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SOUTH ASIA IN DECEMBER 2005

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IPCS Strategic Review

INSTITUTE OF PEACE AND CONFLICT STUDIES

B 7/3 Safdarjung Enclave, New Delhi 110029, INDIA
Tel: 91-1151652556-9; Fax: 91-11-51652560
Email: officemail@ipcs.org; Web: www.ipcs.org

EDITORIAL

The Year Ahead*Dipankar Banerjee, Director, IPCS*

Conflicts in the region continue with only minor variations in intensity signalling South Asia's tryst with violence. Though elections in Afghanistan and the establishment of a parliament after a quarter century of turbulence show promise, terrorism remains a real and everyday threat with no sign of abating. Ceasefire continues in Kashmir along the LoC but not peace and its prospects are no brighter than before. Ceasefire in Sri Lanka has held through the year, but there is every sign today of an impending outbreak of war. Conditions in Nepal have perceptively worsened and after a brief ceasefire another bout of conflict seems imminent.

Most economies have performed remarkably well during 2005 save Nepal and stock markets are booming across the region.

The world today is focused on South Asia like never before. Though India is still the centre of attraction positive trends in all nations are necessary to pull the region out of poverty and deprivation. Peace and stability among nations will be central to that and political will among its leaders will be necessary to bring this about.

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COUNTRIES
& REGIONS**INDIAN ECONOMY: Foreign Inflows & Infrastructure Constraints***Surabhi Sharma, Research Intern, IPCS*

For the year so far (April-October), growth at 8.4 per cent is only marginally lower than last year's rate of 8.7 per cent. There is no cause for concern yet: even though the growth rate is lower, it continues to be healthy. The slowdown in October 2005 is largely due to the effect of the high base.

In fact, the rupee closed at Rs. 45.02 / \$ on 30 December - its strongest closing in 11 weeks. However, for the year as a whole, the currency still ended 3.5 per cent weaker, registering its first annual depreciation in 4 years. Portfolio inflows at a record \$10.6 billion in 2005 have helped offset downward pressure from the

widening trade deficit and the dollar's broad gains across currencies.

Dealers say the demand for the dollar in the local market is likely to decline in coming weeks, which will lead to further appreciation of the rupee vis-à-vis the dollar. A number of funds, like Merrill Lynch's Japan fund, have large amounts lined up for the Indian Market. An increase in the number of FIIs and entry of those interested in the longer-term prospects of the economy raises hopes for the sustenance of foreign inflows.

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MAJOR ISSUES
IN SOUTH ASIA**DEFENCE: Indo-Russia Defence Cooperation, Akash Missile & Maritime Security***Beryl Anand, Research Assistant, IPCS**Maritime Security*

Navy chief Admiral Arun Prakash's visit to Dhaka and the recommendations of India to formalize military maritime channels in the Bay of Bengal connecting the two countries and to re-start maritime relations after nine years of stagnation indicate India's growing concerns with maritime security. To begin with, the navies of the two countries have discussed the possibility of initially connecting Vishakapatnam

and Chittagong. An access agreement with Dhaka, to be part of the Navy's recommendations to the MEA, would allow for more extensive patrolling, both seaborne and from the air, in this sensitive stretch of sea. It will also be recommended that New Delhi offer to maintain some of Bangladesh's ports to compete with Beijing's strategic gains.

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MAJOR ISSUES
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INDO-PAK PEACE PROCESS: Second Round of Composite Dialogue

Manjunath KS, Research Officer, IPCS

Culmination of the second round of Indo-Pak composite dialogue was the major event in bilateral relations during December 2005. There was progress in bolstering people-to-people and trade contacts, with the materialisation of plans to forge rail and road linkages. In addition, there were other positive developments in terms of a joint MoU against counter-narcotics, revision of the Shipping Protocol and setting up modalities for the Iran-Pakistan-India (IPI) gas pipeline. On the negative side, a deadlock in resolving the Sir Creek dispute and issues relating to Kashmir,

are pointers to the onerous task(s) that lie ahead. The third round, slated for 16-17 January 2006 between the respective foreign secretaries will “discuss the Kashmir issue and security-related CBMs.” The second round was also a fair representation of the peace process, manifesting all the failures and successes achieved after hardnosed negotiations, and the latent promise it bears to resolve contentious issues.

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MAJOR ISSUES
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TERRORISM

Supriya Singh, Research Assistant, IPCS

Terrorist attacks continued in South Asia during December 2005. Bangladesh witnessed two suicide attacks. In Kashmir, the security forces met with success in killing a hardcore militant of the Al Badr, but failed to make any progress in the northeast. In Pakistan, there was a renewal of violence in Balochistan, whereas Sri Lanka witnessed major violence for the first time in the past three years.

Pakistan

Balochistan: On the Edge of a Crumbling Rock
Balochistan was in the media spotlight throughout December.... Pakistan’s security agencies launched a massive crackdown on December 18 to quell the political and economic unrest. Since then more than 70 people have been killed and the security forces claimed to have dismantled six out thirteen insurgent camps. The government has decided to continue the military offensive in the region.

Sri Lanka: Tigers Violate the Ceasefire

December was the bloodiest month since the 2002 ceasefire agreement with more than 50 people killed in various incidents of violence.

Nepal

At the behest of the democratic political parties, the Communist Party of Nepal (Maoist) extended its three-month-long unilateral truce declared on 3 September for a month from 2 December. However, the monarchy rejected the truce as the “rebels did not address the government while announcing the ceasefire” which is also seen as an effort by the government to dilute the 12-point agreement between the Maoists and the leaders of the seven political parties.

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