

SOUTH ASIA

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Message from the New Director



It is a pleasure to pen this foreword to the Institute of South Asian Studies (ISAS) newsletter "South Asia". I have had the opportunity to read earlier issues of "South Asia" and I am impressed by its coverage of issues and events.

I joined ISAS in mid-August 2006 on leave from the Department of Economics at the University of Massachusetts, Amherst. Elsewhere in this newsletter, there is an article on my appointment, background and interests. Suffice to say here that, even while living in the United

States, I have maintained close contact with South Asia and India. I travel to the region frequently, have been a visitor at academic institutions there and have carried out research projects on India.

My appointment at ISAS has brought me even closer to the region. The increasing economic and political weight of South Asia in general and India in particular has certainly not gone unnoticed. More than a decade of external opening up and internal reforms has brought about significant changes in the growth regime, economic structure, and the composition and distribution of income. The growing importance of South Asia has prompted more intense engagement with the region from near and far, and has called for greater understanding of the countries in the region.

As a vantage point from which to observe and understand South Asia, Singapore is both proximate enough to be intimate with the region and distant enough to offer a neutral setting. ISAS, of course, partakes of these advantages. But ISAS also enjoys the singular benefits of the National University of Singapore's excellent research infrastructure and wide network of researchers and research institutes on Asia. Being a part of the renowned university, ISAS must aim, first and foremost, to be a leading centre for academic research on South Asia, generating first-rate scholarship and knowledge, especially along the political and economic dimensions. At the same time, its research directions will be conceived also with a view to generating practical insights and proposals for enhancing peace, development and justice in and beyond the region. I look forward to the challenges and opportunities that are in store for ISAS.

This issue of the newsletter contains articles on the Baluch insurgency in Pakistan, the growth of the health insurance sector in India and the move towards democracy in Bhutan and Indo-United States relations. It also carries excerpts from the ISAS-SICCI public lecture by H.E. Mr Shivraj Patil, India's Minister for Home Affairs. It includes the customary snippets on South Asia and a listing of ISAS' recent publications and events.

We hope you enjoy the newsletter. We look forward to your continued engagement with ISAS' work.

Professor J. Mohan Rao

Indian Democracy and Federalism: Relationships and Relevance

*Excerpts from the ISAS-SICCI Public Lecture
By His Excellency Mr Shivraj Patil
Minister for Home Affairs, India*

I am indeed happy to share my views on the subject of Indian democracy and federalism, in particular, the relation between the Union and the states and the relevance of the Indian experience in the present time. The exchange of views is a very powerful means of developing new concepts, systems, policies and philosophies which can help humanity to face emerging and future challenges.

India has opted for democracy and federalism. To develop its democracy, it has borrowed many elements from the Westminster system which has been developed and followed in other countries. However, Indian democracy, in its outer form, also has elements which are developed indigenously. Indian democracy allows political parties and individuals to participate in elections and governments. Elections to the legislatures at the national and state levels, as well as to the bodies at the district, taluka and local levels, take place at regular intervals of five years, or less than five years in some cases. This is provided in the basic law of the country. The voters are allowed to vote, as per their freewill, and no discrimination is permitted on the basis of religion, caste, creed or gender. The elections to the national and state levels have taken place, at the intervals, as per the laws, in a manner which has been appreciated by all in the country, and in the world. As in other parts of the world, within India, there has been much thought put into improving upon the adopted electoral system to make it more representative of the wishes of the voters and do away with some defects with which electoral systems appear to be suffering everywhere.

When we speak about the form of democracy, on occasions, there have been different views expressed by some thinkers and political parties. However, by and large, the massive majority of the people of India have always been supportive, of the system adopted which has helped it to function smoothly. Indian people have always shown the readiness to accept the validity of views expressed by different sections of the society. They think that the truth has different aspects which cannot be perceived correctly and in totality, if viewed from



only one angle or direction. Democracy in India is based on very strong foundations which are closely related to a particular approach towards life. However, as time passes and new realities become visible on the horizon, in the field of science and technology, and with greater universal interaction of ideas, its outer form may adapt to the demands of time and emerging realities. Yet, in its inner essence, it will probably continue to be not very different for what it is now – which is tolerant, cooperative, understanding and protective of the environment and the finer aspects of existence while at the same time, still staying competitive in the pursuit of achieving excellence.

India follows the principles of federalism in ordinary times and those of unitary system in times of emergencies. Indian federalism is the result of the historical realities and a desire to protect and preserve the unity amidst diversity and mind boggling variety visible in different parts of the country. The intention in adopting the federal system, as in other countries which are vast and varied, is to allow different sections of the society to protect and preserve their cultural variety and allow the people to use their natural and human resources, as per their inclinations and in the best possible manner. It also allows the country to adopt a holistic view of the development required to be done and to facilitate the cooperation of different parts of the country for mutually beneficial ends. The big economic projects that need to be established, the economies of scale that are required, the new technologies and sciences, new methods of management and governance, and the need for successful interdependence have made federalism necessary in present times. It gives liberty to the units and helps to harness the use of the collective strength of all the units for the benefit of the parts and the whole of the country.

In the fields of legislative and executive activities, India follows the federal system. In the field of judicial activities, the principles of federalism are not used in the same manner as they are used in the field of legislative and executive activities. For the Union and the states, the ultimate level of judiciary is one and the same. The



Supreme Court of India can decide disputes between the Union and the states, between states, between the Union, the states and individuals, and between individuals, and can interpret the Constitution of India and other laws. The states have the High Courts, which decide the disputes between the respective states and the individuals. At the lower level, all states have their Courts to decide the disputes between the individuals and organisations.

The Constitution of India has three lists of subjects. One gives exclusive rights to the national legislature to legislate and is

called the Union list. The second list gives rights to the state legislatures to legislate and is called the state list. The third list gives concurrent rights to the Union and the state legislatures to make laws. The executive authority commensurates with the legislative authority of the Union and the states. The district, taluka and local bodies do not make laws. They make policies and take executive decisions and act. The executive powers of the state governments are decentralised and partly or fully given to the bodies at the levels of the districts, talukas and the cities, towns and villages. In order to examine suggestions made to readjust the work of cooperation in a federal system, a commission was constituted. It was called the Sarkaria Commission. It gave some suggestions, many of which were accepted and are being acted upon. India is going to appoint another commission to refine the nature and workings of centre-state relations.

The experiment of democracy, federalism and the nature of Union and state relations in India have been encouraging and satisfactory. However, in changed circumstances, the methods and systems used can be improved upon to meet the challenges of the technological and futuristic opportunities. However, keeping to the principles of secularism, tolerance, political, economic, social justice and positive discrimination to help the disadvantaged, have helped India and should continue to be part of the practice of Indian democracy and federalism. ■

Dialogue Session with Rahul Gandhi

On 9 June 2006, the Institute of South Asian Studies (ISAS) and the Lee Kuan Yew School of Public Policy (LKYSPP) co-hosted a dialogue session with Mr Rahul Gandhi, Member of Parliament in India. It was co-chaired by ISAS' Chairman, Mr Gopinath Pillai and LKYSPP's Dean, Mr Kishore Mahbubani.

During the two-hour session, the discussions centered on Indian politics, economy, poverty, religion, caste and regionalism as well as social challenges in the areas of education and health.

Mr Gandhi stated that, whilst India is fast emerging as an economic power, it needs to address several key challenges which would determine the pace of its growth. These include eradicating poverty, addressing issues of education, healthcare, water, electricity and infrastructure development. Holding strong to democratic ideals, Mr Gandhi stated that it is important to empower the Indian people right down to the village level. Regional aspirations must be respected and given due prominence in the national agenda for development.

In assessing Singapore's economic growth, Mr Gandhi focused on Singapore's "hub activities". He stated that, in view of the rise of India and China, it would be important for Singapore to look at value addition in technological development so that it continues to have an edge over regional competition.

Apart from ISAS and LKYSPP, the session was attended by representatives from the Institute of Southeast Asian Studies, Institute of Defence and Strategic Studies, Ministry of Foreign Affairs, the Indian High Commission in Singapore and the National University of Singapore. ■



Baluch Insurgency - Dead or Alive?

*Dr Rajshree Jetly
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The killing of Nawab Akbar Khan Bugti, the veteran Baluch leader and President of the Jamhoori Watan Party, in a military encounter on 26 August 2006 has brought the spotlight back on the Baluch – a small tribal minority who inhabit one of the most rugged and barren terrains of Pakistan. Bugti, the former Governor and Chief Minister of Baluchistan in the 1970s, was at the forefront of a rapidly expanding Baluch nationalist insurgency. His death could result in him acquiring martyrdom status and, potentially further radicalising the Baluch movement.



The Baluch have been involved in four armed rebellions against the federal government since Partition (in 1948, 1958-59, 1962-63 and 1973-77) and are presently in the midst of another crisis that gained momentum in 2004. The parallels between the present crisis and the crisis in the 1970s are striking and understanding the latter will be highly valuable to making sense of the present situation. Unless the underlying problems are squarely addressed and resolved to mutual satisfaction, the crisis will fester.

The Baluch discontentment in the 1970s and today can be explained by several interrelated causes – the socio-economic disadvantage of the province, lack of political participation, exploitation of its resources by the federal government and the ethnic tension between Baluchis and others groups who dominated the social and political arenas. The convergence of these factors heightens the sense of injustice (real or perceived) and fuels resentment and anger.

Baluchistan, while rich in national resources with large reserves of gas, minerals, fisheries and coal, does not receive its fair share of royalties and revenues, leaving the Baluch people with the perception that their province has been reduced to a colony that is being exploited by the federal government. Baluchistan also remains the most backward and the most underdeveloped province of Pakistan, as evidenced by key

socio-economic growth indicators of health, literacy, civic amenities and industrial infrastructure.

In the past, major development projects such as the Pat Feeder Canal and Hub-Chowki were seen more as generating employment for non-Baluch than for the benefit of the Baluch. Similar suspicions surround today's projects. For example, the construction of the new port at Gwadar and the Ormara Naval base have raised concerns of workers being brought from other parts of the country, without any benefits percolating down to the Baluch. The Pakistani government, on the other hand, views the Baluch as an insular community that is unwilling to break away from its tribal ways and integrate into the national mainstream. The government blames the tribal chiefs for politicising development issues in order to maintain the status quo and thus, preserve their power.

A further parallel is seen in the Baluch's response to the high-handed approach of the government. In 1973, the Bhutto government decided to flex its muscles by dismissing the provincial government in Baluchistan and following that with a massive military offensive in 1974. These actions triggered a civil war and insurgents resorted to guerrilla warfare tactic, blocked main roads, disrupted rail links and obstructed oil drilling and survey operations. The federal government

responded with all its might and, with assistance from Iran, managed to quell the uprising and eventually took full control of Baluchistan. In the recent escalations of violence from 2004, the Baluch forces have resorted to similar tactics of attacking railway lines, gas supply lines and gas installations. The Pakistani military has responded with full force, killing many of the insurgents including their key leader, Bugti.

It is apparent that the causes and strategies of the present insurgency draw upon and feed off the same issues as in the 1970s. However, there are some critical differences which make it harder for the Pakistani military to combat the Baluch. The Baluch are now fighting under the aegis of the Baluch Liberation Army (BLA) which comprises the Marri, Bugti and Mengal tribes. In the 1970s, it was the Marris who were the vanguard of the rebellion but today there is a much wider and more inclusive base. The Baluch also seem to be better equipped with weaponry and sophisticated technical equipment.

The BLA has attracted many educated Baluch from a middle-class background into its fold and the leadership also appears to be more united in its goal of provincial autonomy. This could make it more difficult for President Musharraf to exploit differences between the various tribes unlike General Zia who was highly successful in exploiting these divisions by drawing on a variety of strategies ranging from co-option, conciliation and force to divide and weaken the Baluch movement in the late 1970s.

More importantly, the biggest difference between the 1970s and now is that the Pakistani military is stretched to its maximum as it is engaged on at least three different fronts – the US-led global war on terrorism in the north-western frontier province and the Afghan border, the Line of Control in Kashmir and the revived Baluch insurgency. Whereas in the past Pakistan received assistance from Iran, it is less likely in the present geo-strategic environment for such assistance to be forthcoming. Further, there is also speculation that India and even Iran may be providing support to the Baluch this time. Iran has constructed the Chabahar port with Indian assistance and the Gwadar port would be in direct competition.

Thus, the new Baluch crisis, while arising from the same causes as the earlier crisis, is operating in an environment that is greatly changed and, therefore, much less predictable. While it is too early to draw any conclusions, one can, however, imagine several possible scenarios.



First, the killing of Bugti could well intensify Baluch operations against the Pakistani government and provide a rallying point for future Baluch generations. The Baluch may be inclined towards greater militancy which may lead to a protracted struggle rather than a quick solution to the problem. According to one source, Pakistan is spending one-third of its resources dealing with the BLA. Provoking a more intense or lasting confrontation could be disastrous to Pakistan's economic stability.

Second, the new crisis could provide Al-Qaeda with a strategic opportunity to exploit differences between the Baluch and the federal government to undermine President Musharraf. There is a real risk that the Baluch will cooperate with Al-Qaeda/Taliban forces, thus enhancing the internal security threat in Pakistan and adding to regional instability. This puts President Musharraf in a difficult position as he balances the various competing interests of Pakistan's domestic politics and the United States' strategic interests in its war on terrorism. Third, a continued military confrontation in Baluchistan could spill over to neighbouring Sindh which has been tense in the past, and trigger ethnic disturbances. These could have an adverse impact on the already fragile political and economic fabric of the country.

Fourth, the Pakistan army could use force and successfully quell the rebellion as it did in the past. However, this will not guarantee any permanent solution. In the 1970s, Pakistan did manage to subdue the insurgents but it did not destroy the movement, as evident by current events in the country.

The Baluch issue has been a thorn in the Pakistan government's side for many decades now. The continued insurgency clearly suggests that there are issues that need to be addressed by both sides. Until the main issues are resolved to the satisfaction of both sides, the movement will remain very much alive and kicking. ■

Health Sector in India: Growth of the Private Insurance Industry

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The insurance sector in India has reached a full circle from being an open competitive market without any regulations during the colonial era to being a nationalised sector in the 1950s and 1970s and to being a liberalised market again in the late 1990s.

Reforms in the insurance sector were initiated with the passage of the Insurance Regulatory and Development Authority (IRDA) bill in December 1999. It led to the establishment of the IRDA in April 2000 to protect the interests of insurance policy holders and to regulate, promote and ensure orderly growth of the insurance industry in India. The IRDA Act also paved the way for the entry of private players into the insurance market with a financial cap of 26 percent which was, hitherto, the exclusive privilege of public sector insurance companies/corporations.

Currently, there are 16 private companies that have received licenses for business operations with a cap of 26 percent of equity for a foreign partner. This financial cap is expected to rise to 51 percent, based on the recommendation of a study group set up by the IRDA. According to IRDA's estimation, less than 15 percent of the Indian population has any form of financial and insurance protection against health risks. This implies that health insurance remains vastly untapped in the country. Indian regulations only permit general insurance companies to offer standalone health insurance products while life insurers are allowed to offer riders such as critical illness cover attached to basic life policies, although subject to certain restrictions. Health cover premiums, however, account for less than one percent of total premiums for life insurers and 10 percent for general insurers.

Health insurance is an important and significant component of the coverage offered by insurance companies, given the health profile and indicators in India. The cost associated with ill-health, including



medical bills and indirect cost such as loss of income, can be catastrophic for the not so well-off. A recent study by the World Bank indicated that nearly 25 percent of people hospitalised in India were forced into poverty because of huge medical costs. It concluded that ill-health depletes household savings and earnings, impairs the capacity of adults and children to work and learn, foster conditions that create and perpetuate poverty. It is important to note that nearly 80 percent of healthcare expenditure is borne by the patients, hence price sensitivity is quite high in India.

Health insurance has been recommended to cover hospitalisation or treatment of chronic illnesses of poor households and improving their access to healthcare services. The central government introduced a voluntary health insurance with a premium equivalent to Rs1 per day (or Rs365 per year or S\$14) in July 2003. This scheme was implemented by the four insurance companies of public sector undertakings (PSUs) in India and it was expected to improve the access of the population in general and the poorer sections of the society in particular to healthcare. In order to make this scheme affordable to the low income households, the government offered a subsidy of Rs100 towards their annual premium. However, despite the provision of the subsidy, the insurance companies of PSUs were not able to penetrate the rural market. As a result, the insurance scheme has been redesigned with more subsidy provision from the government, towards the premium.

The role of community intervention at the village levels is important in up-scaling, extending and marketing health insurance schemes in India. In fact, the experiences of group or community or micro-

insurance through voluntary health insurance schemes in various Indian states indicate that they are effective mechanisms in meeting the healthcare challenges of the population, in particular, the poor.

In July 2004, the Indian Ministry of Finance announced a new group health insurance to cover members of self-help groups (SHGs) and other credit linked groups who avail of loans from the banks or cooperative institutions. Such states as Karnataka, Andhra Pradesh and Tamil Nadu have been successful in this kind of group insurance. In order to penetrate the rural market and up-scale health insurance schemes, a key factor is having the right type of organisations (such as SHGs, cooperative societies and post-offices) to collect the premiums at the village level. Though the affordability of health insurance schemes is important for poor households, recent micro-level studies in India indicate a high willingness, even in the rural areas, to join and pay for any health insurance schemes with affordable premiums. In 2003, this figure stood at 93 percent, up from 87 percent in 1993. Household heads were also willing to pre-pay a health insurance premium for yearly medical services for themselves or their families. The average amount people were willing to pay varied from Rs150 to Rs300 (\$\$6 to \$\$12). This is in fact the minimum individual's health insurance premium per year for "mediclaim policy" (described below) of most of the insurance companies in India.

Currently, nine out of 16 insurance companies operate within the health insurance market segment. However, this market is mainly dominated by the four public sector general insurance companies which capture 80 percent of the health insurance market through a popularly known insurance cover called the "mediclaim policy" – an indemnity benefit arrangement covering in-expenses. However, private sector companies have been making significant inroads into the market. Their combined market share of the health sector rose from 10 percent in 2003-04 to around 18 percent in 2004-05. The health insurance premium collections in 2004-05 amounted to Rs2,000 crore (\$\$770 million) with a growth rate of more than 51 percent in the same period. The average growth rate of health segment of insurance companies for the last five years was around 50 percent and it is expected to grow around Rs16,666 crore (\$\$6.4 billion) by 2010-11. This growth is expected to double the insurance coverage, particularly with the advent of micro-insurance schemes for health coverage aimed at the rural market and lower income households.

The robust growth of the Indian economy at more than seven percent annually and policy reforms relating to corporate governance and developing a liberalised environment, where both public and private sector can co-exist, are the main determinants of the growth of the health insurance industry in India. A rapid rise in disposable income and savings due to a growing workforce and better jobs has led to an increase in healthcare spending. Household surveys in 2003 showed that a family spent around 10 to 35 percent of its annual household income on healthcare needs.

Private pharmaceutical companies have also introduced measures to combine the sale of their products to health insurance coverage. For example, Biocon Limited offers drugs and medicines at low cost (that is, around 35 per cent of market retail price) for those who are covered under community health insurance in Karnataka.



Similar schemes are in the pipeline for other states that have an assured health insurance market.

Further, third party arrangements (TPAs) have also been officially endorsed by the IRDA for the effective operation and management of the insurance schemes in coordination with health providers and insurance companies. The TPAs are helpful in up-scaling and enlarging the health insurance market in India. An investment through a joint venture with a well-established network such as General Insurance Companies would be ideal to penetrate the Indian insurance market.

However, a major portion of the general insurance market continues to be highly tariffed. This poses a challenge for the Indian insurance industry to provide affordable premium products. This should be dismantled for the better growth of the insurance industry. Notwithstanding the challenges, the Indian insurance scene has undergone significant changes in the last decade. It is set to witness even more dramatic changes and growth as the country and the people prosper under the current climate of economic liberalisation and expansion. ■

Launch of South Asian Perspectives

The Institute of South Asian Studies will launch "*South Asian Perspectives*" in January 2007. It will focus on the seven countries in South Asia - Bangladesh, Bhutan, India, Maldives, Nepal, Pakistan and Sri Lanka.

The first volume will look at the region from the perspectives of developing regionalism and trade. It will examine their impact in particular on the internal and external policies of the individual countries. The book will also contain important data and statistics on all seven countries.

"*South Asian Perspectives*" will be an annual publication. ■

Bhutan's Transition to Democracy

*Dr Alka Chadha
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In December 2005, King Jigme Singhe Wangchuk of Bhutan declared that he would abdicate the throne and adopt a parliamentary system of government by 2008. It is indeed a landmark step for a country that has been governed by royal decrees to draft a constitution providing for democratic institutions and civil liberties.

Bhutan was established as a colonial monarchy under the British in 1907, when the provincial governor, Ugyen Wangchuk, was nominated as the king for his loyalty to the British. He ruled till 1926 when his son Jigme Wangchuk took over the throne. He ruled till 1952. This was followed by the reign of Dorji Wangchuk and the present ruler, King Jigme Singhe Wangchuk, took over in 1972. In fact it was Dorji Wangchuk who started the process of decentralisation by passing an order in 1968 that he would hand over the crown to his son if the national assembly passed a vote of no-confidence against him by a two-thirds majority. He also introduced the system of secret ballot for elections to the national assembly.

In March 2005, King Wangchuk released a draft constitution which outlined plans for the country to shift to a two-party democracy. The proposed constitution will be put to a referendum before it is adopted. Under his proposal, the king would still be the head of state but the everyday affairs of power would be handled by an elected prime minister. The people of Bhutan will have the right to elect representatives to two houses of parliament whose members will be empowered to impeach the monarch by a two-thirds vote. The King will retain the authority to introduce legislation and important appointment powers along with the privilege to appoint five members of the Upper House of Parliament.

The draft charter of the Bhutanese constitution gives detailed provisions regarding cultural and social guidelines for future governments and the obligations and rights of citizens. Besides civil liberties, it also includes economic rights such as free education and basic healthcare. However, there is a rider that



says that the liberties of citizens can be overridden in the interest of "peace, stability and well-being of the nation".

Bhutan is known as Druk Yul, or the land of the dragon. The Buddhists who inhabit its highland areas are known as Drukpas. The three main ethnic groups are the Ngalongs in the west, the Sharchhops in the east, and the Nepalis in the south. Together, they account for 85 percent of the total population. The Sharchhops and the people of central Bhutan have their origins in the east of the kingdom. The Ngalongs tend to dominate the region politically and their language, Dzongkha, is the national language. The Nepali-speaking

people of the south were settled in Bhutan from the late 1800s onward and were granted Bhutanese citizenship and tenure of its lands in 1958.

The Bhutanese government later pursued a successful policy of integration by allowing the south to manage its own affairs. The government even trained Nepali Bhutanese for government and promoted Nepali-Drukpa intermarriages by cash incentives. Thus, Nepali Bhutanese began to hold important positions in national life, including the administration. However, this policy led to a feeling of alienation that threatened the cultural and political presence and dominance of the traditional Drukpa community, particularly the Ngalong, who were considered the elite that monopolised most positions of power and authority in the country. As a result, the government embarked upon a programme of marginalisation of the Nepalese community. In 1988, the government introduced a new Citizenship Act, having retroactive application and fixing 1958 as the cut-off date for citizenship. This move made a large segment of the southern Bhutanese illegal immigrants and resulted in political unrest in the southern Bhutan region.

However, there are problems related to the status of thousands of Nepalese refugees who were forced out of Bhutan and they run the risk of becoming non-citizens if they are not repatriated before the electoral rolls are prepared. Most of these refugees



who started leaving Bhutan in the 1980s following a crackdown on "non-nationals", have found shelter in seven camps in eastern Nepal's Jhapa and Morang districts run by the United Nations High Commissioner for Refugees. The constitution makes it impossible for foreigners to become citizens via naturalisation which virtually omits the exiled refugees.

King Wangchuk started the process of modernisation and nation-building to increase Bhutan's significance in international affairs. This led to investments in infrastructure and rise in tourism. Today, tourism is a huge revenue-earner, next only to hydro-electricity. The most significant part of the process of gradual modernisation has been the introduction of television putting an end to almost 300 years of virtual isolation. This move was followed by the introduction of Bhutan's first internet service provider Druknet. If the launch of private daily newspapers like The Bhutan Times is an indicator, then this move towards the freedom of the press is a step in the right direction for any successful democratisation process.

It seems that the country that advocates gross national happiness instead of gross national product is on its way towards a happy journey of transition from monarchy to democracy with greater political and civil liberties for its inhabitants. In December 2004, Bhutan became the first nation in the world to ban the sale of tobacco and smoking in public. While the kingdom's economic indicators are already impressive among the least developed countries with a per capita income of US\$1,400, the adoption of a formal constitution and the holding of general elections will undoubtedly project Bhutan on to the next level of development. ■

Study on India in the Global Labour Market

The Institute of South Asian Studies has commissioned an eight-month study on "India in the Global Labour Market: International Economic Relations, Mobility of the Highly Skilled and Human Capital Formation". The research will be undertaken by Professor Binod Khadria, a Visiting Senior Research Fellow at the Department of Economics and Asia Research Institute at the National University of Singapore.

The project is important in the context of an emerging India. It will examine its international economic relations, effected by the migration of highly educated and skilled Indian manpower, and the challenges and opportunities as such for India. Such a study is useful in understanding the changing nature of Indian population in relations to its economic plans and programmes, investment potentials and possibilities, and in helping the Singapore business community tap on the potentials offered by the Indian market and populace.

The project is scheduled to be completed in April 2007. ■



Developing Relations between India and the United States

*Dr Rajshree Jetly
Research Fellow, ISAS*

India and the United States have witnessed many ups and downs in their relationship. During the Cold War years, their relations could at best be termed as lukewarm. However in recent years, Indo-United States relations have gradually emerged out of the shadow of the Cold War and acquired a momentum of their own.

This article provides a broad overview of Indo-United States relations in the past decade (1995-2005), in particular, the key shifts in the dynamics of the relationship and what the future might hold for the partnership between the two countries. Broadly, there are three main areas that have shaped the relationship in the last decade. The first visible change is in the attitude of both countries. The second has been the economic liberalisation of India and the third relates to the security and strategic concerns.

During the Cold War years, India and the United States were generally bound by their respective positions, leaving very little scope for mutual accommodation in a highly bipolar world. With the end of the Cold War, India and the United States were ready to explore the possibilities of normalising their relations. Building a more pragmatic and mutually beneficial relationship with the United States acquired a much greater salience in India's foreign policy calculations, particularly in view of the absence of the diplomatic leverage provided by the Soviet Union in its long standing disputes with Pakistan and China.

The United States, on its part, was also interested in reorienting Indo-United States relations on the basis of mutuality of interests in the changed context. India, with its vast markets and potential for trade and investment, was increasingly seen by the United States as a major economic partner, spurring greater economic interaction between the two nations. There was a greater convergence than before between them in maintaining stability and peace in South Asia. There was also greater emphasis on highlighting the commonalities and virtues the two countries shared. India, as the world's largest functioning democracy, came to be seen as a natural ally. What was in evidence, therefore, was a gradual paradigm shift in thinking. An example of this is the nuclear issue. Whereas in the past, this would have been a major stumbling block, both countries are now trying to work around their differences.

The second point pertains to the economic imperatives, which have been the primary driver in propelling the relationship forward. India is viewed by the United States as a huge market for its goods and services as well as being a low cost source for high end labour and backroom operations. The presence of a strong Indian community in the United States, which wields tremendous economic and political clout, is an added force. India needs the United States largely for foreign direct investment (FDI) to develop its infrastructure and to acquire new knowledge and technology. India's annual FDI rose from US\$100 million in 1990 to US\$7.4 billion in 2005, and one third of this investment has been by American companies.



On the third point of strategic issues, a new thinking has been underway in the past decade. President Clinton and Prime Minister Vajpayee laid the foundation for cooperation in broad economic and political areas in 2000. The events of September 11 the following year catapulted the relationship to a different level as the United States and India found that they had a common interest in countering terrorism.

In 2001, a significant milestone was reached as a framework of security cooperation was spelt out, with important issues clearly identified, including Afghanistan, counter-terrorism, defence, civilian nuclear issue, aerospace, intelligence and economic cooperation.

In January 2004, the "Next Steps in Strategic Partnership" was launched to cover four key areas – transfer of dual-use technology, civilian nuclear cooperation, civilian space cooperation and missile defence. This laid the foundation for the present nuclear deal. One important aspect of the 2005 nuclear deal signed between Indian Prime Minister Manmohan Singh and United States President Bush is that the United States has changed its approach from focusing on Non-Proliferation Treaty (NPT) signatories versus non-signatories to responsible and non-responsible powers. This is a shift from an earlier rigid adherence to the sanctity of the NPT regime to a more pragmatic approach. Critics argue that this is unprincipled, self-serving, setting a dangerous precedent or being unfair to other countries. Regardless of these views, from the perspective of Indo-United States relations, this is a very positive move for closer ties. The United States is publicly acknowledging that India is a "responsible state" and, therefore, has earned the right to nuclear energy.



Security and strategic cooperation have thus become a very important aspect of Indo-United States relations. In 2005, a New Framework for United States-India Defence Relationship was initiated with another 10-year plan (joint exercises and exchange, intelligence cooperation, exchange in defence strategy, building capabilities of their respective armies to defeat terrorism, increase defence trade and technology collaboration).

Indo-United States relationship which has historically been under the shadow of mistrust is now poised to acquire a new direction. Given their shared democratic values and growing economic interest, Indo-United States relations have the right synergies for evolving a successful partnership. The events of September 11 have awakened the United States to the threat of fundamentalist Islamic terrorism which India has had to contend with for many years. Both countries have a strong shared interest in jointly combating this threat.

Despite these positive developments in their relations, the future of Indo-United States relations will, however, be determined by their growing strategic convergence on a range of bilateral, regional and global issues which have a vital bearing on their security concerns. A major factor in furthering strategic understanding between the two countries will be the success for the implementation of the nuclear agreement. The timing is going to be of the essence for President Bush to persuade Congress to amend the United States law that prohibits it from providing nuclear energy assistance to

nuclear weapon states that have not signed the NPT. Any delay in voting may well put the issue on the backburner, given the November elections of the United States House of Representatives and State.

Prime Minister Singh, will, on his part, have to allay the wide ranging concerns in India that its national security interests have been compromised by the nuclear deal. This will remain critical, given the recent history of fragile coalition governments in India.

Also, any successful strategic dialogue between the two countries cannot ignore the role of China and Pakistan in South Asian regional security. It is important that China and Pakistan view the new framework of Indo-United States framework positively lest they feel compelled to strengthen their strategic and military (including nuclear) cooperation which will have long-term implications for the security of this region.

In conclusion, mutual accommodation of key national interests of both countries would be a critical determinant in defining the scope and direction of Indo-United States relations. India will have to increasingly seek political and economic accommodation with the United States as a necessary precondition to its own emerging status as a global power. The United States would also have to adopt a more nuanced approach to the growing status and capabilities of India as a regional influential. The United States has its own global priorities and agenda which may not always fit in with India's and the vested interests of both countries may sometimes conflict. However, if the present pragmatism continues, both countries are likely to work around their differences and build on areas of common interest and mutual benefit rather than dwell on areas that are contentious. ■

Snippets on South Asia

*Dr Jayan Jose Thomas
Research Fellow, ISAS*

Sri Lanka: Escalation of Hostilities

The Sri Lankan army and the Liberation Tigers of Tamil Eelam (LTTE) have returned to the days of heavy fighting. On 12 August 2006, at least 128 people, including 28 army and navy persons, were killed in Sri Lanka's eastern and northern regions in clashes between the army and LTTE. This was the fiercest battle since the 2002 ceasefire between the Sri Lankan government and LTTE.

Recent hostilities between the Sri Lankan army and the LTTE escalated with the 'water war' that began in the third week of July. The LTTE blocked Mavil Aru, a waterway in the eastern territory under its command. According to the LTTE, the blockade was part of a protest by the local community against the government's failure to construct a water tank in the area. The government responded to the LTTE blockade by aerial bombing of selected LTTE targets in the vicinity of the waterway. The LTTE retaliated by attacking Sri Lanka's main naval base in Trincomalee and, later, taking the war to Muttur, a Muslim-dominated coastal town under government control. The war led to hundreds of deaths and the displacement of over 50,000 people. This came over a population already ravaged by the Tsunami in December 2004. It is estimated that around 650,000 people

are internally displaced in Sri Lanka, with the Tsunami alone accounting for nearly 300,000 displacements.

In the four-year period since the February 2002 ceasefire between Sri Lankan government and LTTE, peace and war alternated in the island country. The six rounds of peace talks in 2002 and 2003 between the government and LTTE could not find a permanent solution to the ethnic problem. In November 2005, immediately after Mahinda Rajapakse won the Sri Lankan presidential elections, LTTE's V. Prabhakaran urged the government to find a "practical solution" to the ethnic problem. Talks began in Geneva in February 2006 to implement the ceasefire. However, LTTE pulled out of the Geneva talks in April 2006. It later refused to negotiate with the Sri Lankan government. This was followed by a series of attacks by LTTE and the Sri Lankan military on each other. In one incident on 15 June 2006, 64 passengers were killed in an attack on a bus in Anuradhapura. Peace still eludes the island republic. One can only hope that the ethnic problem is resolved amicably and Sri Lanka moves forward on the path of economic growth, taking advantage of its rich natural resources and highly educated population.

Nepal: Preparations for a New Constitution

Preparations have been under way for an interim constitution for Nepal. An Interim Constitution Draft Committee has been appointed towards this task. After the Seven Party Alliance (SPA) took control over Nepal from King Gyanendra, the alliance has been holding consultations with the Communist Party of Nepal (Maoist) about the political shape of the new government. The Maoists and the interim government of SPA have agreed to hold elections by April 2007 to form a new constituent assembly. The constituent assembly will draft a new constitution for Nepal which will curtail the powers of the monarchy. The Maoists have also agreed to join the interim government of SPA after the interim Constitution is ready.

Latest reports indicate that the Maoists are unhappy with the slow pace of the interim government's moves towards elections to the constituent assembly. The Maoists demand that the monarchy be abolished before constituent elections while the

SPA government insists that monarchy's future should be decided by the elected constituent assembly.

In July 2006, the interim government and the Maoists had agreed that their respective armies will be confined to temporary camps and barracks under the supervision of the United Nations. However, the Maoists still harbour many concerns on this issue. In particular, they have threatened that they would not join the interim government if SPA did not change its stance on the arms management issue.

At the same time, reports suggest that King Gyanendra will be interrogated by a civilian commission for his role in suppressing the pro-democracy movement in April 2006. During the pro-democracy movement in April, it was reported that 25 persons were killed and nearly 6,000 were injured by security forces.

Bangladesh: Greater Economic Integration with South Asia

Bangladesh is considering proposals to speed up the country's economic integration with South Asia. Business delegations from Pakistan and India, that visited Dhaka in August 2006, have called for free trade agreements with Bangladesh. Bangladesh faces large trade deficits in its bilateral trade with India and Pakistan. In the financial year 2005-2006, Bangladesh's exports to India amounted to US\$123.8 million while its imports from India stood at US\$1.8 billion. Pakistan hopes to raise its bilateral trade with Bangladesh to US\$1 billion by 2007. Removal of tariff and non-tariff barriers can reduce Bangladesh's huge trade deficit with Pakistan and India. Effective implementation of the South Asian Free Trade Agreement will give a significant boost to Bangladesh's trade and investment relations with its South Asian partners.

An expert group consultation meeting of the Nagorik Committee held in Dhaka in August 2006 on 'Vision 2021 for Bangladesh' pointed out that a deep-sea port should be established in Chittagong. The group noted that, given its strategic geographic location, Chittagong has the potential to become a regional economic and commercial hub serving Bangladesh, Nepal, Bhutan, eastern India, Myanmar and south-western China. Professor Rehman Sobhan, Convener of the Nagorik Committee

2006, opined that Bangladesh should try to derive benefits from India's growing economy. India's total imports from the world stands at US\$150 billion today and Bangladesh should try to get a slice of this large market. Dr Debapriya Bhattacharya, Executive Director of the Centre for Policy Dialogue, noted that Bangladesh could emerge as a base for producing and exporting goods and services to the expanding economies of China and India which are likely to face market and labour shortages in the near future.

The government of Bangladesh has taken steps to facilitate trade with India. It has decided to build rail and road links into India through Birol land port as trade through the Birol customs station has long been suspended. With the new transport links, import-export trade with India through this border point will be resumed on a full scale. The government has also decided to extend broad gauge/mixed gauge rail tracks from the zero point on Bangladesh side to the zero point on India-Bangladesh border near Radhikapur station in India. Export and import trade has not taken place at this border port for one and a half years as the Indian side changed metre-gauge into broad-gauge railway tracks. Bangladesh also hopes to establish direct shipping and air links with Pakistan.

Planning Ahead

The Institute of South Asian Studies organised a staff retreat on 24 and 25 June 2006 at Rasa Sentosa. The retreat involved the Chairman, Acting Director, nine research staff, four administrative staff and four ISAS interns.

The key aims of the staff retreat were to take stock of the Institute's research foci and activities since its inception, and to develop strategies and targets to take the Institute to its next phase of development. During the intense discussions, which also included paper presentations by the research team, the Institute's strengths and weaknesses, and local and international challenges were identified. In response, short- and long-term plans were established, and key strategies were identified to help the Institute forge ahead in the pursuit of its mission and objectives.

Besides the serious discussions, the staff retreat was also a platform for the Institute's staff and their families to interact with one another. ■



ISAS Appoints Full-time Director

The Institute of South Asian Studies (ISAS) is pleased to announce the appointment of Professor J. Mohan Rao as its full-time Director with effect from 17 August 2006.

Professor Rao has dedicated himself for over three decades to the study of developing countries with a special focus on India. Following an MBA from IIM, Ahmedabad, and a Ph.D. in economics from Harvard University, Professor Rao built up internationally recognised expertise in development economics and institutional economics. He has published over 90 articles and monographs combining theoretical and empirical contributions in equal measure. India has been the mainspring of his theoretical inspirations and the mainstay of his empirically focused projects. He has actively engaged in both scholarly and policy debates affecting developing economies. While working in the United States, Professor Rao has maintained close contact with Indian institutions, visiting India every year. He has held several visiting positions including at the National Institute of Advanced Studies in Bangalore, the Indira Gandhi Institute for Development Research in Bombay and the University of Rome in Italy. He has been a frequent participant at conferences and given many seminars at academic and policy venues.

Professor Rao's work has been constantly guided by his strong desire to understand the challenges of achieving economic development with justice. Of late, he has also been concerned about the problems of achieving harmony both within India and in the region at large as a prerequisite for politically and environmentally sustainable economic growth. He was drawn to ISAS by its unique focus on the political economy of South Asia and its dedication to disseminate knowledge and understanding about the region in a manner that is useful to policy makers, the business community, academia and civil society.

The body of work on India that Professor Rao has built is unique in addressing both institutional and macroeconomic issues concerning both India's formal and unorganised sectors

which hold 10 percent and 90 percent of the labour force respectively. This work has analysed the infrastructure constraint on India's development, the growth consequences of agriculture industry interactions, the causal links between economic demographic expansion and environmental problems, and the macroeconomic and social impact of globalisation and policy liberalisation. Professor Rao has authored a number of articles on the microeconomics of agrarian institutions and their consequences for productivity and distribution. Professor Rao has also examined in depth the trajectory of India's industrial performance on the basis of new measures of productivity growth. Buttressed by his findings from several field studies in the industrial centers of Ahmedabad and Bangalore, Professor Rao has written about the contours of industrial relations and their economic consequences. He also carried out a major study of the performance and prospects of micro-enterprises in the hinterland of Bangalore. Apart from his keen engagement with a wide range of contemporary issues, Professor Rao takes an abiding scholarly interest in the political economic history of India, having made theoretically informed contributions on the dynamics of the pre-colonial economy.

In his recent research, Professor Rao focuses on economic development in low-income countries in the wake of globalisation. This includes theoretical and cross-country investigations of fiscal and other macroeconomic correlates of liberalisation, and their consequences for growth and poverty. During 2000-2003, he was the lead consultant to the UNDP's multi-country Asia project on the possibility of 'pro-poor growth', and carried out empirical and policy application to the case of Indonesia. Professor Rao has also been a consultant to the UN Department of Economic Affairs, UNESCO, FAO, ILO and other international agencies, most recently to FAO in Dhaka.

Hailing from Bombay, Professor Rao has been struck over many years by the contrasts in the urban landscapes of Singapore and his beloved home city. He hopes to have the opportunity to explore the possibilities of replicating some of the lessons of the Singapore model in the cities of South Asia. ■

ISAS signs MOU with ICRIER

The Institute of South Asian Studies (ISAS) and the Indian Council for Research on International Economic Relations (ICRIER) signed a Memorandum of Understanding (MOU) on 29 August 2006.

Professor Mohan Rao, Director of ISAS, and Dr Rajiv Kumar, Director and Chief Executive of ICRIER, signed the agreement.

The MOU is aimed at identifying opportunities for exchange of academic information and research scholars; cooperation, joint research and development activities; and in organising and participating in joint activities such as seminars and conferences. ■



NUS Eminent Persons Lecture Launched

More than 500 members of the business community, diplomatic corp, academia and government organisations turned up for the inaugural NUS Eminent Persons Lecture by H.E. Dr Montek Singh Ahluwalia, Deputy Chairman of the Planning Commission of India, on 12 July 2006. The lecture was organised by the Institute of South Asian Studies.

During the lecture titled "India's Economic Reforms: Challenges and Prospects", Dr Singh stated that India is opening up its economy, welcoming more trade and foreign direct investments, providing more direct scope to the private sector, shifting the role of the government to focus on its core business and allowing the private sector to lead India's economic development.

Dr Singh also touched on three key areas which are critical in India's economic transition. Firstly, the acceleration of growth should not just be a technocratic achievement; it should also be reflected in agricultural dynamism. Secondly, India needs to develop its infrastructure so that it can translate its competitive advantage into actual economic advantage. Lastly, there needs to be a concerted effort to address issues of education and healthcare, which include not just quality but also access to these services.

Prior to his current position, Dr Singh was a Director (Independent Evaluation Office) at the International Monetary Fund. He has also held various appointments in India, including being a member of the Economic Advisory Council to the Prime Minister; Finance and Commerce Secretary; Special Secretary and Additional Secretary to the Prime Minister; and Economic Advisor in the Ministry of Finance. He has also worked at the World Bank. ■

ISAS Internship Experience

*Mr Benjamin Mui
ISAS Intern, 2006*

I was one of four students selected for the inaugural ISAS Internship Programme, which has been launched to promote greater awareness and understanding among undergraduates and postgraduates of the increasing importance of South Asia. My internship was from May to August 2006.

The rise of India in recent years has been phenomenal. It is a country with immense potential, driven by an entrepreneurial culture that has seen the rise of such global players as the Tata Group and Mittal Steel. This drive is matched with a favourable political and economic climate, with India's leaders committed to economic growth through the fundamental ideals of democracy and free market.

As part of the internship, I was required to identify a research topic and prepare a research paper by the end of the internship. I chose to focus on business and policy linkages between Singapore and Chennai. The research was built upon existing businesses and government linkages between the two countries. A two-week field trip to Chennai was organised with the primary aim of conducting interviews to obtain data for my research. In carrying out my proposed research project, I was paired with an ISAS research associate, Ms Indu Rayadurgam, who provided me with invaluable guidance and

helped set up appointments with relevant contacts. She also recommended relevant journals and publications that were extremely useful for my project.

Through the ISAS experience, I learnt about effective teamwork and project management. The trip to Chennai was my first to the country. It was a truly memorable and enriching experience. It certainly helped me both in my academic and personal development. Apart from the trip, another important aspect of the internship was making friends with my fellow interns. I had the opportunity to interact with them, all of whom had their different research agendas and interests in South Asia. Through formal and informal interactions, we were able to exchange our views and opinions on a diverse range of subjects.

As a Chinese Singaporean, the world of South Asia is not something I grew up being totally familiar with. It is through interactions like those at ISAS and the trip that we nurture our global perspective and broaden our international outlook. More than any knowledge obtained from the books, it is this piquing of my sense of curiosity about India and South Asia that I found to be the most important takeaway from my ISAS experience.

The ISAS experience has indeed sparked off a deep interest in South Asia and I plan to build on the skills and knowledge gained from this experience in my future endeavours and in my daily interactions with my peers. ■

ISAS Recent Events

ISAS-SICCI Public Lecture by H.E. Mr Shivraj Patil, Minister for Home Affairs, India, “*India’s Experience in Federalism*”, 1 June 2006.

Seminar by Dr Matthew Gray, Senior Lecturer and Graduate Academic Adviser, Centre for Arab and Islamic Studies (Middle East and Central Asia), Australian National University, “*Issues of Stability in Iran and Iraq and the Implications for South Asia*”, 9 June 2006.

SICCI-ISAS Global Business Leaders Lecture by H.E. Mr Dayaniddhi Maran, India’s Minister for Communications and IT, “*Opportunities in the IT and Communications Sector in India*”, 23 June 2006.

Seminar by Professor I. N. Mukherji, Professor of South Asian Studies, School of International Studies, Jawaharlal Nehru University, New Delhi, India, “*India and Regional Trading Arrangements in South Asia: Reconciling Confidence Building with National Security*”, 29 June 2006.

NUS Eminent Persons Lecture by H.E. Dr Montek Singh Ahluwalia, Deputy Chairman, Planning Commission, Government of India, “*India’s Economic Reforms: Challenges and Prospects*”, 12 July 2006.

Seminar by Professor Masanori Kondo, Associate Professor of Economics, International Christian University, Tokyo, Japan, “*Economic Integration in Asia and Closer Japan-India Economic Ties*”, 13 July 2006.

Seminar by Associate Professor Ishtiaq Ahmed, Associate Professor (Docent), Department of Political Science, University Of Stockholm, “*Muslim Nationalism, Pakistan and the Rise of Militant Islam*”, 7 August 2006.

Seminar by Professor Sumit Ganguly, Rabindranath Tagore Chair in Indian Cultures and Civilizations, Indiana University, “*The United States-India Nuclear Deal: Background, Significance and Prospects*”, 11 August 2006.

Seminar by Professor Baladas Ghoshal, Senior Fellow, Southeast Asia and South-West Pacific Studies, India, “*A Fresh Look at India’s Look East Policy*”, 26 September 2006.

ISAS Recent Publications

Book

“*Reconceptualizing East Asia*”, Keynote Address by Mr Goh Chok Tong, Senior Minister, Singapore, at the Official Launch of the Institute of South Asian Studies, January 2005.

ISAS Working Paper

“*Investing in the Indian Special Economic Zones: A Background Paper*”, Dr Rahul Mukherji, Visiting Research Fellow, and Ms Aparna Shivpuri Singh, Research Associate, ISAS, June 2006.