bangladesh.

185. Another area where the situation in Bangladesh might affect the region more broadly is in gas. Dr Price told us:

The complete lack of empathy between the two main parties, and in particular the leaders of the two main parties in Bangladesh, [...] is a big factor that holds back Bangladesh and the export of its gas.³⁹⁶

Dr Price also pointed out that the problems in Bangladesh posed a particular threat to "north-east India, which is cut off apart from a small chicken neck, so it cannot trade with other parts of India so well."³⁹⁷

186. In a written answer in January the FCO said that the UK is "monitoring developments closely", "broadly welcomes the opportunity for conditions to be established which are conducive to credible and participative elections" and "urges that the full processes of democracy and civil rights be restored to the Bangladeshi people promptly".³⁹⁸

389 "Bangladesh: a democracy in crisis", *The Guardian*, 9 January 2007

390 Q 133

391 Ev 184

392 Q 197

393 Baldev Raj Nayar, "India in 2005: India Rising but Uphill Road Ahead", *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 103

394 Ev 184

395 Ev 34, para 33

396 Q 197

397 Q 197

398 HC Deb, 16 January 2007, 994W

187. We asked witnesses when they believed the postponed elections would be likely to be held. Dr Price told us that it was likely to “be a while”.³⁹⁹ Antony Stokes told the Committee that:

There has been no public statement on that, nor have we had a firm commitment from the caretaker Government privately, but we have been encouraging them to consider committing to an electoral process that will allow for elections quickly.⁴⁰⁰

188. We asked the Foreign Secretary whether the Commonwealth could play a role in the situation. She replied:

As for whether there is anything specific that the Commonwealth can do to help, I am quite sure that that is something that the Commonwealth Secretariat is looking at as we speak, but it depends a little bit on how things go in the near future. The existing interim Government are saying all the right things about tackling corruption and the need to improve the electoral process, electoral commission and so on. Obviously, they have only been in power for a few days, so one must hope that they will follow through on those ideas.⁴⁰¹

189. We recommend that the Government continues to monitor closely the situation in Bangladesh and that it consider a possible role for Commonwealth mediation or other assistance to help establish a stable democratic process.

Nepal

190. The situation in Nepal is now far more positive. Mr Roy-Chaudhury told us that Nepal was now entering “a key period in Nepal’s history, where there is a prospect of an end to the insurgency”.⁴⁰² This period of instability began in February 1996 when the Communist Party of Nepal (Maoist) led a “People’s War”, which resulted in about 13000 deaths.⁴⁰³ The insurgency progressively intruded on the middle ground occupied by parliamentary democracy and constitutional monarchy. The House of Representatives was dissolved in May 2002 and elections to local government bodies cancelled in August 2002. In October 2002 King Gyanendra deposed the government, giving as a reason the government’s inability to conduct general elections. He subsequently appointed three different governments, and on 1 February 2005 took permanent executive control.⁴⁰⁴

191. The King’s actions led to huge demonstrations by the major parties and his popular support waned. There was a huge uprising against the King in April 2006, which led to the House of Representatives being reinstated on 28 April and the King being stripped of most of his powers. The Maoists and the Seven Party Alliance (SPA) then engaged in

399 Q 199

400 Q133

401 Q 133

402 Q 24

403 Ev 38, para 61

404 Ev 163

negotiations which produced a comprehensive statement of understanding in November 2006.⁴⁰⁵

192. On 15 January 2007 the Maoists took their seats in an interim parliament and on 18 January the Maoist leader Prachanda announced that the parallel government set up by the Maoists during their insurgency was to be abolished.⁴⁰⁶ Elections to a Constitutional Assembly are planned to be held in June 2007. Mr Roy-Chaudhury described these as “encouraging developments”,⁴⁰⁷ but noted that “tremendous concerns” remained, including the “tremendous mistrust between the Maoists and the military and [...] differences over the monarchy”.⁴⁰⁸

193. India has been very concerned about the civil war in Nepal.⁴⁰⁹ India played a role in helping to reach agreements between the political parties, the King and the Maoists, supported the attempts of the SPA to bring the Maoists into government and “[a]fter initial hesitation” realised the value of the United Nations providing technical assistance to the peace process.⁴¹⁰ India has also given Nepal a substantial aid package⁴¹¹ In particular it was worried about increased criminal activity, such as smuggling, in border areas and unrestricted migration.⁴¹² It also feared a potential collaboration between the Maoists in Nepal, and the Naxalites – an insurgency run by the Communist Party of India (Maoists) – in India.⁴¹³ We asked Dr Price about what the impact on India would be now that the Maoists were in the Nepalese government. He replied

The rhetoric from the Maoists was at first very anti-Indian. They are still talking about renegotiating some of the treaties and so on. In practice, however, people recognise that when they come to power in Nepal, they have to live with India. India is the country that Nepal trades with and it is where its economic opportunities will come from through hydroelectricity and such like. The big unknown about Nepal is the extent to which the Maoists will temper their aims once they are in power. [...]With regard to the Naxalites, the Maoists have already said that they will not give any support, and certainly not any military support, to Naxalites working in India, but they might give some kind of moral support for the cause.

That leads on to whether something can be done in Nepal to resolve the core grievances that led to the Maoist uprising—things such as unfair land ownership and so forth. [...] There is a long way to go in this thinking. But if something comes from that, does that then present some kind of model for India? [...] some ideas that come

405 Ev 163

406 “Nepal rebel powers to be halted”, *BBC News Online*, 18 January 2007 www.bbc.co.uk/news

407 Q 21

408 Q 24

409 Ev 40, para 86

410 Ev 40, para 87

411 Ev 40, para 87

412 Ev 40, para 86

413 Ev 40, para 86, Ev 184, and Baldev Raj Nayar, “India in 2005: India Rising but Uphill Road Ahead”, *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 103

from Nepal could be used in some format in some of the more backward districts in India where the Naxalites are most active [...].⁴¹⁴

194. We asked witnesses about the role the UK could play in Nepal. Mr Roy-Chaudhury suggested that the UK should work with the US and India “to facilitate stability”.⁴¹⁵ He added:

There is a sense, not only from India’s point of view, but from Nepal’s point of view, that it will be difficult for India to be involved unilaterally, so there needs to be broader involvement.⁴¹⁶

Professor Michael Hutt argued in his submission that the UK had an important role to play in Nepal to help the country meet the aspirations of those Nepalese who had participated in the Maoist insurgency, to help develop a culture of democratic leadership and to improve the higher education sector.⁴¹⁷ The Foreign Secretary pointed out that the UK had been the first country to pay £1 million into the UN fund for helping to maintain peace and stability in Nepal and that it had increased its development aid to the country.⁴¹⁸ The UK is the second largest provider of development assistance to Nepal, donating £30 million in 2005–2006.⁴¹⁹

195. In January 2007 there were reports of violence in southern Nepal, where the Madheshi people say the interim constitution does not incorporate their demands for greater autonomy, better representation in parliament and the removal of hill dwellers from important local jobs. Madheshis make up 33–45% of Nepal’s population but are vastly under-represented in government and in the army, which tend to be dominated by hill-dwellers. Nepal’s home minister has now invited the Terai groups for talks ahead of the June elections, but the Chairman of the Madheshi Janadhikar Forum has said that he requires a formal invitation.⁴²⁰ In a written answer, Dr Kim Howells MP, Minister of State for the Foreign and Commonwealth Office, said the UK government was “deeply concerned” about this unrest and warned that the failure to acknowledge the demands of the Madheshis had “the potential to undermine the prospects for elections to the Constituent Assembly.”⁴²¹ In March 2007 Nepal’s parliament passed an amendment to the constitution, which addressed some of the concerns of the Madheshi people by changing the country from a unitary to a federal state and increasing the number of constituencies in the south.⁴²²

414 Q 208

415 Q 24

416 Q 24

417 Ev 163

418 Q 135

419 Ev 162

420 “Violence spreads in south Nepal,” *BBC News Online*, 25 January 2007 www.bbc.co.uk/news

421 HC Deb, 25 January 2007, col 1925W

422 “Nepal changes into federal state,” *BBC News Online*, 9 March 2007

196. We recommend that the Government offer support through its Global Opportunities Fund and assist the Westminster Foundation for Democracy to help develop democratic institutions and political parties in Nepal.

197. We further recommend that the Government pushes for and supports a strong international observer presence in Nepal for the elections planned for June.

Water-sharing

198. Water is becoming an increasingly rare resource in South Asia. India currently has a number of water disputes with its neighbours: a dispute with Pakistan over the Wular Barrage, a dispute over the Farakka Barrage with Bangladesh and a dispute over the Mahakali River Treaty with Nepal. These are exacerbated by growing populations and by high dependency on agriculture.⁴²³ The Director of the UN's Millennium Project, Professor Jeffrey Sachs, recently warned that India would face severe water shortages and that it had only been able to feed its population in the past by using water in an unsustainable way.⁴²⁴ Dr Price told us:

The problem is that water-sharing really is a zero-sum game—water tables are shrinking and populations are growing. It is a major issue of concern, and is going to continue to be an issue of concern⁴²⁵

199. India and Pakistan signed the Indus Water Treaty in 1960. Dr Price described it as:

the most successful treaty between India and Pakistan [...]Until last year, they never used international arbitration, so the treaty lasted through various wars that took place during that time.⁴²⁶

However, since 1985 India and Pakistan have been in dispute over India's Tubul Navigation Project on the River Jhelum, which Pakistan believes violates the Indus water Treaty. The Indus Waters Commission has failed to resolve the issue and it has been part of the Composite Dialogue between the two nations.⁴²⁷

200. The Mahakali River flows along the Nepal–India western border. It has huge potential for hydroelectric power, but Indo–Nepali cooperation on the river systems has been slow. Tensions grew following India's construction of the Tanakpur Barrage on the Mahakali in 1998.⁴²⁸ Dr Charu Lata Hogg told us:

“The Tanakpur episode during which India failed to inform Nepal that it was making use of a small piece of Nepalese territory to construct an embankment to protect Nepalese territory from possible backwater effects from the Tanakpur

423 Chietigj Bajpae, “Asia's Coming Water Wars”, *Power and Interest News Report*, 22 August 2006

424 “China and India warned their water is running out”, *The Guardian*, 23 January 2007

425 Q 213

426 Q 213

427 Chietigj Bajpae, “Asia's Coming Water Wars”, *Power and Interest News Report*, 22 August 2006

428 *Ibid*

Barrage, has loomed large in the Nepalese consciousness contributing to the fall of the government.”⁴²⁹

201. Water-related tensions in South Asia, however, are greatest between India and Bangladesh, given that 54 rivers flow from India into Bangladesh.⁴³⁰ In 1997 the two countries signed an agreement, which is renewed annually, on water-sharing, but the fall from power of the Awami League led to a cooling of relations.⁴³¹ The two nations have several water-related disagreements.

202. First, India and Bangladesh have accused each other of causing the erosion of riverbanks on their international boundary by constructing concrete embankments. Second, Bangladesh believes India has reduced water flow along the River Ganges, known as Padma in Bangladesh, as a result of India's construction of the Farakka Barrage across the Ganges in 1970. Dhaka has also accused Delhi of being slow in sharing data about river flows for flood control purposes. Bangladesh has also opposed India's plans for a \$15 billion project to link rivers across the country in order to divert excess water in the north to water-deficient states in the south, which Bangladesh claims will affect river flow through the Brahmaputra and Ganges rivers systems into Bangladesh.⁴³²

203. We conclude that there is potential for increasing conflict over access to water in South Asia. We recommend that the Government monitor this situation carefully and that it encourages South Asian nations to use water in a more sustainable way.

Regional integration

South Asian Association for Regional Cooperation (SAARC)

204. Established in 1985, the South Asian Association for Regional Cooperation (SAARC) is made up of Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, Sri Lanka and Afghanistan (new member). It aims to “accelerate the process of economic and social development” among member nations.⁴³³ The FCO explained that progress on this objective had been limited, in particular, by relations between India and Pakistan.⁴³⁴ Dr Price agreed. He told us:

The big problem with SAARC is that the political disputes between India and Pakistan get in the way of substantial progress.⁴³⁵

However, Dr Charu Lata Hogg argued that

SAARC still remains a largely consultative body, which has shied away from undertaking even a single collaborative project in its 20 years of existence. While

429 Ev 185

430 Ev 185

431 Ev 40, para 81

432 Chietigj Bajpae, “Asia's Coming Water Wars”, *Power and Interest News Report*, 22 August 2006

433 www.saarc-sec.org/main.php

434 Ev 41, paras 92–3

435 Q 214

most of the failings of SAARC could be laid on the door of India's tensions with Pakistan, there appears to be a deep resistance to doing anything collaborative in the region as a whole. Smaller countries like Bangladesh have used SAARC as a regional dispute settlement mechanism [...].⁴³⁶

205. One area of collaboration between all seven original SAARC members is the South Asian Free Trade Agreement (SAFTA) in January 2004.⁴³⁷ SAFTA formally came into effect on 1 January 2006. The agreement will be implemented in stages. India, Pakistan and Sri Lanka are due to reduce their tariffs to 20% by 2007 and then down to zero in a series of annual cuts by 2012. The other four nations have until 2016 to reach full implementation.⁴³⁸

206. However the FCO described SAFTA as "not particularly ambitious". In a supplementary note to us the Foreign Secretary explained:

the real test of the effectiveness of SAFTA will be in the 'sensitive' lists. These are lists of goods temporarily exempt from the above tariff reductions. Each country has submitted long lists of sensitive goods (for example, India's is 744 items, Pakistan's is 1200). The SAFTA agreement says that members will have to agree the sensitive lists, which could involve drawn out negotiations. [...]

Further negotiations are likely to continue on other trade issues as well, for instance: Rules of Origin – specifying the conditions that would have to be met by products to qualify for applications of reduced customs tariffs on export to another SAARC Member State; Mechanism for Compensation of Revenue Loss for Bangladesh, Bhutan, the Maldives and Nepal in the event of revenue loss resulting from lowering of customs tariffs in terms of the Agreement; and Technical Assistance.⁴³⁹

Mr Roy-Chaudhury told us that internal trade within SAARC was about 30% or less than SAARC nations' global trade. By contrast 70% of ASEAN nations' total trade was within ASEAN.⁴⁴⁰ He added:

Delhi has never felt that there is much momentum in SAARC. There are complementarities among the countries in SAARC, in terms of their manufacturing processes and culture and so on. From Delhi's perspective, there is the problem of Pakistan's refusal to provide a certain economic status to India that India has provided to Pakistan. SAARC and the south Asian free trade area sound good politically but they are not going to be implemented in the short term.⁴⁴¹

207. The FCO suggested that BIMSTEC, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Co-operation, made up of Bangladesh, India, Sri Lanka, Thailand, Burma, Bhutan and Nepal, could in theory displace SAARC. BIMSTEC

436 Ev 184

437 Ev 41, paras 92–93

438 Ev 75

439 Ev 41, para 93

440 Q 38

441 Q 38

members have endorsed a proposal for a free trade agreement by 2017 and India, Sri Lanka and Thailand have committed to trade liberalisation by 2012.⁴⁴² The FCO argued:

Whether it does or not will be largely up to India, the potential lynchpin of BIMSTEC. If India wants to get the best out of BIMSTEC's potential it will have to re-energise its economic reforms and improve its infrastructure, especially in the underdeveloped East and North East. But in the day to day Indian international trade agenda BIMSTEC does not feature much.⁴⁴³

208. Dr Price told us:

More important than SAARC, at the moment anyway, are the bilateral agreements between different countries, particularly between India and Sri Lanka. There is now talk of a free trade area or bilateral trade agreement between India and Bangladesh. Essentially, while the relationship between India and Pakistan remains poor, although improving, SAARC is not going to go anywhere fast. I think that is why India is focusing on bilateral agreements, not just within the region but also with other countries, such as Thailand and Singapore.⁴⁴⁴

209. At the 2005 Dhaka SAARC Summit, Japan and China were accorded observer status. In April 2006 SAARC members also agreed in principle for the US and South Korea to be admitted as observers. It has been suggested that the interest of extra-regional powers in becoming observers shows that SAARC has the potential to become a stage for power politics.⁴⁴⁵ Mr Roy-Chaudhury suggested that the one way in which the region might become more integrated would be through energy:

There are various proposals to bring energy from central Asia, via Afghanistan or Pakistan, into India. There are three or four proposals for pipelines and if that takes off, I think that we are looking at a massive growth area and massive interdependencies among SAARC countries, particularly between India and Pakistan, which will impact positively on the peace process.⁴⁴⁶

210. We conclude that the South Asian Free Trade Agreement (SAFTA) is unlikely to greatly increase internal trade between countries in the South Asian Association for Regional Cooperation unless further agreements can be reached on trade issues, such as items on 'sensitive lists', which remain to be negotiated. The Government should welcome the steps taken so far to develop an institution that strengthens relations between countries in South Asia and encourage further progress in future.

442 Ev 42, para 98

443 *Ibid*

444 Q 215

445 Sreeradha Datta, "S.A.A.R.C.: A Potential Playground for Power Politics", *Power and Interest News Report*, 17 April 2006

446 Q 38

Shanghai Co-operation Organisation (SCO)

211. India became an observer in the Shanghai Co-operation Organisation (SCO) in 2005. The SCO is made up of China, Russia, Kazakhstan, Kyrgyzstan, Tajikistan and Uzbekistan. Iran and Pakistan were given observer status at the same time as India. The FCO stated:

The SCO is primarily centred around economic co-operation and Central Asian security-related concerns (terrorism, separatism and extremism) but the overall geopolitical direction of the organisation is being driven by Russia and China towards curbing Washington's influence in Central Asia.⁴⁴⁷

The FCO claimed that India had not applied for full membership of the FCO for fear of undermining its developing relationship with the US.⁴⁴⁸

212. However, Mr Roy-Chaudhury gave two other reasons for India's hesitation:

One is that there was a concern in Delhi that if it applied for full membership of the Shanghai Cooperation Organisation, China would want reciprocal membership of the South Asian Association for Regional Cooperation. [...] The second reason is that China was not particularly excited about India's full membership of the Shanghai Cooperation Organisation and India was not keen to push it, if that was not quite what China wanted.⁴⁴⁹

213. The Foreign Secretary told us:

We do indeed treat the council of the Shanghai Cooperation Organisation very seriously and we recognise both its existing importance and its potential.⁴⁵⁰

214. In our inquiry into East Asia we concluded that the SCO "had the potential to evolve into an alliance of authoritarian powers opposed to the West, and may aid China's efforts to establish control over Central Asian energy reserves."⁴⁵¹

215. We welcome the fact that India has joined the Shanghai Cooperation Organisation (SCO) as an observer. We recommend that the Government should urge India to discourage the SCO from becoming an organisation hostile to the West.

Association for Southeast Asian Nations (ASEAN)

216. India has a "Look East" policy, as part of which it has gradually been increasing its engagement with the Association for Southeast Asian Nations (ASEAN), made up of Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Phillipines, Singapore, Thailand and Vietnam.⁴⁵² It became an ASEAN Dialogue Partner in 2002,⁴⁵³ signed the "ASEAN-India

447 Ev 42, para 97

448 *Ibid*

449 Q 39

450 Q 124

451 Foreign Affairs Committee, Seventh Report of Session 2005-06, *East Asia*, HC 860-I, para 261

452 Brunei, Burma, Cambodia, Indonesia, Laos, Malaysia, Phillipines, Singapore, Thailand and Vietnam.

453 Ev 42, para 95

Partnership for Peace, Progress and Shared Prosperity” in November 2004,⁴⁵⁴ and is a member of the ASEAN Regional Forum (ARF). India took part in the first and second East Asia Summits (in December 2005 and January 2007 respectively) and the Asia Europe Meeting (ASEM) in September 2006.⁴⁵⁵ Indian trade with ASEAN grew from 8.5% of its total trade in 2003 to 9.3% of the total in 2004.⁴⁵⁶ India is currently negotiating a Free Trade Agreement (FTA) with ASEAN and has already entered into a FTA with Thailand and Singapore.⁴⁵⁷

217. Mr Roy Chaudhury told us:

On south-east Asia, that is a different world for India. It is a world in which there is far more manoeuvrability and flexibility of options. There are no inherent constraints such as are present in the south Asian dynamic because of historical relationships and so on.⁴⁵⁸

218. However, the FCO wrote:

India attaches some importance to these relationships, but they are not at the top of its foreign policy priorities. It is much closer to some countries, eg Singapore, than others.⁴⁵⁹

454 Baldev Raj Nayar, “India in 2005: India Rising but Uphill Road Ahead”, *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 101

455 Ev 42, para 95

456 Chatham House and Fondation Robert Schuman, Karine Lisbonne-de Vergeron, *Contemporary Indian Views of Europe*, (London, 2006), p 23

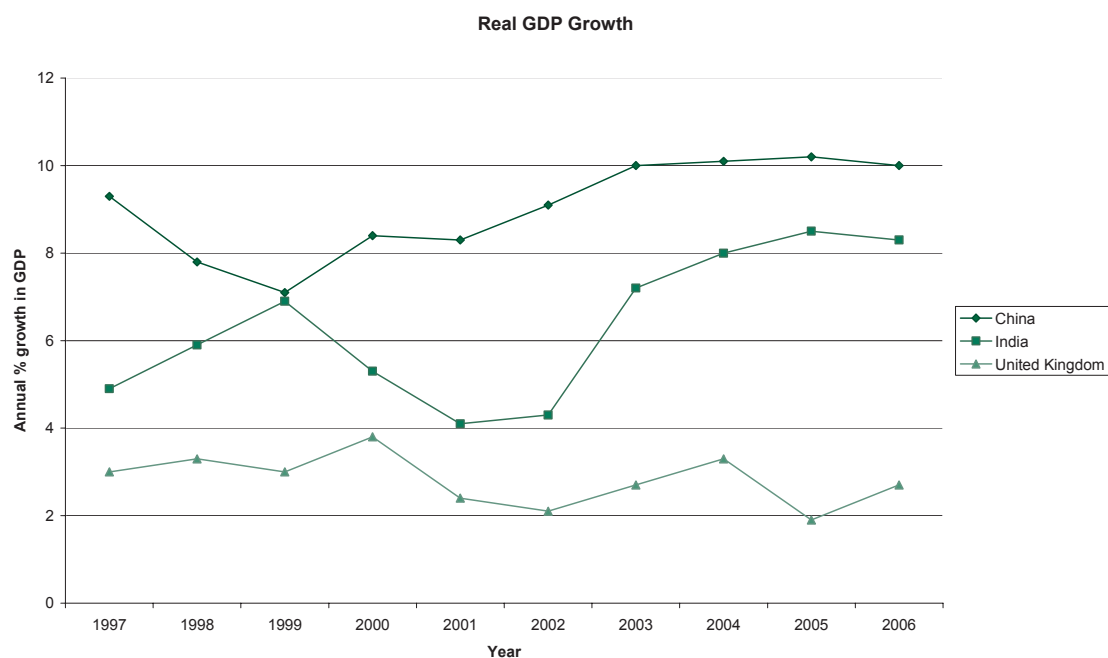
457 Baldev Raj Nayar, “India in 2005: India Rising but Uphill Road Ahead”, *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 101

458 Q 38

459 Ev 42, para 96

5 India's economic growth

219. Between 1991 and 2001 India's economy expanded by an average of 6.2% a year. Over the last three years economic growth has been even higher: it was 7.2% in 2003, 8% in 2004 and 8.5% in 2005.⁴⁶⁰ The graph below compares India's rate of growth since 1997 with that of the UK and that of the other major rising economic power in Asia—China. Unlike China which has taken a traditional path to development, beginning with agricultural growth, moving to low-cost manufacturing and now progressing up the value-added chain, India's growth is taking place at the other end. Its service sector made up more than 50% of GDP in 2006, with industry accounting for only 27% and agriculture 22%.⁴⁶¹



Source: International Monetary Fund, *World Economic Outlook Database*, September 2006

220. What India's future economic growth rate will be is a question of hot debate in India.⁴⁶² We heard very different views during our visit there and in the evidence submitted to our inquiry. The Foreign Secretary told us that India's current growth rate was sustainable because of its young population:

India still has enormous potential; one of the things that is very different in India from the position is China is that India has a young work force, so it has the potential of a dynamic, growing pool of available labour.⁴⁶³

⁴⁶⁰ Percentage GDP growth given by calendar year. Figures from the International Monetary Fund's *World Economic Outlook Database*, September 2006.

⁴⁶¹ Edward Luce, *In Spite of the Gods; The Strange Rise of Modern India*, (London, 2006), p 38

⁴⁶² Q 55

⁴⁶³ Q 155

Lord Desai, retired professor of economics at the LSE, argued that India might grow more rapidly than China in the future as its “transition problems” would be less “given its access to the English language, its similar property rights and legal structure”.⁴⁶⁴

221. However, other commentators have suggested that India will not be able to sustain over 7% growth indefinitely. Martin Wolf, Associate Editor and chief economics commentator, *Financial Times*, argued:

if the [trend] rate were 8%, that would imply an extraordinary, though not completely unique, efficiency in the use of capital. The investment rate in India is not much more than half that of China, and although I am prepared to accept that the investment return and the efficiency with which capital is used are higher, it is difficult to believe that it is going to be that much higher on a sustained basis. The population is favourable and is not a constraint, but despite what many people say the same will be true of China for the next 25 years, so that is not a big difference.⁴⁶⁵

When we were in India some commentators also warned that India’s GDP growth had not been steady over the last 20 years. During India’s last economic slowdown in 2001, for example, it only achieved GDP growth of 4.1%.⁴⁶⁶ In June last year the *Financial Times* reported fears of another slowdown after the Mumbai share index dropped by 9% (although it subsequently bounced back in August 2006⁴⁶⁷).⁴⁶⁸ Many witnesses during our inquiry told us that India’s economic growth would also be limited by high unemployment and low literacy levels. We discuss these and other potential limitations to growth at the end of this chapter.

222. Yet even while describing himself as one of the “slightly more pessimistic” observers, Mr Wolf, believed India could sustain a GDP growth rate of 6%, unless faced with a disaster:

[...] I strongly believe that 6% is sustainable indefinitely. There is an enormous catch-up potential in the country; its GDP per head of purchasing power is about a tenth of that of the world’s leaders and about half that of China.[...]. They are not really using many of their opportunities in manufacturing, most notably their competitiveness—if they improve policy a little, it is potentially very considerable in significant areas of economic activity—and they have the domestic demand engine which comes from their huge size.

They can achieve economies of scale internally, so unless they mess up in a rather big way or there is some disaster such as a war with Pakistan that turns nuclear—something horrendous—I think that 6% is very plausible;[...].⁴⁶⁹

464 Q 52

465 Q 55

466 Percentage GDP growth given by calendar year. Figures from the International Monetary Fund’s World Economic Outlook Database, September 2006.

467 “India: Mumbai basks in relative luxury”, *Financial Times*, 23 August 2006

468 “Market meltdown exposes structural weaknesses”, *Financial Times*, 27 June 2006

469 Q 55

Impact on the UK and global economy

223. Mr Wolf told the Committee that it was important not to exaggerate India's impact on the global economy. Indian IT services had been a "significant and... largely beneficial competitive force" and India was "one of the factors, although again not a decisive one, in the tightening of the world's oil markets". However, India's impact was "nascent but not yet really significant". Mr Wolf pointed out that at current prices India's economy was only 40% of that of the UK's and very considerably smaller to that of China's.⁴⁷⁰

224. India has had less of an impact on the UK and global economy so far than China because it is "relying on its domestic market more than exports, consumption more than investment".⁴⁷¹ While India's exports grew by 22% in the 2005–06 financial year, its imports expanded by 33% due to a surge in domestic consumption, leaving its trade deficit at \$39.6bn. India attracts less than one-tenth of the Foreign Direct Investment (FDI) that goes to China each year.⁴⁷²

225. However, the FCO stated that "India is beginning to impact on the global economy, and at an accelerating pace."⁴⁷³ The Foreign Secretary told us that India's strong performance in the high-end services sector was a potential threat to the UK's economy:

[it is] one of the things that lies behind the Chancellor's insistence that we have to try to keep the edge in education and the spread of knowledge. There are areas that hitherto have been the purview of countries such as the United Kingdom, but in which countries such as India are moving fast ahead.⁴⁷⁴

226. We conclude that the Indian economy is beginning to show signs of the major impact it could have on the world's economy in the future, in particular in the high end knowledge-driven sector. The Government must ensure the UK is able to compete in this new environment.

Trade and investment

227. In 2006, our sister committee, the Trade and Industry Select Committee, inquired into "Trade and Investment Opportunities with India" because of concerns that levels of trade and investment between India and the UK were not as high as they should be given the UK's "unique relationship with India".⁴⁷⁵ We consider this issue further in our own inquiry.

470 Q 52

471 Gurcharan Das, "The Indian Model", *Foreign Affairs*, vol 85, number 4 (July/August 2006)

472 "Market meltdown exposes structural weaknesses", *Financial Times*, 27 June 2006

473 Ev 34, para 28

474 Q 159

475 Trade and Industry Committee, Third Report of Session 2005–06, *Trade and Investment Opportunities with India*, HC 881–I, para 2

British business in India

228. The FCO was very positive about levels of UK exports to and investment in India:

India is one of the UK's largest export markets in the developing world.

[...] The UK is the third largest investor in India (it has the 3rd largest share of new investments approved since 1991 – 10.04% well ahead of Germany, Japan and France).⁴⁷⁶

However, Clifford Chance warned:

Despite historical advantages [...] trade between India and the UK remains relatively low.⁴⁷⁷

229. The Trade and Industry Select Committee's Report found that the UK was "not as engaged with India's markets as it should be [...] perhaps because UK companies tend to see India as a source of low-cost labour rather an emerging market in its own right" and argued that the UK Government, business and higher education institutions needed to be "far more entrepreneurial in their approach"⁴⁷⁸ Lord Desai, retired professor of economics at the LSE, echoed this point in his evidence to us:

[...] I do not think that anybody is sufficiently engaged. I am on some of the taskforces, but nobody is sufficiently engaged. It is not a big enough matter to the UK economy; it is a small thing.⁴⁷⁹

230. UKTI explained that it was diverting further resources to India:

The UKTI's team in India is one of HMG's biggest overseas operations. As part of UKTI's new strategy for emerging markets, more resources will be allocated to India, including an emphasis on financial markets.⁴⁸⁰

The FCO pointed out that the Indo–British Partnership Network (IBPN) encourages and supports UK businesses, particularly SMEs, to do business in India.⁴⁸¹ JETCO (the UK–India Joint Economic and Trade Committee) also meets annually "in order to discuss specific issues arising out of our economic co-operation and to identify opportunities to enhance bilateral trade and investment in traditional and non-traditional areas."⁴⁸²

231. During our visit we were told that UKTI often found it difficult to get feedback from companies on the quality of the advice and information they had been given by UKTI on investing in or trading with India. This was reiterated to us in our evidence session with UKTI by Ian Fletcher, Managing Director, International Group. He told us:

476 Ev 46, paras 138 and 140

477 Ev 164

478 Trade and Industry Committee, Third Report of Session 2005–06, *Trade and Investment Opportunities with India*, HC 881–I, para 60

479 Q 16

480 Ev 129

481 Ev 47, para 142

482 Ev 129

there is some slight evidentiary bias, in that we tend to hear from the people who are not happy with what they have seen. I suspect that people who have a reasonably good service tend to get on with the business.⁴⁸³

232. The Trade and Industry Committee also found that the UK's institutional arrangements in India to promote trade and investment were "characterised by enthusiasm but also confusion", with "too many overlapping bodies with ill-defined responsibilities and often inadequate resources".⁴⁸⁴ UKTI described the presence of development agencies in India:

The development agencies that have offices in India are Scottish Development International (New Delhi), Welsh Development Agency (Bangalore) and British Midlands (a collaborative operation between Advantage West Midlands and the East Midlands Development Agency in Mumbai). The City of London and Think London are also considering opening offices in India.⁴⁸⁵

233. The Trade and Industry Committee's Report argued that organisations should use existing UKTI offices to promote trade and investment and that individual English Regional Development Agencies should not establish representative offices or hire locally engaged Indian staff.⁴⁸⁶ In response the Government pointed to the UKTI's new strategy, which states that by March 2008, UKTI will have worked with the devolved administrations and the Regional Development Agencies to review their representation overseas and maximise effectiveness.⁴⁸⁷

234. We asked Andrew Cahn, Chief Executive of UK Trade & Investment and Ian Fletcher, Managing Director, International Group about this. He told us:

[...] there are some strong advantages in having a variety of players in this field. One is [...] that t]he devolved Administrations and the RDAs and other bodies like Think London or the Corporation of London have their own resources [...] that just brings more resources to the field. [...] There are also some strong brands out there which are useful. Scotland really does have a brand of its own to promote. Therefore my comparator organisation, Scottish Development International, has something clear to sell.

I do not say that there is no issue to be looked at. That is why we have set up this review. The issue comes when you have a large number of representations in one city. In Beijing and Mumbai, for example, we have rather a lot of different organisations. Some are co-located, which can work very well. But there is rather a lot and there is the worry that they are not well co-ordinated. We have co-ordinating

483 Q 21

484 Trade and Industry Committee, Third Report of Session 2005–06, *Trade and Investment Opportunities with India*, HC 881–I, para 11

485 Ev 131, pp 9–10

486 Trade and Industry Committee, Third Report of Session 2005–06, *Trade and Investment Opportunities with India*, HC 881–I, para 108

487 Trade and Industry Committee, Fifteenth Special Report of Session 2005–06, *Trade and Investment Opportunities with India: Government Response to the Committee's Third Report of Session 2005–06*, HC 1671, para 4

machinery. We have a committee on overseas promotion which is designed to co-ordinate all the efforts on inward investment.⁴⁸⁸

235. Mr Fletcher added:

Through evidence that the committee on overseas promotion has put together, we have been able to demonstrate to RDAs the benefits of co-operation, and we have started to get voluntary agreement and practice. It is the beginning of joint branding, which will be helpful in ending the confusion with symbols that quite a few people have pointed out. We have started to put in place a mechanism whereby individual inward investment prospects are properly handed out to the English regions in a reasonably orderly way. That part of the mechanism is quite effective, and we have been able to link it to the funds that we provide to RDAs through the single-pot process—a unique funding mechanism—to provide some targets that have begun to discipline their behaviour.

Those are step-by-step and incremental improvements. [...] The trick is to use the review in the strategy as a process of joint learning with our RDA partners to ensure that we end up with something that meets their legitimate objectives but that does not lead to more confusion or duplication.⁴⁸⁹

236. We recommend that the Government encourage businesses to comment on the quality of advice and information they have received from UKTI. We also recommend that the Government set out in its response to this Report what progress is being made relating to the review of the representation of devolved bodies and Regional Development Agencies overseas, with reference to those in India.

Barriers to investment

237. India has reduced tariffs over the years. However, barriers to Foreign Direct Investment remain in sectors in which UK companies traditionally invest. The law firm Clifford Chance told us that “India’s position on legal services lags behind that of other WTO members”⁴⁹⁰ and pointed out that foreign law firms are not allowed to open offices or practice law in India.⁴⁹¹ Investment in financial services is also restricted. Foreign banks can take a 75% equity share in Indian banks, but only in those that are non-profitable.⁴⁹² The City of London told us that HSBC and Standard Chartered, already well-established in India, had faced difficulties when they tried to expand their own networks. Investment in Indian insurers is capped at 26%.⁴⁹³ Retail is also closed to foreign companies selling branded products of other companies.⁴⁹⁴

488 Oral evidence taken before the Foreign Affairs Committee on 6 December 2006, HC (2006–07) 136–I, Q 18

489 *Ibid*

490 Ev 166, para 21

491 Ev 164, para 4

492 Ev 46, para 141

493 Ev 130

494 Trade and Industry Committee, Third Report of Session 2005–06, *Trade and Investment Opportunities with India*, HC 881–I, para 80

238. Clifford Chance argued that liberalisation of the legal services market would benefit India's economy as "[g]lobal corporates and financiers would be more willing to invest in a market where they were able to rely on multi-jurisdictional and specialised legal expertise."⁴⁹⁵ It also stated that international law firms would be unlikely to take business away from Indian law firms as "their role will not include advice on matrimonial, conveyancing, wills or criminal law. Most importantly, they will not be seeking advocacy rights—the core area of business of most Indian lawyers."⁴⁹⁶ Clifford Chance also argued that pricing differentials would limit direct competition for years.⁴⁹⁷

239. The FCO stated that it was trying to overcome such market access issues with JETCO, in parallel with EU–India and WTO dialogues.⁴⁹⁸ UKTI argued:

The Committee should note that the Government is engaged in regular dialogue with the Government of India to recognise the benefits of removing barriers to foreign participation in important sectors. We continue to lobby the Government of India for increased liberalisation in those sectors where the UK leads the world, such as retail, financial, legal and business services, both bilaterally through the annual ministerial meeting under the Joint Economic Trade Committee process.⁴⁹⁹

240. However, Clifford Chance suggested that on legal services at least there had been little progress so far:

So far there has been little agreement between the two sides; a report to UK Ministers proposed a staged programme of liberalisation, beginning with limited opening as a transition measure towards further liberalisation. The India team favours a form of highly regulated joint ventures with Indian firms, a proposal which is unlikely to be attractive to international law firms.⁵⁰⁰

241. We recommend that alongside WTO and EU–India negotiations, the UK Government should continue to call strongly in JETCO and in the Economic and Financial Dialogue for India to remove restrictions to Foreign Direct Investment and to emphasise to India that liberalisation of its markets should have benefits for its economy. The Government must also ensure that businesses are kept informed whenever restrictions on FDI are reduced.

Indian business in the UK

242. A new aspect of the UK–India trade and investment relationship is the growth of Indian investment in the UK.⁵⁰¹ The FCO wrote positively about levels of Indian investment in the UK:

495 Ev 166, para 5

496 Ev 167, para 25

497 Ev 167, para 26

498 Ev 46

499 Ev 130

500 Ev 166, para 24

501 Ev 130

India is now the third largest investor in the UK. About 500 Indian firms have set up operations in the UK, the majority from the ICT sector. In 2005–2006 there were 76 new Indian investment projects into the UK, an increase of 110% from the previous year. The UK is the top European investment location for Indian companies targeting the European market and beyond.⁵⁰²

243. However, Mr Wolf suggested that the UK would have to work hard to continue to attract Indian investment:

What do we offer India in terms of economic relations? Well, we offer a diaspora, which is very important, and we offer strength in financial services, which is pretty obvious. So there are areas where our companies can get in in a big way. But clearly, if you are talking about providing capital goods and modern manufacturing technology or modern IT technology, people will go to other countries; they will go to Germany and Japan for their motor vehicles and to the United States for the IT business. So we have to define our competitive advantage very carefully.⁵⁰³

244. In October 2006 Anglo–Dutch steel firm Corus accepted a takeover bid by Indian company Tata steel. As part of the deal, Tata has pledged to pay £126million into the Corus pension fund and to increase the annual contributions to the British Steel fund. However, while Tata has stated that it does not plan to relocate any Corus plants, it added that job cuts could not be ruled out in the long-term.⁵⁰⁴

245. UKTI detailed the work it was doing to encourage further Indian investment into the UK:

A very significant level of new investments are UKTI assisted. UKTI's Inward Investment efforts in India aim to improve the competitiveness and economic prosperity of the UK by identifying, actively encouraging and facilitating high quality Indian inward investment into the UK, focusing particularly on 'knowledge driven' industry sectors including: ICT (Software services, IT enabled services, telecom software); Biotech, Pharmaceuticals & Healthcare; Automotive/Advanced Engineering; Creative Industries; Food & Drink Processing.⁵⁰⁵

It explained that UKTI had restructured:

There is no longer a division between investment and trade. The new "Business Directorate" is adopting an approach that develops relationships with UK and foreign companies on a sectoral basis. This unified approach is also being reflected in our diplomatic posts in India where the trade and investment teams have merged. UKTI will continue to emphasise the proactive search for inward investment leads aimed at companies that have the potential to add the highest value to the UK economy.⁵⁰⁶

502 Ev 46, para 139

503 Q 74

504 "Corus accepts £4.3bn Tata offer", *BBC News Online*, 20 October 2006 www.bbc.co.uk/news

505 Ev 130

506 Ev 130

It added that UKTI was developing a £9 million programme of intensive support for innovative and research and development(R&D)-intensive companies, which would include encouraging companies from overseas, such as India, of the benefits of carrying out R&D work in the UK.⁵⁰⁷

246. Alpesh Patel, UKTI Dealmaker responsible for India, told us that there were some problems in attracting Indian business to the UK, including the costs of set-up, a lack of knowledge amongst start-ups in India of the services of UKTI and of the Foreign Office; the fact that India's top scientific institutions lacked commercial spin-out know-how; the fact that UK companies outside the FTSE 100 made relatively few connections with India; and poor media perception. He recommended that the UK should promote the UK's incubation centres which were "hot-houses for low-cost set-up for start-ups" through entrepreneurs who had successfully used them; that the business schools of universities should look for alliances with Indian institutions to access their technologies for spin-outs; that the CEOs of the FTSE Small Cap and FTSE Fledgling companies should be targeted on opportunities and counterparts and databases available; that Business Plan competitions should be held to build associations between business schools and that journalist fellowships should be funded to bring business journalists for a term to the UK.⁵⁰⁸

247. We welcome Indian investment into the UK and the work being done by UKTI to encourage further investment. However, we conclude that the Government needs to do more to continue to attract Indian business into the UK. In particular it should focus on promoting the opportunities for low-cost start-ups and on building links with Indian scientific institutions and journalists.

Limitations to growth

248. Many witnesses told us that India would have to address certain limitations to economic growth in the future.⁵⁰⁹

Poverty and unemployment

249. The FCO stated that the Millennium Development Goals would "be won or lost in India"⁵¹⁰ and DfID's largest single bilateral aid programme is to India. Despite a recent reduction in poverty levels, nearly 380 million Indians still live on less than a dollar a day.⁵¹¹ India ranks at 127 on the report's Human Development index, far behind China which is at 85.⁵¹² There are also large inequalities between Indian states⁵¹³ Mr Wolf told us:

507 Ev 132

508 Ev 188, paras 2–3

509 Ev 34, para 30, Q 55 [Mr Wolf], Q 57 [Lord Desai]

510 Ev 31, para 5

511 "The myth of the New India", *New York Times*, 6 July 2006

512 Baldev Raj Nayar, "India in 2005: India Rising but Uphill Road Ahead", *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 104

513 IMF Working Paper WP/06/103, *Mind the Gap – Is Economic Growth in India Leaving Some States Behind?*, April 2006 and Ev 34, para 29

India[...] has an enormous regional problem. That is to say, those areas of the country, which probably contain close to half the population, where growth is slowest, the incubus of the caste system is most pernicious and illiteracy is highest are also the areas that have the highest birth rates. There is a real problem in absorbing the population which, as it were, is burgeoning where growth is not.⁵¹⁴

250. There has been an eruption of Naxalite insurgencies in some of the most populous and poorest parts of north and central India. The FCO pointed out that more civilians are thought to have died in Naxalite violence this year than in violence in Indian-administered Kashmir.⁵¹⁵

251. Mr Wolf and Lord Desai told us that employment generation was key to reducing poverty in India.⁵¹⁶ Mr Wolf explained:

India's economic structure and development path is unique [...] I think that it is the only significant economy ever in which services have grown faster than manufacturing.

In addition, the service sector is much less labour-intensive than one would normally expect.⁵¹⁷

Only 1.3 million out of a working population of 400 million are employed in the information technology and business processing industries that have driven growth.⁵¹⁸ Although manufacturing is up, this is driven by capital investment, rather than at the labour intensive low and medium technology end.⁵¹⁹ Organised manufacturing only employs about 6 million.⁵²⁰ Lord Desai stressed to us how limited organised labour was:

I draw an analogy between the Indian employment structure and the Indian caste system. The best jobs are reserved for the best people, and they are restricted in respect of organised sector employment and public sector employment. Such jobs are inflation-proof, tenure-proof and so on, but they are for very few people.⁵²¹

He added:

lower down, people are in the much worse and much less well-paid jobs, where health and safety requirements are not satisfied. There is a hierarchy of increasingly worse jobs for the poorer and poorer people.⁵²²

252. Mr Wolf and Lord Desai argued that liberalising labour laws would be necessary for labour-intensive manufacturing to grow.⁵²³ India's employment laws currently prevent

514 Q 66

515 Ev 38, para 59

516 Q 66

517 Q 60

518 "The myth of the New India", *New York Times*, 6 July 2006

519 Q 59 [Lord Desai]

520 Q 60

521 Q 63

522 Q 64

companies with more than 100 staff in certain sectors from laying off workers without going through elaborate legal hoops.⁵²⁴ Mr Wolf told us, “bankruptcy in India takes 10 years if everything goes well. It is, I think, the slowest in the world.”⁵²⁵ He explained, “For that reason, starting a company in areas in which such flexibility might be necessary is very risky for an entrepreneur.”⁵²⁶ Mr Wolf also told us that manufacturing was limited by a reservation policy, which restricted many products to the small-scale sector.⁵²⁷

253. The governing Congress-led United Progressive Alliance has been described as being “in a state of policy paralysis”, due to its reliance on support from left-wing parties, especially the Communist Party of India (Marxist).⁵²⁸ Mr Wolf commented, “Even most supporters of the present Government would not argue that they have been a great reforming Government”.⁵²⁹ Lord Desai told us:

The Government’s left-wing partners are the biggest opponents of any relaxation in labour laws, because the people who are in the best jobs are the most trade-unionised people. They are a powerful political lobby.⁵³⁰

254. We asked the Foreign Secretary about the extent to which the UK had had exchanges with the Indian government about reforms to employment laws. She told us:

We do talk to the Indians from time to time about such issues, just as we do about barriers to trade. We encourage them to consider whether they could justifiably make reforms that might be economically beneficial without damaging their social fabric. [...] Obviously this is an area that we encourage them to look at, but it is very much an area of great sensitivity, where they have to be the people who make the choices.⁵³¹

Antony Stokes told us:

We have helped to fund visits by the TUC and the Department for Work and Pensions to share experience of overcoming barriers to economic growth.⁵³²

We conclude that restrictive labour laws are a key barrier to employment generation, and therefore poverty reduction, in India. We recommend that the Government continue dialogue with the Indian government on the benefits of liberalising labour laws.

523 Q 66

524 Q 64 [Lord Desai]

525 Q 66

526 Q 67

527 Q 62

528 Baldev Raj Nayar, “India in 2005: India Rising but Uphill Road Ahead”, *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 105

529 Q 68

530 Q 64

531 Q 151

532 Q158

Agriculture

255. The agricultural sector, on which 60% of India's labour force depends, has been stagnant.⁵³³ Between 2000 and 2004, it grew by just 2% in real terms.⁵³⁴ In an article on India's economic growth, Gurcharan Das suggested that the best way forward might be a "green revolution". He argued that "[u]nlike in manufacturing, India has a competitive advantage in agriculture, plenty of arable land, sunshine and water" and that to increase agricultural growth it would need to encourage private capital to move from urban to rural areas, lift onerous distribution controls, allow large retailers to contract directly with farmers, invest in irrigation and permit the consolidation of fragmented holdings.⁵³⁵

256. However, Lord Desai told us:

What is happening right now is that there is some diversification in terms of horticulture, market gardening and things like that. But [...]that is not going to be a way out in terms of employment generation. [...] There is no economy in the world that has 60% of its people on the land and earning wages comparable to urban wages.⁵³⁶

Mr Wolf was also sceptical. He argued:

[...]the demand for agricultural output will not grow anything like as fast as the economy, so if India manages to accelerate the growth rate of foodstuffs dramatically—it will be very difficult—it will have to think about a rapid increase in exports.

The world market for agricultural products, particularly many of those produced in India, is not good, partly because of the sort of problems that smashed up the Doha round.

257. The Indian government has introduced a National Rural Employment Guarantee Programme in 200 districts which assures employment at the minimum wage for 100 days for one member of each rural household. Some have seen this as a visionary way to end poverty in rural areas but others consider it a road to fiscal bankruptcy and a tool of political patronage.⁵³⁷

258. Martin Wolf told us that the Indian government was "beginning to let the domestic modern sector into retailing, which is potentially quite significant in India."⁵³⁸ However, restrictions remain on foreign investment in retail.⁵³⁹

533 Baldev Raj Nayar, "India in 2005: India Rising but Uphill Road Ahead", *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 104

534 Q 68

535 Gurcharan Das, "The Indian Model", *Foreign Affairs*, vol 85, number 4 (July/August 2006)

536 Q 68

537 Baldev Raj Nayar, "India in 2005: India Rising but Uphill Road Ahead", *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 105

538 Q 68

539 Ev 129

259. We recommend that the Government point out to the Indian government that removing restrictions to Foreign Direct Investment in retail could provide opportunities for the agricultural sector to develop.

Caste discrimination

260. Christian Solidarity Worldwide told us that caste discrimination continued “to blight India’s political scene and economic development”.⁵⁴⁰ It is strongest in the rural areas where the bulk of the population lives and where the higher castes often have disproportionate power. Barbara Harriss-White told us in that:

25–30% of the population that is ‘dalit’ (oppressed, ex-untouchables) is, despite positive discrimination, extremely poorly educated, still fighting contemptuous treatment and generally confined to sanitary work, agricultural labour and construction sites.⁵⁴¹

261. The government has introduced reservations for the “Untouchables” (Dalits) in jobs and education in the public sector. 22.5% of places are already reserved for “Untouchables” in state-financed college places. There are now also controversial plans to reserve 27% of state-financed college places for “Other Backward Classes” (OBCs), socio-economically deprived groups who are not “Untouchables”. Protestors argue that places should be solely based on merit.⁵⁴²

262. Dr Gorringe wrote:

Huge strides have been made since Independence, but much remains to be done. Political and legal structures remain meaningless until they are implemented and inform interactions at the ground level. Dalits continue to face repression and violence. This oppression is not the ‘traditional’ ostracism of a supposedly impure group. Caste violence now is bound up with political competition and struggles over resources.⁵⁴³

Education

263. Public education has been described as India’s “most damaging failure”. A recent study found that even in poor villages, 16% of children were now in private primary schools (which charge about \$1 to \$3 a month in fees).⁵⁴⁴ The failure to educate a large proportion of India’s rural adults to even a minimum standard has been described as one of the reasons why India “finds it so hard to develop a mass, labour-intensive manufacturing sector”.⁵⁴⁵ Mr Wolf told us:

540 Ev 126

541 Ev 182

542 “Furore reflects India’s caste complexities”, *BBC News Online*, 20 May 2006

543 Ev 150

544 Gurcharan Das, “The Indian Model”, *Foreign Affairs*, vol 85, number 4 (July/August 2006)

545 Edward Luce, *In Spite of the Gods: The Strange Rise of Modern India*, (London, 2006), p 331

India still has, although it is improving, a very considerable illiteracy problem, much larger than China's. The standard statistics suggest that literacy is about 65% in the population as a whole and less than 50% in women. Obviously, in modern factory work, it is really quite important that people can read basic things.⁵⁴⁶

264. The Foreign Secretary commented:

Quite small things can be done. We talked about the provision of PCs. Greater access to primary education, never mind secondary education, is one of the things that can help transform the position in India and across the world.⁵⁴⁷

DFID has a £210 million of multi-year support to a national programme of elementary education, which aims to bring ten million out-of-school children into education.⁵⁴⁸

265. We recommend that the Government should continue to support improvements to public education in India.

Governance and criminal justice system

266. India has been described as rising “despite the state”. Its large public sector is inefficient and bureaucratic and does not focus on outcomes enough nor delegate sufficiently to service providers.⁵⁴⁹ Mr Wolf told us, “There is a famous joke in India about why the IT sector did so well, having come from nowhere. The joke is that it did so well because the Government had no ministry for it.”⁵⁵⁰

267. The Indian Administration Service (IAS) and India's political classes also have high levels of corruption. In December 2005, Foreign Minister Natwar Singh was forced to resign for alleged kickbacks from Saddam Hussein's government.⁵⁵¹ India consistently ranks among the worst countries in the world in the annual “Transparency Index” of corruption conducted by a non-profit group in Germany.⁵⁵² Mr Wolf argued:

[t]he public sector needs to be much smaller and its staff much better paid. Everybody knows that it has at least two or three times as many people as it needs, and that they are paid far too little. It is a pretty good recipe for corruption.⁵⁵³

268. Lord Desai gave us a very different view. He argued:

I do not think that corruption is an obstacle to growth. China is fairly corrupt, and it is growing very fast. The whole Asian experience is to be corrupt and deliver. [...] Some of the corruption is basically division of the spoils between the very rich, and

546 Q 66

547 Q155

548 Ev 47, para 143

549 Gurcharan Das, “The Indian Model”, *Foreign Affairs*, vol 85, number 4 (July/August 2006)

550 Q 72

551 Baldev Raj Nayar, “India in 2005: India Rising but Uphill Road Ahead”, *Asian Survey*, vol XLVI, No. 1, January/February 2006, p 105

552 Edward Luce, *In Spite of the Gods: The Strange Rise of Modern India*, (London, 2006), p 74

553 Q72

who cares about that? The corruption that really matters is the petty corruption that prevents people from starting businesses such as shops and stalls. That is the big obstacle to people who want to get on. India is one of the most politicised societies there is. It is deeply democratic and everything is politicised, so every job—such as that of a policeman—is a political patronage job. It is very hard to sack anybody or to have them up for corruption, although everybody talks about that. There are some enormously efficient, young, innovative public servants, and there is a lot of visible corruption. The thing about India is that, given all that, somewhere along the line it has managed to double its growth rate.⁵⁵⁴

Mr Wolf commented:

In China, as I understand it from discussions with people, a corrupt local party boss takes a share of the spoils. You buy him off and give him a share once you set up your company, but once you have done that, you get the service. It delivers; it works. It is an overhead, but not a giant overhead. Once he has agreed, his lower officials do not get in the way.

India's is a much more competitive form of corruption. There is a complicated administrative structure. Getting things through the legal system is a famous story in India, and you may have to bribe everyone all the way down the chain. That may mean a lot of people.⁵⁵⁵

269. UKTI told us that “extensive bureaucracy and continuing problems with corruption make India a challenging market”.⁵⁵⁶ The Foreign Secretary said:

Most of the business people who have talked to me about this would say that bureaucracy is part of the problem. In so far as politicians have not always managed to find a way to cut through some of the bureaucracy, they are certainly not part of the solution. My impression is that there are many influential players in the Indian political world, who recognise the difficulties and are striving to overcome them, but they are of a substantial order.⁵⁵⁷

270. Amnesty International described India's criminal justice system as “crippling”, despite the Indian government's claim to have a strong judiciary.⁵⁵⁸ During our visit to India, we were told the state-run police forces were in great need of reform. The Supreme Court had recently ordered state governments to implement reforms but many had not replied or had argued that this directive was not binding on them.

271. The Foreign Secretary told us:

There are quite strong links in many ways, if I recall correctly, between the British police and the Indian police, and a reasonable degree of links between our justice

554 Q 71

555 Q72

556 Ev 130

557 Q 154

558 Ev 117

systems as well. Certainly we continue to encourage, to offer training, to offer to share best practice and generally to encourage partnership working wherever we can, as a means of improving some of the issues to which you referred: corruption and so on.⁵⁵⁹

272. We recommend that the Government encourages the Indian government to take steps to tackle corruption and excessive bureaucracy and that it continues to offer assistance to improve police training.

Infrastructure

273. Poor infrastructure is a major constraint in India and “risks putting India at a disadvantage against Asian competition”.⁵⁶⁰ Clifford Chance stated:

The massive demands and stresses on India's poor power networks, urban infrastructure, transport and ports are the costs of the late economic boom, and could be the brakes on its overall growth.⁵⁶¹

274. In 2003 India's spending on infrastructure was about 3.5% of GDP, compared to over 10% in China.⁵⁶² Power also needs more investment. More than half of India's villages and about 40% of those who live in cities do not have electricity. Mr Wolf, told us:

There are chronic shortages; but, even worse, probably the biggest single source of capital inefficiency in the private sector is the need of virtually all companies of more than a tiny size to have their own generators. Basically, it is a self-generation system. That is a significant overhead cost and a huge waste of capital.⁵⁶³

Water management also needs improvement, with inter-state tensions over water-sharing high.⁵⁶⁴

275. Clifford Chance told us that the Indian government did have plans to increase spending on infrastructure by 67% over the next three years, but that some believed “even this is insufficient.”⁵⁶⁵ It will therefore be very important for the Indian government to bring the private sector into infrastructure projects. It has already begun to do with airports and ports. Public private partnerships in mobile phones have also been successful:

India has the largest mobile phone market in the world, with sales growing by 2 million per month. It is estimated there will be 250 million users by 2007.⁵⁶⁶

559 Q 164

560 Ev 74, para 31

561 Ev 166, para 16

562 Q 58

563 Q 58

564 Q 20

565 Ev 166, para 16

566 Ev 105, para 13

In August 2006 the government announced new plans to reduce its 24% stake in key public sector power companies. In October the government proposed to sell 10% of its stake in four such companies. It later decided to dilute its stake by selling extra shares in the companies instead, beginning with the Power Finance Corporation.⁵⁶⁷

276. However, the failure of the Enron project in Maharashtra left some in India and some outside investors sceptical about investing in infrastructure.⁵⁶⁸ Mr Wolf explained to us why it was so difficult to invest in the power sector:

power is a state-level issue under the Indian constitutional arrangements as that is one of the reasons why central Government finds it difficult to fix.[...] The fundamental issue is pricing and in many states—I do not know the exact proportion—the pricing is set by the state through political and regulatory processes. Those prices would not allow a private producer to cover costs.

In addition, [...] there are staggering losses from theft and people must have the ability to prosecute thieves effectively through the courts or stop it happening in some other way. Again, you need the support of state machinery to do that, which people do not currently have.

The issues cannot be dealt with without the willingness to confront the most powerful power pressure group in the country: farmers.⁵⁶⁹

277. We recommend that the Government promotes opportunities for investment in Indian infrastructure to UK businesses and that it raises with the Indian government, at national and state level, the need to reform the power sector.

567 "Centre all set to dilute its stake in power companies", *Economic Times*, 14 January 2007

568 Edward Luce, *In Spite of the Gods: The Strange Rise of Modern India*, (London, 2006), p 293

569 Q 73

6 The work of the Foreign and Commonwealth Office in South Asia

278. The UK is represented by post across South Asia. In India the High Commission in New Delhi is supported by Deputy High Commissions in Chennai, Kolkata and Mumbai. There is also a Tourist Assistance Office in Goa, Trade Offices in Pune, Ahmedabad, Hyderabad and Bangalore and a British Information Centre in Chandigarh. In Pakistan, the UK is represented by a High Commission in Islamabad, a Deputy High Commission in Karachi and a Trade Office in Lahore. The Embassy in Kabul in Afghanistan is being expanded. The UK also has High Commissions in Colombo in Sri Lanka and Dhaka in Bangladesh, as well as an Embassy in Kathmandu in Nepal.⁵⁷⁰

279. DfID has 111 staff based in Delhi and 16 staff spread across its focus states of Andhra Pradesh, Madhya Pradesh, Orissa and West Bengal.⁵⁷¹ The British Council has a network of 11 centres across India: 4 centres in New Delhi, Mumbai, Chennai and Kolkata, and 7 British Libraries in Ahmedabad, Bangalore, Bhopal, Chandigarh, Hyderabad, Pune and Trivandrum.⁵⁷²

280. When we visited Mumbai, a city which is the key driver of India's economic growth, we were concerned by the standard of the premises in which the Deputy High Commission is housed. The tired building required a significant amount of refurbishment and did not promote a very positive image of the UK. It was also a difficult place to work because UKTI was divided from the remaining sections by five floors, with very long waits for lifts. We were also concerned about security arrangements, given the site's proximity to the main road. We were told that the leases for the current premises were due to expire in the next 12 to 15 months and we wrote to the Foreign Secretary urging her to take a decision on a future investment as quickly as possible in order to avoid increasing costs for the tax payer in a city of rising property prices. We also argued that it would be shortsighted not to invest in building new premises, as this would reduce wider running costs in the long term. The Foreign Secretary replied to us in confidence for reasons of market confidentiality.

281. We recommend that the Government should make a long-term investment in premises in Mumbai to ensure the United Kingdom is not left behind in a city that is driving India's economic growth.

Consular work

282. One of the main responsibilities of the posts in South Asia is to offer assistance to UK nationals. The figures below illustrate the scale of the work the consular sections undertake.

570 www.fco.gov.uk/

571 www.dfidindia.org/

572 Ev 172

BANGLADESH**Dhaka****Consular Enquiries****Consular Assistance**

Personal Callers	Telephone Enquiries	Post, E:mail and fax	Advice and Self Help	New Detainee Cases Contacted	Deaths requiring Consular Action	Other cases
6,832	7,084	12,948	139	12	2	30

INDIA**New Delhi****Consular Enquiries****Consular Assistance**

Personal Callers	Telephone Enquiries	Post, E:mail and fax	Advice and Self Help	New Detainee Cases Contacted	Deaths Requiring Consular Action	Other cases
4,000	16,095	12,000	12	3	34	362

Mumbai**Consular Enquiries****Consular Assistance**

Personal Callers	Telephone Enquiries	Post, E:mail and fax	Advice and Self Help	New Detainee Cases Contacted	Deaths Requiring Consular Action	Other cases
4,283	14,816	43,798	19	15	18	12

Chennai**Consular Enquiries****Consular Assistance**

Personal Callers	Telephone Enquiries	Post, E:mail and fax	Advice and Self Help	New Detainee Cases Contacted	Deaths Requiring Consular Action	Other cases
1,811	13,650	2,875	125	2	25	300

Kolkata**Consular Enquiries****Consular Assistance**

Personal Callers	Telephone Enquiries	Post, E:mail and fax	Advice and Self Help	New Detainee Cases Contacted	Deaths Requiring Consular Action	Other cases
1,592	2,818	745	42	1	7	9

Goa**Consular Enquiries****Consular Assistance**

Personal Callers	Telephone Enquiries	Post, E:mail and fax	Advice and Self Help	New Detainee Cases Contacted	Deaths Requiring Consular Action	Other cases
1,725	2,404	200	23	2	27	4

NEPAL**Kathmandu****Consular Enquiries****Consular Assistance**

Personal Callers	Telephone Enquiries	Post, E:mail and fax	Advice and Self Help	New Detainee Cases Contacted	Deaths Requiring Consular Action	Other cases
1,700	1,650	900	900	1	2	12

PAKISTAN**Islamabad****Consular Enquiries****Consular Assistance**

Personal Callers	Telephone Enquiries	Post, E:mail and fax	Advice and Self Help	New Detainee Cases Contacted	Deaths Requiring Consular Action	Other cases
20,000	15,300	18,000	654	19	9	149

Karachi**Consular Enquiries****Consular Assistance**

Personal Callers	Telephone Enquiries	Post, E:mail and fax	Advice and Self Help	New Detainee Cases Contacted	Deaths Requiring Consular Action	Other cases
3,625	9,315	750	100	0	1	150

SRI LANKA**Colombo****Consular Enquiries****Consular Assistance**

Personal Callers	Telephone Enquiries	Post, E:mail and fax	Advice and Self Help	New Detainee Cases Contacted	Deaths Requiring Consular Action	Other cases
1,850	1,100	975	26	5	6	14

Source: Ev 61

283. During our visits to South Asia we heard about some of the important work being carried out by consular staff. For example, in Pakistan we learnt about the links that had been established with the police, civil society and NGOs in order to change the law, as well as attitudes, with respect to victims of forced marriages. We asked the Secretary of State whether the consular services in South Asia were sufficiently staffed. She replied:

There is always more that one can do. There is no doubt about that. However, it has been strengthened substantially in recent years. [...] about six months ago the National Audit Office produced a very favourable report on our consular service and said, I believe, that it is probably one of the best in the world. I am sure that there is more that we can do to improve it, but staff and Ministers in the Foreign Office are

very proud that it is such a high priority and that it is achieving even more success than in the past.⁵⁷³

284. We welcome the work being done by the FCO's consular services in South Asia.

UK visas

285. Another key area of work is that of visa entry clearance. India is the UK's largest visa operation and applications are expected to rise to over 400,000 in financial year 2006–07.⁵⁷⁴ When we last visited the British High Commission in New Delhi in 2003, there were large queues of visa applicants waiting outside. In February 2003, visa applications were outsourced to Visa Facilitation Services (VFS), a subsidiary of Kuoni Travel. We visited one of the eleven application centres in Chennai and were impressed by the difference it had made to the application process. However, during conversations with staff in the Visa Section at the Deputy High Commission in Chennai we learnt that problems were still occurring because the Department for Education and Skills' register of recognised educational institutions was not being sufficiently well policed.

286. We conclude that the outsourcing of visa applications in India has made a big improvement to the application process. We recommend that the FCO work with the Department for Education and Skills to ensure that its register of recognised educational institutions is well policed.

British Council and educational links

287. The British Council explained that it viewed South Asia as a region “of high priority for the UK's public diplomacy.”⁵⁷⁵ It added:

In recent years we have increased our resources to the region, and plan both to raise the level of impact in India and move more resources out of our European operations to other high priority countries in the region over the next three years to enable us to tackle the issues of critical importance to the UK's public diplomacy.⁵⁷⁶

288. During our visit to India we heard that the British Council was changing its approach to in order to target a younger generation of 15–35 year olds. It explained:

We plan to reach 0.75 million young people directly, 2 million indirectly, 6 million through remote reach via the media, and 10 million through remote reach via the web. [...]

We are moving from high volume programmes of events to ‘fewer, bigger, better’ activities which make greater impact and are more closely focused on the audiences we want to reach.⁵⁷⁷

573 Q 165

574 Ev 57

575 Ev 170

576 Ev 170

577 Ev 170

289. A key area of the British Council's work is promoting study opportunities in the UK, with the UK's educational ties with India estimated to be worth over £420million per year.⁵⁷⁸ The UK is now recovering from a generation of students lost to the US, an issue on which we reported in our inquiry into "The Future Role of the Commonwealth" in 1996.⁵⁷⁹ In its 2005–06 annual report the British Council stated that:

"[f]rom low in the rankings India has risen to be the third biggest supplier of students to the UK, with over 20,000 Indians now enrolled in UK further and higher education—a figure we expect to grow by more than ten per cent a year in the years ahead."⁵⁸⁰

Applications from Indian students to study in the UK increased by more than 250 per cent between 2000–01 and 2005–06.⁵⁸¹

290. However, competition from other countries remains high. The US and Australia "are also seeking to expand their ties in areas such as education, ICT and science".⁵⁸² Dr Smith told us that "the UK's one big advantage is the English language, although many linkages are increasingly being transferred to the US rather than to the UK, such as education for Indian students. In the past, many of the Indian elite went to universities in the UK; in the future, the US will challenge those UK advantages."⁵⁸³

291. The British Council stated that:

We conducted some 80,000 examinations on behalf of UK examination boards, exposing many young aspirational Indians to UK educational opportunities.⁵⁸⁴

During our visit we were told that the British Council had worked with the British High Commission and UKvisas to produce a DVD to help students with the visa application process.

292. At the 2005 India–UK summit, the Prime Ministers announced the UK–India Education and Research Initiative to improve educational and research links between India and the UK. This pledged £10million of UK government funding (through the FCO, Department for Education and Skills and the British Council) plus corporate sponsorship, with the aim of making India and the UK "once again each other's preferred partner in education".⁵⁸⁵ The FCO explained that the Treasury had since given a further £2million to the Initiative, the Indian Government £6million and nearly £2million had been received in funds and in kind from industry.⁵⁸⁶ The Chancellor of the Exchequer, Rt Hon Gordon

578 Ev 168, para 2

579 Foreign Affairs Committee, First Report of Session 1995–1996, *The Future Role of the Commonwealth*, HC 45–I, para 120

580 British Council, *Measuring Success: Annual Report 2005–06*

581 Ev 176

582 Ev 170

583 Q 6

584 Ev 170

585 Ev 168

586 Ev 46

Brown MP, announced the successful applicants in the first round of research awards under the Initiative during his visit to India in January 2007.

293. We welcome the British Council’s decision to target more funding on South Asia. We also conclude that the British Council is right to change its approach in order to make itself more relevant to the new generation of Indians.

294. The establishment of the UK–India Education and Research Initiative is very important for the UK to maintain a strong position in the higher education market and we recommend that the Government continue to work to strengthen the promotion of bilateral educational links.

BBC World Service

295. The BBC World Service explained that it:

“currently leads in the international radio market across the [South Asia] region, outperforming international radio competitors in the majority of vernacular languages in which it broadcasts. The total measured weekly audience for South Asia is 41.1 million.”⁵⁸⁷

BBC World viewing stands at 16 million in India which is South Asia’s largest market.⁵⁸⁸

296. In India, there are currently restrictions placed on international companies broadcasting news on FM. This is important as short wave is in decline in many rural areas. The FM market is gradually being deregulated and the BBC World Service stated that it expected restrictions to be lifted shortly. Consequently BBC Hindi was

gearing up to enter the FM market in the main cities in India, as soon as government restrictions on news broadcasts are lifted. The BBC already has a foot in the door, via commercially-run BBC Worldwide which has gone into partnership with a local FM operator in Delhi.⁵⁸⁹

297. We recommend that the Government set out in its response to this Report what representations have been made to remove Indian restrictions on broadcasting news so that BBC World Service can broadcast on the FW wavelength.

⁵⁸⁷ Ev 109

⁵⁸⁸ Ev 138

⁵⁸⁹ Ev 137

Annex 1

Foreign Affairs Committee Visits to India, Pakistan and Afghanistan

26 November – 1 December 2006

The Committee split into three groups for this visit:

Group 1 consisted of:

Mr Eric Illsley

Mr John Horam

Mr Paul Keetch

Group 2 consisted of:

Mike Gapes

Mr Fabian Hamilton

Mr Greg Pope

Group 3 consisted of:

Rt Hon Sir John Stanley

Mr Ken Purchase

Ms Gisela Stuart

Richard Younger-Ross

India

New Delhi

Groups 1 and 2

Sunday 26 November

Rt Hon Ian McCartney MP, Minister of State for Trade, Sir Michael Arthur KCMG, High Commissioner, and British High Commission staff and contacts

Monday 27 November

Shri Pranab Mukherjee, Minister of External Affairs

Shri P Chidambaram, Minister of Finance

UKvisas

Shri M K Narayanan, National Security Adviser

India–UK Parliamentary Friendship Group

Shri A K Antony, Defence Minister

Delegation of the European Commission and Finnish Embassy (Presidency)

Defence Consultative Group

Tuesday 28 November

Briefing with Jammu and Kashmir experts; Yusuf Tarigami, Communist Party of India–Marxist, Omar Abdullah, President, National Conference, Muzaffar Hussain Baig, People’s Democratic Party and Ved Bhasin, Kashmir Times.

Group 1

National Commission for Minorities

Institute of Objective Studies

Maja Daruwala, Commonwealth Human Rights Initiative (CHRI)

Director of Management, Accounts Department, Consular Department, Press and Communications Department and the Economy and Trade, Science and Innovation, and Energy and Sustainable Development teams, British High Commission

Susanna Morehead, Head of DfID India

ChennaiGroup 1***Wednesday 29 November***

Mr Mike Connor, Deputy High Commissioner and team

UKvisas

Visa Facilitation Service (VFS)

Apollo Hospitals

Political analysts and commentators

UKTI team

N. Ram, Editor-in-Chief, The Hindu and senior editors

MumbaiGroup 1***Thursday 30 November***

Oasis Project, Bandra slum

Mrs Vicki Treadell, Deputy High Commissioner and heads of section

British Council

Tata Consultancy Services

Friday 1 December

HSBC

Amritsar

Group 2

Tuesday 28 November

Shiromani Gurdwara Parbandhak Committee (SGPC)

SS Srivastava, Commissioner for Police in Amritsar

Pakistan

Group 3

Sunday 26 November

Sir Mark Lyall Grant, High Commissioner, Colonel George McCarr, Senior British Defence and ISAF Liaison Officer, Peter Wilson, Political Counsellor, and Matthew Forman, Second Secretary.

Groups 2 and 3

Wednesday 27 November

Brigadier Cheema, National Crisis Management Cell (NCMC)

Brigadier Martin Vine, Defence Adviser, Helen Feather, Consul, Yusaf Samiullah, Head, DfID, and Sue Beaumont, Director, British Council

Thursday 30 November

UKvisas

Consular section, British High Commission

General Musharraf, President, Pakistan

Major General Ahmad Shuja Pasha, Director-General, Military Operations

Foreign Minister Khurshid Kasuri

Senate Foreign Affairs Committee, chaired by Mushahid Hussain

Sumaira Malik, Minister for Women's and Youth Affairs

Afghanistan

Group 3

Monday 27 November

Stephen Evans CMG, Ambassador, Michael Ryder, Deputy Head of Mission, John Gordon, Deputy Head of DfID, Afghanistan, Graham Zebedee, Deputy Head, Drugs Team, British Embassy, Mark Bishop, Serious Organised Crime Agency, and Graham Howard, Strategic Delivery Unit.

International Relations Committee

Women parliamentarians

President Karzai

David Chessman, Drugs Team, Chris Alexander, Deputy, UN Secretary-General's Special Representative, Charles Briefel, Senior Rule of Law Officer, United Nations Assistance Mission in Afghanistan (UNAMA), Dr Hansjörg Kretschmer, Head of European Commission delegation and Gary Peter, US Embassy.

Tuesday 28 November

Mr Michael Semple, Council of the European Union, Deputy Special Representative in Afghanistan

General David Richards CBE DSO, Commander, ISAF, Kabul

Afghan Independent Human Rights Commission: Commissioner Fahim Hakim, Commissioner Nader Nadery and Commissioner Zia Langari

Graham Zebedee, Deputy Head, Drugs Team, John Gordon, Deputy Head of DfID, Doug Wankel, Counter Narcotics Co-ordinator, US Embassy and Hakan Demirbuken, United Nations Office on Drugs and Crime

Wednesday 29 November

General Khodaidad, Deputy Counter-Narcotics Minister

Minister Haneef Atmar, Education Minister

Foreign Minister Rangin Dadfar Spanta

Major General Bucknall, ISAF Command

Formal minutes

Wednesday 18 April 2007

Members present:

Mike Gapes, in the Chair

Mr Fabian Hamilton

Mr David Heathcoat-

Amory

Mr John Horam

Andrew Mackinlay

Mr Malcolm Moss

Mr Greg Pope

Sir John Stanley

Richard Younger-Ross

The Committee deliberated.

Draft Report (*South Asia*), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 42 read and agreed to.

Paragraph 43 read, amended and agreed to.

Paragraph 44 read, amended and agreed to.

Paragraphs 45 to 119 read and agreed to.

Paragraph 120 read, amended and agreed to.

Paragraphs 121 to 127 read and agreed to.

Paragraph 128 read, amended and agreed to.

Paragraphs 129 to 147 read and agreed to.

Paragraph 148 read, amended and agreed to.

Paragraphs 149 to 180 read and agreed to.

Paragraph 181 read, amended and agreed to.

Paragraph 182 to 205 read and agreed to.

Paragraph 206 read, amended and agreed to.

Paragraphs 207 to 256 read and agreed to.

Paragraph 257 read, amended and agreed to.

Paragraphs 258 to 260 read and agreed to.

Paragraph 261 read, amended and agreed to.

Paragraphs 262 to 271 read and agreed to.

Paragraph 272 read, amended and agreed to.

Paragraphs 273 and 274 read and agreed to.

Paragraph 275 read, amended and agreed to.

Paragraphs 276 to 284 read and agreed to.

Paragraph 285 read, amended and agreed to.

Paragraph 286 read, amended and agreed to.

Paragraphs 287 to 297 read and agreed to.

Annex agreed to.

Resolved, That the Report, as amended, be the Fourth Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That embargoed copies of the Report be made available, in accordance with the provisions of Standing Order No.134.

Several Papers were ordered to be appended to the Minutes of Evidence.

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House. —(*The Chairman*)

The Committee further deliberated.

[Adjourned till Wednesday 25 April at 2.00 pm

List of witnesses

Monday 20 November 2006

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Mr Rahul Roy-Chaudhury, Research Fellow for South Asia, International Institute for Strategic Studies, **Dr Gareth Price**, Head of Asia programme, Chatham House, and **Dr Chris Smith**, Associate Fellow, International Security Programme, Chatham House.

Ev 1

Wednesday 22 November 2006

Lord Desai, retired Professor of Economics and Director, Centre for the Study of Global Governance, London School of Economics, and **Mr Martin Wolf**, Associate Editor and Chief Economics Commentator, Financial Time.

Ev 14

Victoria Schofield, Journalist and author of "Kashmir in the Crossfire", and **Professor Sumantra Bose**, Professor of International and Comparative Politics, Government Department, London School of Economics

Ev 23

Tuesday 23 January 2007

Rt Hon Margaret Beckett, Secretary of State for Foreign and Commonwealth Affairs, **Richard Codrington**, Head, Afghan Group, Foreign and Commonwealth Office, and **Antony Stokes**, Head, South Asia Group, Foreign and Commonwealth Office

Ev 62

Wednesday 31 January 2007

Mr Michael Griffin, journalist and author of "Reaping the Whirlwind: The Taliban Movement in Afghanistan", **Dr Matthew Nelson**, lecturer in the politics of Asia and Africa, School of Oriental and African Studies (SOAS), and **Dr Gareth Price**, Head of Asia programme, Chatham House.

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