



Nepal-India, Nepal-China and China-India relations are separate and have their own logic for development. However, Nepal finds them so interrelated that it demands a considerable skill and acumen in maintaining a proper balance in its relations with the Asian giants. Nepali leaders often talk about equidistance between Kathmandu, Delhi and Beijing. What do the Indian and Chinese leaders think about it? How can Nepal formulate its foreign policy and explain it to them in a realistic manner? This volume discusses many such questions when the fastest growing economies of the world are offering both opportunities and challenges. The insights of this book are valuable to all strategic analysts.

**Dr. Jaya Raj Acharya**  
Nepal's Former Ambassador to the United Nations



Combining knowledge and experience with wisdom and imagination is essential to come up with a win-win template of inter-state relations for the 21st Century by resolving the SRS Conundrum: Sovereignty, Resources and Security. This book with contributions from young scholars from Nepal and India, responds to the fundamental challenge for scholarship, leadership and diplomacy in this region to move beyond India, Bangladesh and Bhutan to think of mega models of mutual cooperation contributing to peace, security and prosperity in South Asia and the world.

**Dr. Shambhu Ram Simkhada**  
Nepal's Former Ambassador to the United Nations



IPCS

JAISSWAL  
KOCHHAR

NEPAL'S FOREIGN POLICY  
& HER NEIGHBOURS



IPCS



# NEPAL'S FOREIGN POLICY & HER NEIGHBOURS

PRAMOD JAISWAL | GEETA KOCHHAR



**G.B. BOOKS**

**PUBLISHERS & DISTRIBUTORS**

E-mail: [gbbbooks@rediffmail.com](mailto:gbbbooks@rediffmail.com)

Website: [www.gbbbooks.in](http://www.gbbbooks.in)

₹ 975/-

ISBN 978-93-83936-51-7



9 789383 839365

# Nepal's Foreign Policy and Her Neighbours

---



# Nepal's Foreign Policy and Her Neighbours

---

*Editors*

**Pramod Jaiswal**  
**Geeta Kochhar**

*in association with*

Institute of Peace and Conflict Studies



**G.B. Books**  
New Delhi



**IPCS**

INSTITUTE OF PEACE  
AND CONFLICT STUDIES

## **Nepal's Foreign Policy and Her Neighbours**

Published by  
Smt Neelam Batra  
G.B. Books  
PUBLISHERS & DISTRIBUTORS  
4832/24, S-204 Prahlad Lane  
Ansari Road, New Delhi-110002  
Ph: 09810696999, 011-41002854  
E-mail: gbbooks@rediffmail.com

© Authors

All rights reserved. No part of this publication may be reproduced, stored in retrieval system, or transmitted in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of the authors and the publishers.

First published 2016

ISBN: 978-93-83930-51-7

Composing and Printing in India

*Dedicated  
to  
Aahana and Aayan*



## Foreword

No two countries in the world have a closer relationship at a people to people level and at the same time, have such a complex relationship at a government to government level as India and Nepal. Despite such strong ties of history, geography, culture, language and religion that have translated into a *roti-beti ka rishta* among the *madhesis* as well as the *pahadi* elite, at a state to state level, the relationship has witnessed periods of acrimonious rhetoric which often regenerates deep seated suspicions. Unfortunately, this has given rise to a narrative of anti-Indianism, disguised as Nepali nationalism. Successive governments in both countries have ignored it because it is always a minor irritant in the present when both sides want to get things done; what has been missed is its long term corrosive impact on the bilateral relationship. The sane voices that have called for restraint on rhetoric are often drowned out by the growing cacophony of the 24/7 news channels that thrive on controversy. Amidst such high decibel exchanges that create more noise than light, this book is a refreshing change that deals with the complexity of Nepal's foreign policy in a changing world. In many ways, Nepal's leaders think that Nepal's world has not changed because it was Prithvi Narayan Shah who described Nepal as "a yam between two boulders" and there is a chapter with the same title in this book. The question is that if the boulders are changing their equation, should the yam be content to still consider itself a yam? Does the approach adopted by the Palace from the late 1950's and used in recent times by leftist leaders like Pushpa Kamal Dahal 'Prachanda' and K P S Oli as Prime Ministers reflect an understanding of the 1960's or does it reflect the state of India-China relations today, and more important, does this serve the interests of the patient and long suffering people of Nepal, who to add to their woes, have also been battered by the worst earthquake last year after 1934?

This book does well to highlight many aspects of this complex relationship, exploring the underlying layers and exposing some of the short sighted policies that both Indian and Nepali political leaders have adopted in the interests of political expediency. Most important, it reflects

viii • Nepal's Foreign Policy and Her Neighbours

a very welcome renewed interest in scholarship in India's neighbourhood which has suffered in recent decades because most scholars have focussed on India's relations with major powers. This book is a modest attempt to redress the balance.

**Rakesh Sood**

Former Indian Ambassador to Nepal

## **Acknowledgements**

The book aims to provide the changing dynamics in the foreign policy of Nepal and its relations with its closest neighbouring states India and China by understanding the various complexities and contradictions in their relations. Though the rise of India and China is seen as competing or even conflicting in nature, Nepal is looked upon as a real buffer between the two giants. However, Nepal also seems to have its own expectations and interests in building harmonious ties with the rising powers.

The book consists of twelve chapters by young and most dynamic scholars from Nepal and India for an in-depth study on Nepal's Foreign policy and its relations with its neighbours especially since the restoration of democracy. It is the outcome of the combined effort of the authors of various paper incorporated in the book along with my personal contribution as an editor. Here, we would like to thank all the authors Ashay Abbhi, Dr. Bawa Singh, Bhoj Raj Poudel, Bibek Chand, Biswas Baral, Dr. Geeta Kochhar, Gunjan Singh, Dr. Sangit Sarita Dwivedi, Shabaz Hussain Shah, Dr. Shahnawaz Mantoo, Simi Mehta, Soumya Awasthi and Dr. Vivek Kumar Srivastava for their timely submission.

We would like to put on record and acknowledge the support of many scholars in completion of this book. Our special thanks go to Rakesh Sood, Former Ambassador to Nepal, Dr. Shambhu Ram Simkhada, Former Diplomat and Foreign Policy Expert from Nepal and Dr. Jaya Raj Acharya, Former Ambassador of Nepal to the United Nations for their encouragement and support.

I would also like to thank many other senior scholars and friends who helped me and guided me in finalising the draft of the book.

Last but not the least; I would like to thank the publisher G.B. Books for providing all help and support for publishing the book.



## Preface

Nepal, a small landlocked country, is uniquely located between two rival Asian powers. It has geographic, historical and cultural linkages with both its neighbours. It figured prominently in world politics during the Cold War. However, after the end of the Cold War, Nepal has been limited to the power politics of the Himalayan region. It is with the rise of Maoists insurgency and the emergence of China and India as the Asian economic giants, Nepal has regained its importance.

Nepal's foreign policy priorities were to preserve and protect its territorial integrity. Hence, Nepal has maintained a fine balance between both its giant neighbours – India and China. It also formulated and mobilised international support and recognition to fulfill its political and economic requirements. The foreign policy of Nepal is shaped based on its geographic reality which King Prithvi Narayan Shah clearly stated as a yam between two boulders. He talked about balancing both its big neighbours.

According to S.D. Muni, the foreign policy objectives of small states like Nepal are motivated by security (territorial integrity and military), stability (political and economic) and status, but these motivations may not be enough to decipher Nepal's foreign policy. Therefore, some structural factors that influence it need to be examined. The structural factors may be constant (e.g. geography, history, socio-cultural ties with its larger neighbour) or variable (e.g. nationalism and political system). Muni observes that to fulfil its foreign policy objectives Nepal adopted the strategy of (i) taking advantage of differences and clash of interests between India and China (ii) reducing dependence on both neighbours by diversifying its foreign relations, (iii) and mobilisation of international contacts for building counter-pressures.

As mentioned earlier, Nepal's foreign policy priorities in the past were to preserve and protect its territorial integrity, however, later it diverted for the preservation of ruling regime. The Rana rulers established a good relationship with British India by acknowledging the British Empire as the pre-eminent power in the region for the same. This policy continued

till the departure of the British from the subcontinent. However, King Tribhuvan regained the power with the help of India and had India-dependent foreign policy which lasted till 1955. Later King Mahendra reshaped and formulated an independent foreign policy by diversifying Nepal's relationship with other countries. He also tried to neutralise India's influence by signing a parallel Treaty of Peace and Friendship with China in 1960. This was driven by his desire to consolidate the monarchy, weaken the democratic movement (supported by India) and mobilise international support for the monarchy. Similarly, King Birendra followed King Mahendra's domestic and international policies, but went one step ahead by declaring Nepal a 'Zone of Peace' (ZoP) in 1975. Pakistan and China endorsed this seven-clause declaration which was immediately accepted by more than 70 other countries who endorsed it on the condition that it should be accepted by Nepal's neighbours. India, however, did not endorse it. A major objective of the ZoP proposal was to neutralise India's influence in Nepal by undermining the 1950 Friendship Treaty.

Nepalese foreign policy acquired a new shape with the promulgation of the 1990 Constitution. Its relations with India improved significantly. The democratically elected governments focused more on maintaining a balanced relation with both India and China. Nepal, which had lost its charm in international politics after the end of Cold war, again regained with the emergence of Maoists insurgency in 1996. US aid to Nepal, which was in decline was doubled in 2001. However, there was influx in relations during the brief tenure of King Gyanendra. King Gyanendra tilted towards China and Pakistan to counter-balance India. King Mahendra's policy of maintaining equidistance with India and China – was also pronounced by the Maoists and the CPN-UML government.

Though Nepal has been actively involved in several regional and multilateral arrangements, Nepal's foreign policy behaviour indicates that Nepal's foreign policy has become more neighbourhood centric. Nepal has reiterated its intention to address security concerns of India and China. While Nepal looked at West for the development aids, it now looks for more investments from its immediate neighbours.

The book aims to provide the changing dynamics in the foreign policy of Nepal and its relations with its closest neighbouring states India and

China by understanding the various complexities and contradictions in their relations. Though the rise of India and China is seen as competing or even conflicting in nature, Nepal is looked upon as a real buffer between the two giants. However, Nepal also seems to have its own expectations and interests in building harmonious ties with the rising powers. Hence, the book keeps the young and most dynamic scholars of Nepal and India for in-depth study on Nepal's Foreign policy and its relations with its neighbours especially since the restoration of democracy.

Dr. Pramod Jaiswal looks at the strategic objectives of Nepal and explains the foreign policy behaviour of small buffer states like Nepal in International Politics. In his views, small states lying on the periphery of great powers are subject to intense pressures leading to limits on their sovereignty. Nepal, a small landlocked country, is a classic case of a small state striving to preserve its sovereignty against challenges from China and India, the two neighboring great powers, which have been locked in an intense security competition to expand their hegemony over the Himalayan state.

Dr. Vivek Kumar Srivastava identifies Nepal's behavior with respect to South Asia and its specific model to deal India and China. He opines that the perception that Nepal has become more active in the global affairs in recent time is not correct in absolute terms as it has explored several options to express itself in the global affairs. It has also devised a special type of foreign policy functional paradigm in which it aims to balance two of its neighbours, India and China.

Dr. Bawa Singh and Shabaz Hussain Shah analyze Nepal's balancing policy for its security survival and its recent shift towards China undermining Indian interests. In their opinion, despite sharing historical and geo-cultural relations with India, the geopolitical and geo-economic metamorphosis in the region encouraged Nepal to turn towards China, particularly in the post-2008.

Dr. Shahnawaz Mantoo analyzes the new emerging security challenges that Nepal is facing in the evolving new world order and at the same time he suggests some authentic credible and viable security options for it. He also analyzes the special characteristics of Nepal and its vulnerability to both traditional and new forms of threats. He argues that with the recent

dramatic changes and adaptation of a new constitution an optimistic political tendencies have emerged but with it the emerging internal protests from Madhesis and some external challenges poses new security threats as well as challenge to the ability of new Nepali leadership.

Bibek Chand extrapolates on the heightened Sino-Indian competition in Nepal, analyzing the changed context of such power dynamics and the tools utilized by both India and China to increase their influence in Nepal. It also shed light on how Nepal's domestic governments have responded to such heightened interests of the country's contiguous neighbors, particularly in a changed political landscape of Nepal. He argues that Nepal's geographic proximity to the Tibet Autonomous Region of China and the riots of 2008 in that region has further heightened China's security concerns in Nepal. As China seeks to increase its influence in Nepal, India's own security concerns have become heightened, as India and Nepal share a porous and open border contingent with the 1950 Treaty of Peace and Friendship.

Simi Mehta discusses the role of bilateral trade treaties in improving trade relations between the two countries, and identifies the scope and areas of improvement in Indo-Nepal trade relations. She also calls for a revamped strategic economic partnership between the two countries in the 21st century era of globalization and increased international interdependence. According to her, it has been observed that with the economic reform programs adopted by the two countries along with the subsequent signing of the Treaty of 1996, the various problems of quantitative restrictions, content of domestic materials and others were resolved. Thus, the treaty of 1996 is understood to be a milestone in the progress of Indo-Nepalese economic relations.

Ashay Abbhi explores the diplomatic transformations between India and Nepal through energy resource utilization and distribution, leading to mutual development and closer political proximity. He opines that if both the countries prioritize energy cooperation, it could culminate in closer political and diplomatic relations that could also help counter the growing Chinese influence in the Indian subcontinent. Nepal and its water resources mean much more for India than just energy and power-sharing.

Dr. Geeta Kochhar and Soumya Awasthi focus on the foreign policy behaviour of both India and China with regard to buffer states like Nepal

in international politics. It also looks at the contributions made by the two nations in Nepal and how it has benefited Nepal as well as the contributing nation. They also attempt for comparative study to find out who scores better in terms of trade and commerce, health, education, infrastructure and security to name a few areas of development and also to assess how far both India and China have been successful in influencing Nepal's domestic and international politics.

Gunjan Singh explores the various changes which the Nepal-China relationship has witnessed in the last few decades. She also provides a historical background of this relationship and look at some of the recent events which have renewed the international focus, like the 2015 earthquake in Nepal. She argues that with the economic and military rise of China and the loss of Tibet as a 'buffer' zone between China and India, Nepal has come to play a very prominent role for both China and India. Both China and India have shown keen interest towards helping Nepal. Even though it is a small, landlocked country, the change in the diplomatic dynamics in between China and India has brought increased focus on Nepal.

Bhoj Raj Poudel looks at the post-1990 China-India-Nepal relationship from the Nepal's macro-economic perspective, for instance, the contribution in Nepal's economic development from the inflow of FDI from these two countries, movement of people and sharing of knowledge and technology. He also gauge the rationale behind unfolding the idea of "Trilateral Cooperation" among China, India and Nepal in 2010, which has been discussed since then in all high level meetings among and between the leaders of these three countries. He also touches upon how this Trilateral Cooperation can be a boon for Nepal's growth and creation of jobs through investment and movement of people.

Biswas Baral looks at recent changes in Nepal's foreign policy and explains the activities of both its neighbours since the promulgation of new Constitution. He opines that Indian government got a feeling that while Chinese concerns were accommodated in Nepal's new constitution promulgated on 20 September 2015, Indian interests were neglected. For instance, the federal provinces were carved out largely based on economic viability (which China wanted) while India's suggestion that ethnicity should also be factored in, were ignored. This, India felt, would do

injustice to Madheshis, the inhabitants of the Nepali lowlands who share close ties with Indians across the border. To express its displeasure, India started an 'economic embargo' on vital goods and fuel supply into Nepal. But, paradoxically, the embargo, instead of making Kathmandu toe New Delhi's line, has pushed Kathmandu closer to China. The roads to Tibet are being upgraded; a long-term oil contract with China has recently been signed; and there is now widespread feeling among Nepalis that China is a better friend as compared to India.

Dr. Sangit Sarita Dwivedi dwells on India's relations with Nepal and argues that India reacted strongly to Nepal's new constitution. Concern has been expressed over the disturbed situation in the Terai region that borders India. Nepal has been urged to resolve differences "through dialogue in an atmosphere free from violence". She also opines that the general attitude among Nepalis is that whatever India does for them is in India's own interest. But, what China and other countries do is "without strings attached" and, therefore, deserves recognition and reciprocation in kind. Instead of blaming India and Pakistan for SAARC's failure, Nepal could have set an example by providing leadership to charter an effective role for SAARC in disaster management.

As a last word, we would like to mention that the authors have sole responsibility for all errors/ omissions and take full responsibility for the work being original.

## Contents

<i>Foreword</i>	vii
<i>Acknowledgements</i>	ix
<i>Preface</i>	xi
<i>Contributors</i>	xix
<i>Abbreviations</i>	xxi
1. Nepal's Foreign Policy and Strategic Significance <i>Pramod Jaiswal</i>	1
2. Nepal's Foreign Policy in Quest of Identity <i>Vivek Kumar Srivastava</i>	33
3. Nepal's Equidistance Policy towards India and China: Exploring the Shifting Paradigm in the Post-Monarchial Era <i>Bawa Singh and Shabaz Hussain Shah</i>	49
4. Internal and External Security Challenges of Nepal <i>Shahnawaz Mantoo</i>	67
5. The Yam between Two Boulders: Analyzing the Impact of Sino-Indian Power Dynamics in Nepal <i>Bibek Chand</i>	94
6. India-Nepal Economic Relations in the 21st Century <i>Simi Mehta</i>	112
7. Hydropower and Pipelines: Bridging the Diplomatic Distance between India and Nepal through Energy <i>Ashay Abbhi</i>	125
8. Race of Elephant and Dragon in Nepal <i>Geeta Kochhar and Soumya Awasthi</i>	141
9. Nepal-China Relations in Present Times <i>Gunjan Singh</i>	156
10. Role of China and India in Nepal's Economic Development: Post 1990 <i>Bhoj Raj Poudel</i>	171

11.	Indian 'Economic Embargo': The China Factor <i>Biswas Baral</i>	182
12.	Revisiting India's Relations with Nepal and the Role of SAARC <i>Sangit Sarita Dwivedi</i>	197
	Appendixes	217
	Index	236

## Contributors

**Ashay Abbhi**, Research Analyst on issues related to Energy & Geopolitics at New Delhi, India.

**Bawa Singh (Dr.)**, Assistant Professor, Centre for South and Central Asian Studies, School of Global Relations, Central University of Punjab, India.

**Bhoj Raj Poudel**, an Economist based in Kathmandu, Nepal.

**Bibek Chand**, PhD candidate in International Relations at the Department of Politics and International Relations, Florida International University, USA.

**Biswas Baral**, Op-ed editor at Republica, English daily published from Kathmandu, Nepal.

**Geeta Kochhar (Dr.)**, Assistant Professor, Jawaharlal Nehru University, New Delhi, India.

**Gunjan Singh**, Research Assistant, Institute for Defence Studies and Analyses (IDSA), New Delhi, India.

**Pramod Jaiswal (Dr.)**, Founder of Nepal Institute for Strategic Analyses, (NISA) and Executive Director of Nepal Institute for International Cooperation and Engagement (NIICE), Kathmandu, Nepal.

**Sangit Sarita Dwivedi (Dr.)**, Assistant Professor, Department of Political Science, Bharati College, University of Delhi, India.

**Shabaz Hussain Shah**, Ph. D Scholar, Centre for South and Central Asian Studies, School of Global Relations, Central University of Punjab, India.

**Shahnawaz Mantoo (Dr.)**, Assistant Professor, Centre for International Relations, Islamic University of Science and Technology, Jammu and Kashmir, India.

**Simi Mehta**, Fulbright-Nehru Doctoral Scholar at Ohio State University, Columbus and a Doctoral candidate at Jawaharlal Nehru University, New Delhi, India.

xx • Nepal's Foreign Policy and Her Neighbours

**Soumya Awasthi**, Research Scholar, Jawaharlal Nehru University, New Delhi, India.

**Vivek Kumar Srivastava (Dr.)**, Assistant Professor of Political Science, CSJM Kanpur University (affiliated college), Kanpur, India.

## **Abbreviations**

AIDS	Acquired Immune Deficiency Syndrome
AMMA	Agreement on the Monitoring of the Management of Arms and Armies
APCs	Armoured Personnel Carriers
APEC	Asia Pacific Exchange and Cooperation
BBIN	Bhutan, Bangladesh, India and Nepal
BIPPA	Bilateral Investment and Protection Agreement
BNP	Bangladesh Nationalist Party
BOOT	Build Own Operate Transfer
BRICS	Brazil, Russia, India, China and South Africa
CA	Constituent Assembly
CENTO	Central East Asian Treaty Organisations
CPA	Comprehensive Peace Agreement
CPC	Communist Party of China
CPN-Maoist	Communist Party of Nepal – Maoists
CPN-UML	Communist Party of Nepal-United Marxist Leninist
CSCs	China Study Centres
DFID	Department for International Development
DPR	Detailed Project Report
FDI	Foreign Direct Investment
GDP	Gross Domestic Product
GW	Giga Watt
HIV	Human Immunodeficiency Virus
ICT	Information and Communication Technology
IGC	Inter-Governmental Committee
IMF	International Monetary Fund
IMHE	Institute of Mountain Hazards and Environment
INGOs	International Non-Governmental Organisations
INSEC	Informal Service Sector
IOC	Indian Oil Corporation
IOCL	Indian Oil Corporation Limited
LPG	Liquefied Petroleum Gas

MEA	Ministry of External Affairs
MFN	Most Favoured Nation
MoFA	Ministry of Foreign Affairs
MVA	Motor Vehicles Agreement
MW	Mega Watt
NA	Nepal Army
NATO	North Atlantic Treaty Organization
NC	Nepali Congress
NCFA	Nepal-China Friendship Association
NGOs	Non-Governmental Organisations
NOC	Nepal Oil Corporation
OBOR	One Belt One Road
ODA	Official Development Assistance
PLA	People's Liberation Army
PTA	Power Trade Agreement
QRs	Quantitative Restrictions
RAW	Research & Analysis Wing
RMB	Renminbi
SAARC	South Asian Association for Regional Cooperation
SAFTA	South Asian Free Trade Area
SANEI	South Asia Network of Economic Institute
SARC	South Asian Regional Cooperation
SDH	Synchronous Digital Hierarchy
SEATO	South East Asian Treaty Organisations
SPA	Seven Party Alliance
STI	Sexually Transmitted Infection
TAR	Tibet Autonomous Region
TRQ	Tariff Rate Quota
TU	Tribhuvan University
UK	United Kingdom
UN	United Nations
UNGA	United Nations General Assembly
UNHCR	United Nations High Commission for Refugee
USAID	United States Agency for International Development

USD	United States Dollar
USSR	Union of Soviet Socialist Republics
WTO	World Trade Organization



# 1

## Nepal's Foreign Policy and Strategic Significance

Pramod Jaiswal

### Abstract

International politics is the realm wherein great powers are continually looking for opportunities to expand their hegemony whenever and wherever possible. In such a world, small states lying on the periphery of great powers are subject to intense pressures leading to limits on their sovereignty. Nepal, a small landlocked country, is a classic case of a small state striving to preserve its sovereignty against challenges from China and India, the two neighboring great powers, which have been locked in an intense security competition to expand their hegemony over the Himalayan state.

This study proposes to understand and explain the foreign policy behaviour of small buffer states like Nepal in International Politics. A buffer state is a state lying between two rival or potentially hostile greater powers, which, by its sheer existence, is thought to prevent conflict between them. While traditionally, the bigger powers have kept such buffer states out of their expansionary ambit precisely because they provide a buffer against the other great power in vicinity, the smaller states have certainly been more than natural receivers of great power sermons and have utilized their geographical positioning to their advantage. Nepal is a buffer

## 2 • Nepal's Foreign Policy and Her Neighbours

state between two emerging great power India and China. It has existed by balancing one against the other.

Foreign Policy, also known as foreign relations, consists of self-interest strategies chosen by the state to safeguard its national interests and to achieve its goals within the international relations milieu. It is the plan of action adopted by a nation with regards to its diplomatic dealings with other countries. Foreign policies are established as a systematic way to deal with issues that may arise with other countries. The development of foreign policy is influenced by domestic considerations, the policies or behaviour of other states, or plans to advance specific geopolitical designs. Since national interests are paramount, foreign policies are designed by the government through high-level decision making processes. National interest can be accomplished as a result of peaceful cooperation with other nations, or through exploitation. Usually, the creation of foreign policy is the job of the head of government and the foreign minister (or equivalent). In some countries the legislature also has considerable influence.

King Prithvi Narayan Shah, the eighteenth century king who unified Nepal, had once said, "Nepal is a yam between two boulders". He wanted Nepal to maintain good relations with both of its big neighbours, India and China, for prosperity and peace. Balancing one neighbour against the other has traditionally been Nepal's strategy of survival (Rose 1971). As far as the sixth century, the Lichchhavi King Amshuverma gave his daughter Bhrikuti for marriage to the Tibetan King Tsrong Tsong Gampo and his sister Bhoga Devi for marriage to an Indian king, Shur Sen (Bhasin 1994: 641). This is how Nepal has survived since ancient times.

Before analysing the foreign policy and strategic relationships of Nepal in detail, we need to situate Nepal's foreign policy in the context of small states in international relations and seek to conceptually map its imperatives. This chapter examines how a landlocked country like Nepal has efficiently maintained its bilateral relations with both India and China.

### **Objectives of Foreign Policy in International Relations**

Foreign policy refers to the ways in which the central governments of sovereign states relate to each other and to the global system in order to achieve various goals or objectives.<sup>1</sup> It is a means by which a country

safeguards its national interests, its security, and achieves its economic prosperity and ideological goals. These multidimensional objectives can be acquired either through peaceful cooperation with other states or through aggression, war and exploitation. While conducting relations with other states, a state is influenced by a number of factors, both domestic and international. The continuous interaction between internal and external environment corrects any imbalances and helps a country fulfil its various goals and objectives. The internal condition of a country includes its territorial size, population, resources, level of economic development and political system. Along with these, geopolitical location, topographical characteristics and security perceptions also constitute dimensions that influence foreign policy. These variables influence a country for its inclination to external environment in the form of isolation vs. participation and non-alignment vs. alignment. In addition to this, motivational attributes, leadership capability and perceptions are some other elements which influence foreign policy objectives (Hermann 1984: 25).

Any foreign policy adopted by a state involves a selection of objectives, mobilization of means of achieving those objectives and the use of resources in the implementation and pursuit of those objectives (Lentner 1974: 3). Mere wishes, desires and intentions or decisions by governments do not amount to policy unless the means are available to implement the policy, and without such, they remain only slogans.

In the analysis of foreign policy the historical background and accumulated political experience of states constitutes what Macridis calls the 'elements of foreign policy' in terms of which foreign policy 'patterns' are shaped (Macridis 1989: xiv). Within those frameworks it is worthwhile to examine the foreign policy making institutions and the role of political elites in the shaping and implementation of foreign policy objectives. Macridis splits foreign policy into elements and the processes (*ibid.*: xv).

Patterns include goals to be achieved and mechanisms by which those goals are achieved. Patterns change over time as conditions within the state and the international environment are transformed. Patterns may gather force over time and may be difficult to get replaced by foreign policy decision maker. But, where they are forced to do so by changes in situations, goals, or within the elite, unpredictability may result.

Leopold von Ranke emphasised the primacy of geography and of external threats in shaping foreign policy, but later, writers have emphasised domestic factors. James N. Rosenau, the stalwart of foreign policy studies, states that, “[t]he goals of foreign policy are a function of the processes by which they are formulated, just as these, in turn, are influenced by the objectives which were sought in the past and the society’s aspiration for the future” (Rosenau 1969: 167). History is an important guide to the conduct of international relations and the past is often the mirror in which the future is reflected.

According to George Modelski, foreign policy is “the system of activities evolved by communities for changing the behaviour of the other states and for adjusting their own activities to the international environment” (Modelski 1962: 67). The foremost task of foreign policy, in his view, “must be to throw light on the ways in which states attempt to change, and succeeded in changing, the behaviour of other states” (Mahendra Kumar 1978: 321-322). While analysing this definition, it must be emphasized that the capabilities of big and small states to influence other actors can vary tremendously. Likewise the need to adjust their behaviour in the changing environment may also differ enormously.

### **Small States in International Politics**

The foreign policy of smaller states has never been much of a concern to mainstream theories of International Relations, especially for the realist school. Since smaller states are positioned very low in the structural ordering of international system, their influence in international relations is at best considered to be minuscule. This simplistic logic was briefly questioned as the emergence of non-alignment, prompted mainstream theorists in the 1960s and early 1970s to relook at the question and attempt a theorisation of the behaviour of small states. However, the fading of the Non-Aligned Movement gave weight to the mainstream argument of ‘small states having no bearings on international system’. This line of thought is amply debated in the scholarship and critical theorists have argued that the ‘West’ has had an extractive relationship with the ‘Rest’, and therefore the ‘Rest’ are peripheral figures in the core of Western practices of domination and its conceptions of world order. But, even critical theorists give little

independent space to these small states. In their discourses on imperialism of the western theoretical tradition, they too are complicit in robbing the smaller states of any autonomous decision making processes.

The foreign policy of small states has the primary objective of ensuring survival and strengthening the power and position of the state in the international environment. Large states have similar objectives but the small states are often faced with problems of viability in terms of economics and politics and the vulnerability of a political, economic and military nature from its larger neighbours.

The small state is largely ineffectual in the international system if it relies on isolationism. By itself, the small state usually has very little influence in the international arena and therefore it is usually through international organizations that small states try to promote attitudes conducive to their survival, primarily by developing their status as independent sovereign nations. The attitude of small states towards international organizations have been explained as providing a sense of formal equality, a degree of security from membership and the possibility that such membership may constrain other larger states from threatening actions. Though this sense of security may be more psychological than real, such activities help small states from appearing insignificant and provide them a role, however limited, in world affairs. It seems that it is the development of the nation and a role in the international system that is recognized by other states that is more important than the quest for security that membership may not actually be able to provide. Huldts has done an interesting study on the behaviour of small states (Rogers 2007: 349-369). He comes with the following seven categories:

1. Small states tend to behave in an anti-balance manner. When the balance of power in international relations is threatened, the major powers try to support the weaker side in a conflict so as to maintain the balance of power. Small states, on the other hand, tend to side with what they consider the stronger, winning side and often desert an ally who is deemed weak, since they cannot afford to be on the losing side.
2. The foreign policy of small states has a short-term and geographically limited perspective in comparison with the major powers, whose foreign policy decisions are global and long-term.

## 6 • Nepal's Foreign Policy and Her Neighbours

3. Small states have a legalistic-moralistic attitude towards international affairs and support the use of international rules of law. Huldt points out that a legalistic-moralistic attitude in international relations not only is adopted for idealistic reasons but also represents a realistic foreign policy alternative, since small states cannot afford to behave immorally.
4. International organizations, such as the League of Nations and the United Nations, are very important for small states, since it is through these organizations that acceptable international rules of law can be adopted.
5. Small states often function as mediators in international conflicts. Since small states generally do not have a direct interest in a crisis involving one or more major powers, they make good arbitrators.
6. The foreign-policy decisions of small states are more often not related to security questions. Small states can choose to join a defence alliance or remain neutral.
7. A small state is more vulnerable and has fewer alternatives than a major power.

The seven categories summarized by Huldt give only a rough idea on how small states behave and lack validity. When we make closer observations on the behaviour of small states we realize that several of his categories depend on the situation of a particular state and that the idea can be contested. For instance, anti-balance behaviour, short-term and geographically limited goals, a legalistic-moralistic attitude and faith in international organisations – depend on whether or not the state in question perceives an external threat. If the state feels threatened then the immediate goal would be to side with a partner who could provide protection. On the other hand, if threat is not perceived, then the small state can afford to adopt a legalistic or moral attitude and support long-term solutions offered by international organisations. At the same time, small states acting as mediators in international conflicts does not clarify which foreign policy strategy a small state chooses, except in the sense that it supports the idea that small states tend to promote international rules of law. Whether vulnerable small states join an alliance or remain neutral depends on the available military and economic strategy options. At the

same time small states can have an aggressive and expansive foreign policy too. Even vulnerability and alternatives for small states depend on how they formulate their foreign policy options.

The buffer states are a case in point where the smaller states enjoy a degree of independent decision making vis-à-vis alignment with great powers. This comes with what could be termed a 'reverse security dilemma'.<sup>2</sup> It means that a measured increase in security of a buffer state gives a sense of greater security to the great power, which has helped the smaller state gain those capabilities. The more vulnerable a buffer state is, the more vulnerable the neighbouring great power feels. It could mean that the vulnerable buffer state is at risk of being enticed by the rival great power. It also increases the incentive for the rival power to either expand or intervene in the buffer state. Ultimately, it becomes a contest between the two hostile great powers over 'who pays more'.

It must be noted that since the power differential of both great powers vis-à-vis the buffer state is huge, they do not consider such a state as a direct security threat. The buffer state is a cushion against the other great power and it can only become a threat if it aligns with the rival power. Preventing a turn towards any possible alliance poses a dilemma for great powers: it cannot issue threats lest the buffer state is pushed further so as to align with the rival power. An attack on a buffer state, historically, has triggered a 'great power' war. Both the World Wars started when the fragile balance was broken with one of the states attacking the buffer between two alliances. The only way to reduce one's own security threats is to entice such a buffer state with benefits. These benefits end up in satisfying some of the interests increasing its power, though never so much that it can challenge any of the two great powers.

The choices with the buffer state, on the contrary, are more. It has a choice to align with any of the two great powers or remain neutral. As against the balance of theory argument, neutrality can be a virtue. The historical record suggests that neutrality has been a fairly successful strategy and has paid rich dividends. While a buffer state is relatively secure from attack from either side, neutrality allows it to benefit economically from both sides. Such profit is not only in terms of security but also economic. Buffer states also play the rival powers against each other, effectively setting both

great powers into a constant race for winning over the buffer state. Nepal can be taken as such an example.

Small buffer states can, thus, influence international politics in a much more profound manner than they are usually given credit for because they can tilt the balance in great power rivalry. Not all buffer states have realised this strategy, but those who have, have taken advantage of their geographical positioning.

### **Foreign Policy of Small States**

Most of the research about small states has highlighted their drawbacks in international relations. Books by Benedict (1967), Plischke (1977), Jalan (1982), Misra (1988) specifically use the word 'problem' in their titles and other books by Blair (1967), Allen (1980), Diggins (1985), Harden (1985) and Dommen and Hein (1985) also highlights their drawbacks. There are few books and authors that have highlighted the positives of being a small state and describe their advantages in international politics. This study also is an attempt to highlight the advantages of states as Nepal, which by its position of being a small country between two big neighbours India and China, has benefited from both. Obviously, there are problems that small states face as they have small skilled workforce, less wealth of the state and many more (Swain 1991).

Small and buffer states have hardly been studied in International Relations. Not a single book looks at these states from a broader theoretical perspective. There is some theoretical literature on studying the behaviour of small powers. Small powers and small buffer states are different conceptual entities but they do have similarities. All buffer states are small powers in international system and they share common ground in terms of the 'Lilliputian dilemma' (Keohane 1969), they face. Probably, in one of the earliest systematic studies on small power behaviour, Annente Baker Fox (1959) studied the behaviour of five small power states during the Second World War. In *The Power of Small States*, she inquired into how the governments of small and militarily weak states resisted the pressure of great powers in the times of crisis. While some of the smaller states could convince the great powers of their neutrality others could not. Fox pegs the successes to diplomatic skills, but recognises that geo-strategic location

affects the chances of small states having an advantage or disadvantage in making use of diplomacy. However, she does not extend this inquiry and explain how geographical positioning structurally shapes a country's response.

Neumann and Gstohl (2006) in their book *Small States in International Relations* trace the literature on small states and argue that their behaviour has not been studied much, because of the focus of the discipline of International Relations, especially of the realist school, has been on Great Powers. They argue that small states have their own dilemmas, which is manifest in their essay 'Lilliputians in the Gulliver's World?' in the same book. Robert Keohane (1969), in fact, uses the term 'Lilliputians' Dilemma' and argues that small states face a dilemma between balancing, band-wagoning and neutrality. Similarly, Rothstein (1968), David Vital (1967) and Lawrence Martin (1967) have tried to study small power behaviour with respect to what was seen as an emerging coalition of small powers during their times: Non-Alignment. All these scholars agreed that it was an attempt by these states to move clear of great power rivalry and increase their bargaining strength. While these works broadly categorise non-aligned states in Third World, they offer conceptual rather than geographical pointers to the dilemmas that these small powers face.

Christene Ingerbristen (2006) offers a novel thesis. Based on her case study of the Scandinavian countries, she argues that these states tend to be 'norm entrepreneurs', which gives them standing as well as security in the international system. The larger applicability of this approach is doubtful, since outside of the tranquil waters of Europe, this certainly does not seem to be the case. Dan Reiter (2006) has a different take on the foreign policy of small states. He argues that such states tend to rely on their perceptions of the past. While bigger powers might pursue an adventurist or expansive policy and seek goals other than security, smaller states have no other option but to ground their perceptions of their security in the experience of their successes or failures of the past. 'The shadow of the past' argument has relevance for buffer states. This hypothesis could be interpreted to argue that buffer states with relative foreign policy successes in past tend to consistently stick to their alliance patterns of balancing, bandwagoning, or neutrality; while states which have had failures tend to be inconsistent

and keep shifting their alliance patterns. This simplification is problematic since many of the buffer states tend to shift alliances not because of preferences of the past but keeping in sight possible profits in the future. A past relationship may have been fruitful, but if the future seems brighter in alliance with another power, the buffer state would tend to shift.

The theoretical stream that informs most of these studies is realism and its theories of alliance behavior of states. A problem with imputing the structural variant of realism, epitomised by Kenneth Waltz (1979), to analyse the foreign policy of a specific type of state, here the buffer state, is that realist theory is agnostic about what foreign policies states follow. Structural realism becomes all the more difficult to apply to a study of geography as a factor in diplomacy. Nevertheless, within this broad paradigm, various realists have made differing claims about the alliance pattern of states. One can juxtapose them against each other and measure how well they stand up. Kenneth Waltz stands closer to the realist tradition of balance of power epitomized by Morgenthau (1949), though they differ on the reasons for states pursuing balance. Waltz offers structural explanations while Morgenthau imputes domestic reasons of maximization of power. Nonetheless, both make an argument that weak states tend to balance against the strong for they fear the strong may prey on the weak. Waltz, highlights exceptions, when small states bandwagon if they feel that balancing against the strongest could imperil their existence. Nonetheless, taking the broad logic of the balance of power theory, buffer states would be expected to ally with the lesser of the two great powers. In practice, this is rarely seen. Nepal and Myanmar are buffers between India and China, but none of the two ally with Delhi to balance against Beijing, the more powerful state. If at all, the buffers exhibit shifting patterns.

A reformulation of the balance of power argument is the 'balance against threat' theory by Stephen Walt (1987). Walt argues that states ally not against 'power' but against 'threat'. He advances four variables to determine the 'threat': aggregate capability, geographical proximity, offense-defence balance, and perceptions. This theory is robbed of its structural intent by the highly subjective nature of what constitutes the offense-defence balance and perceptions. The making the argument reductionist and leading to post-facto rationalisation. It is a difficult

proportion for a theorist to guess which side seems threatening. In the case of India and China, one cannot really make a conclusive argument as to which side looks more threatening to the buffer states.

A third stream, which emerged out of historian Paul Schroeder's (1994) critique of Waltz, says that states often bandwagon and not balance. This would suggest Nepal would ally with China to appease it. Finally, Randall Schweller (2006) argues that states are often not status-quo defensive realists argue. States seek not only for security but also opportunities for profit, and grab them whenever they exist. There are certain conceptual problems too with this argument. It is important to delineate and define the scope of what is meant as 'profit'; else it could mean anything from military power to gaining the normative high ground. Furthermore, when Schweller talks about bandwagoning, his focus is on states that bandwagon with the revisionist power. Apart from a strategy of appeasement, he does not seem to say much about bandwagoning with the status-quoist power. Schweller's predicted behaviour appears compatible with the alliance patterns of the South Asian buffer states, but it is hardly generalisable for other buffer states.

Another stream of literature comes from the Innenpolitik School which focuses on the domestic variables. Mainstream constructivists (Wendt 1992, Ruggie 1998), cultural theorists (Lebow 2009) and democratic peace theorists (Doyle 1997) focus on domestic features and questions of identity, culture and norms. However, domestic variables alone cannot explain the alliance pattern of buffer states. They can explain differences but not similarities. The approach of my study is to integrate both variables and come up with a discernible pattern and explanation of how buffer states behave.

### **Relationship between Small and Big States**

There are problem in defining what a small state is. Researchers have tried to define small states in terms of territorial size, population, resources and wealth, government control and the capacity to enter into relations with other states. There are disagreements on the further division of small states into micro-states, mini-territories and small islands.

Rothstein has limited small states with the concept of small powers and states that ".....feel that they are potentially or actually threatened by the

policies of the Great powers” (Rothstein 1968: 4). He further states that in a situation of threat the small powers, in contrast to great powers, must rely on outside help as they have little time to correct mistakes, have a narrow safety margin, and that the leaders of the state see their weakness as essentially unalterable.

Rothstein's definition of a small power seems outdated in today's globalized world as the majority of states would be considered as small powers, as very few countries are able to maintain an effective deterrent to external threat that does not require external assistance. Thus, such a broad and vague definition does not clarify how small states have used foreign policy in their survival, as the concept of insecurity is rather all-encompassing and does not provide any form of distinguishing variable between small states (Swain 1991). Rather it is necessary to examine the actual behaviour of states in the international environment and this has been the objective of this chapter.

In international relations, smaller or weaker powers can balance against stronger powers primarily, in two ways: by an effective mobilisation of its internal resources so as to significantly increase its power, or through external alliances with other, stronger, powers. Three types of external alliances exist at the international level. The first is an unequal bilateral alliance in which weak states ally with a more powerful state, usually a great power. The second is an equal bilateral alliance, where states of more or less equal strength form an alliance. The third, mixed multilateral alliance has a number of weak states as well as great or strong powers, like the Warsaw pact.

Protection against military threat is not the only reason for weak states seeking military ties with big powers. Some weak countries seek military assistance for offensive reasons too (Singer 1972: 274). An example is Israel, which sought and received military support for its aggressive designs on Arab lands. Weaker states may also seek alliance, as neo-liberals would argue, for increasing their wealth. Nepal could be considered as such a nation. It does not feel threatened by external forces, but it seeks partnerships for economic benefits. Further, weak countries may go for military ties with more than one power in order to reduce their dependence on major powers. This pattern is more visible in an international system

that is loosely multi-polar. But, it is not always easy for a country to diversify its military suppliers. If a weak state tries to build military ties with a new major power, there is always the risk that its older patrons may retaliate by cutting off support.

The logic of military ties between powerful and weak states lies in their perception of a common enemy, against whom they require mutual or collective protection. During the 1950s communist states saw international capitalism or 'neo-imperialism' as a direct threat to the continued existence of their regimes, and turned to the Soviet Union for military assistance. Multilateral defence treaties against mutually perceived enemies such as the North Atlantic Treaty Organization (NATO), the Warsaw Pact and the South East Asian Treaty Organization (SEATO) (Lovell 1970:86), were concluded under the umbrella of 'collective security' against a common enemy. Here, the major power provides military assistance to the weaker state and support the regime in office against internal and external threats. Without the existence of an effective military, the weaker countries would be threatened by their neighbours. Faced with the rising cost of such assistance, older powers such as France and Britain withdrew from stewarding such alliances, pushing weaker countries towards the US and the Soviet Union. Other countries entered limited military agreements with both the US and the Soviet Union in order to avoid taking sides. India was a country that had long followed this policy (Singer 1972: 274).

While realists and neo-liberals argue that weaker states benefit from alliances or partnership with major states, Marxist and neo-Marxists of the Dependency School claim that the weaker powers are exploited. The relationship is extractive, with massive outflows of resources from weaker countries. Stronger powers use political, military, economic, cultural and normative tools to exploit weaker powers and perpetually keep them underdeveloped.

Diplomacy can be used by stronger powers in numerous ways to coerce or entice weaker powers. To rephrase Clausewitz: "Diplomacy is war by other means". The diplomatic muscles of strong powers are enough to discipline the behaviour of weaker states, and weaker powers can manoeuvre space for themselves.

Big-power diplomacy often uses coercive means to impose upon smaller states. Other instruments of powers are also employed by big power (Reynolds 1971: 99). The Truman administration used attractive rather than coercive instruments of power in Yugoslavia to prevent that country from being reabsorbed by the Soviet bloc (Singer 1972). Truman's alternatives were to allow the Stalinists to topple the Tito government, or to provide assistance to Tito on markets, supply of finished goods, and technical and military assistance. In addition to this, language and ideology have been extremely effectively used by countries like the Soviet Union and China as "attractive" instruments of power (Macridis 1972: 13): the Communist ideology is followed in several weaker underdeveloped countries. There are inherent dangers in using nationalism as an instrument of policy. Nationalism can easily deteriorate into xenophobia and lead countries into foreign adventures in the name of the nation, a path that is detrimental to the wellbeing of the state. The case of Nazi Germany and of Hirohito's Japan can be cited in this regard.

Economic power is another instrument of foreign policy. Arguably, it is the economic dominance of the United States that led to its rise as a global hegemon (Rajamohan 1982: 92). The Chinese used aid as a first step towards establishing diplomatic relations with several African and Asian countries. Other countries like Canada, Australia, Sweden and Switzerland also utilised their economic aid to underdeveloped countries to open up avenues for foreign trade. The prestige value of modern military equipment for many weak countries also ties them to at least one of the major powers, even though some have sought military assistance from multiple countries in order to reduce their dependence on a single power.

The economic and military weakness of a small state and the potential for political instability can be a source of bargaining power if a great power perceives the territory of the small state to be of strategic importance. As Nepal has occupied a strategic position between India and China, it has been able to derive assistance from both neighbours. A small state can sometimes act with impunity against a great power. The response of the great power will be determined primarily by the type of threat, the degree of its active involvement and the risk that retaliatory action might adversely affect relations with other states in the region (Barstson 1971:

46). For example, the conflict between the US and Chile, Ecuador, and Peru over the latter group's claim to a 200-mile fisheries jurisdiction did not spill over to other sides of US relationships with those countries. Small states can also use international organisations to mobilize support for their policies by invoking debate and criticism.

The dangers of alliances with great powers were demonstrated by the events of the 1940s, as the USSR occupied Eastern Europe and forced treaties upon the Baltic States. In unequal treaties like these, issues of maintaining the sovereignty, independence and integrity of the weaker states become secondary. Even formal treaties mean little during times of imminent danger for the smaller power; declarations of support do not necessarily guarantee support. During Cuban Missile crisis, for instance Russian reduced the sugar quota it had promised Cuba. Thus weak states are at risk from opaque commitments promised from treaties with great powers (*ibid*).

Weak states also attempt to win over a great power to their side by mobilising public opinion in the stronger state. The weak states also try to penetrate the domestic system of the great power. But it is easier for the great power to penetrate the weak states than the other way around (Rosenau 1971: 148). This is a 'weapon of the weak'. The Balkan Slavic states, especially Serbia, continuously made efforts to harness the Pan-Slavic sentiments of the Russian public. The Poles and the Czechs campaigned in the United States and elsewhere during the First World War for support in establishing the Polish and the Czech states.

There is also a great danger that the great powers would attempt to secure a permanent presence in the territory of the weaker state (Handel 1981: 128). Examples include South Korea, Taiwan, and South Vietnam Physical distance does not necessarily save a weak state from encroachment by a great power as often the protector would not be able to provide military assistance in case of an attack, as in the case of Cuba, which was unable to gain Soviet assistance in times of crisis. The weak state may face threats from great powers for allowing rivals establish bases. A large number of foreign troops on its soil pose a threat to the cultural integrity of the state. During the Second World War, the troops of Great Britain, and later of the United States, stationed in Iceland influenced the local culture.

Hans Morgenthau has warned that great powers do not allow a weak ally to be involved in decision-making processes (Handel 1981). Weak states also manipulate a great power in the direction of their own interests. Weak states are assured protection or material aid in time of need, but have to render services which limit its freedom of action and decisions on various international issues. In international situation, there are an informal relations existing between patrons and clients. For example, India has tried to exert political and economic pressure to make Nepal its client, leveraging the fact that Nepal's transit trade is through India and 90 percent of its foreign trade is with India (Upreti 2001: 5). Therefore, on several occasions, the government of Nepal is forced to New Delhi's advice. Even on matters of establishing diplomatic relations with China, Nepal has followed Indian advice and regulated its diplomatic relations through the Indian embassy (Khadka 1997: 32).

### **Nepal as a Buffer State**

During the colonial period, Tibet was an autonomous region which was free from China's control. As British power extended beyond the Himalayas, Tibet played the role of a buffer (Ghoble 1985). With China's occupation on Tibet, Tibet ceased to serve the role of a buffer. The extension of the Chinese frontier to Nepal has made Nepal a buffer state between India and the Tibet region of China.

British India had maintained several buffer states along its frontiers in order to ward off threats from Russia and China. Being a buffer state, Nepal could maintain its independence. Even after the end of Empires, the term 'Buffer States' was used extensively for Nepal to denote equal friendship with both India and China. Nepal's Prime Minister Tanka Prasad Acharya reiterated Nepal's intention to serve as a 'buffer' between China and India. According to him: 'Nepal feels very happy to be between the two great and most progressive republics in Asia – China and India' (Ray 1967: 831).

India's stand is that it does not believe in the 'buffer state theory'. However India wants Nepal to maintain a special relationship, which would limit the nature and scope of Nepal's ties with China. Psychologically, India would feel that by rejecting Nepal's status as a 'buffer state', it

could maintain its sphere of influence by either excluding or neutralising Chinese influence in Nepal. However as a buffer state, Nepal has adopted a balanced approach in its foreign relations with China and India.

### **Objectives of Nepal's Foreign Policy**

A country's foreign policy is influenced by internal and external factors. Nepal is no exception (Reynold 1971). Nepal's internal factors such as geography, history, economy, and political and socio-cultural traditions, are the major determinants of Nepal's foreign policy. The other dimensions of Nepal's foreign policy are 'security, stability and status' (Muni 1973: 34). Security implies autonomy in decision-making and the assurance of territorial integrity against external aggression. Stability has two features: stability of the domestic power structure and the stability through economic development. Status pertains to a psychological assurance of good standing in the comity of nations. Given its long isolation from the outside world and heavy dependence upon India, Nepal is still searching for its own identity in international politics. In terms of its foreign policy principles, Nepal is guided by *Panchsheel*, adherence to non-alignment, and faith in the UN Charter (Mishra 1992: 12).

### **Foreign Policy of Nepal**

The major determinants of Nepal's foreign policy as stated by Muni (1973) are geopolitical factors, socio-cultural legacy, nationalism, and the post war international milieu. He flags two interesting ideas. One is the Nepalese metaphor of a '*tarul*', a root vegetable between two big stones. The other comes from David Vital's *Inequality of States*. Vital argues that smaller states are vulnerable in their relations with bigger neighbours and that the bigger states are sources of 'coercion'. The utility of the concept of '*tarul*' is limited to Nepal's relation with its two big neighbours, namely India and China, and does not explain its relations with the outside world. Agarwal et al. (1985) explain Nepal's stand on the Non Alignment Policy and its concept of the Zone of Peace for securing its foreign policy goals. They also deal with Nepal's policy on regional cooperation. Khanal (1998), a Nepalese diplomat, examines Nepal's relations from his personal experiences and explains Nepal's foreign relations with both its

neighbours, with the United Nations, as well with other powers such as the United States and the former Soviet Union.

Rose (1971) examines Nepal's foreign policy and its geopolitics from a historical perspective. He explains the problems encountered by Nepal, both internally and externally, and Kathmandu's reaction to them. He also emphasises that Nepal's most formidable problems in the implementation and formulation of its foreign policy were from neighbouring powers, such as the British East India Company, the dominant power, and the steady rise of Chinese presence in Tibet.

The basic contours of Nepalese foreign policy on maintaining equal friendly relationship with her two immediate neighbours can be traced to King Prithivi Narayan Shah, the founder of modern Nepal. Placed, as it were, "like a yam between two stones", Nepal's paramount foreign policy goal was to safeguard its sovereignty and independence. "Maintain friendly relations with the emperor of China. Great friendship should also be maintained with the emperor beyond the southern sea (ie The British)", Prithivi Narayan advised. This geographical reality has been one of the major concerns implicit in Nepalese foreign policy objectives. To Nepal, non-alignment is not a historical imperative but a contingent need.

According to the Nepalese Ministry of Foreign Affairs (MoFA), the fundamental objectives of the country's foreign policy are to enhance the dignity of Nepal in the international arena by maintaining the sovereignty, integrity and independence of the country. These objectives, according to MoFA, are guided by an abiding faith in the United Nations and in the policy of nonalignment.<sup>3</sup> The basic principles guiding foreign policy, as stated by the Ministry, are mutual respect for each other's territorial integrity and sovereignty, non-interference in each other's internal affairs, respect for mutual equality, non-aggression, and the peaceful settlement of disputes and cooperation for mutual benefit.

Nayak argues that the Tibet issue, which is China's major security concern, has become a major determinant of Chinese foreign policy towards Nepal ever since Nepalese territory was used by Tibetan Khampa rebels in 1959. Until the abolition of the monarchy in 2008 by the Communist Party of Nepal (Maoists), China supported the palace for political stability in Nepal and adopted a soft approach towards

the country by offering periodic economic assistance. Chinese support for the monarchy also came from Beijing's perception that Nepalese democratic forces and political parties were under Indian influence. Moreover political parties in power would not act against Tibetans in Nepal. China's policy of maximising its influence on the king had also benefited it in the past, evidenced by developments such as the reopening and closing of the Dalai Lama's office in Kathmandu and the attitude of the Nepalese authorities towards Non-Governmental Organisations (NGOs) supportive of the Dalai Lama. Fearing the spill-over of democratic movements of Nepal to Tibet, China has always discouraged such movements in Nepal (Nayak 2009).

China is equally worried about Nepal being used by other powers to challenge Beijing's strategic interests. Chinese security analysts argue that Nepal is part of the United States' strategy of encircling China (Adam 2005). During the 1960s, there were several demonstrations in Kathmandu as well as in Tibet by Tibetan separatists who had bases in Nepal. Thus, China views external engagement in Nepal with suspicion. The Chinese Ambassador Zheng Xianling has said that foreign forces were actively engaged in instigating anti-China activities in Nepal.

China has always adopted a pro-establishment policy towards Nepal, which highlights three policy determinants. First, the relationship is based on the Five Principles, or *Panchsheel*. Second, China would not intervene in Nepal's domestic politics. Third, it expects Nepal's support on issues concerning China's sovereignty and national interests, including on Tibet, Taiwan, and human rights.

The palace had adopted a close relationship with China in order to counter Indian influence as India was perceived to have close relations with Nepalese democratic forces. The anti-Indian King Mahendra, effectively played the 'China card' during the 1950s and 1960s to counter Indian influence. Gyanendra's open support for China's entry into the South Asian Association for Regional Cooperation's (SAARC) thirteenth summit in Dhaka as an observer reinforced the palace's proximity to China. Moreover, Gyanendra indicated at the Dhaka summit that Nepal would veto Afghanistan's entry into SAARC unless China was simultaneously invited as an observer (Kharel 2005).

The abolition of the 240-year-old monarchy put China in a dilemma. It lost a credible and dependable partner when Nepal became a republic. Following the abolition of the monarchy, China began to develop its relations with the Maoists and other political parties to serve its interests in Nepal. The Maoists in Nepal also looked towards China with sympathy due to ideological affinities (Nayak 2009). Prachanda, the top CPN-Maoist leader, refused permission for a representative office of the Dalai Lama in Kathmandu and stated that his party would not 'condone any action that could displease China' (*The Hindustan Times*, New Delhi, 16 October 2007).

Beijing also sought to minimize anti-China activities and the influence of external forces in border regions by proposing to undertake infrastructure development projects in the northern districts of Nepal. Significantly, the Communist Party of Nepal-Maoist (CPN-Maoists), in their election manifesto, promised to set up eight new national highways linking Nepal to China (Communist Party of Nepal-Maoist, 2008 CA Election Manifesto: 21).

### **Strategic Location of Nepal**

Nepal is a landlocked country situated on the southern slopes of the Himalayas. The Himalayas separate its entire 500-mile-long northern border with the Tibet Autonomous Region (TAR) of China. Tibet occupies a unique position in the Himalayan region. It is a huge plateau situated to the north of the main Himalayan range. From there the great rivers of Asia such as the Brahmaputra, the Indus, the Salween, the Mekong, the Yellow and the Yangste have originated. India, China and Russia also meet at the same Himalayan axis.

There are about eighteen passes in the central Himalayan range that can be used as channels of communication between trans-Himalayan migrants to Nepalese valleys, and the Nepalese and the Chinese armies. The Kuti and Kerong passes are the most accessible passes (Ghoble 1986: 36) because they are low in the Himalayas (13,000 to 14,000 ft) and are usually not totally impassable in winter. Nepal's objective was to establish its authority over the Kirong and Kuti areas. This was a failure and the passes were captured by the Tibetan and Chinese armies in 1792 (Upreti 2001). The Kathmandu-Kodari road was built with Chinese assistance

which connected Nepal with Tibet through the Kuti pass. These two passes are controlled by the Chinese which provides them a strategic position. Other passes in the central Himalayas are more than 17,000 feet and they are covered with snow for several months of the years. They have limited utility for trade and are strategically not very important, but they are used by local inhabitants.

Nepal is characterized by two dominant topographical features. There are three parallel mountain ranges: the Himalayas, the Mahabharat, and the Siwalik lie along the east-west axis (Rose 1971: 40). The three major river systems of the Kamal, the Gandaki and the Koshi cut through them vertically. The vertical flow of these rivers, their deep gorges and the rugged traverse ridges make communications between eastern and western Nepal difficult. These regions are more accessible from India rather than from Kathmandu. Due to such geography, Nepal's economy is heavily depended on India.

Nepal's mountain range constitutes eighty-five percent of the country's total land mass. The rest forms a strip of marshy tract, ranging in width from sixteen to twenty miles, called the Terai. The Terai extends along a long section the India-Nepalese border (Ghosh 2005). From a geographical and cultural perspective, the Terai is an extension of the Indo-Gangetic plains. The Terai is the most developed region of Nepal and yields approximately seventy-five percent of the state revenue, because of its easy access to the Indian market and owing to the presence of a large number of industries. Kolkata in eastern India is the nearest port, from where nearly ninety-five percent of Nepalese trade is regulated.

An attack on Nepal by China can be extended further south into India. But an invasion of that order is precluded because of the long distances and the difficult terrain of the Gobi desert, Tibet and the Himalayas (Ramakant 1988). The Chinese military expedition of 1789-92 faced serious difficulties and the Chinese have since avoided any involvement in trans-Himalayan adventures. Chinese troops unilaterally withdrew from the North Eastern Frontier Agency of India following the Sino-Indian War of 1962, because they were unable to maintain supplies (Rose 1971).

Nepal does not have a large defence establishment and has sought its security against China by maintaining friendly relations. To ensure its

security Nepal has signed a boundary treaty, the five principles of peaceful coexistence, and the treaty of peace and friendship with China (Bhasin 1994). From a political point of view, China assumes great importance for Nepal. Nepal's geographical location makes China the only possible alternative to India. Nepal can incline towards its northern neighbour in order to reduce its dependence on India. Nepal has also sought Chinese assistance for its economic development. Nepal at the same time knows that India alone can play a decisive role in its national development. That is why it has not aimed at bringing in China as a substitute for India. Rather, its objective is to use China as a corrective to India's attitude (Ramakant 1973).

### **Security Concerns**

Border security is the basis of the territorial integrity of a nation. Nepal shares a long border with China and India. The national interest of Nepal and of China is to maintain peace and stability on the border by means of mutual trust and friendship. As an independent country, Nepal's national interest is to defend its territorial integrity, safeguard political independence and strengthen its economic system (Muni 1968: 33). For the fulfilment of the first two tasks, Nepal has to strengthen its military strength. This could have been achieved either by mobilising its Gurkha troops or by external means such as a joint defence policy with India or by entering into defence treaties like South East Asian Treaty Organisations (SEATO) or Central East Asian Treaty Organisations (CENTO). However Nepal's alternative to a military build up was the policy of non-alignment, not only with the Cold War power blocs, but also with neighbours. As Nepal has a minimal military strength, it has no other alternative but to maintain friendship and understanding with China. The policy of friendship, understanding and peace could facilitate Nepal's aims of attaining rapid economic progress. As Nepal could not achieve economic development on its own it sought assistance from other countries.

Nepal's foreign policy is based on security, prosperity and survival of a small independent nation by projecting its identity (Lohini 2001). Nepal has assured that it would not allow anti-Chinese activities on its soil. China's objective is to gain the goodwill of Nepal in order to stabilise its position

in Tibet (Shashibhusan 1989: 79). The Chinese have reciprocated, with Ambassador to Nepal Zhuang Jinhuan stating that: 'Nepal-China relations can be characterized by mutual respect, trust and friendly cooperation on the basis of which both the countries treat each other as equal' (Bhasin 2005).

For Nepal, China and India are the important players in the context of analysing regional security (Subedi 2005: 23-25). China and India share several border regions which served as theatres for military confrontation against each other. There has been no need to extend hostilities to Nepal; even during the 1962 war, both countries stayed clear of Nepalese soil. The development of long-range missiles and nuclear capabilities by both Beijing and New Delhi, have in some ways made a land border redundant in case of a war. Nevertheless, Nepal has been apprehensive of threats from the north, especially in the wake of the Tibetan rebellion. In order to meet the Chinese threat, Nepal took a neutral stand between India and China. King Mahendra in his address to the Nepalese parliament on 24 July 1959 did not mention any threat to his country from China and expressed his government's resolve to develop a neutral policy towards them (Dharamdasani 2005: 37).

Since Nepal is vital to India's strategic and defence planning, India would resist Chinese influence there (Rose 1971). Any attempt by China and India to expand strategic bases in Nepal may create regional tension and Nepal has carefully avoided this situation. New Delhi is responsible for Nepal's 500 mile border with China, but Indian armed forces deployed along the Sino-Indian border. "India's security is tied up with Nepal in a way China is not, while an Indian presence in the Kingdom cannot threaten China's security. The Nepal-China border is demarcated by the mountain but there is no natural barrier of any kind on the India-Nepal frontier." (*ibid*).

The Indian defence of Nepal implies defence against China. Nepal has no military threat to its independence from the major powers. The Chinese threat was of a politico-military nature. To challenge the military threat, Nepal has a defence arrangement with India under the 1950 treaty. In order to avoid political interference, Nepal followed the principle of non-interference in the internal affairs of any country. Nepal adopted this principle with China under the five principles of peaceful co-existence

in 1956 (Muni 1969). Nevertheless, fears of Chinese expansionism and a repeat of 1792 Remain, leading it to be assured of India's assistance in case of Chinese aggression in the future (Rose 1971). This provision is included in the Indo-Nepalese Treaty of peace and friendship.

Chinese experts in Nepal say that, "China has no separate policy towards Nepal but sees Nepal through New Delhi's eyes after the 1990 political changes and consequently does not want to cultivate bilateralism at the cost of India" (Dahal 2000:18). China had no separate security interest in Nepal, except not allowing Nepal's soil to be used for the Tibetan independence movement and, wants peace in the trans-Himalayan belt.

### **Role of Geopolitics**

Relations between India and China have been characterised by a "persistent mutual trust deficit" (Singh 2011). China is more powerful than India in economic and diplomatic terms and challenges India's predominance in its neighbourhood. Since 2004, China has enhanced economic relations with most of the South Asian countries and the volume of trade with Nepal, Bangladesh, Pakistan, and Sri Lanka has increased rapidly (Sahoo 2010). China's entry into SAARC as an observer in 2005, with the support of most of member states, has enabled it to engage with South Asia through a multilateral mechanism (Pant 2010). There is an asymmetric relation between China and India, despite both being economic giants. India is concerned about the expansion of Chinese influence into South Asia, which has been historically India's sphere of influence.

Nepal's position has become more strategically significant with the rise of China. Situated between the two regional powers who aspire to become global powers, Nepal can become a flash-point of geopolitical competition between a rising China and a defensive India. "[The] ongoing political paralysis in Nepal... [has] created the ideal conditions for Beijing to increase its leverage and influence over Nepal" (Sakhuja 2011).

Counter to this theory is the argument that China and India share a strong interest in their own economic development and do not wish to jeopardise their current growth trajectories, nor want to undermine their lucrative bilateral trade. China was India's largest trading partner in 2008, and trade between the two countries has risen dramatically from USD 1

billion in 1994 to USD 61 billion in 2010. According to this view, the main driver of China-India relations is a mutual interest in economic growth and this will safeguard the region against a confrontation between them. Nevertheless, the unprecedented economic growth has not cemented stability in the political relationship (Holslang 2010). Nepal's role is also related to wider geopolitical dynamics beyond South Asia. There are diverse perspectives on these dynamics. Some argue that the US seeks to strengthen its alliance with India in order to contain China, a goal which underlies its engagement in Pakistan and Afghanistan, and which informs US policy towards Nepal (Friedman 2010).

Others opine that China supports Pakistan to keep India tied down in South Asia, leaving Beijing free to expand its access and influence more broadly across the Asian continent, including in Nepal (Subrahmanyam 2010). However, the significance of Nepal for either China or India should not be overrated. While New Delhi sees Nepal a foreign policy priority to some extent, Kathmandu does not feature much in Chinese foreign policy debates (Campbell 2012: 14). This has led to a view that “both countries have bigger fish to fry”, and will prioritise their relationship with each other over their relationship with Kathmandu (*ibid*).

However, it is worth pointing out that both China and India are increasingly using multilateral structures to facilitate bilateral relations. Both have an interest in reforming the international diplomatic architecture, which they consider to be West-led. Hence the emergence of new configurations of ‘rising powers’, including the China-India-Russia strategic triangle and the BRICS (Brazil, Russia, India, China and South Africa) grouping. China is also increasingly engaging with SAARC, where India predominates; while India has observer status in the Shanghai Cooperation Organisation, which China dominates. These various multilateral frameworks may provide a framework for strengthening understanding and mutual trust, including over Nepal.

It becomes clear that Sino-Indian relations have a significant effect upon geopolitics in the South Asia region, and thus upon peace and stability in Nepal. Some degree of competition between the two rising powers is inevitable, though historical rivalries have been managed thus far, and the hope is that shared economic interests will outweigh geopolitical rivalry

(*ibid*). The great power game between China and India is not played out in a vacuum, and a number of other international actors are also engaged in minor roles.

China does not have a development agenda per se that is comparable to that of Western donors, but its engagement in Nepal and other developing countries is based on several core principles. These principles reflect China's own development experience and history of engagement with other states. A central principle that guides much of China's foreign policy is that of respecting the sovereignty of all states. China's position is that it will not intervene or seek to influence the domestic affairs of any country since these are the exclusive concern of the national government. This is generally referred to as China's policy of 'non-interference'. Thus, when the current Chinese Ambassador in Kathmandu took up his post, he reassured Nepal that "China will never deviate from its policy of non-interference in the internal matters of Nepal" (Singh 2011). Following this, China's position is that the support it gives to developing countries is not conditional on political or economic reforms, improvements in governance or the protection of human rights – a position which clearly differs from that of many Western donors.

In addition to the importance it ascribes to sovereignty and non-interference, another key principle of China's engagement in developing countries is that of mutual benefit. China is not squeamish about advancing its economic self-interest even as it contributes to the development of other countries. It is open about the economic rationale for its engagement in the developing world. An important driver is the so called 'Going Out' policy, which aims to sustain high levels of economic growth within China through global engagement, especially in new developing country markets such as Nepal.

In addition to these general principles that underpin China's relations with developing countries, its engagement in Nepal is informed by a variety of context-specific interests and motives. In this section of the paper we explore three main areas of China's interest in Nepal: stability, economic development and geopolitics.

### **Role of International Actors**

Nepal receives relatively high levels of international attention and aid

and it has been referred to as the “darling of Western donors”. The major multilateral donors are the Asian Development Bank and the World Bank, while the largest bilateral donors are Japan (USD 105 million), the UK (USD 101 million) and the US (USD 76 million).<sup>4</sup> In March 2011 the UK Department for International Development (DFID) announced that it would increase aid to Nepal from USD 91 million in 2010/11 to USD 165 million by 2014/15 (DFID, 2011). USAID's spending in Nepal has also increased almost fourfold since 2002 (USAID Nepal, 2013). In comparison, the amount of grant-aid China gives to Nepal is relatively small, amounting to 150 million renminbi (RMB) (approximately USD 23 million).

The increase in Western spending in Nepal reflects in part an increasing appreciation among Western donors of the connection between security and development and of the need for higher levels of support to be provided in contexts that are fragile and conflict-affected, such as in Nepal. A substantial part of Western aid to Nepal is allocated towards consolidating the peace process and in helping Nepal transition out of the post-conflict phase and become a more stable and democratic state. This includes support for constitutional development, integration, security sector reform, election processes and local governance. Other major areas of support from Western donors to Nepal include health, water and sanitation and climate change adaptation.

Western donors are considered to have used the leverage of their aid, and accompanying conditionalities, to good effect in helping to bring about a negotiated end to Nepal's civil war in 2006 (Campbell 2012: 15). However, there is now a perception that the Government of Nepal takes Western aid for granted and judges it unlikely that the tap will really be turned off (*ibid*). Western donors have been criticised for “proposing vague conditionalities that will not be followed through” (Campbell 2012); whereas Chinese or Indian threats to stop support are taken more seriously. Thus, the implicit conditionality of support from Beijing and New Delhi appears to be more effective than the explicit conditionalities of Western donors.

These trends relate to criticisms of Western donors' methods of in Nepal operating. Some Nepalese have expressed growing resentment in recent

years about the approach taken by Western donors and their perceived proxies, the INGOs. There is a perception among some in Kathmandu that much of Western aid ends up in the pockets of Western NGOs and consultants, with little benefit to the Nepali people (*ibid*). This has led to concerns among Western NGOs in Nepal that such sentiments may culminate in the sort of antipathy towards Western NGOs and donors that is evident in Sri Lanka. Meanwhile, according to some donor sources, it is becoming harder to spend funds efficiently and effectively, while a lack of co-ordination between Western donors and the government regarding the deployment of funds has led to a souring of the relationship between the two.

It is important to bear in mind that for all international actors, just as for China, aid represents part of the picture of their engagement in Nepal but not the totality. The particular security concerns and strategic interests of India have already been touched upon, but Western actors too have interests in addition to the provision of development assistance through aid. These interests include commercial ties, trade, tourism and military co-operation. The UK Government for instance, has a special relationship with Nepal through the Gurkha soldiers, 3,500 of whom currently serve in the British Army and play a full part in its operational deployments, including in Afghanistan.<sup>5</sup> These interests have a significant bearing on Western engagement in Nepal and potentially also on conflict dynamics.

It is furthermore recognised that for Western governments, as for Beijing, there may be a certain dissonance between stated policies of engagement in Nepal and actual practice. One could argue that China does in fact impose conditionalities on its support to Nepal as it is effectively contingent on Nepal's support for the 'One China policy' and on co-operation in control of Tibetan activists. But, one could equally argue that concerns about human rights abuses expressed by some Western governments are mainly rhetorical, and that policies are rather shaped by *realpolitik* (Campbell 2012: 16).

## References

- 2008 *CA Election Manifesto*, Communist Party of Nepal-Maoist  
Agarwal, Govind R., et al. (1985), *Fundamentals of Nepalese Foreign Policy*, Kathmandu: Centre for Economic Development and Administration, Tribhuvan University.

- Allen, Sir C. (1980), *Bureaucratic Organizations for Development in Small Island States*, in R. T. Shand (ed.), *The Island States of the Pacific and Indian Oceans: Anatomy of Development*, Canberra: Australian National University Development Studies Center.
- Bhasin, A. S. (2005), *Documents on Nepal- India, Nepal-China Relations*, (1947-2005), Vol. 1-5, New Delhi: Geetika Publishers.
- Bhasin, A. S. (1994), *Documents on Nepal's Relations with India and China*, Delhi: Siba Exim Pvt. Ltd.
- Blair, P. W. (1967), *The Ministate Dilemma*, New York: Carnegie Endowment for International Peace.
- Campbell, Ivan (2012), *China and Conflict-affected States between Principle and Pragmatism*, London: Saferworld.
- Dahal, Ram Kumar (2000), "Review of Nepal-India Relations: Issues and Challenges (1950-1990)", *Policy Study Series*, Kathmandu: Institute of Foreign Affairs.
- Dharamdasani, M. D. (2005), *Nepal's Foreign Policies, Some Reflections*, Varanasi: Centre For the Study of Nepal
- Diggines, C. E. (1985), "The Problems of Small States", *The Round Table: The Commonwealth Journal of International Affairs*, 295: 191-205.
- Dommen, E. and Hein, P. (1985), *States, Microstates and Islands*, London: Croom Eelm.
- Doyle, Michael W. (1997), *Ways of War and Peace*. New York: W.W. Norton.
- Fox, Annette B. (1959), *The Power of Small States: Diplomacy in World War II*, Chicago: University of Chicago Press.
- Ghoble, T. R (1985), *China-Nepal Relations and India*, New Delhi: Deep and Deep Publications.
- Ghosh, Anjali (2005), *Nepal, Problems of Self-assertion, Year Book, India and Neighbours*, New Delhi: Contemporary News and Features.
- Handel, Michael (1981), *Weak states in International System*, England: Frank Eass and Company Ltd.
- Harden, S. (1985), *Small is Dangerous: Micro States in a Macro World*, London: Francis Pinter Publishers.
- Hermann, Ricardo. K. (1984), "Perceptions and Foreign Policy Analysis", in Donald A. Sylvan and Steve Chan, *Foreign Policy Decision Making, Perceptions, Cognition and Artificial Intelligence*, New York: Prager.
- Holslag, J. (2010), *China and India: Prospects for Peace*, New York: Columbia University Press.
- Jalan, B. (1982), (ed.), *Problems and Policies in Small Economies*, London: Croom Helm.
- Keohane, Robert O. (1969), "Lilliputian's Dilemmas: Small States in International Politics", *International Organization*, 23: 291-310.
- Khadka, Narayan (1997), *Foreign Aid and Foreign Policy: Major Powers and Nepal*, New Delhi: Vikas Publishing House.
- Kumar, Mahendra (1978), *Theoretical Aspects of International Politics*, Delhi: Shiva Lal Agarwal and Company.
- Lebow, R. G (2009), *A Cultural Theory of International Relations*, Cambridge: Cambridge University Press.

- Lentner, Howard H. (1974), *Foreign Policy Analysis: A Comparative and Conceptual Approach*, Ohio: Charles E. Merrill Publishing Company.
- Lohini, Prakash Chandra (2001), "A Perspective on Nepal-China Relations", *South Asian Journal*, August 2001.
- Lovell, John P. (1970), *Foreign Policy in Perspective, Strategy, Adaptation, Decision Making*, New York: Holt, Rinehart and Winston, Inc.
- Macridis, Roy (1989), *Foreign Policy in World Politics, States and Regions*, 7<sup>th</sup> edition, London: Prentice Hall.
- Macridis, Roy C. (1972), (ed.), *Foreign Policy in World Politics*, London: Prentice-Hall International Inc.
- Mishra, Navin (1992), *Nepal and the United Nations*, New Delhi: Janaki Prakashan.
- Misra, H. N. (1988), *Bhutan Problems and Policies*, New Delhi: Heritage Publishers.
- Modelski, George (1962), *A Theory of Foreign Policy*, London: Pall Mall Press.
- Morganthau, Hans J. (1949), *Politics among Nations: The Struggle for Power and Peace*, Fifth Edition 1978, New York: McGraw Hill.
- Muni, S D (1968), "Sino-Nepalese Relations: Two troubled years 1957-60", *South Asian Studies*, 3 (1).
- Muni, S D (1969), "Sino-Nepalese Relations 1955-77", *United Asia*, 21 (3).
- Muni, S. D. (1973), *Foreign Policy of Nepal*, New Delhi: National Publishing House.
- Nayak, Nihar (2009), "Involvement of Major Powers in Nepal since the 1990s: Implications for India," *Strategic Analysis*, 33 (1): 41-53.
- Neumann, Iver B. Neumann and Gsthol, Sifglinde (2006), "Lilliputians in Gulliver's World?", Ingebritsen, Christine and Neumann, I. B. (eds.) (2006), *Small states in international Relations*, University of Washington Press, pp.3-38
- Plischke, E. (1977), *Micro-states in World Affairs: Policy Problems and Options*, Washington DC: American Enterprise Institute for Public Policy Research.
- Prasad, Shashi Bhusan (1989), *The China Factor in Indo-Nepalese Relations 1955-72*, New Delhi: Commonwealth Publishers.
- Rajamohan, C. (1982), "The Superpower relationship and its impact on the developing States" in *Changing Perceptions of International Relations*, New Delhi: Lancer International in association with ICSSR.
- Ramakant (1973), "Geography as a Factor in Nepal's Foreign Policy", *South Asian Studies*, 8 (2): 55-61.
- Ramakant (1988), *China and South Asia*, New Delhi: South Asian Publishers.
- Ray, Hemen (1967), "Communist China's Strategy in the Himalayas: Nepal, a Case Study", *Orbis*, II (3).
- Reiter Dan (2006), "Learning Realism and Alliances: The Weight of the Shadow of the Past", in Ingebritsen, Christine and I.B. Neumann (eds.) (2006), *Small States in International Relations*, University of Washington Press.
- Reynolds, P. A (1971), *An Introduction to International Relations*, Cambridge: Schenkmar Publishing Company, Inc.
- Rogers, John (2007), "The Foreign Policy of Small States: Sweden and the Mosul Crisis, 1924-1925", *Contemporary European History*, 16 Issue 03: 349-369.
- Rose, Leo E (1971), *Nepal Strategy for Survival*, Berkeley: University of California Press.
- Rosenau, James N. (1969), "The Action of States: Theories and Approaches", in

- James N Rosenau (ed.), *International Politics and foreign policy*, (New York: the free press, 1969), p.167
- Rosenau, James N. (1971), *The Scientific Study of Foreign Policy*, London: Collier Macmillan Ltd.
- Rothstein, Robert L. (1968), *Alliances and Small Powers*, New York: Columbia University Press.
- Ruggie, J.G. (1998), "What Makes the World Hang Together? Neo-utilitarianism and the Social Constructivist Challenge", *International Organization (CUP)*, 52 (4): 855.
- Sakhuja, V. (2011), "China's Strategic Advantage in Nepal", *China Brief*, 11 (11).
- Schroeder, Paul (1994), Historical Reality vs. Neo-realist Theory. *International Security* 19(1), 108–148.
- Schweller, Randall (2006), *Unanswered Threats: Political Constraints on the Balance of Power*, Princeton: Princeton University Press.
- Singer, Marshall R. (1972), *Weak States in a World of Powers*, London: The Free Press, Collier Macmillan Ltd.
- Singh, S. (2011), "Paradigm Shift in India-China Relations: From Bilateralism to Multilateralism", *Journal of International Affairs*, 64 (2).
- Subedi, Surya P. (2005), *Dynamics of Foreign Policy and Law, A Study of Indo-Nepal Relations*, New Delhi: Oxford University Press.
- Swain, Nicholas David (1991), *The Foreign Policy of Small States*, MA Thesis, Hong Kong: The University of Hong Kong.
- Upreti, B.C. (2001), *Uneasy Friends: Readings on Indo-Nepal Relations*, New Delhi: Kalyan Publications.
- Vital, David (1967), *The Equality of States: A Study of the Small Power in International Relations*, Oxford: Clarendon Press.
- Walt, Stephen M. (1987), *The Origins of Alliances*, Ithaca, New York: Cornell University Press.
- Waltz, Kenneth N. (1979), *Theory of International Politics*, Reading Mass: Addison-Wesley Publication Co.
- Wendt, Alexander (1992), "Anarchy is What States Make of It: The Social Construction of Power Politics", *International Organization*, 46:2.
- Brad Adams, (2005), "Nepal at the Precipice", [Online Web] URL: <http://www.foreignaffairs.com/articles/61027/brad-adams/nepal-at-the-precipice>
- Friedman T L, "Containment-lite", *New York Times*, 9 November 2010, [Online: Web] Accessed 18 October 2013 URL: [www.nytimes.com/2010/11/10/opinion/10friedman.html](http://www.nytimes.com/2010/11/10/opinion/10friedman.html)
- Kharel, P (2005), "Re-energising Nepal's Foreign Policy—Back To Business—After 15 Years", *News Blaze*, November 28, 2005, [Online: web] Accessed 10 April 2010, URL: <http://www.newsblaze.com>
- Pant, H. V. (2010), "How China changes SAARC", *Livemint*, 28 April 2010 [Online: Web] Accessed 4 October 2013, URL: [www.livemint.com/2010/04/28210010/How-Chinachanges-Saarc.html?d=1](http://www.livemint.com/2010/04/28210010/How-Chinachanges-Saarc.html?d=1)
- Sahoo, P. (2010), "China's growing clout in South Asia", *The Hindu*, 16 November 2010, [Online: Web], Accessed 4 October 2013 URL: [www.thehindubusinessline.com/todayspaper/tp-opinion/article1009332.ece](http://www.thehindubusinessline.com/todayspaper/tp-opinion/article1009332.ece)

Subrahmanyam, K. (2010), "The great China-Pak nuclear nexus", *Times of India*, 21 June 2010, [Online: Web] Accessed 18 October 2013, URL: [articles.timesofindia.indiatimes.com/2010-06-21/india/28309082\\_1\\_nsg-exemption-china-pak-nuclear-reactors](http://articles.timesofindia.indiatimes.com/2010-06-21/india/28309082_1_nsg-exemption-china-pak-nuclear-reactors)

## Endnotes

1. "Foreign Policy", [Online: web] Accessed 12 October 2013, URL: [http://faculty.ucc.edu/egh-damerow/foreign\\_policy.htm](http://faculty.ucc.edu/egh-damerow/foreign_policy.htm).
2. I want to thank my friend Dr. Vineet Thakur for this concept.
3. Ministry of Foreign Affairs, Government of Nepal, "Nepal's Foreign Policy", [Online: web] Accessed 19 October 2013, URL: <http://www.mofa.gov.np/en/nepals-foreign-policy-24.html>.
4. DFID (2011), UK Department for International Development, "*Bilateral aid review: Technical Report*", (March 2011).
5. Speech by the British Ambassador to Nepal, Andy Sparkes CMG on "Two Hundred Year of Nepal-Britain Relations: A Way Forward" [Online: web] Accessed 12 March 2014, URL: <https://www.gov.uk/government/speeches/two-hundred-years-of-nepal-britain-relations-a-way-forward>.

# 2

## Nepal's Foreign Policy in Quest of Identity

Vivek Kumar Srivastava

### **Abstract**

Nepal, since its inception in modern time has followed a restricted foreign policy. This has caused certain amount of resentment about India among the foreign policy decision maker in Nepal. This has also been exploited by some groups which emphasize that Nepal should exhibit more active impression in the global affairs. The perception that Nepal has become more active in the global affairs in recent time is not correct in absolute terms as it has explored several options to express itself in the global affairs. It has also devised a special type of foreign policy functional paradigm in which it aims to balance two of its neighbours, India and China.

Moreover, it has worked over to express itself at the world level in a systematic manner. Although the objective of its foreign policy has remained unattended at the research level, a critical study reveals that it is in search to discover its own unique identity in the world stage. This objective is one of the most important objectives of its foreign policy which requires new study models.

The chapter is aimed to find out this particular aspect of its foreign policy. The proposed chapter will also attempt to identify its behavior with respect to region of South Asia and its specific model to deal India and China. This effort of Nepal's foreign policy can be termed

as quest of identity. This quest is continuous effort and has gained impetus in the recent time, and is likely to affect the regional milieu and its relations with India in particular. For this work historical-analytical methodology is used.

## **Introduction**

No country in the world can ever exist without a well crafted and well formulated foreign policy. As in the words of the neo realists the world is full of anarchy, and in realist perspective interests defined in terms of power establish a complex world in which the task of framing a successful foreign policy become a crucial task.

Even a country may believe in the peace approach to the global affairs but it cannot exert its peace agenda unless it has strength not only to protect itself but also ability to defend its proposed peace model for the global issues. Moreover, no country can live in isolation. It will have to interact with other nation states, which are equally sovereign. Hence the foreign policy activism is not only a necessary tool for every nation state for safeguarding its interests but also the most important operational and philosophical edifice on which it bases its growth, influence and imposes its ideas in the world.

Foreign policy making is quite complex task as it demands inwardly located processing structure; but aims to external world where its objective is subject to several conditions. With such restrictions, foreign policy making is done and operationalised in a consistent manner without any rest. It is all time affair with multiple aspects. Therefore, it's making, places complex realities to decision makers.

Nepal is not exception to such realities. It has faced these issues more than others due to its unique geographical location in South Asia. Its unique location has put it in between two major giants of Asia. Its geographical location has also limited its operation beyond a certain stage as it lacks an ocean, a component for every nation state to transform itself into a global power. Hence Nepal needs a transit link for its outside movement mainly in its trade-commerce and transit movement. Besides, its topography also limits its effort towards resource development and the resource mobilization. These limitations condition it to depend on the adjoining country.

Historically, Nepal has remained a monarchy for a long period of time. Consequently the democracy supported decision making structure in the foreign policy played almost no role most of the time. Monarchy believed that its foreign policy should be supportive of the regime survival and the national interests were sometime subordinated to a lower position. Its fear, from a democratic country, particularly India, that it may infuse the democratic elements inside the country persisted as a lasting fear. This dilemma was compounded more with the signing of 1950 Indo-Nepal Treaty of Peace and Friendship which acted as the major pivot around which Nepal's global activity was largely shaped. These realities hindered Nepal to develop a lasting theoretical model in foreign policy which instead led to a persistent confusion at its decision making level.

In spite of these limitations, Nepal still attempted though in trace manner to express its desire to find out a way for its foreign policy expression. This can be termed as the quest of Nepal to chart an independent path in the foreign affairs; particularly when impact of India-Nepal treaty is taken into account. These small efforts were although quite significant in the backdrop of its political history, geographical location and influence of India and China in multiple manners.

In the present global order nation states including South Asian countries is desirous to play an important role in order to gain the maximum advantages from its neighbours in economic terms particularly after the collapse of the USSR in 1991. Thus, impact of economic interests is visible on the framing of foreign policy of every nation state. Nepal is not an exception; one of its long term goal is to engage both India and China not only in security terms but also in economic sphere. Hence, quest has certain objectives which have been shaped due to impacts from the global dynamics in security – economic domain; its own accepted realities including its location and constraints in the resources and historical-cultural-legal bonding with India and finally identification of its own role in between the India- China geographical domain.

### **Nature of Nepal's Foreign Policy**

A closer scrutiny of the Nepal foreign policy reveals that initially it based itself in uni-dimensional direction in which it treated the directives

of India in its external affairs as quite important. The uni-dimensional orientation in foreign policy has remained a major ingredient of several countries; during the age of cold war satellite countries of the Soviet Union had no other orientation and in the contemporary time the foreign policy of Great Britain rests on uni-dimensional approach due to its almost full subscription to the objectives and ideals of foreign policy of USA. Turkey also followed uni-dimensional approach. Nepal is therefore not an exclusive case of uni-dimensional foreign policy.

Indian influence was caused due to a legal base in the form of bilateral treaty and geographical alignment coupled with shared cultural values and integrated social system. Although this nature of foreign policy was continuously attempted to be altered by Nepal, the external manifestations exhibited a shift but at core uni-dimensional approach remained the same. This trend seems to have been weakening in recent time due to the newly established democratic set up.

### **Security Concerns and Legal Constraints**

The framework of Nepal's foreign policy was oriented towards India due to several factors. Indian British state was also concerned about Nepal's location and status. Hence, India-Nepal relations, since the time of British government, were largely defined by the security considerations. British India had realized that Nepal was an important country with respect to its security considerations due to its adjacent position with China. After independence the psychological understanding of British government was transformed to new government. A realization emerged that Indian interests could be better protected if Himalayan states were tied with India. This understanding culminated in the signing of bilateral treaty. In fact the treaty of peace and friendship was a response to Cold War realities and the fear of an expansionist Maoist China.<sup>1</sup>

This was natural for India to redefine its border security with a friendly country namely Nepal but also kept in mind that a new political set up with expansionist ideological base viz. China was emerging close to it. The 1950 Indo-Nepal Treaty was signed against the backdrop of the impending Chinese invasion of Tibet after the Communists took over the power in 1949. As India considered Nepal to be part of its security perimeter, it was

keen to ensure that its security interests were protected in a new Treaty with Nepal. Under the Treaty, Nepal agreed to depend on India for its security.<sup>2</sup>

Nepal was thus tied with the Indian interests and it logically accepted that it was its own security which was under threat. Albeit it was Indian analysis that Nepal needs to be controlled allowing no space to it to move towards Chinese sphere of influence. Nepal with this treaty accepted that it would not be involved in any arms, ammunition related import without explicit Indian permission. Thus, India was able to contain Nepal with the provisions of the treaty. The major containment was effected with its potential role in external affairs. Article 2 of the treaty was an important element of defining the relations between both countries. It stated: 'the two Governments hereby undertake to inform each other of any serious friction or misunderstanding with any neighbouring state likely to cause any breach in the friendly relations subsisting between the two Governments'.<sup>3</sup> It suggested that both countries were highly oriented towards each other and were aimed to maintain the strong relationship at any cost. This acceptance allowed India to play an influential role in Nepal.

The provisions this treaty exhibited that both India and Nepal assigned primacy to their relationships and no country could dilute this diplomatic status. India, with the provisions of this treaty maintained a watch on the Nepalese activism with an objective that Nepal should not be so much assertive with the help of any neighbouring country, which could lead to any friction in relationship, thereby adversely affecting Indian security interests. The signing of the treaty and its India centric provisions at operational level restricted the Nepal's foreign policy activism in significant manner.

### **Dichotomy at Government and People Level**

India-Nepal relations are governed by the treaty of 1950 but the relations of the people are more integrated due to geographical proximity and social-cultural sharing which have evolved in historical past. Thus, there are two different platforms of interaction which lead to an emergence of a dichotomy in relationship. This dichotomy has caused serious problems between both countries. In fact, there is confusion in both countries to

reconcile the impact of dichotomy. This has also pushed Nepal to view India not so much as its friendly country and serious reservations and complaints have taken roots in their relationship. A psychological divide between both countries exist. This is manifested when we contrast treaty provisions with interaction at the level of people. As for illustration the treaty placed restriction on Nepal with respect to its arms purchase where consultation with India was made mandatory by article 5 of the treaty. The article read: 'the Government of Nepal shall be free to import, from or through the territory of India, arms, ammunition or warlike material and equipment necessary for the security of Nepal. The procedure for giving effect to this arrangement shall be worked out by the two Governments acting in consultation.'<sup>4</sup> This has hampered Nepal's desires to play an independent role in the security and foreign affairs. The treaty has given a privileged position to India as the treaty firmly draws Nepal into India's security orbit. In effect, India is in a position to manage Nepal's foreign and security affairs. On more than one occasion, India has reminded Nepal of its obligations to consult India on security matters and expressed disapproval whenever it believed that Nepal was attempting to wiggle out of its treaty obligations. It has used the provisions of the treaty to assert its privileges vis-à-vis Nepal.<sup>5</sup> On the other hand different relationship pattern exists at the level of people of both countries. This relationship is unique, fused, since time immemorial and socially integrative.

Thus, there are two different platform of interaction. The treaty reduces trust but people to people interaction creates positive impacts. Such outcomes also lead to emergence of several types of problems. It's one reflection is observed after the implementation of new constitution in 2014. At the government level Nepal wants to move out from the sphere of India and the provisions of new constitution reflect this desire but a large section of society may not subscribe to it.

This dichotomy has caused the emergence of distrust in the relationship between both countries during different phases of their relationship. These complexities have caused some contemporary problems as there are issues like open border, inter-state migrations, politico-strategic concerns, sharing of natural resources, trade and transit, and so on that have often caused constraints and serious deadlocks in the relations between the two countries.<sup>6</sup>

This aspect of relationship has serious impact on the Nepalese foreign policy as it has failed to appreciate the existence of dichotomy with India. Indian government too has faltered on this ground. Hence, any Nepalese effort receives hurdle in its quest for independence in its external affairs. Nepal looks India only in terms of treaty provisions whereas India also looks in the similar terms, but when problems are caused then India starts allocating importance to shared cultural and people to people interactive activities. These approaches have created a wide gulf which can be bridged only with genuine appreciation of the real bases of their relationship.

### **The Quest in Historical Perspective**

Nepal has unique place in South Asia. It is sandwiched in between India and China. Such unique location has also offered it an option to move beyond the sphere of influence of India. The initial one-dimensional nature was adopted due to its location and influence of India. This was quite visible during the time of King Tribhuvan who always acknowledged the role of India with respect to rule of Rana. Although Ranas had pursued an isolationist foreign policy,<sup>7</sup> Nepal under King Tribhuvan, had special relationship with India; as he was indebted to New Delhi for its active support in the overthrow of the Rana regime. Similarly, Nepal was content with its India-centric foreign policy orientation and was not keen on diversification of its diplomatic relations.<sup>8</sup> India was also satisfied with this orientation as it was in consonance to the Indian interests.

King Mahendra ascended the throne in 1955 and this added a new dynamic to the India-Nepal relationship. The new monarch's approach was different from his predecessor's and he pursued a policy to diminish his kingdom's dependence on India. The first visible sign of Nepal to pursue an independent foreign policy was observed when King Mahendra, after assuming the power in 1955, initiated a new foreign policy paradigm in which India was not the only country to be allocated the maximum value but Pakistan and China were targeted to bring on at par with India. This new approach to the Himalayan state's diplomatic relations demanded diversification of friends and allies. He believed that Nepal could not be divorced from the realities of international politics and should pursue an independent foreign policy line.<sup>9</sup>

Consequently diplomatic relations with China and Pakistan were established in 1959. High level visits were organized and Pakistan came in support to Nepal when India criticised its attempt to subvert the democratic sentiments during the dismissal of Koirala government and establishment of Partyless Panchayat system. The nationalist emotions were shaped in the form of anti India rhetoric by the top political leadership of Nepal. Nepal's relations with these countries ascended with the passage of time though there were some negative trends too; as China; during the 1962 war with India did not have much positive perception about Nepal. In spite of these trifling, Nepal succeeded in fashioning a wider canvassed foreign policy. Indian influence was systematically reduced in order to express to the world that Nepal was following an independent foreign policy. As for illustration the security relations with India were deliberately reduced. A serious setback to India's security arrangements was the Nepalese Government's direct demand for the withdrawal of the Indian military liaison group and the Indian technicians from the check posts on Nepal-China border towards the end of the sixties. India, however, conceded the Nepalese demand<sup>10</sup> and on 4<sup>th</sup> September 1969, an agreement concerning the withdrawal of Indian military personnel stationed in Nepal was made between both the countries.<sup>11</sup>

Nepal in the meantime increased intimate relations with China, and the construction of road to Kathmandu was a major development. India did not take in usual course and considered this move as Nepal's acquiescence to China's overall military strategy in South Asia which was a serious threat to India's security interest.<sup>12</sup>

The decade of 1960s also presented Nepal to register its presence at the global level in effective manner. The visit of King Mahendra to USA on 1<sup>st</sup> November 1967 is quite relevant as Nepal and USA not only discussed the issues of the global concern and the tensions in the South Asian region, but also Nepal expounded bases of its foreign policy at the international level when King Mahendra explained that the policy of peaceful co-existence and non-alignment had a continuing validity for Nepal at a time when there were increased tensions in the region itself, besides non proliferation, non interference, establishment of law and order at the global level and international obligations were also elaborated.<sup>13</sup>

King Mahendra thus enlarged the functional scope of Nepal's foreign policy but all these developments remained only efforts not the final attainments of Nepal in the sphere of foreign policy because Nepal was never in a position to deny Indian influence in complete manner which was exhibited in the form of trade, transit and other related matters. In spite of the dependence of Nepal on India on several matters the quest was there albeit unsatisfied. Its marked expression was observed when King Birendra assumed the power.

King Birendra assumed power after Mahendra's death in 1972. His major foreign policy decision was to declare Nepal as a 'Zone of Peace'. The concept of Nepal as a zone of peace was first mooted in 1972 at the non-aligned summit held at Algiers, though it was not taken seriously by the dignitaries who attended it. It was reiterated at the coronation ceremony of King Birendra held in Kathmandu in February 1975. It has since been a vital segment of Nepal's foreign policy and no doubt received added significance after the incorporation of Sikkim, an Indian protectorate, into the Indian Union in 1975.<sup>14</sup>

It was further elaborated when Nepal presented the seven point action plan. Its seven-point action plan (1982) elaborated that: (i). Nepal will adhere to peace, nonalignment, and peaceful coexistence with all. (ii). It will not use force in any way threatening to other countries. (iii). It will seek peaceful settlement of all disputes. (iv). Nepal will not interfere in the internal affairs of other states. (v). It will not permit activities on its soil that are hostile to other states supporting this proposal and seeks reciprocity in this matter. (vi). It will continue to honor its treaty obligations. (vii). It will not enter into military alliance or allow foreign bases and seeks reciprocity in this matter.<sup>15</sup>

Nepal's idea of 'Zone of Peace' was novel idea for the region but the novelty was discovered by Nepal to establish its independence in the external and security matters in the region and particularly with respect to India and China. Its main objective was to remain away from the rivalry of the big powers and to keep out of the politics of nuclear threat which was a reality after the explosion by India on 18 May 1974. It was not welcomed by India as they thought that Nepal had certain other objectives. New Delhi's reckoning the peace zone idea was superfluous since it was already

a zone of peace. India was committed by the 1950 treaty to respect the complete sovereignty, territorial integrity and independence of Nepal.<sup>16</sup>

Nepal, with this diplomatic move, succeeded to attract the international attention. It also presented itself as the independent determinant of its foreign policy. Janata Party government was supported by the politicians having soft corner for the Nepal, hence this issue was delicately handled. In the year 1977, Prime Minister Morarji Desai in response put forward a counter-proposal stating that South Asia be declared as a Region of Peace<sup>17</sup> deflating the Nepalese move. Nepal was given some relaxation as India concluded trade and transit treaties in 1978. The 'Zone of Peace' proposal had alerted the established order. In the meantime Nepal had moved farther by developing close relations with China, not to the liking of India. Indian government in 1989 decided not to renew these treaties. The main reason for India's action was Nepal's decision to purchase anti-aircraft and armored personnel carrier from China without prior consultation with India in violation of the 1950 Treaty.<sup>18</sup> Nepal characterised the Indian action as unfriendly because a sort of economic blockade was imposed by India as prior to the expiration of trade and transit treaties. India had allowed Nepal to use twenty-one trading and fifteen transit points along the stretch of the 1,700 kilometer Nepal-India border. When India closed all but two entry points along the border, it clogged the supply line, creating an acute shortage of several essential commodities.<sup>19</sup>

Although India, during the Janta regime had granted relaxation in the treaty profile due to separate consideration for trade and transit but the trade and transit dispute between Nepal and India was the culmination point of a growing uneasiness with the structure of the bilateral relationship characterised by Nepal's desire for "independence" and India's desire for "control".<sup>20</sup>

The blockade pushed Nepal to rediscover the real projection of its foreign policy. Its approach to place China as a balancer to India had backfired. It had to take more liberal approach towards India. The event caused fissure between India and Nepal but realism overpowered it in its decision-making. Nepal's effort to bring China factor were successfully prevented by India, albeit it had to apply a hard approach with its neighbour but was caused due to India understanding of the entire Nepal-China military

relations as opposed to 1950 treaty, which was real constraint for Nepal to function with an independent foreign policy. The statement of Indian ambassador on the opening of the check post which was closed since 23<sup>rd</sup> March 1989 summed up the unique relations between both countries. He said, "If the people of Nepal suffered economically, I can say the people of India suffered emotionally."<sup>21</sup>

The bond was negated by King Birendra by injecting extraneous elements and adoption of a balancing foreign policy. The trade and transit treaty issue had important repercussion on the political power of the monarchy which was substantially weakened when the discontent of Nepal's people fueled democratic protests for two months, that forced Nepal's King Birendra to sack his hard line government in April and let K.P. Bhattarai take office with a mandate to curb the monarchy's powers and hold multi party elections.<sup>22</sup>

It can be inferred that quest of Nepal was curtailed and it also brought an important political change in the country. The role of treaty as a constraint was evidenced. With the emergence of new political forces, change in the foreign policy of Nepal was observed and its efforts for identity quest were redefined.

The monarchy had its role but the political parties had started to influence the foreign policy more than ever. This led to a significant change in Nepal's effort to establish itself at the external affairs level. Although its 'Zone of Peace' proposal had global recognition, it was still trapped in its fused identity with India which was outcome of cultural and social integration of each other. Nepal had a complex political texture particularly after the abolition of Panchayat system. King was influential but democratic leadership had also come to play a crucial role. Political parties had different orientation towards India. King Birendra had inclined itself a bit towards India and came closer to Rao government but the internal disturbances at the political realms had much impact upon the Nepal's inclination towards India. This created a sort of confusion in Nepal vis-à-vis to India. On the political front, however, the years 1993 and 1994 slowed down the positive momentum of Indo-Nepalese relations. The reason was not any intrusive or assertive action by India, but essentially internal dissensions within the Nepalese Congress, with K.P.

Bhattacharya and Ganesh Man Singh constantly undermining the authority of Koirala, an exercise in which they did not hesitate to use the India card, accusing Koirala of being subject to excessive influence from India. The Communist Party of Nepal-United Marxist Leninist (CPN-UML) and some other opposition parties joined in the exercise.<sup>23</sup>

This development was new for the Nepalese politics and it had its impact on the foreign policy behavior of Nepal. A review of quest shows that the decade of 1980s for Nepal is important for the reason that King Birendra succeeded in projecting Nepal at the international level, engaged with USA, Germany and other European nations, attempted to highlight the 'Zone of Peace' proposal and moved closer to China but a retreat was to be made after 1989 towards India coupled with the increased role of democratic forces and public opinion in the foreign policy making. Although, in post 1990 constitution, King tried to take some power back in his hands, as was not in a mood to accept the role of the limited constitutional monarch but this could not become a reality due to the emergence of new forces in the Nepalese politics.

### **The Quest of Identity in Last Two Decades**

The last two decades are very much important for the Nepalese politics. These years saw influential changes which have almost reordered the political system and governance in Nepal. These changes have also affected its foreign policy activism but the quest for identity still continues. The year of 1996 is of much importance to Nepal for two major reasons; first tilt towards India was reestablished with the signing of the Mahakali treaty and emergence of Maoist movement in the Kingdom. The Maoist movement completely destroyed the influence of monarchy in the country in due course. The killing of King Birendra on 1 June 2001 promoted this development in rapid manner as the new king, Gyanendra failed to contain adverse public opinion against monarchy. These developments had much impact on the foreign policy of Nepal. Primarily, there was a great confusion about the policy makers in Nepal. As King Gyanendra controlled power he attempted to establish the position of monarchy in Nepal and moved towards India. He demanded help from India which was accepted but after few years there was change in Indian approach

to domestic development in Nepal. This phase therefore subverts the genuine foreign policy making by Nepal as monarchy was concentrated to reestablish its power with the help of India which was declined by India, albeit initially India had treated Maoist movement against the political system of the country. Secondly, the ascendance of Maoist party in the kingdom proved crucial in redefining Nepal-India relations; as most of time it took an anti-Indian stand. Since the formation of political alliance in 2003, the domestic problems grew so impactful that Nepal found itself busy to resolve the political issues of governance more important than the other ones including foreign policy projections. After 2008 when a new political system was evolved in the country and Maoist became powerful; Nepal took a narrow view of its external relations. India was attempted to be disowned and China was allocated more value. Prachanda, caretaker Prime Minister in 2009, after losing the post of Prime Minister said that New Delhi toppled his regime as it was upset with his government's efforts to get closer to China. Prachanda added that his government had failed in its efforts to redefine Nepal's relations with India and China.<sup>24</sup>

The anti India stand was gravitated around the old Nepalese grouse which related to the revision of 1950 treaty, and also the new power holders looked as the major stumbling block for its emergence as an independent state in the external and security matters. Although Maoist and a large section in Nepal emphasised that a revision of the treaty needs to be taken up and in 2011 India stated that it was prepared to discuss this and would like to know what ideas are there on their side (including Maoists).<sup>25</sup>

After the formation of the new government, Narendra Modi as the PM of India reemphasized that India was willing to revise the treaty but also put blame on Nepal that it was not keen on its part. Indian PM told his counterpart Sushil Koirala that he wanted to see it completed in his tenure (but) Modi made it clear he will not accept popular Nepali gripe about this treaty. Nepal has used the "unequalness" of the treaty as a stick against India over the years. But, despite repeated Indian requests for revision, Nepal has shied away from the actual negotiations.<sup>26</sup>

The reality is that new political spectrum and governance in Nepal in large manner have attempted to move out from the sphere of Indian influence but hard realities prevent its realisation. A nationalist sentiment

is raised in Nepal about treaty which finds expression in different form. Now, new political forces like the previous regal establishments believe that Indo-Nepal treaty is strong barrier to its quest of identity.

After the adoption of new constitution the major elements of new constitution reflected the desire of Nepal to have an independent existence. This desire is natural and genuine for every nation state. This expression is in tune to its desire to chart a new course in the foreign affairs. There is no gainsaying the fact that Nepal, even in recent times, has used China card to balance India but it finds itself constrained due to treaty obligation, geographical location and strong emotional bonds with India. A generalized inference is that Indian impact on Nepal in every sphere is quite critical and Nepal cannot deny it. Its aim to escape out of orbit of Indian influence is still continued but this is a quest and this quest is yet to be quenched with no sign of its satisfaction in near future.

## **Conclusion**

The major problem with the Nepalese foreign policy is that it has been constrained by the treaty of friendship of 1950. The monarchy and democratic set up could not resolve the barriers imposed by it. This constraint is strengthened due to prevalence of dichotomy at the level of government and people to people relationship. Whenever Nepal attempted to move in perfectly independent manner the treaty prevented it from taking the decisions which were against India's national interests. Consequently, nature of Nepalese foreign policy turn quite confusing as its shift from uni-dimensional foreign policy to independence is yet to be accomplished. This confusion is born due to adoption of foreign policy model in which both powers are attempted to be balanced.

Thus, uni-dimensional orientation during the early year was attempted to be modified even after few years. This act proved highly harmful as its inclination towards China met the strong Indian resistance. China on the other hand became more inclined towards Nepal due to its interests. Consequently, all of the Nepalese energy was spent in the art of balancing.

Though it developed good relations with other nation states but they had not much consequence. Thus, Nepalese foreign policy has experienced unstable character which has been compounded more after the decade

of the 1990s when a democratic constitution was introduced and a true political process started. It gave birth to certain political parties which clearly spelt out their leanings towards either India or China. As long as monarchy survived it also oscillated between two poles, new political forces are also unclear about their long term goals as some of these may not be ready to follow India-centric approach but they are restricted due to a legal bond in the form of treaty between India and Nepal. For this reason even in the recent time when a new law of land, after a long process, has been introduced, Nepal still finds itself in a confused state of mind. This dilemma is a unique feature of any modern nation state and does not fit in any of the paradigm of interstate relations of global politics.

Hence, it can be safely concluded that Nepal is still in quest of an independent foreign policy but its attainment will be accomplished only when India and Nepal come at par with each other which India may delay due to its interests, although Nepal will attempt for an independent identity. The revision of treaty with India's interests in mind, genuine resolution to social-cultural people centric issues and proper understanding of Nepal with respect to its geographical constraints are the major bases which may allow it to satisfy its objectives in the global affairs.

These understandings demand a matured political set up with efficient decision-makers at the helm of affairs. Their comprehension of the situations at the external front will determine the functioning of the Nepal's foreign policy. Hence, how do they look to situations particularly with respect to India and China, are crucial for Nepal to evolve an independent foreign policy in future.

## References

1. Mazumdar, A. (2014), *Indian Foreign Policy in Transition: Relations with South Asia*, New York: Routledge.
2. Sikri, R. (2009), *Challenge and Strategy: Rethinking India's Foreign Policy*, New Delhi: SAGE.
3. MEA India (1950), Ministry of External Affairs, "Treaty of Peace and Friendship between the Government of India and the Government of Nepal", July 31, URL: <http://mea.gov.in/bilateral-documents.htm>
4. *Ibid.*
5. Mazumdar, A. (2014), *Indian Foreign Policy in Transition: Relations with South Asia*, New York: Routledge.
6. Upreti, B. C. (2009), "India-Nepal Treaty of Peace and Friendship: Nature,

- Problems and the Question of Identity of Indian Nepalis”, in T.B. Subba, A.C. Sinha, G.S. Nepal, D. R. Nepal (eds.) *Nepalis: Issues and perspectives*, New Delhi: Concept Publishing Company.
7. Human Rights Watch (1989), *Human Rights Violations in Nepal*, Asia Watch Committee: USA.
  8. Chengappa, B.M. (2004), *Pakistan, Islamisation, Army and Foreign Policy*, New Delhi: APH Publishing.
  9. *Ibid.*
  10. Grover, V. (2000), *Nepal: Government and Politics*, New Delhi: Deep and Deep Publications.
  11. Preston, I. (2001), *A Political Chronology of Central, South and East Asia*, London: Europa Publications.
  12. Dash, K.C. (2008), *Regionalism in South Asia: Negotiating Cooperation, Institutional Structures*, New York: Routledge.
  13. Peters, G. and Woolley, J. T. (1999), *Lyndon B. Johnson: “Joint Statement Following Discussions With King Mahendra of Nepal” November 1, 1967*, The American Presidency Project [Online :Web] Accessed on 30<sup>th</sup> December 2015, URL:<http://www.presidency.ucsb.edu/ws>.
  14. Ghosh, P.S. (1989), *Cooperation and Conflict in South Asia*, New Delhi: Manohar Publishers & Distributors.
  15. Rajagopalan, S. (2005), “South Asia’s Small States in World Politics”, in Devin T. Hagerty (ed.) *South Asia in World Politics*, Lanham: Rowman & Littlefield.
  16. Ghosh, P.S. (1989), *Cooperation and Conflict in South Asia*, New Delhi: Manohar Publishers & Distributors.
  17. Rao, B.V. (2010), *History of Asia: From early Times to the Present*, Elgin: New Dawn Press Group.
  18. Dash, K.C. (2008), *Regionalism in South Asia: Negotiating Cooperation, Institutional Structures*, New York: Routledge.
  19. Parajulee, R.P. (2000), *The Democratic Transition in Nepal*, Lanham: Rowman & Littlefield.
  20. *Ibid.*
  21. News item (1990), “India Nepal end trade feud”, *New Straits Times*, Kuala Lumpur, 19 June 1990.
  22. *Ibid*
  23. Shukla, S. ( 2007), *Foreign Policy of India*, New Delhi: Anamika Publishers & Distributors.
  24. Hemanth, J. (2009), “Prachanda puts blame on India”, *The Telegraph*, Calcutta, 23 May 2009.
  25. News item (2011), “Ready to discuss treaty revision with Nepal: India”, *The Hindu*, New Delhi, 29 January 2011.
  26. Bagchi, I. (2014), “India ready to revise 1950 friendship treaty with Nepal”, *The Times of India*, New Delhi, 4 August 2014.

# 3

## Nepal's Equidistance Policy towards India and China: Exploring the Shifting Paradigm in the Post-Monarchial Era

Bawa Singh and Shabaz Hussain Shah

### **Abstract**

Nepal, a Himalayan country has been sandwiched between China and India. Since the beginning of 1950s, Nepal has been sharing very cordial relations with India. Being strategically located, Nepal has always impinged directly/indirectly over the security of both the countries. In view of this, it is critical for both the countries from security point of view. On the other hand, Nepal is always under threat for its independence as it has geographical proximity with the two Asian giants, India and China. Moreover, in the course of time, Nepal realized that India has started interfering in its internal matters, and then it started cozying up with China. Against such background, in order to maintain sovereign identity, it has constantly compelled Nepalese ruling regime to balance the North against South. Equidistance strategy became main underpinning of its foreign policy *vis-à-vis* both the countries. The abolition of monarchy in 2008, proved to be a turning point in Nepalese foreign policy as change of regime took place in Nepal. Despite sharing historical and geo-cultural relations with India, the geopolitical and geo-economic metamorphosis in the region encouraged Nepal to turn towards China, particularly in the post-2008. In this context, thus, this paper is an

attempt to analyze Nepal's balancing policy for its security survival and its recent shift towards China, undermining Indian interests.

## **Introduction**

Nepal has established relations with both India and China since time immemorial. Its relations with India is age old, bounded together by the history of socio-cultural identities. The relationship based on the history of socio-cultural identities was provided formal setup by the establishment of diplomatic relationship. After the establishment of diplomatic relationship, this relationship has further provided a strong base through the Indo-Nepal Treaty of Peace and Friendship 1950. Since then, India has been treating Nepal as the important geostrategic mooring for fulfilling its security concerns (Mazumdar 2014). China on the other hand, out of the security concern, has also been trying to develop amicable relationship with Nepal and has always shown deeper interest and acted as Nepal's card against Indian influence. While sharing close relations with India, China could not develop direct interactions with Nepal until 1959. However, geopolitical and geostrategic changes taking place in the region encouraged China to cozy up with Nepal (Fernande 2012).

Nepal government has always tried to gain benefits from both China and India and achieved it by developing the relations with both in equidistance manner. No doubt, it had used India and China against one another to get recompense from both sides without undermining the security of one at the expense of other. Moreover, despite unevenness in its relationship with both India and China, it did not undermine the security interests of anyone. Thus, Nepal maintained the balancing strategy between the two countries without undermining its own security as well as the security of both the Asian giants. However, after the coming of Communists to power, Nepal's balancing policy appeared shifting with a greater tilt towards China. China has reciprocated constructively by increasing its economic, political and strategic engagements with Nepal (Hariharan 2011). This expanded Chinese strategic and geopolitical engagements is likely to paralyze Nepal's balancing strategy, thereby reducing Nepal's opportunities of accomplishing benefits from both the countries. Thus, Nepal's need to maintain a balancing strategy whereby its own security

and security of both India and China is not undermined. It is necessary, as it will remain beneficial and vital element of Nepal's survival strategy.

### **Sino-Indian Policy towards Nepal: Ensuring Security**

Generally, Nepal used to figure prominently in Indian foreign policy on account of various linkages like geographic, historical, geo-cultural, economic etc. Nepal's relations with India spanning through centuries is determined more by geography and history rather than any other considerations. The two countries not only share an open border and unhindered movement of people, but they also have close bonds through marriages and familial ties, which is unique in Asia. The open border is a symbol of their deep trust and friendship (Mishra 2011).

India has always articulated its strategic interests in Nepal in terms of its security interests (Ghosh 2013). The security interests are mainly emerging from the Chinese threat of making Nepal as its feudatory. India always tried to convince Nepal to secure its northern border in order to ensure its own security. India fears that penetration of Himalayan northern barriers of Nepal will increase China's advantage of occupying strategic heights in the Nepal which India does not want. For its security threat perception, India sought political stability in Nepal (Nayak 2012). Otherwise, the adverse security situation in Nepal will cause deep concerns to India. Therefore, undoubtedly Nepal remained to be strategically important for India for various reasons.

Nepal has a special place in Chinese foreign policy as well. China has always been following a modest policy towards Nepal ever since the two countries established diplomatic relations in 1955. However, after the improvement of bilateral relations, China started giving important place to Nepal in its foreign as well as neighborhood policy. China had been focusing on containing Tibetan refugees and their anti-China activities. Therefore, China had taken every step to persuade Nepal to contain the Tibetan refugees in the South of Himalayas. Beijing fears of Nepal's vulnerability of being used by the external powers against the security of China's vital strategic interests. It suspects that Indian intelligence agencies support Tibetan refugees who are trying to cross to China. It believes that India has been using Nepalese territory to act against China, and therefore

remains apprehensive about India's leverage in Nepal (Li 2010). Thus, China has nurtured a credible relationship with Nepal for securing its vital strategic interest taking the latter's nationalistic elements under its sway. It had also consistently emphasized that the government of Nepal must stick to the one-China policy and should not allow Tibetans to indulge in any kind of anti-China activities (Achariya 2013).

### **Ensuring Security: Nepalese Perspective**

Nepal has always been apprehensive of both India and China policies towards it. Despite its close strong geographical, historical and cultural links, Nepal remained quite apprehensive about Indian role in Nepal. Although, there has never been a war between the two countries, Nepal fears India's intervention in Nepal for securing its security interests vis-à-vis China. It also feared that India is interfering in its internal affairs (Singh 2008). After independence, India's support for the liberal democratic movement in the Himalayan kingdom gave additional strength to such Nepalese fears. Nepal also fears that India can exert economic pressures on Nepal for securing certain goals. The accession of Sikkim to India has always been a source of apprehension for Nepal (Jayapalan 2001).

China has been trying hard to exploit such fear of Nepal for securing geopolitical and geostrategic objectives which include the objective of preventing the Tibetan refugee's Anti-China activities and friendly and cooperative relations between the two Hindu states— India and Nepal. China wanted to increase its influence over Nepal to maintain its security. However, India tried to counter the Chinese expanding strategic foray in Nepal through diplomatic efforts and by asserting close historical and cultivating relations with Nepal as a means for safeguarding its security and other interests (Frank 2010).

### **Nepal's Equidistance Policy**

Nepal has always remained apprehensive about its security, and therefore decided to pursue a balanced policy. Nepal has been developing its relations with India because it constitutes a determining factor of Nepalese economic and trading interests. Also, it has been improving relationship with China and used it as a counterpoise against India to maintain

equidistance (Karki 2013). However, it did not undermine the interests of any one at the expense of another even during the times of unevenness in its relations with both the Asian giants.

The two Asian giants India and China have been harbouring the aspiration of becoming major powers of the 21<sup>st</sup> century. In order to realize this dream, both have tried to take the leadership role in the region. Both have been trying to influence the small countries in the region (Muni 2007). After independence, India moved forward to maintain the dominating status as exercised earlier by British India. In order to ensure its security, India increased political and economic influence in Nepal. Although, the influence of China was not so much, however, the improvement in Sino-Nepal relations enhanced Chinese influence in the latter ones (Singh 2012). Thus, both India and China entered into Nepalese domain to gain the strategic objectives and particularly to ensure their respective securities.

Against this background, the strategic entry of both the Asian giants for securing their own security made Nepal highly conscious of its own security and thus followed the policy of equidistance by maintaining friendly and good neighbourly relations with both the Asian giants without undermining the security of any. Nepal believed that 'equidistance' is a flexible policy to develop good relations with both the countries without infringing its identity, sovereignty and independence (Nayak 2014). Nepal used both countries to maintain equidistant friendly relations with both the countries but without undermining its own security as well as the security of both India and China. While maintaining cordial relations with India and China, Nepal expected that it would be beneficial for per se economic development.

The first major step of Nepal in this direction is evident from the conclusion of Treaty of Peace and Friendship with China in 1960. Although, Nepal's relations with India had been age-old and strong, it maintained warm relations with both the countries. Nepal playing the role of diplomatic balancing whereby Indo-Nepal Treaty of Peace and Friendship 1950 was balanced, to a certain level, by signing the Treaty of Peace and Friendship in 1960 with China, to maintain the independent position. Without undermining the Indian position, Nepal obtained development aid worth 100 million and concluded road agreement with China. The

Indian establishment while apprehensive by these developmental ties with China feared that these developments would undermine Indian security and economic interests and therefore, criticized it (Kavic 1967). Despite criticism on part of India, Nepal continued its engagement with China which created proximity between China and Nepal especially with the construction of Kathmandu-Lhasa road. Thus, Nepal overcomes its trouble of being locked by India. Though, China has often and regularly exploited the anti-Indian feelings of both communistic forces and the King to isolate Nepal from India, but Nepal maintained strategic relationship with India. Notwithstanding the pressure from both the Asian giants, Nepal has pursued independent foreign policy. It tried to act as building a strategic buffer between the two Asian giants to get recompense from both sides without undermining the interests of any one against the other.

Secondly, Nepalese stand on 1962 Sino-Indian war further concretized this policy. While the Sino-Indian conflict of 1962 was on peak point, Nepal remained silent spectator not aligning with any one of the two (Baja 2006). Further, in 1965, during the King Mahendra's period, both the countries got into an agreement. Within the established framework it was provided that India will supply arms to Nepal. However, the sequel of events like India's nuclear test and merger of Sikkim with India made Nepal apprehensive of Indian designs which resulted in immediate development of Nepal's policy of building closer ties with China. Moreover, despite close military to military relations with India, Nepal has never allowed the establishment of military bases or joint exercises with Indian troops (Singh 2009). Thus, Nepal held the stability to safeguard its sovereignty and identity. While safeguarding its own sovereignty and independence, King Birendra, during his visit to China in August 1979, said that Nepal's foreign policy is founded on the desire to safeguard its independence and sovereignty and the quest for peace (Sharma 2004). Furthermore, on 3<sup>rd</sup> August 1990, PM Krishna Prasad Bhattarai, while addressing a function held by Nepal-China Friendship Association (NCFSA) stated that Nepal would benefit by making good relations with both of them. He further stated that Nepal is "brotherly and close to India and friendly to China" (Pandey 2005).

Under Indo-Nepal Treaty of 1950, Nepal was bound to go by the security provisions of the treaty particularly not to have any security cooperation

with any external power. Under these provisions, Nepal has been receiving the military assistance from India. In order to counter balance India, Nepal extended clandestine security cooperation for arms purchase in June 1988. Under which, China supplied air defence artillery to Nepal. India learned about the agreement and protested vigorously that Nepal had violated the solidity of the Peace and Friendship Treaty. India complained about Nepal's supposed insensitivity to its vital interests. In order to toe its line, India blocked the supply of essential goods to Nepal in 1988. Against this background, Nepal tilted towards China to get the necessary help for a short while. However, after the post-party-less Panchayat phase, after the active support of India in ending party-less Panchayat, Nepal government tried to end the strained relations with India. In response, India also removed the trade embargo against Nepalese assurance of safeguarding its interests. Nepal even buried the Zone of Peace proposal that was supported by China. Thus, Nepal tried to hold the balance by not disturbing the age-old relations with India (Jayapalan 2001).

Since then, the Nepal government always tried to gain benefits from China and India. Nepal was using the two Asian giant's to get recompense from both sides without undermining the security of anyone. Despite some noises about rewriting the Indo-Nepal Treaty of 1950, it did not really disturb its relations with India. On the other side, it developed friendly relations with China. Thus, it gets benefit from both Asian giants. However, after the coming of Maoists to power in 2008, Nepal started tilting towards China with much faster rate and vigor. This meant, Nepal's balancing strategy shifted with greater tilt towards China.

### **Criticism of Equidistance Policy and Demand for Special Relationship**

While dealing with foreign policy matters, Nepal's geo-political situation and geo-strategic location has obligated it to adopt a balanced policy with the two Asian giants. However, the equidistance policy or Nepal's balanced relationship with its immediate neighbours was not well received by the India. India stated that Nepal's policy of equidistance was impractical and false. It created a "credibility gap" and insecurity dilemma and injected mistrust in its relationship with India. India views it a strategy that goes

against the growing trend towards regional integration, unproductive and harmful for age-old relations between Nepal and India (Thapliyal 1998).

India had criticized the balanced relations or equidistance followed by Nepal. Alongside, its unwelcome stance towards Nepal's balancing policy, it demanded the special relationship with Nepal as both are close in terms of cultural, economic, geographic and social conditions. India justified its claim of special relationship due to the uniqueness of provisions – economic and political, and asserted its bilateral relationship with Nepal on that basis as a special one. For instance, the security and economic aspects of the treaty of 1950 make the India's relationship with Nepal special (Murthy 2002). During the period of the interim government of Nepal, while emphasizing its special position in Nepal's foreign policy stance, India became highly critical of Nepal's policy of equidistance or balanced relationship. Many Indian foreign policy makers stressed India's special relationship with Nepal and became highly objectionable of Nepal's policy of balanced relationship or equidistance: that is a policy of keeping India and China on equal distance without making any discrimination between them (Singh 1994). India never wanted that friendship with other countries should in any way limit the Nepal's special friendship with India. India viewed such attempt made by Nepal for cultivating friendship and cooperation with China as great concern. Thus, India continued the policy of demanding special ties with Nepal.

### **Nepal's Tilt: Dragon Reciprocation**

India had remained under monarchy for about 250 years. Since 1947, lot many efforts have been made to do away with monarchy. Two major *Jana Andolans* of 1990 and 2006 proved to be milestones in abolishing the Nepalese monarchy in 2008. Nepal's foreign policy outlook underwent major changes since the Maoists triumph in August 2008. On the one side India demanded the special relationship while on the other side Nepal's policy showed favorable tilt towards China. The ideological linkages between Maoists of Nepal and China made an apparent choice for Nepal's engagement with China. Nepal started following the pro-China Policy by openly inviting China to counterbalance India influence (Nayak 2014).

The Nepal's pro-China policy becomes evident during the reign of PM Pushpa Kamal Dahal Prachanda. He visited China breaking the tradition of paying the first official visit to India (Pathak 2009). During the visit, he assured China of Nepal's dedication to the "One China Policy" and pledged to forbid any anti-China activities on Nepal's territory. Following the pro-China policy, he said that he would not accept any anti-China activity on Nepali territory and in case of possibility of any attack on China he will submit the resignation from the post of Prime Minister. While addressing the training programme of the Maoist cadres, he further said that Nepal's use of the "China card" in its dealings with India is nothing new (Kumar 2011). These pro-China leanings indicated Nepal's increasing affinity towards China during Prachanda's rule.

The pro-China policy was likewise followed by the successive democratic governments of Nepal to reduce India's influence in Nepal. They did not hide their suspicion of India and continued projecting India as an enemy state and China as friendly state. On number of occasions, some of the hard-liner Maoists suggested to fight for People's Republic of Nepal, similar to that of China (Shah 2012). These elements are clear indications for inclination towards China. China has also diversified its interests in Nepal and interestingly showed willingness for expanding exertion to captivate the administration, the political parties, and the populace of Nepal. It provided further ground for Nepal's engagement with China. However, the on-going relations with India started deteriorating as Nepal started ignoring India by increasing their linkages with China. Nepal agreed to lift its bilateral relationship with China to a higher level by establishing an all-inclusive partnership of cooperation from good-neighbourly partnership to closer strategic ties.

After 2008, Nepal continuously got engaged with China for economic development whereby Nepal began receiving economic and technological help and funds for almost every project. In April 2009, Nepal accepted the Chinese proposal for revised Peace and Friendship Treaty. Regarding the treaty, PM Prachanda said that it was deliberately planned to balance the India's special position in Nepal (Jaiswal 2014). Though, it did not materialize due to the cancellation of Prachanda's second visit to China, but showed Nepal's increasing tilt. In 2012, it received USD 140 million

from China. It also received economic package worth USD 1.63 million in 2013 for election-related material for Constituent Assembly elections held on 19<sup>th</sup> November 2013. It shows Nepal's inclination towards China at the political level too.

Nepal's relations with China continued vigorously in the changed political scenario. Contrasted with its engagement amid past governments, Nepal became more dynamic for increasing relationship with China. Increasing high-level visits were exchanged between the Maoist government of Nepal and China. Over the years 2008-2009, twelve high-level Nepalese delegations visited China. However, the Nepalese delegates visited only seven times to India during the same time period (Lama 2013). It is very important to note that 38 official Chinese delegations visited Nepal during Prime Minister Prachanda's term while the number of delegations from India were only about one-fourth of the above (Kumar 2011). These included Prime Minister Prachanda's trip to Beijing in September 2008, followed by the visit of Defence Minister Ram Bahadur Thapa a few days later. The number of unofficial Chinese delegations is even more (Nayak 2009). Within the ambit of these visits, China has continually assured economic, technological, and military aid to Nepal. In response, Nepal also provides assurances of holding the "One-China Policy." The high-level visit between China and Nepal during the Maoists government was much higher compared to previous governments of Nepal. Such greater visits and their higher accomplishments have remained a greater trend even in the recent years. The large frequency and the accomplishments of these high-level visits since 2008, reflect the elevation of China's position in Nepal's Policy as a more active player.

Nepal has heightened its economic engagements with China. Since the last three years, the trade has been increased by 61 percent<sup>1</sup> whereby Nepal increased its exports to China as China provided duty-free access to 497 Nepali goods in the Chinese market (Koirala 2009). Nepal has well supported the Chinese massive investments in Nepal and provided the security to Chinese investments in strategic sections. So, Chinese investments show a great change and approximately it doubled between 2007 and 2011. In the recent years, the investments in Lumbini and Pokhara airports<sup>2</sup> – for which the government of Nepal has finally decided

to accept Chinese investment, indicate that Nepal has given significant priority to China as investment partner.

In the changing political situation of Nepal, there is steadily increase in cultural cooperation with China. Cultural programmes have been held between the two countries (Paradise 2009). Nepal has allowed the establishment of China Study Centres (CSCs) near the Indo-Nepal porous border and Confucius Institutes in major cities. Through the establishment of these cultural initiatives, Nepal has become culturally inclined towards China. They have also increased the Chinese strategic leverage in Nepal. While China has been using these CSCs for exploitation of anti-Indian feelings prevailing among the Nepalese, Nepal never voiced against it. Instead, they are promoting these centres at higher level. Nepal has also kept Indian proposals to open new consulates at Nepalganj and Birganj in the Madhes region on limbo (Mitra 2013).

Nepal has allowed the launching of a local frequency-modulated radio station of China Radio International which brings Nepal close to China. It has introduced Chinese studies in their schools that show its increasing affinity towards China. Nepal has also been receiving 100 scholarships every year which contribute to understanding of each other's tradition and culture. Large numbers of Nepalese youth are going to China for higher studies. These informal activities increased the cultural favour and eagerness by which Nepal develop greater inclination towards China at the expense of India.

Nepal welcomed the railway and road network of China for the development of transport infrastructure. It well received the Chinese plan of linking Tibet Autonomous Region with Nepal through the construction of roads and railways. In 2007-08, Nepal received assistance of USD 3.7 billion for the construction of Qinghai-Tibet Railway.<sup>3</sup> Nepal did not raise any voice against the adding of two separate extension points to its Lhasa-Shigatse segment, which will be extended towards Nepal border and the borders of India and Bhutan by 2020. More importantly, Nepal demanded assurances from the Chinese side for the construction of railway connecting Shigatse with Kyirong in northern Nepal and with Yatung, in the Chumbi Valley – located between Sikkim and Bhutan (Arpi 2014).

In addition of having 18 connecting passes that act as means for bilateral trade, Nepal made further proposals for the development of more passes.

In April 2009, in spite of the existing five custom points, Nepal proposed China to open up two more custom points (Bhattacharya 2009). There have been further proposals from Nepal for connecting the two countries with more than ten roadways. The expansion of this strategic infrastructure shows that Nepal has been showing greater tilt towards China which has been bringing the two countries in close strategic circles.

Nepal is rich in natural resources such as hydropower, but the lack of technology kept them unable to harness those water resources. Thus, in the recent years Nepal has been inviting China to invest in the development of its power sector. Nepal found it healthier to get engaged in the hydropower cooperation with China. However, on the one hand, Nepal supports the Chinese enterprises to invest and participate in the hydropower development in Nepal while on the other hand stalled the Indian aided projects. In 2012, the copy of the PTA (Power Trade Agreement) was burnt and protests were also made against another power project, Arun III (900 MW), which was awarded to GMR Consortium of India.<sup>4</sup> In the meantime, when several major hydropower projects, developed with Indian investment like Upper Karnali Project, have been stalled for various reasons. Nepal has signed the West Seti hydropower Project agreement with China worth of USD 1.8 billion to develop its 760 MW (Megawatt) hydropower.<sup>5</sup> Nepal has urged China to construct hydro-power project, a capacity of 400 MW Nasyalgadh in Jajarkot district (Giri 2010). The constant demands have been made by the radical Maoist factions to allocate more hydro and infrastructure projects to China in order to neutralize India's influence. Moreover the projects which were earlier installed to sell power to India have been selling surplus power to China. For instance, a project worth USD 1.6 billion, was built for supplying electricity to India, rather than giving to India, the supply was diverted to China (Kaul 2012). Such hydro-power collaboration with China which was not earlier identified has shown the Nepal's greater tilt towards China.

After the coming of Maoists to power in Nepal, the defence cooperation between Nepal and China has undergone a dramatic shift. Increasing military high-level visits were exchanged between the two countries. Throughout these visits Nepal developed enough military cooperation with China. It increased its inclination towards China in defence sector

and undermined Indian stance of being a largest military supplier. The receiving of doubled military aid in a short period from September 2008 (USD 1.3 million) to December 2008 (USD 2.6 million) indicates Nepal's willingness for increasing defence collaboration with China (Soren 2008). Further, in 2012 the double-digit (USD 19.8 million) increase of non-lethal military aid also indicated the increasing tilt of Nepal for enhancing defence cooperation with China.<sup>6</sup> In July 2014, Nepal army got USD 8 million military assistance package assurance of approximately around USD 7.5 million military aid in 2015.<sup>7</sup> Earlier, Maoist triumph Nepal did not receive such huge amounts of military aid and even at sometimes it had rejected the China's military aid. For instance, when China provided huge military assistance to Nepal in 1992, Nepal did not receive it (Ranade 2010). Therefore, the recent receiving of increased military aid indicates that Nepal is favouring to develop strong defence relationship with China while undermining India's position as the largest defence supplier.

Nepal built up its relations with both the nations in balancing strategy. It kept up great relations with India because of society, history and geographical proximity and also due to tradition of interdependence. It improved its relations with China too. The balancing strategy, held by Nepal without undermining the interests of anyone helped it secure its own security and get benefits from both the countries. However, in the recent years Nepal is more tilting towards China. The Chinese and Maoist attachment have led their relationship towards a new dimension in which Nepal's balancing strategy is showing a shift and is emerging as the new strategic partner for China in the region. However, Nepal's greater inclination towards China will hamper its cooperation with his age old reliable partner, India. Accordingly, it will reduce Nepal's efforts of gaining profits from both the sides.

In this backdrop, Nepal has to adopt the suitable appropriate foreign policy *vis-à-vis* both the Asian giants in the changing geopolitical and geostrategic scenario. Its policy strategy needs a dimension of accommodating and adjusting both the countries because Nepal needs both the Asian giants due to its geographical structure and inevitable economic development. It should not ignore any one at the expense and domination of other. Although, for Nepal, maintaining equidistant relationship between

these two big neighbors is one of the most challenging foreign policy imperatives but interestingly there are signs of optimism and potential benefits as well. Thus, Nepal needs to carry out groundwork *to-re-adjust* per se in changing scenario to formulate appropriate policy to hold both the Asian giants in balance. While clearly prioritizing its national interests it should adopt a prudent policy in managing its relationships with India and China without undermining the interests of one another which will best preserve and promote its national interests. In order to preserve durability of security and national interests, Nepal has to understand the very complex nature of India and China relations. Nepal has to adopt wise policies of adjusting the both Asian countries by adopting the middle path. It will prevent undermining of interests of both the southern and northern neighbours in an amicable way without endangering its own sovereign and independent position.

## **Conclusion**

Since times immemorial Nepal established the historical relationship with both India and China. Being a unique geo-strategic position between India and China it tried to establish good relations with both the big neighbours in a balanced manner. However, China's expanding geo-political, geo-economic and geo-strategic footprints in the South Asian region encouraged Nepal to enhance its relationship with China in this strategic environment. More importantly, its economic growth model for the South Asian countries invigorated Nepal for the greater relationship for its economic growth. However, its greater tilt towards China has undermined its relationship with India.

Nepal and China came closer after the establishment of diplomatic relations. After 1959, relationship improved whereby Chinese interests diversified in which China started providing political, economic, and strategic support to Nepal. However, Nepal didn't allow rigorous Chinese policies to prevent Nepal's engagement with India. At least till Maoist triumph, Nepal in its engagement with China did not pose any serious concerns for India. In the same way it didn't allow anti-China activities. At least till 2005, Beijing remained only apprehensive of rising Tibetan activities under the democratic forces which would create concerns for

China. A major reason for this can be that under a democratic atmosphere in Nepal, the Tibetans could engage in activities which could undermine China. However, China's rise and the coming of Maoists in power in Nepal have made an apparent choice for Nepal to re-accentuate its engagement with China. This has led to greater engagement of China-Nepal in which Nepal received titanic economic packages, diplomatic and security offers, and development projects. Hence, in this manner, Nepal made a shift in its adjusting technique and got seriously inclined towards China. It assured China of upholding the "One-China" policy and supported China on Tibet question. It likewise talks with one voice for China's entrance into the SAARC.

The explanations behind such engagement is the space provided by India's vague South Asian policy stance towards Nepal and the bilateral aggravation that deeply interrupts Indo-Nepal bilateral relationship. Moreover, the rising economic power of China and its South Asian policy of countering India's South Asian policy are also responsible for the said cause. The expanding strategic collaboration of Nepal with China has led to dynamic shift in the Nepal's position from India's immediate abroad into China's own deck, which eventually undermines India transcendence and has potentially become an economic and security threat to Indian establishments. The increasing trade and investment relations with China is undermining India's position being the largest economic partner of Nepal. However, India's overall policy stance towards Nepal, befuddled and diluted by the interests of various lobbies remained unsuccessful in balancing the Nepal's strategic leverage with China. Thus, India needs to take astute prudent strategy to maintain its position in Nepal. It should enhance its strategic relationship with Nepal.

Nepal should also come forward to avoid the greater strategic leverage towards China. It should not develop its relations with one at the expense of other. It should not develop greater strategic leverage with China which will undermine Indian security. It has to maintain the balancing strategy in light of the fact that if China and India come at severe conflict in Nepal, it will have severe spillover effects on Nepal. It would have not been in a secure strategic position if it develops the relations with only one Asian giant. While developing the strong cooperation with only one Asian giant

against the other, the latter will get engaged in minimizing the influence of former which will be inimical to Nepal's national interest. Therefore, Nepal needs to develop relations with both through Balancing Strategy. No doubt, it is the challenging foreign policy imperative for Nepal, but there are hopes of optimism and potential benefits and opportunities.

## References

- Acharya, M.R. (2013), Federalism, Foreign Policy and National Security in Nepal. In V.R. Raghavan (ed.), *Nepal as a Federal State: Lessons from Indian Experience*. New Delhi: Vij Books India Pvt. Ltd.
- Arpi, Claude (2014), "Gateway to Nepal via the Roof of the World", *the Pioneer*, New Delhi, 31 July 2014.
- Baja, M. R. (2006), Stress and Strains of Neighborhood Diplomacy: India and Nepal. In K.R. Gupta (ed.), *Studies in World Affairs*. New Delhi: Atlantic Publishers & Distributors.
- Bhattacharya, Abanti, (2009). China's Inroads into Nepal: India's Concerns. *Institute for Defence Studies and Analyses*. Retrieved from [http://www.idsa.in/idsa\\_strategic/ChinasInroadsintoNepal\\_ABhattacharya\\_180509.html](http://www.idsa.in/idsa_strategic/ChinasInroadsintoNepal_ABhattacharya_180509.html)
- Chatterjee, Partha (1999), "Fragile Distinctions: Between Good and Bad Nationalism", *the Times of India*, New Delhi, 20 August 1999.
- Fernande, A. (2012), *People's Republic of China-Nepal Relations*. New York: Springer.
- Frank, K. (2010), "India-China Power Games in Nepal". *World Press*, USA, 17 September 2010.
- Ghosh, P. (2013), *International Relations*. New Delhi: PHI Learning Pvt. Ltd.
- Giri, Anil. (2010), "China wants to invest in Nepal's power sector in a big way". *Kathmandu Post*, 14 September 2010.
- Hariharan (2011), China's Impact on India-Nepal Relations. C3S Paper No. 901. *Chennai Centre for China Studie*., Retrieved from <http://www.c3sindia.org/>
- Jaiswal, Pramod (2014), China in Nepal: Increasing Connectivity via Railways. *Institute of Peace and Conflict Studies*. Retrieved from <http://www.ipcs.org/article/south-asia/china-in-nepal-increasing-connectivity-via-railways-684.html>
- Jaiswal, Pramod (2014), Chinese Inroads to Nepal. *Institute of Peace and Conflict Studies*. Retrieved from <http://www.ipcs.org/article/india/chinese-inroads-to-nepal-4319.html>
- Karki, Rohit (2013), Trilateral Security Cooperation: Nepal's New Foreign Policy. *Strategic Analysis*, 37(4), 405-410.
- Kaul, Aditya (2012), "Delhi loses initiative as Nepal seals power deal with Beijing". *DNA*. 19 September 2012.
- Kavic, L. (1967), *India's Quest for Security: Defence Policies, 1947-1965*. London: University of California Press.
- Koirala, K. Raj (2009), "China 'positive' to provide duty free access for 497 Nepali goods". *Asia Tribune*, 20 April 2009.
- Kumar, Amit (2014), Indo-Nepal Relations: A New Beginning. *Indian Council of World Affairs*. Retrieved from <http://www.icwa.in/pdfs/VP/2014>

- Kumar, S. (2011), China's Expanding Footprint in Nepal: Threats to India. *Journal of Defence Studies*, 5(2), 77-89.
- Lama, J. Yeshe (2013), China and its Peripheries: Securing Nepal in South Asia. *Institute of Peace and Conflict Studies*. Retrieved from [http://www.ipcs.org/pdf\\_file/issue/IB232-Jigme-ChinaPeriphery-Nepal.pdf](http://www.ipcs.org/pdf_file/issue/IB232-Jigme-ChinaPeriphery-Nepal.pdf)
- Li, Z. (2010), Conflict Management and Nation-building in Nepal: China's Perspective and Interest Calculus. Retrieved from <http://www.cscnepal.org.np/pdf>
- Mazumdar, A. (2014), *Indian Foreign Policy in Transition: Relations with South Asia*. New York: Routledge.
- Mishra. (2011), *India and the Dynamics of World Politics: A Book on Indian Foreign Policy, Related Events and International Organizations*. New Delhi: Pearson Education.
- Mitra, Devirupa. (2013), "Concern over China's new Nepal mission". *Indian Express*, 15 September 2013.
- Mitra, S.K. (2006), Engaging the World: the Ambiguity of India's Power. In S.K. Mitra & B. Rill (eds.), *India's New Dynamics in Foreign Policy*. Germany: Hanns Seidal Foundation.
- Muni, S.D. (2007), Asia's Rise: The Challenge of Stability. In D. Singh (ed.), *Political and Security Dynamics of South and Southeast Asia*. Singapore: Institute of Southeast Asian Studies.
- Murthy, P. (2002), India and Nepal: Security and Economic Dimensions. *Institute for Defence Studies and Analyses*. Retrieved from <http://www.idsa-india.org/an-dec9-8.html>
- Nayak, N. R. (2014), *Strategic Himalayas: Republican Nepal and External Powers*. New Delhi: Pentagon Press.
- Nayak, N. R. (2012), Nepal Issues and Concerns in India-Nepal Relations. In R. Dahiya & A.K. Behuria (eds.), *India's Neighborhood: Challenges in the Next Two Decades*. New Delhi: Pentagon Press.
- Pandey, N.N. (2005), *Nepal-China Relations*. Kathmandu: Institute of Foreign Affairs
- Jayapalan, N. (2001), *Foreign Policy of India*. New Delhi: Atlantic Publishers & Distributors.
- Paradise, J.F. (2009), China and International Harmony: The Role of Confucius Institutes in Bolstering Beijing's Soft Power. *Asian Survey*, 49(4), 647-669.
- Pathak, Bishnu (2009), Nepal-India Relations: Open Secret Diplomacy. *Conflict Study Centre Nepal*. Retrieved from [http://www.cscenter.org.np/uploads/doc/100524055050\\_SituationUpdate84NepalIndiarelations.pdf](http://www.cscenter.org.np/uploads/doc/100524055050_SituationUpdate84NepalIndiarelations.pdf)
- Ranade, J. (2010), China's Increasing Inroads into Nepal. *Centre for Airpower Studies*. Retrieved from [https://www.academia.edu/934990/Chinas\\_Increasing\\_Inroads\\_into\\_Nepal](https://www.academia.edu/934990/Chinas_Increasing_Inroads_into_Nepal)
- Shah, A. (2012), Nepal: Political Prospects for the Young Republic. *Research Observer Foundation*. Retrieved from [http://orfonline.org/cms/export/orfonline/modules/Issuebrief/attachments/st\\_issue\\_4\\_1374141826927.pdf](http://orfonline.org/cms/export/orfonline/modules/Issuebrief/attachments/st_issue_4_1374141826927.pdf)
- Sharma, U. Kant (2004), The Peace Zone concept and its utility in Nepalese Foreign Policy. *Journal of political science*, 7, 44-50.

- Singh, P. (2012), China Managing India-China Relations. In R. Dahiya & A.K. Behuria (eds.), *India's Neighborhood: Challenges in the Next Two Decades*. New Delhi: Pentagon Press.
- Singh, R. Kumar (2009), *Global Dimensions of Indo-Nepal Political Relations: Post Independence*. New Delhi: Gyan Publishing House.
- Singh, S.B. (2008), *Impact of the Indian national Movement on the political development of Nepal*. New Delhi: Marwah Publications
- Singh, S.B. (1994), *Indo Nepalese Relations: Discord and Harmony*. Varanasi: Ganga Kaveri Publications.
- Thapliyal, S. (1998), *Mutual Security: The Case of India-Nepal*. New Delhi: Lancer Publishers.

## Endnotes

1. "China boosts trade with Nepal." *The Hindu*, April 03, 2014. Retrieved from <http://www.thehindu.com/news/international/china-boosts-trade-with-nepal/article3273935.ece>
2. "Nepal govt's final nod for international airport construction in Pokhara." *Sopan News*, October 27 2014. Retrieved from <http://sopannews.com/nepal-govt-gives-final-nod-for-international-airport-construction-in-pokhara/#>
3. "China: India's strategic strangulation". *Canada Tibet*, September 30, 2010. Retrieved from <http://www.tibet.ca/en/library/wtn/10306>
4. "Nepal Maoists burn copies of power accord with India." *Mathrubhumi*, September 12, 2014. Retrieved from <http://www.mathrubhumi.com/english/news/latest-news/nepal-maoists-burn-copies-of-power-accord-with-india-151731.html>
5. "Nepal seeks help from India and China to develop hydropower." *Business Standard*, August 26, 2013. Retrieved from [http://www.business-standard.com/article/pti-stories/nepal-seek-help-from-india-china-to-develop-hydropower-113082600778\\_1.html](http://www.business-standard.com/article/pti-stories/nepal-seek-help-from-india-china-to-develop-hydropower-113082600778_1.html)
6. "China, Nepal agrees to deepen military ties" *The Hindu*, July 25, 2013. Retrieved from <http://www.thehindu.com/news/international/world/china-nepal-agree-to-deepen-military-ties/article4951454>
7. "Chinese Army pledges Rs 500m aid to NA." *Ekantipur*. (February 21, 2014). Retrieved from <http://www.ekantipur.com/2014/02/21/top-story/chinese-army-pledges-rs-500m-aid-to-na/385693.html>

# 4

## Internal and External Security Challenges of Nepal

Shahnawaz Mantoo

### **Abstract**

The post cold war period is marked by a new multi-dimensional strategic environment, giving new focus to international relations and security of small states. Though, the US is the only superpower, the world surely is moving towards multi-polarity and interdependence where regional powers and international systems have an increasingly powerful role. In such environment small states are finding themselves even more vulnerable. The world dynamics is changing very quickly and with it security dimensions are also changing which brings some comfort as well as some sort of uncomfot to the smaller states like Nepal. The Nepali security dynamics cannot remain isolated from the changes taking place in the world and the internal as well as external changes which are taking place in the country. More importantly, with the recent dramatic changes and adaptation of a new constitution an optimistic political tendencies have emerged but with it the emerging internal protests from Madhesis and some external challenges poses new security threats as well as challenge to the ability of new Nepali leadership. This paper analyzes the new emerging security challenges Nepal is facing in the evolving new world order and at the same time suggests some authentic credible and viable security options for it. It analyzes the special characteristics of Nepal and its vulnerability

to both traditional and new forms of threats. The paper is divided into five sub-headings which include introduction, theoretical understanding, major security challenges, security options for Nepal and conclusion.

## **Introduction**

The concept of security has always been a very elusive concept. The concept has been differently defined by different social scientists, organizations as well as by the states. There are number of interpretations of what the definition of security is or what it should be as it is a largely contested concept. There are many interpretations of security and each carries different meaning to different stakeholders. Security is considered to be high politics. Thus, what security means, and – as a result – what, or who, is being protected from threats ‘is potentially enabling in terms of ascribing a level of priority and importance to it, or in terms of enabling particular logics of response’ (Mc Donald 2012: 18). Barry Buzan also acknowledged this that political power is very closely associated with the concept of security and more so in the past times as security and state were the two sides of the same coin. Buzan further pointed out the fact that, “a powerful political tool in claiming attention for priority items in the competition for government attention” (1991: 370). As a result security is politically powerful and it is understandable as to why respective groups would want their security be prioritized: security is about “who gets what, when and how” (Lasswell 1936). In the past ages the concept of security was narrowly defined but with passage of time its meaning touches new heights and got widened. It did not remain state-centric but got widened, and more importantly, human centric dimension was added to it. The security with the changing global situation has changed from conventional meaning to the modern one.

The security as mentioned earlier has not remained confined to state but has widened to a very large extent. Human beings are facing very difficult times because of the presence of large number of security threats from traditional to non-traditional matters like poverty, human rights violation, rising extremism (of all sorts), underdevelopment, child labor, nuclear proliferation, the clash between the state and non-state actors, etc. and all these threats can be very challenging to the existence of the human civilizations. Similarly, the state of Nepal is also facing certain threats not

only to its internal sovereignty but there are some external threats as well which are very dangerous for the survival of the state. The small states like Nepal are increasingly considered in terms of territorial, political, economic and technological security. To this list the Bangladeshi security expert Manniurizzaman adds cultural and psychological dimension, which he considers as “core values of a nation”. The current paper seeks to analyze these traditional and non-traditional security threats and at the same time would also put forward some fruitful suggestions and recommendations for the betterment of the Nepal. Internal conflict has a large number of causes including: the manipulation of ethnic, social or religious divisions; poverty, underdevelopment, crime, corruption, bad government and decisions, environmental decay and population pressure.

Small states also face a host of other threats. Singham suggests that regional hegemons are more likely to intervene in their spheres of influence for political and other reasons including addressing “international scourge” such as drugs. Other transnational threats such as terrorism and mass migration are also on the rise. Small states are also especially susceptible to new trends of interdependence, international regimes, and information age technologies that “change people’s perceptions of community”.

### **Theoretical Understanding of the Security**

The concept of security is very much contested and there is no agreement among security experts as well as those who are associated with it. The fact of the matter is that there are many definitions about the concept and every definition carries weight but no definition is certainly inclusive in its nature. Similarly as the concept of security is contested so is the case with its theoretical understanding. There are many security related theories which have been put forward by many theoreticians and each theory differs in understanding the theoretical aspects of the security. There are two strong alternative discourses about the security – Realism and Welsh School critical theory. Each school has fundamentally prescribed different meaning to security and both are forwarding some meaningful understanding about security.

Although all realists theorize the world differently, and thus prescribe a different meaning to security, all definitions tend to revolve around the

preservation and protection of the sovereignty and territorial integrity of the state (Carnesale and Nacht 1976: 2). All the realists believe that international system is anarchic because there is no authority above the state and state is the main actor at global level. Furthermore, realism sees security studies as 'the conditions that make the use of force more likely, the ways that the use of force affects individuals, states and societies, and the specific policies that states adopt in order to prepare for, prevent or engage in war' (Walt 1991: 212).

The Welsh School approach conceptualizes security fundamentally differently to traditional approaches. The Welsh School defines security as emancipation (Booth 1991: 319; McDonald 2012: 43). Emancipation is perceived as 'the freeing of people (as individuals and groups) from those physical and human constraints which stop them carrying out what they would freely choose to do' (Booth 1991: 319). These 'physical and human constraints' are not deterministically defined, but rather are context specific (McDonald 2012: 48). In contrast to a realist understanding of security, the Welsh School normatively outlines that people should be the referent objects of security as opposed to the state because the moral purpose of the state is to enforce a social contract and protect its population. This is relatively vague which makes operationalizing and applying an emancipatory framework to world politics problematic (McDonald 2012: 45). Furthermore, an issue never addressed is how groups and/or individuals can be freed without placing further physical and human constraints on others.

### **Internal and External Security Concerns**

In the *Arthashastra*, Kautilya wrote that a state could be at risk from four types of threats – internal, external, externally-aided internal and internally-aided external. He advised that of these four types, internal threats should be taken care of immediately, for internal troubles, like the fear of the lurking snake, are far more serious than external threats. The most dangerous enemy is the enemy within. Kautilya's teachings on internal security and his skillful expression of the warp and weft of internal and external security has great relevance in the globalised 21<sup>st</sup> century. Destabilizing a country through internal disturbances is more economical

and less objectionable, particularly when direct warfare is not an option and international borders cannot be violated. External adversaries, particularly the weaker ones, find it easier to create and aid forces which cause internal unrest and instability.

The present era is the era of globalization where the state security has become the most fundamental issue. The internal as well as external security are both fundamental for the secure existence of the state. It is generally believed that when state is internally secure and stable, there are maximum chances that external security is guaranteed.

## **Internal Security Threats**

### *Weak Economy*

The development is the most contested concept in the current global world because of the fact that there are many interpretations which have been put forward by many political, social as well as economic analysts. The development genuinely means the overall progress of the human being in almost all facets of the life. But, economic development is the most dominant side and is the basic criteria which have been given special importance by almost all economists. The economic development is the most daunting challenge before almost all underdeveloped states including the nascent Nepal. Since its independence the state was mostly ruled by undemocratic establishments and because of the unsettled political issues, the country could not economically progress up to the expectations of the common people. But with the adoption of the constitutional document it is believed that unsettled dust may settle down and there is an optimism among the people of the country that future of the state could be promising one.

In last few years, Nepal has achieved progress in several areas. The country managed to have the percentage of people living on less than USD 1.25 a day in only seven years, from 53 percent in 2003-04 to 25 percent in 2010-11 and is continuing to make progress. Several social indicators in education, health and gender have also improved. But, this is not enough as there are many challenges to economic development as well like poor infrastructure, inclusiveness in economic development, unreliable electrical power and low-quality transportation networks are

the country's most important economic bottlenecks and hinder job creation and the delivery of services. Secondly, the cooperation of public private partnership is necessary for the overall development of the country and currently this sort of partnership is to a larger extent missing. Thirdly, some financial institutions remain at risk of insolvency, due to inadequate risk management practices, poor corporate governance and high credit exposure compounded by under-resourced supervision and weak enforcement of prudential norms. The regulatory framework remains weak; operational capacity to manage the fiscal costs of a financial crisis is limited; and so the capacity to prevent and manage potential crises remains a concern. Fourthly, agriculture represents an important source of growth and remains, at least over the medium-term, the largest employment sector for over three-quarters of the population. But, modern technology is needed to be employed and the need is also to modernize the sector and at the same time hybrid seed is to be used so that agriculture production could increase which will be beneficial for the overall development of the state.

The overall progress of Nepal economy is not inclusive and the present democratic government should devise and take certain economic policy measures for the well being of the common people in the country. The weak economy is the dangerous threat to internal security of Nepal and if the government fails to give priority, it would create some serious fissures in the overall social fabric of the country.

**Table 1. Economic Status of Nepal**

<b>Particulars</b>	<b>2009/10</b>	<b>2010/11</b>	<b>2011/2012</b>	<b>2012/13</b>
Economic Growth Rate	4.3	3.9	4.5	3.6
Growth Rate of Agriculture	2.0	4.5	5.0	1.3
Growth Rate of Non-agriculture	5.4	3.6	4.2	5.0
Population under poverty line	25.4	25.2	24.4	23.8
Growth Rate of Employment	3	2.9	2.9	2.9
Per-capita Income				721

Source: Draft paper (2013/14-2014/15) of 13<sup>th</sup> Plan

The growing disparities in development among the different classes as well between the different regions have also contributed towards the

internal security threat to the nation. There are some sections of the society which are economically progressing and at the same time some sections are lagging behind and this sort of disparity could prove very fatal to the overall progress of the society and at the same time could pose a serious problem to the country. Growing disparity is dangerous and challenge to the leaders and if not given serious thought, could prove very threatening to the state. The failure of successive governments to address these problems in past decades played an instrumental role in allowing hard left forces like the Maoists and terrorist and criminal groups to consolidate and expand their strength and activities. This caused armed conflict over the last ten years, which led the country to a state of chaos, instability and violence.

### *Political Instability*

Second, to economic underdevelopment is political instability which has been there like the shadow. Political instability has marred the state right from the independence because democratic voices have never been heard and now the transition is taking place in the state which hopefully could usher Nepal in the new promising era. The political instability is a serious threat to Nepal's internal security and if not stopped on time, it could engulf and obliterate the whole state. There are many serious reasons to the growing political instability. The past governments failed to provide security to the public, establish rule of law, maintain peace and create opportunities for development which has further weakened the security situation in the country. This situation has encouraged the extremist's forces to increase their activities for attainment of major objectives. Political instability is the primary cause of proving platform for existing social, economic, political, religious and communal tension which has abetted for the increase in the internal security challenges. The bad governance has equally derailed and badly impacted the governance system of the country. There is a growing as well deep trust deficit between the governing class and common people. The new government has to ensure the corruption free good governance to the people.

It is challenging to maintain peace and security when there is culture of violating the rule of law in the name of fundamental rights. Illegal strike of the trade unions in factories and industries, padlock in universities,

practices of imposing pressure by closing academic institutions, transportation blockade and disorganized demonstration on the streets affect internal security environment. Though it is quite usual to impose pressure for one's rights, but illegal activities related to imposing pressure can lead to violence and break down of the rule of law.

Political parties are equally responsible for the deteriorating political environment in the state. Activities of political parties like closure, strike, disobedience of law and political protection of criminals further create obstacle to internal security. The nexus between the political Parties and criminal or armed groups is also a stumbling block in the maintenance of peace and order in the society. For instance, the Communist Party of Nepal-Maoist (CPN-M) decided to boycott the second Constituent Assembly (CA) elections. In the name of boycotting the election, the CPN-M indulged in a number of violent activities where two people were killed and many others were injured in the petrol bomb explosions.

### *Forced Migration and HIV/AIDS*

Another major concern related to migration and security is the increase in the incidence of HIV/AIDS, since large numbers of the temporary migrant population working in India and also internal migrant groups have become infected. This is associated with their high mobility and migration, but also with the trafficking of women and children, commercial sex workers, intravenous drug users, and the high rate of sexually transmitted infection (STI). High mobility, (both internal and external) migration, and poverty are overwhelmingly considered to be the root causes of the high incidence of HIV/AIDS both in Nepal and elsewhere. Forced migration has become another major security issue for Nepal in recent years. The violent conflict over the past ten years and the existence of many armed groups in the Tarai region has induced internal displacement. It is estimated by various organizations working in this field, such as the Norwegian Refugee Council, the United Nations High Commission for Refugee (UNHCR) and the Informal Service Sector (INSEC), that up to 200,000 people have been internally displaced during the ten years of the Maoists' 'People's War'. Displacement was caused by both sides, i.e. both by the Maoists and by the Army's excessive use

of force and the abuses it committed. Due to the increasing insecurity and threat posed by these armed groups, people fled their own native villages and sought refuge either in their district headquarters or in major cities like Kathmandu, Nepalgunj, Pokhara and Biratnagar. Though no exact figure is available, it is estimated that a large number of people, particularly from the Mid West and Far West regions also fled to India, which has for a long time been a popular migration destination for Nepalese people. They go to cities like Mumbai, Delhi, and Hyderabad and work in very unsafe and unhealthy environments, and then return with number of problems, including HIV/AIDS. The security and care of people infected with HIV/AIDS is another issue that the state now needs to focus on, particularly in Far Western Districts such as Achham, Bajhang, Kailali, Bajura, Baitadi etc.

### *Environmental Insecurity*

Another serious and grave threat to Nepal today is environmental insecurity. The fast degradation of shared rivers, the frequent bursting of glacier lakes and increasing landslides and floods due to torrential rain falls in the mid-mountains are just some of the issues facing Nepal today on the environmental front. Furthermore, increasing urbanization and the growth of unplanned city centres have created serious threats to the health of urban people. A report published by the Asian Development Bank stated that the capital city Kathmandu has become the most polluted city in Asia in recent years. The environment insecurity has been very damaging not only to the social structure but to the economic development as well. The 2014 earth quake was very damaging and it also shows the major shifts in weather of the country and at the same time shows environmental change because of different reasons. This environmental degradation is a challenging task before the Nepal leaders who have to devise short term and long term policies for the protection of the environment and environment security is very important for the overall development of the nation. The sustainable development of the country is not possible without the environmental sustainability and all other developmental aspects are dependent on environmental sustainability.

### **New Constitution and Accommodation of Madhesis**

The emerging internal security challenge with the adoption of new constitution in Nepal is Madhesi issue in the south of Nepal. Though the new constitution is adopted by the majority with 85 percent support (20 September 2015) but there are certain reservations to the Madhesi people against the constitution. The new constitution has failed to satisfy the Madheshis and Tharus who constitute 70 per cent of the Terai population, who regard the formation of seven federal provinces as per the Constitution as grossly unfair to them. The 5 districts of the Terai region – namely Jhapa, Morang, Sunsari, Kanchanpur and Kailali has been joined with the hill districts, with the sole purpose of converting the local people into a minority. The Madheshis and Tharus were sidelined in the entire constitution making process due to prevailing distrust towards them among the mainstream political parties. Of course, the Bijay Kumar Gachhadar-led Madhesi Janaadhikar Forum – Democratic was initially involved in the constitution drafting process; but later on it also had no option but to quit the alliance as its point of view was not entertained.

Consequently, none of the major Madhes-based parties signed the Constitution, which they believe suffers from serious flaws. The new Constitution has a provision for a 165-member Parliament, but the constituencies have been demarcated in such a way that the hill and mountain region would get 100 seats, despite the fact that their share in Nepal's total population is less than 50 per cent. On the other hand, the Terai region constituting over half of the country's population has been allocated only 65 seats.

Because of the insensitivity shown towards the demands of the Madhesi parties, a call was given by the Unified Democratic Madhesi Front and Tharuhat/ Tharuwan Joint Struggle Committee for an indefinite strike in Terai beginning from August 8, 2015. Security Forces personnel used excessive force to suppress the agitation. Even the army was mobilized for this purpose. But, the situation deteriorated fast. During the last couple of months, over 50 people, including 10 security personnel, have been killed. Besides, hundreds of protesters have been injured. Almost all the Terai districts have turned into war-like zones.

Immediately after the promulgation of the Constitution, the ruling political parties including Nepali Congress and CPN-UML celebrated "Diwali", while the Madhesi political parties and Tharuhat Struggle Committee observed it as a black day. Both within and outside the country, the new Constitution was welcomed by one community, while it was burnt by others. Nepal is now widely polarised between those who support and those who oppose the Constitution. China, Pakistan and a few other countries have welcomed the new Constitution, but India has indirectly shown its displeasure over the development, which is worrisome.

The impact of the ongoing Madhesi agitation in Nepal as a whole in general and in the Terai region in particular is quite severe. For more than four months now, life in the Terai region has been paralyzed. All the educational institutions, hospitals, government offices, industries, banks, shops, agricultural activities and transport services have been crippled. Most of the essential items including food grains, petrol and gas are in short supply. Those who depend on daily wages for their livelihood are suffering the most. Movement of people is restricted because of continuous curfew in several places and also due to the deteriorating law and order situation. Amidst all this, unscrupulous elements hostile to India could pose a security risk by taking advantage of the open border between the two countries.

However, the government and the main political parties in Nepal are least sensitive to the needs of their own people; leave alone their concerns about security challenges such a protracted crisis could pose for Nepal and India. Instead of taking any initiative to defuse the crisis, some of them have started blaming India for the troubles. Though there is certainty the fact that India government has taken certain hard measures to compel the Nepali government to take into consideration the demands of the Madhesi people. But, with the passing days this issue has turned very thorny in the relationship between the two neighbours and the need is to resolve it amicably.

All the stakeholders are needed to be very sensitive regarding the internal security of Nepal as their enmity and animosity could lead the state towards larger destruction and the outside forces could also exploit the internal disorder. The better for all stakeholders is to listen to each other and try to resolve the issue amicably through talks.

## **Civil War in Nepal**

Another important security threat, which though has been abated by signing peace accord, is the confrontation between Maoist insurgents and Government forces. Nepal has been ruled by hereditary prime ministers from the Rana clan<sup>1</sup> or monarchs from the Shah family<sup>2</sup> since the 18<sup>th</sup> century. A multiparty interlude from 1959-1960 ended when King Mahendra, father of Gyanendra, suspended the constitution following the election victory of the Nepali Congress Party. From then until 1990 a variety of constitutional formats emerged – none of which allowed for genuinely free political parties. Coming under increasing internal and external pressure, Nepal re-established multiparty democracy within the framework of a constitutional monarchy in 1990. However, democracy failed to quell Nepal's chronic political instability in the 1990s. Maoist rebels began a violent insurgency campaign against the government in rural areas from 1996, attempting to establish a People's Republic. As the pattern of strikes and later bombings intensified through 2001 and 2002, Nepal's constitutional and political order seemed under threat of disintegration. On July 22, 2001 Prime Minister Sher Bahadur Deuba announced a unilateral ceasefire against the Maoists, which they immediately reciprocated. But, the Maoists broke the ceasefire in November 2001, launching coordinated attacks on army and police posts. The conflict intensified over the following year and drew in the full participation of the Royal Nepalese Army. In October 2002, King Gyanendra, facing a growing debate over potential plans to extend the state of emergency as a means to combat the Maoist insurgency, dismissed the government, assumed executive power and assured that the public elections would be held in a timely fashion. However, the insurgency made the holding of elections impossible, and parliament remained disbanded. A January 2003 ceasefire between government and Maoist insurgents collapsed in August that year, sparking a catastrophic return to mass violence: over 1,000 died in the following four months alone. Although the reappointment of Sher Bahadur Deuba as prime minister in June 2004 marked an attempt to heal the rift between the palace and political parties, this ended with the royal coup on February 1, 2005.

This coalition reached a 12-point agreement on a common programme for reestablishing democracy in the country. Some previously mainstream politicians began to question whether the King himself could be part of any solution; indeed, there were independent analysts who increasingly wondered whether the Monarchy itself might ultimately be a casualty of the crisis. This was certainly what the Maoists wished for. However, the end of the monarchy was not part of what became known as the Seven-Party Alliance-Maoist agreement. The security situation had become highly dangerous in many parts of the country by the end of 2005. The Maoists ended a three-month unilateral ceasefire in January 2005. Although they claimed that they controlled up to 90 per cent of the country, the figure was probably nearer to one-third. However, they were able to conduct operations in most of the remaining parts of the country, including areas close to the capital, Kathmandu. The Royal Government arrested hundreds of political opponents and clamped down on the media. Its security forces were accused of being behind many ‘disappearances’, extra-judicial killings and cases of torture of political opponents. The Maoists also committed gross human rights violations in the course of their armed struggle.

Despite widespread domestic and international opposition to his plans, the King announced that municipal elections would be held on February 8, 2006 as the first stage in a ‘transition to democracy’. Fears about the credibility of the municipal elections were borne out by events. Turn-out was extremely low (latest estimated at 22 per cent) and the day was marked by protests against the Royal Government in many parts of the country: The elections triggered a full-blown political crisis. The Seven-Party Alliance and the Maoists announced that they would impose a blockade on the capital, Kathmandu, and launch an indefinite general strike in early April 2006. As the crisis deepened, the bulk of the international community appeared to lose patience with the King. The United States was the most reluctant to criticize him, but even it began to acknowledge that his actions had deepened the crisis. The general strike began on 5 April 2006. After 19 days of escalating protests, on 24 April, King Gyanendra announced that he would reinstate Nepal’s dissolved Parliament and hand over power to the

Seven-Party Alliance. A previous offer on April 21, 2005 to appoint a new government (he disbanded the previous one in February 2005 in a 'royal coup') was rejected by the popular movement mobilized against him, despite considerable pressure on it from most of the diplomatic community to accept the offer. The 24 April 2006 announcement was a clear victory for the Seven-Party Alliance and Maoists. The Maoists were quick to claim credit for the fact that the social base of the popular movement included the poor, ethnic minorities, dalits and other marginalized groups in society. In capitulating, the King also implicitly accepted the November 2005 12-point agreement which had been the basis for the cooperation between the Seven Party Alliance (SPA) and the Maoists. This opened the way to the election of a Constituent Assembly to revise the 1990 Constitution and for peace talks with the Maoists. The Maoists hoped that the Constituent Assembly would ultimately lead to the establishment of a Republic.

The new Government established on April 30, 2006, led by Nepali Congress (NC) veteran Girija Prasad Koirala, took a number of rapid steps towards creating a new democratic order in Nepal. With the endorsement of Parliament, the King was ordered to pay tax on income and property. He was stripped of his status as a divine ruler and lost his immunity from prosecution. The Government also took upon itself powers to appoint (or not) his successor. The 'Royal' in the title of the Nepalese Army was removed and the King's authority over it taken away. The Government is no longer 'His Majesty's Government'. There were moves to end media censorship, including in the crucial sphere of broadcasting. There was particular controversy over the decision to end Nepal's unique status as a Hindu nation by declaring it a secular state. The new Government also declared the deeply flawed February 2006 municipal elections invalid and granted compensation to the families of all those killed by the security forces in the course of the April protests. Investigations into such killings and other abuses were initiated. All political appointments made by the King since the King's seizure of power in October 2002 were also revoked by the Government. In addition, it undertook a review of judicial and civil service appointments since that date. Royal expenditure also came under close scrutiny, including military procurement deals. The Supreme Court also ordered the release of three members of King

Gyanendra's cabinet who had been detained when the new Government took power.

Perhaps surprisingly, many of these moves were met with a mixture of ambivalence and hostility on the part of the Maoists, who argued that major constitutional changes should only be made by the elected Constituent Assembly provided for in the 12-point agreement of November 2005. Nonetheless, the Maoists declared themselves ready to take part in substantive peace talks with the new Government. They declared a three-month ceasefire on 26 April. The new Government reciprocated. Renewed peace negotiations (the first since 2003) began on 26 May. At those talks, a 25-point code of conduct was agreed, designed to end violence and intimidation, while negotiations proceeded. A second round of talks took place in June 2006. The parties signed an 8-point agreement at the talks, which provided for (amongst other things) the dissolution of Parliament, the formation of a broader-based Interim Government and Interim Legislature, both of which would include the Maoists, and the participation of the UN in monitoring a future disarmament process. An interim Constitutional drafting committee was also established. In July tensions arose between the Seven-Party Alliance and the Maoists. Elements within the former were unhappy about the proposal to dissolve Parliament, while there was unease on the Maoist side about the terms of disarmament. However, the ceasefire held and discussions continued. Koirala and the Maoist leader Prachanda often became directly involved. By September 2006, following an impressive show of strength in the form of a short nationwide shutdown, the peace talks got back on track.

In October 2006, the parties agreed that a Constituent Assembly, which would double up as a Legislature, would be elected in June 2007. With the UN Secretary-General's Personal Representative, Ian Martin, playing an important brokering role, negotiations advanced throughout November 2006. On 21 November the Government and the Maoists signed a Comprehensive Peace Agreement (CPA), in which an end to the war was formally declared and the contours of a transition agreed. On 28<sup>th</sup> November, the parties also signed an Agreement on the Monitoring of the Management of Arms and Armies (AMMA). It was witnessed by Ian Martin on behalf of the UN. The Maoists had strongly resisted pressure

to disarm at this stage of the peace process, fearing a trap. While the CPA and the AMMA were a massive step towards peace and the restoration of democracy in Nepal, many pitfalls remained along the way. The first deadlines for forming an Interim Legislature and Government were missed. However, the Interim Legislature met for the first time on January 15, 2007. The composition of the 83-strong Maoist delegation is strongly biased towards previously excluded groups. The old Parliament was dissolved simultaneously. An Interim Government was established on the following day. Although the Maoists did not join immediately, negotiations continued to facilitate their participation. An Interim Constitution was also endorsed by the first meeting of the Interim Legislature and came into force. Concerns were expressed as to whether free and fair elections to a Constituent Assembly would be possible by June 2007, as scheduled. The deployment of UN arms monitors also got under way. Seven main cantonment sites for Maoist forces were agreed in AMMA, where fighters were to be assembled and arms and ammunition locked in secure stores. Both would be registered by the UN, but the Maoists would keep the keys to the stores as part of the deal. The plan was for the Nepali Army to put a similar number of weapons under supervision. In early January 2007, an advance team of 35 UN arms monitors began making inspection visits to the cantonments. The process of locking up and registering weapons and personnel formally began on January 15, 2007, triggered by the convening of the Interim Legislature. The Maoists continued to allow instances of intimidation, extortion and abductions by their cadres to go unpunished, although these were indications that such abuses had declined in recent months. Many rural areas remained effectively under the control of Maoist cadres and militias. The militias were distinct from the People's Liberation Army and were not covered by AMMA. The Maoist 'people's governments' were due to dissolve with the establishment of an Interim Government. The Army and King, while now formally powerless, reluctantly acquiesced in the changes introduced following the political crisis in April 2006. The report of an investigation into abuses of state power and funds since the royal coup of 2005 recommended that action should be taken against 202 people, including Gyanendra. Western donors kept a distance from the peace process, while declaring their broad support

for it, leaving India and the UN to take the lead. However, they remained nervous about the intentions of the Maoists.

The recent transition and adoption of constitution and the present government led by mostly leftist members could usher Nepal into prosperous nation but for that, the present dispensation should try to resolve the internal conflicts with all the stakeholders and usher the nation towards the better future where every citizen could live a happy and promising life.

### **External Threats to Nepal**

#### *The impact of India-China Rivalry to the Himalayan Republic*

Chinese interest in Nepal can be said to make a U-turn in 2008, when bloody protests erupted on the Tibetan plateau. One of China's core interests in Nepal has been to minimize the political activities of Tibetan refugees, which China views as potential threat to its own security. The extended anti-Chinese protests in the streets of Kathmandu in April and May 2008—immediately preceding the Beijing Olympics—seem to have worried the Chinese authorities. Beijing has consistently linked economic and military aid to Kathmandu's adherence to a "One China" policy, a thinly veiled reference to Nepal's ban on political demonstrations by Tibetan exiles.

Over the years, China has increased its aid to Nepal. China has pledged assistance of USD 140 million to Nepal during Prime Minister Wen Jiabao's visit to Kathmandu on January 14, 2012. During discussions with Nepali counterpart Babu Ram Bhattarai, the Chinese leader was also positive to extend support for infrastructure development of the impoverished landlocked country, which may run into more than USD 5 billion. China also pledged to construct an international airport in the second largest city, Pokhara, three large hydropower stations in the west and improvements of roads and creating rail networks. This shows the level of importance China has attached to its close door neighbor on the south. On a similar light, India also pledged approximately USD 220 million grants to Nepal for the year 2012-13. Previous year figures show that Nepal received grants worth approximately USD 130 million in 2010-11 and USD 117 million in 2011-12. These increasing official development assistance (ODA) grants clearly illustrate that India is competing China on all fronts. Actually Indian ODA

figures show that it is only Afghanistan and Bhutan who received more grant aid than Nepal who comes in third on the list from fifth in the region.

Similarly, as a sign of growing rivalry between both nations, China last year committed to provide Nepal with USD 19.8 million in “non-lethal” military aid. This is the biggest amount doled out by Nepal’s northern neighbor as military assistance. China had earlier provided USD 2.6 million in non-lethal military aid and communication logistics worth USD 3 million. This is a strategic move by Beijing as New Delhi was the biggest provider of military assistance to Nepal, but it stopped supplying lethal military aid since former king Gyanendra Shah’s royal takeover<sup>3</sup> in 2005 even though both Indian and Nepalese military has historical ties.<sup>4</sup> These new intrusions into the security and defense sectors of Nepal’s – structurally speaking – most stable political institution sparked a response from the Indian side as New Delhi also gave the nod to resume the assistance during a bilateral talk held between Deputy Prime Minister and Defense Minister of Nepal Bijaya Kumar Gachhadar and his Indian counterpart A.K. Antony in early 2012. It is noteworthy that “Beijing would rather deal direct with the Nepalese Army than with the government, and this reflects the perceived status and stability of Nepal’s army relative to the government” (Campbell 2012).

In another layer of competition over Nepal’s security situation was the Indian suspicion around 2009 that the Maoists were collaborating with China to establish a one-party dominated People’s Republic by its attempt to influence Nepalese Military. The Maoists’ government’s move to sack the chief of the Nepalese Army and to replace him with a ‘sympathetic general’ was perceived as the last straw for India, which saw it as an indirect move by Beijing to extend its influence on Nepal’s military. In a late-night decision, the then President Ram Baran Yadav used his prerogative as the ceremonial supreme army commander to reinstate the army chief. The other political parties in the coalition withdrew their support and the then Prime Minister Prachanda resigned on May 4, 2009. In Kathmandu this was seen as India directly interfering in the reinstatement of the army chief by lobbying the parties for its interests – a move with huge ramifications for the rivalry between India and China and for the domestic polity in Nepal.

Recently, the power play between China and India for influence in Nepal has turned electric, as China has signed a USD 1.8 billion agreement to develop the 760-megawatt (MW) West Seti Project hydropower plant in Nepal. The deal marks the Asian giant's entry into a lucrative sector in the Himalayan nation – water and power – that has been dominated by India for years. It comes in a time when several other major hydropower projects, mainly developed with Indian investment, have stalled for various reasons, including protests by Maoists against the awarding of deals to foreign companies labeling it as “unfair share” of hydropower projects in Nepal. In the beginning of 2012, the Maoists burned the project office of the Upper Karnali Project (900MW), which was awarded to GMR of India.

China's renewed interest in its southern neighbour is not entirely a quid pro quo. In Kathmandu, Chinese tour groups visit the tourist enclave of Thamel and Pokhara, where they frequent Chinese-run restaurants, bookstores, and hospitals. According to the Chinese embassy in Nepal, projects such as the Birendra International Convention Center (now used as Parliament Building) and the capital city's main highway are evidence that “China treats Nepal as its closest neighbor and best friend.” Although these initiatives aim to signify the softer side of Chinese-Nepali ties, China ultimately appears most interested in stifling “anti-Chinese” activities on Nepal's soil. Beijing seems less concerned with Kathmandu's political jockeying than with ensuring that the next government is as pliant as the current one. The Chinese strategy has been to focus fewer resources on national politics and more on localized economic aid, such as building schools in politically sensitive border areas. China main concern appears to be stability, and not who is governing Kathmandu. For China, the ideological difference doesn't make any difference. They had a very good relation with the king. They had a very good relationship with the Nepali Congress party. Beijing also appears to have a good working relation with the present Maoist led government and party and they will have relation with whoever emerges as a stabilizing force in Nepal.

Besides deepening political and military ties, the proliferation of China Study Centers (CSC) across Nepal has also generated a lot of interest and apprehensions in India. According to various news sources in India (Samata 2008; Parashar 2009) ‘the CSC which started as a benign

China-supported informal civil society group in 2000 to promote cultural interaction is growing in membership and has become an effective tool to promote the Chinese perspective on key issues concerning Nepal.<sup>7</sup> Media sources have identified more than 33 such centers, most of which are located in close proximity to Nepal's border with India. These provide Chinese language and culture classes and are often manned by volunteers from China. While enabling greater access to information about Chinese social and economic development, these centers also provide a convenient platform for the dissemination of Chinese policy towards South Asia and India's role therein. Similarly, China Radio International has launched a local FM radio station in Kathmandu with the purpose of bringing China closer to Nepal. China is providing "volunteer" teachers to various schools in Nepal who give Chinese language lessons to Nepali students and exposure to Chinese culture. These are evidences of Chinese so-called "cultural exchange" initiatives and are part of the soft power component of China's foreign policy (Jha 2010; Schmidt 2008).

On the political front, the competition between the two Asian giants is also impacting the political development of Nepal. Even though China has good relations with all political sectors it is unsure about the polity due to the current political stalemate. So unlike India, which has a direct influence in Nepalese polity due to its long-due historical, cultural, economic and political engagement with the monarchy and Congress party, the Chinese strategy seems to establish equidistance relations with the most important political parties and cordially and mutually reinforce its policy direction with economic incentives.

These are testimony that India and China are now in fierce competition in Nepal both in-terms of geo-political and geo-strategic terms. Even though Nepal's relation with India is a very special relationship, there is negligible Chinese influence on the political front of Nepal as India has always been a traditional ally and force for change in the Himalayan region. But obviously, one can see that Chinese influence has been growing in geo-strategic terms. The Indian political and bureaucratic class has over the years neglected to establish broader ties with all political entities and appears to have created a situation of negligence and high-handedness – what critics would call arrogance and supremacy.

## **Tibetan & Bhutanese Refugees**

Another important external security threat to Nepal is growing refugee problems. Crippled with the destruction caused by the bloody Maoist insurgency which has taken 13,000 lives since 1996. Nepal has the additional burden of harbouring refugees from the neighbouring countries. Jhapa and Morang that shelter the refugees from Bhutan are considered the two most politically volatile districts of the country. The refugees entered Nepal through India in the early 1990s as Nepal and Bhutan do not share a border with each other. At times, the refugees forcefully have tried to do the same in their quest to go back to their rightful motherland. On August 3, 2005, about 300 refugees from Beldangi Camps I, II and III moved towards the Mechi Bridge in the Indo-Nepal border. They were led by S.B. Subba (Chairman, Human Rights Organization of Bhutan) and others from the Bhutan Gorkha National Liberation Front. There was a stone-throwing incident and three journalists were injured as the refugees were not allowed to cross into Indian Territory by the Sashastra Seema Bala, India's paramilitary force. This incident naturally exposed the double-standard policy adopted by India concerning the Bhutanese refugees while greatly embarrassing Thimpu as the clash at the Indo-Nepal border received international media coverage.

There are deep frustrations as the second generation of refugees, now in their teens, is keen for an armed struggle rather than "wasting time" in dialogue or negotiations. In fact, radicalization may take different forms. Many refugees are encouraged from the success of the Nepalese Maoists while others want to shake hands with separatist groups such as the United Liberation Front of Asom. The million-strong Nepali Diaspora in India can also turn sympathetic to the cause of their fellow brothers in Bhutan. A sub-region that is already unstable due to several ethnic and separatist movements could turn explosive if the Bhutanese refugee problem is not resolved as soon as possible.

Of the estimated 131,000 Tibetans living outside Tibet, there are 100,000 in India, 25,000 in Nepal 2,000 each in Bhutan and Switzerland, 600 in Canada and 1,500 in the United States. Under a "gentleman's agreement" between Nepal and the UNHCR, Tibetans arriving in Kathmandu are permitted to transit safely through Nepal. Most refugees

are then transferred to the government-in-exile set up by the Dalai Lama in Dharamsala in northern India, while others apply for visa for the United States and its embassy in Kathmandu provides them with the travel permit. Those who prefer to live in Nepal enter the lucrative carpet-weaving business whereas others open up lodges and hotels. Most of the hotels in Boudha or Thamel area of Kathmandu are run by Tibetans. This has been the established pattern for the last half a century.

It is only when the refugees begin to engage in anti-China activities, it irates the Nepal government. With nudges from Beijing, the Nepali administration sometimes hands over identified activists in the guise of refugees to the Chinese police and even closes down the Refugee Welfare Office like it did in January 2005. Immediately after the closure, Brad Adams, Asia Director of the Human Rights Watch, said, "The Refugee Welfare Office has been a critical safety net for tens of thousands of persecuted Tibetans. Closing the office leaves thousands of Tibetan refugees without crucial support. It is unclear how the United Nations High Commissioner for Refugees, which has worked closely with the Tibetan Refugee Welfare office, can continue its activities in support of Tibetan refugees in Nepal." Similarly, in June 2003, Nepal handed back escaping refugees to China and received international condemnation including that from the United States senators, the State Department, the European Union parliamentarians and the UNHCR itself. Human rights organizations, criticizing the action said, "It has set a frightening precedent for the treatment of Tibetans trying to flee to safety." However, one can understand Nepal walking on a tight rope – squeezed by two giants on either side; it has to tread carefully in between major international powers, donor countries and multilateral financial institutions. It can ill-afford to annoy anyone of them and this, at times, becomes a grueling diplomatic task.

This problem is going to harm the security of Nepal which presently is going through very tuff times and the need is to devise a security mechanism to control the flow of refugees.

### **Economic Blockade**

Another very important recent external security threat to Nepal is economic blockade. Nepal is a landlocked state and this itself is a perpetual threat

to Nepal security. The current stalemate between India and Nepal over different issues from new constitution to economic blockade has brought the relationship between the two states to a new low. India has raised certain concerns about the new constitution, and has also adopted aggressive economic diplomacy to fulfill its interests as well the interests of Madhesi community in Nepal. Now the national economy is edging toward a standstill due to, what Nepal says, a 'trade blockade' imposed by India. These steps have been taken to compel Nepal to take into consideration the concerns and it was in this direction that new sort of steps were taken in the form of economic blockade. The stalemate continues to elude the better understanding between the two sides and at the same time has posed serious security concerns to Nepal. Nepal has recently suffered two devastating earthquakes and on the other side it is heavily dependent on India for importing most of its day to day products. Nepal's desperation is clear as it has sought help from United Nations. Although India reportedly has decided to discontinue the economic blockade, problems remain unresolved. In 1989 the India had blocked economic goods to Nepal for almost one year.

This kind of security concern would remain there until the relationship between the two states would get institutionalized and for that both states should try to resolve the differences. It is certain that Nepal has to keep this thing in mind that India is leading and big country in the region and this kind of fact could not be wished off and at the same India should also keep in mind that Nepal is a sovereign state as well as a neighbour and maintenance of good ties with it could not be sidelined.

### **Recommendations and Suggestions**

To ensure peace and security in the society by meeting those serious threats, the Government of Nepal should take some policy level, institutional and organizational steps at the earliest possible. The following suggestions are imperative to assure internal as well as external security.

1. Internal and external security threats are arduous and multidimensional. Therefore the government should draft national security policy to face internal and external security threats by having serious consultations with different political parties and

other stakeholders, taking into consideration the changed political context.

2. National security policy of Nepal should be drafted in line with the broader concept of human security.
3. The security agencies of Nepal (the Nepal Army, the Nepal Police, the Armed Police Force, and the National Investigation Department) need to be mobilized for the effective maintenance of the rule of law.
4. The Government of Nepal should enhance the capacity of security agencies to boost their professionalism, ability and performance by providing advanced trainings, technology and instruments.
5. Nepal is at high risk of disaster caused by natural calamities, climate change, destruction of forest and environment, unplanned urbanization, manmade physical structures, etc. Hence, with the view of providing assistance and relief to the victims as well as reducing and managing such incidents, the security agencies should be developed as competent agencies in dealing those challenges.
6. Armed and criminal groups that are active in the country should be identified and disarmed. Their political demands should be addressed through the processes dialogues. Criminal, illegal and armed groups should be brought under control of the government as per the law.
7. Inclusive economic development is of paramount importance for the overall progress of the state. There are rising economic inequalities in the Nepali society and the growing inequality could obliterate the already feeble society. The need of the hour is to take certain steps to curb the growing inegalitarian tendencies in the development so that everyone could progress equally.
8. Political stability is fundamental for the existence of the states. Lack of political stability could pose serious challenges to the state and Nepal cannot afford to live for long with political instability. The immediate need is to take all the stakeholders into consideration for the better nation building.
9. The question of India-China influence cannot be wiped-out from the foreign policy of Nepal, but what is needed to be done is to

balance the India-China conundrum because both nations are equally important as far as the peaceful Nepal is concerned.

10. The state of Nepal has suffered a lot from the fragmented nationalism in the past. The transition from Monarchy to a democratic setup is positive one but it should be sustained, strengthened as well as more democratized to make it a more liberal democracy. The need of the hour is to give a definite direction to a nation as well as to unite the divided communities under a single banner and inculcate a sense of nationalism among them.
11. The post-constitution adoption scenario in Nepal has shown certain dangerous cracks in the state, which, if not solved immediately could prove very suicidal to the future of the nation. In fact it is not the question of Madhesi community or of Terai region only but it is the future of nation as a whole which is at stake. So the need is to accommodate every section of the Nation.

## References

- Ayoob, Mohammed. 1997. 'Defining Security: A Subaltern Realist Perspective'. In *Critical Security Studies: Concepts and Cases*, ed. K. Krause and M. Williams. London: Taylor and Francis.
- Baldwin, David A. 1997. 'The concept of security'. *Review of International Studies* 23(1): 526.
- Booth, Ken. 1991. 'Security and Emancipation'. *Review of International Studies* 17(4): 313326.
- Booth, Ken. 2007. *Theory of World Security*. Cambridge: Cambridge University Press.
- Brown, Seyom. 1992. *International Relations in a Changing Global System: Toward a Theory of the World Polity*, Boulder: Westview Press.
- Buzan, Barry. 1991. *People, States and Fear: An Agenda for International Security Studies in the Post Cold War Era*. London: Harvester Wheatsheaf.
- Campbell, Ivan. 2012. *China and conflict-affected states: Between principle and pragmatism – A Case Study of Nepal*, Saferworld Publication, Kathmandu
- Carnesale, Albert and Michael Nacht. 1976. 'Forward'. *International Security* (1): 2.
- Cox, Robert W. 1981. 'Social Forces, States and World Orders: Beyond International Relations Theory'. *Millennium – Journal of International Studies* 10(2): 126155.
- Dahal, Dev Raj. 2001. "Geopolitics of Nepal: Survival Strategy of a Small State," ed. Anand Aditya, *The Political Economy of Small States*, Kathmandu: Nepal Foundation for Advanced Studies.
- Falk, Richard. 1995. "The Challenge of Politics: Overcoming Realist Myopia, Implementing Rooted Utopianism," eds. Allan Race and Roger Williamson, *True to this Earth*, Oxford: One World.

- Gallie, Walter Bryce. 1956. 'Essentially Contested Concepts'. *Proceedings of the Aristotelian Society* 56: 167-198.
- Huntington, Samuel P. 1968. *Political Order in Changing Societies*, Bombday: Vakils, Feffer and Simons.
- Kaldor, Mary. 1999. *New and Old Wars: Organized Violence in a Global Era*. Oxford: Polity Press.
- Khurram Iqbal and Safdar Sial, "Armed Conflicts in South Asia: Overview and New Dimensions", dated: 07-06-2007, *Pakistan Institute for Peace Studies*. In this report only Maldives was reported as the South Asian country free from any internal or external conflicts.
- Kolodziej, Edward A. 1992. 'Renaissance in Security Studies? Caveat Lector!' *International Studies Quarterly* 36(4): 421-438
- Lasswell, Harold Dwight. 1936. *Politics: Who Gets What, When and How?* New York: McGraw Hill Book Company.
- McDonald, Matt. 2012. *Security, the Environment and Emancipation: Contestation over Environmental Change*. London: Routledge
- McSweeney, Bill. 1999. *Security, Identity and Interests*. Cambridge: Cambridge University Press.
- Mearsheimer, John J. 1999. "Back to the Future: Instability in Europe after the Cold War", *The New Shape of World Politics*, New York: Foreign Affairs.
- Meyer, Thomas. 2004. *Military and Democracy*, Jakarta: FES.
- Morgenthau, Hans J. (1946). *Scientific Man Vs Power Politics*, Chicago: The University of Chicago Press.
- Muni, S.D. 1993. *Pangs of Proximity*, Sage Publications, New Delhi
- Parashar, Sachin. 2009. "China using Nepal Study Centers for Spying?" *The Economic Times*, October 1, 2009
- Peoples, Columba, and Nick Vaughan Williams. 2010. *Critical Security Studies: An Introduction*. London: Taylor and Francis.
- Samata, Pranab Dahal. 2008. "Pro-China Centers, calling for reduced ties with Delhi, sprout along Nepal border with India", *Indian Express*, February 11, 2008
- Scalapino, Robert. 1986. "Legitimacy and Institutionalization in Asian Socialist Societies," eds. Robert A. Scalapino, Seizaburo Sato and Jusuf Wanandi, *Asian Political Institutionalization*, Berkeley: University of California.
- Shrestha, Chuda Bahadur. 2004. *Nepal: Coping with Maoist Insurgency*, Kathmandu: Chetana Lokshum.
- Smith, Steve. 2005. 'The Contested Concept of Security'. In *Critical Security Studies and World Politics*, ed. K. Booth. Boulder: Lynne Rienner Publishers.
- Strange, Susan. 1996. *The Retreat of the State: The Diffusion of Power in the World Economy*, Cambridge: Cambridge University Press.
- Webersik, Christian and Manish Thapa. 2008. "Nepal: Climate Change and Security Factsheet," Tokyo: United Nations University.
- Weiner, Myron. 1986. "Institution Building in South Asia," eds. Robert A. Scalapino, Seizaburo Sato and Jusuf Wanandi, *Asian Political Institutionalization*, Berkeley: University of California.
- Wimmer, Andreas and Conrad Schetter. 2002. *State Formation First: Recommendations for Reconstruction and Peace Making in Afghanistan*, No. 45. Bonn: ZEF.

- Wolfers, Arnold. 1968. *Discord and Collaboration: Essays on International Politics*, Baltimore: The Johns Hopkins University Press.
- Wolfers, Arnold. 1981. *Discord and Collaboration: Essays on International Politics*, Baltimore: The John Hopkins University.
- Wyn Jones, Richard. 1999. *Security, Strategy and Critical Theory*. Boulder: Lynne Rienner Publishers.

## Endonotes

1. The Rana dynasty was a Khas dynasty which claimed Rajput ancestry which ruled the Kingdom of Nepal from 1846 until 1951, reducing the Shah monarch to a figurehead and making Prime Minister and other government positions hereditary.
2. The Shah Dynasty was the ruling dynasty of the Gorkha Kingdom until 1768 and of the Kingdom of Nepal from 1768 to May 28, 2008. The dynasty claimed ancestry in the Parmara clan of Rajputs of Rajasthan India.
3. King Gyanendra on February 1, 2005 sacked the interim government, suspended civil liberties and imposed emergency rule and took over the government under his leadership and put the major political party leaders under house arrest. The International community including India was against this move and referred it as a serious blow to the democracy in Nepal.
4. There is a long tradition of exchange of high-level goodwill visits between the two armies. It began in 1950 with the visit of former Indian army chief Gen. K. M. Cariappa. On such goodwill visits, both Army Chiefs of Nepal and India would be conferred with honorary title of Chief of each other's military due to the historic connection between Nepal and India.

# 5

## **The Yam between Two Boulders: Analyzing the Impact of Sino-Indian Power Dynamics in Nepal**

Bibek Chand

### **Abstract**

This paper seeks to analyze Nepal's foreign relations in the context of its geopolitical position between India and China. Since the emergence of an independent India, Nepal's foreign policy has been a precarious balancing act between its two larger neighbours. Despite close cultural, economic, religious, and political ties with India, the increased influence of China in Nepal has been a source of contention in Indo-Nepalese relations. In the backdrop of the increased Sino-Indian dynamics of competition in Nepal, this paper seeks to extrapolate on how this competition is played out within the country. Nepal's geographic proximity to the Tibet Autonomous Region of China and the riots of 2008 in that region has further heightened China's security concerns in Nepal. As China seeks to increase its influence in Nepal, India's own security concerns have become heightened, as India and Nepal share a porous and open border contingent with the 1950 Treaty of Peace and Friendship. In essence, this work extrapolates on the heightened Sino-Indian competition in Nepal, analyzing the changed context of such power dynamics and the tools utilized by both India and China to increase their influence in Nepal. It will further shed light on how Nepal's domestic governments have responded to such heightened interests

of the country's contiguous neighbours, particularly in a changed political landscape of Nepal.

## **Introduction**

The geopolitical location of Nepal has dictated much of its foreign policy. Its conduct of international relations is largely contingent to its landlocked position between India and China. The location of Nepal in between contending and rising regional powers makes the country relevant for the security of both of its two giant neighbours. Geographic contiguity of the three states and strategic interests of the rivals, India and China, make Nepal an important part of the security apparatus in the region. Despite close cultural, economic, religious, and political ties with India, the increased influence of China in Nepal has been a source of contention in Indo-Nepalese relations. As China seeks to increase its influence in Nepal and the rest of South Asia as well, India's own security concerns have become heightened, since India and Nepal share a porous and open border as part of the 1950 Treaty of Peace and Friendship. In essence, Nepal's conduct of diplomacy has largely concerned its much larger geographic neighbors and the dynamics of interactions rests on the wider strategic competition between India and China. As China makes inroads in the traditionally Indian influenced region of South Asia, Nepal's strategic role is bound to be heightened.

This work seeks to analyze the political push and pull between India and China in Nepal and how Nepal's internal political players have approached the precarious balancing act between the country's two neighbors. In order to explain Nepal's geopolitical wrangling contingent with its location between two regional powers vying for influence, the country needs to be contextualized within the larger concept of buffer states. Such states are small countries in between contending larger powers that serve as geographic separators and political cushions. The next section sets up the Sino-Indian competition and rivalry in order to understand why Nepal has emerged as a buffer. The succeeding section analyzes Sino-Indian competition in Nepal in five historical timeframes, which will be extrapolated in its respective sections. This expansive section analyzes Sino-Indian contention in Nepal, while also providing the latter's approach

to the diplomatic realities it had to tackle as a small state being between much larger powers. Finally, the last section will tie in the buffer concept with the four time frames and conclude the chapter.

### **Contextualizing Nepal as a Buffer State**

The concept of buffer state traces its roots in geopolitical thought. In the simplest of terms, a buffer state is a small country lying between two larger powers, often rivals (Mathisen 1972: 126). Geographic contiguity is essential in the establishment of a buffer system, which consists of the buffer state and the rival states it separates. Although its conceptual basis is much older, the modern terminology of the buffer state came into use in 1883 (Ross 1986: 16). The concept was employed by the British in its overseas possessions extensively, through the creation of buffer states to safeguard its imperial geo-strategic interests. Afghanistan remains an important example of the employment of this concept, as it was used as a buffer to separate British possessions in India from Imperial Russia's geographic possessions in Central Asia (Ross 1986: 20). The logic behind the maintenance or creation of buffer states was to provide geographic safety to the core of the larger states that share borders with that buffer state. They served as early warning systems against impending military invasions and cushioned some of the costs that would have directly been incurred by the larger powers. Nevertheless, the buffer state is not a purely geographic concept; the rival countries that a buffer state separates are engaged in a strategic competition to further enhance their influence in the buffer; the rival powers seek to ensure heightened security for their respective countries (Gear 1941: 81-86). Maintaining influence over the buffer state allows the larger states to promote their own interests in the smaller state and perhaps, compromise the security of the contending power through the buffer state. Although a small state, the buffer has strategic value due to its geographic location between much larger contending powers that are engaged in strategic competition to gain a vantage point in the buffer state.

The predicament of the buffer state as a small country in between rival larger powers is reflected in its foreign policy as well. Given the limited political maneuverability available to such states, much of the buffer state's

diplomacy is tied to its geographically contiguous neighbors. Nepal too, finds itself in a similar predicament. The country emerged as a unified state in 1769 after numerous military campaigns led by King Prithvi Narayan Shah of Gorkha; he consolidated petty hill states and the three Malla kingdoms in the Kathmandu Valley into a united country, which he later named Nepal (Tyagi 1974: 41). At the time of its establishment as a unified state, Nepal's first monarch King Prithvi Narayan Shah conceptualized the erstwhile kingdom as a "yam between two boulders," conspicuously capturing the geopolitical reality of Nepal between two much larger powers (Upadhyay 2008: 4). Hence, the title of this chapter is borrowed from his description of Nepal as it accurately encapsulates the foreign policy conundrum of the country due to its geopolitical reality. It was not only the founding monarch of Nepal who perceived the country as a small state between larger powers, the British government in India utilized the buffer concept in South Asia as well, using Tibet and Nepal as double buffers to demarcate its regions of interest from that of the Qing Dynasty in Beijing (Garver 1991: 956). Compared to China with a population of 1.3 billion and India with a population of 1.2 billion, Nepal's 31 million inhabitants are incomparable to the enormity of its giant neighbors (CIA Factbook 2015). In addition, Nepal's geographic location as a landlocked state between India and China, which have been engaged in strategic competition, certainly qualifies Nepal's status as a buffer state. Its buffer function is not limited to separating its two giant neighbors; it has also experienced the ebbs and flows of the Sino-Indian competition and has attempted to utilize a precarious balancing act in its foreign policy.

In essence, Nepal is a buffer state between India and China, which faces the tumultuous task of walking the strategic tightrope between the two giants it borders. Additionally, China's increasing interest in South Asia and particularly in Nepal further reinforces the case that Nepal as a buffer state is also geo-strategically important as both of its neighbors attempt to expand their influence in Nepal. Thus, Nepal's foreign policy is constrained by its buffer position. As India seeks to maintain its leverage in the country and China extends its influence with its rising material capability internationally, Nepal maintains an important geo-strategic position due to heightened contention between India and China in the

country. The following section elaborates the Sino-Indian competition in Nepal.

### **Sino-Indian Rivalry**

Interstate rivalry has been a consistent facet of international system since the initiation of its study. Rivalry does not always entail military confrontations; threat perception can suffice in the maintenance of rivalry. Usually, rivals are dyads with equal capability, as neither of them can impose the will on the contending state which, in turn, further spurs conflict of interests (Thompson 2001: 560). The Sino-Indian dyad showcases the characteristics of rivalry, as neither side can impose the will of the other but these conflicts of interests have manifested as competitions in the smaller states in their peripheries. The Sino-Indian rivalry can be traced back to the era of the Cold War. In the postcolonial period after the Second World War, India was attempting to establish itself as the leader in Asia by taking a strong initiative role in the Non-Aligned Movement (Garver 2010: 84). India, being a close Soviet ally, was viewed with caution by the newly established People's Republic of China. The Tibetan uprising of 1959 and the subsequent departure of the Dalai Lama solidified the conflicts of interests between China and India. The contention between the two giants of Asia further exacerbated due to border disputes in Arunachal Pradesh and Aksai Chin. This will be further elaborated in the succeeding paragraphs.

Nepal's buffer role also fits the conceptual framework of conflict of interests between geographically contiguous regional powers. As neither side can impose the will on the other, their competition manifests in other geographic spaces, including geographically peripheral states. Nepal is part of both India and China's geographic periphery. Geographic contiguity raises the prospects of military conflict, which in turn supports the importance of buffer states as political and geographic cushions between larger powers (Diehl 1985: 1206). Thus, Sino-Indian competition is in play in Nepal through geostrategic competition as it fulfills the role of the buffer state. The likelihood of direct Sino-Indian clash has diminished immensely due to advent of nuclear weapons and also, the cost for a large scale contingent in case of a conflict is bound to be immense in scale.

Small states become the quintessential part of the geostrategic equation as they serve as a political space for competition between the larger powers, in this case, Nepal as a political space for Sino-Indian competition. The purpose of such a competition, as aforementioned, rests on the security of the core of the large powers as intrusion in the small state can be a stepping stone towards extensive compromise of security of the contending large state. Thus, Nepal serves as a buffer between India and China, while the two larger states vie for influence in the small mountainous state.

### **Sino-Indian Competition in Nepal**

For the analysis of Sino-Indian competition in Nepal, the historical timeframe has been divided into five periods. Since the paper focuses on the modern relations of Nepal with its contiguous neighbors, the starting date will be 1947 up to the present year of 2015. The starting year is chosen to be 1947 given that India achieved independence in that year and hence, it initiates the modern relations between India, Nepal, and China. The periodization of the timeframe is an attempt to compare and contrast Sino-Indian competition in the context of critical events in Sino-Indian, Sino-Nepalese, or Indo-Nepalese relations. This comparison of the four periods seeks to analyze if critical events in diplomatic relations between either two or all three of the countries have changed the manner in which one or both larger states approach Nepal. The framing helps decipher changes of Sino-Indian dynamics in Nepal.

#### **The Beginnings: 1947-1955**

Period 1 begins in 1947 as it was the year India gained independence and thus, serves as a marker for the initiation of relations with other states. The end year 1955 signifies the ascension of King Mahendra to the throne of Nepal, which signified a change in the foreign policy approach of the country. Thus, Period 1 signifies the beginnings of Sino-Indian rivalry. This section seeks to analyze the impact of the beginning of that rivalry in Nepal, a development that would change the importance of the geostrategic location of the country. The departure of the British from South Asia and the emergence of India as a regional power led to new political realities for Nepal. The prior official relations were between the British

and Nepalese governments; the British were a distant power with little cultural, religious, or linguistic commonality with the Nepalese. India's independence confronted Nepal with a much larger state with which it shared extensive commonalities; there was fear amongst Nepalese elites of becoming absorbed in India (Chaturvedy 2012: 292). As for India, it continued to strategize Nepal and Tibet as double buffers separating China, a policy the British had utilized earlier.

The security dynamics of the region changed in 1950, with the incorporation of Tibet into the People's Republic of China. India condemned the move by China. Furthermore, it provided political asylum to the Tibetan spiritual and political leader, the Dalai Lama, after the failed Tibetan uprising in 1959 (Egreteau 2012: 8). Independent India was a contiguous neighbor of another major Asian power, the People's Republic of China. Nepal's role as a buffer intensified given that it was now surrounded by two giants, which had begun to show relations of rivalry over the Dalai Lama and Tibet. India acted promptly and invited Nepal to sign the Treaty of Peace and Friendship in 1950, which firmly entrenched Nepal within India's security umbrella (Baral 1992: 817). By signing the Treaty, there were constraints in Nepal's ability to conduct foreign policy, particularly since it limited the country's arms purchases to come exclusively through India (Baral 1992: 818). The 1950 Treaty reads that:

Any arms, ammunition or warlike material and equipment necessary for the security of Nepal that the Government of Nepal may import through the territory of India shall be so imported with the assistance and agreement of the Government of India (Subedi 1994: 276).

The signing of the 1950 Treaty was strongly motivated by India's security concerns along its Himalayan frontiers with China. As the erstwhile Prime Minister Jawaharlal Nehru of India had stated, 'We cannot allow anything to go wrong in Nepal or permit that barrier to be crossed or weakened because that would be a risk to our security' (Nayak 2010: 581). As for Nepal, there were multiple motivations. The incorporation of Tibet raised alarms in Nepal of something similar happening to the country; in addition, India was to provide free movement of peoples and goods across borders,

allowing Nepal a conduit for economic growth (Nayak 2010: 581). Thus, there were motivations for both India and Nepal to sign the Treaty, which they did. Nepal was firmly entrenched under the Indian security umbrella, serving as a buffer but within the overwhelming influence of India. Nepal had not established diplomatic relations with the People's Republic of China yet. Until 1955, India enjoyed overwhelming influence in Nepal. With the ascension of King Mahendra to Nepal's throne, a new foreign policy approach appeared in Nepal.

### **New Turns: 1955-1962**

King Mahendra's reign in Nepal is characterized as a turning point in Nepalese foreign policy. Having witnessed the establishment of diplomatic relations with the People's Republic of China and Nepal's entry into the United Nations; King Mahendra sought to balance Indian preponderance in Nepal through diplomatic diversification and enhancing Nepal's international standing (Baral 1986: 1210-11). The 1950 Treaty of Peace and Friendship had allowed India to be a preponderant power in Nepal but King Mahendra sought to balance that. By establishing diplomatic relations with China, there would be more room for foreign policy maneuvering for Nepal. The Nepalese administration under the King took it a step further by establishing a road link from the Chinese border to the Nepalese capital, Kathmandu (Ray 2011: 433). Thus, India's monopoly on trade with Nepal was broken; a significant trade route was established between Nepal and the Tibet Autonomous Region of China – named Araniko Highway after the medieval artisan from Nepal who had travelled to Beijing. The new road allowed an alternative to exclusive dependence on India for trade albeit geography was a rather significant impediment for fostering strong Sino-Nepalese trade ties.

The beginning of 1955 heralded a new foreign policy in Nepal. The initial fear of being incorporated by China gave way to extensive Indian influence in Nepal. Under the rule of King Mahendra, the Nepalese state sought to balance Indian influence. China was a favorable alternative given its geographic proximity. The motivation for China could be calculated in regards to its contentious relations with India. Weakening Indian influence in Nepal would allow China to make its own presence felt, for the first

time on the other side of the Himalayas. Hence, Nepal emerged as a buffer that was still largely under the Indian security umbrella, but it was now susceptible to Chinese intrusion, one that the Nepalese elites welcomed as a balance against overwhelming Indian influence.

Nepal was reminded of its position of still being within the security umbrella of India in 1962, the year it went to war against China (EgretEAU 2012: 8). Although Nepal maintained neutrality throughout the war, it heeded to India's request to halt construction projects funded and run by the Chinese government in the country's southern region adjoining India (Ray 2011: 434). Despite increasing Chinese political role, Nepal showcased pragmatic leaning towards India due to its heavy dependence on that country for trade and economic investment. The Sino-Indian War of 1962 was a critical juncture that alerted Nepal of the dangers inherent in a buffer system; the larger powers are much more powerful and diplomacy for small buffer states is further constrained during war periods. It is not uncommon for buffer states to maintain neutrality when the larger states that buffers separate go to war, as it is realistically helpless and severely constrained strategically (Partem 1983: 15). Although new turns did come about since 1955 in Nepal's foreign policy, India remained the primary player in Nepal providing a majority of its investments and trade. Nevertheless, the growing Chinese interest in Nepal put India in a precarious situation, one that became even more important after the outbreak of the 1962 border war. The strategic rivalry between the two Asian giants culminated in conflict, which in turn exacerbated their strategic rivalry in the post-conflict period. Nepal too, was becoming increasingly important as a political ground for the Sino-Indian strategic competition to play out but was still within India's security sphere.

### **Birth of Bangladesh and Economic Blockade of Nepal: 1962-1989**

Nepal's domestic political situation during the 1962 war between India and China was dismal. The absolute government of King Mahendra was being challenged by forces based in India, particularly the Nepali Congress. However, the outbreak of the Sino-Indian War witnessed the termination of any movements against the royal government in Nepal as the security

of the state was being compromised (Rose 1964: 723). King Mahendra used the opportunity to consolidate this power, further strengthening his precarious balancing approach to India and China. His previous foreign policy allowing more Chinese influence was continued to balance India's influence (Hutt 2007: 16). Not only did he restrict the commercial and businesses activities by Indians against the spirit of the 1950 Treaty, he offered projects to China in the Terai region of Nepal, the southern belt of Nepal contiguous to India (Nayak 2010: 582). The 1960s in Nepalese politics entailed efforts by the absolute monarch to consolidate power and diminish the influence of democratic political parties.

Albeit not a direct disjuncture in relations between India, China, and Nepal, the emergence of conflict in erstwhile East Pakistan raised major issues in the region. Based primarily on ethnic and linguistic distinctions, the Bengali speaking East Pakistan attempted to create an independent state (Chowdhury 2013: 85). The swift defeat of West Pakistani forces by the Indian forces served as a reminder to Nepal that India was indeed a major regional power and it had to prod carefully when forging closer ties with China. Not only had India deployed a successful military campaign, it showed the willingness to use force in its neighborhood. The Nepalese elites were reminded of India's geopolitical security concerns and the need to acknowledge it; Nepal was one of the first states to recognize an independent Bangladesh much to the chagrin of the West Pakistani government which broke off diplomatic ties (Baral 1986: 1211).

Time and again, Nepal sought to balance Indian influence with that of China. But, critical junctures in diplomacy have repeatedly revealed the preponderance of India in South Asia. Be it during the 1962 Sino-Indian War or the Bangladeshi Liberation War of 1971, Nepal has been highly sensitive in accommodating India's security interests despite growing Chinese interests in South Asia. The Indian administration, too, was not complacent to growing Chinese influence in Nepal; it was wary of external intrusion in a state that even Nehru had called as being a core part of the Indian state's security. In 1989, India closed off a majority of the transit points to Nepal; out of 22 functional transit routes, only 2 were kept open (Ray 2011: 445; Chaturvedy 2012: 295; Baral 1992: 819). The context of the economic blockade goes back to the 1950 Treaty between the two

countries. King Birendra had succeeded Mahendra in 1972 after the latter's death. In the aftermath, King Birendra sought to assert Nepalese foreign policy independence by purchasing Chinese arms and undermining the 1950 Treaty requirement that all arms were to be purchased or transported through India (Nayak 2010: 584). Despite China's assurance that it would help Nepal, there were limitations given the geographic difficulty posed by the Himalayas and the lack of extensive market networks that existed between India and Nepal (Dabhade and Pant 2004: 162). In addition, Nepal's border with India consists mostly of flat lands which are heavily populated by groups who share ethnolinguistic commonalities. The economic blockade of Nepal was clearly a strategic move by India to express its concerns regarding Nepal's growing closeness with China.

The period between 1962 and 1989 witnessed the ebb and flow of Chinese and Indian interests in Nepal. The growing Chinese influence in Nepal was repeatedly rebuffed by India through the mobilization of its coercive strategies, although it was more indirect during the Bangladeshi Liberation War of 1971. Indian concerns showcase the importance of Nepal in its strategic calculations and the country has not backed off from utilizing coercion. In the domestic political landscape of Nepal, the monarchy, first under Mahendra and later under Birendra, sought to balance Indian and Chinese interests with limited success.

### **Democrats, Maoists, and Monarchs: 1990-2008**

Nepal's monarchy had since King Mahendra's reign attempted to balance Chinese and Indian interests. The absolute rule of the monarchs came to an end in 1990, when Nepal emerged as a constitutional monarchy with elected heads of government. Relations between India and Nepal improved given that Nepalese democratic forces, the political parties, had always found refuge in India (Ray 2011: 447). The multiparty democracy that emerged after the mass movements of 1990 allowed India to play a more intricate role in Nepal given its own history of democratic politics and support for Nepalese political parties.

While the introduction of multiparty democracy and constitutional monarchy allowed India more room for influence in Nepal, the latter's own domestic politics witnessed turmoil. Outlining centuries of economic

disparity and marginalization, the Communist Party of Nepal – Maoist launched the People’s War in 1996; the Maoists sought to overthrow Nepal’s monarchy and establish a communist republic (Nepal, Bohara, and Gawande 2011: 887). The launching of the People’s War was just the beginning of the problems, Nepal would face. In 2001, King Birendra, the ruling Nepalese monarch at the time was murdered along with several other members of his family by his own son, Crown Prince Dipendra (Ray 2011: 455). The deceased king’s brother, Gyanendra, ascended the throne. King Birendra had acceded to the democratic movement of 1990 but Gyanendra reversed democratic gains by dismissing the government of Prime Minister Sher Bahadur Deuba and assumed executive control in 2002 (Krämer 2003: 208-14). He rationalized the takeover as an attempt to bring stability to the Nepalese state, which had suffered because of the Maoist rebellion as his predecessor had refused to mobilize the Royal Nepalese Army fearing an escalation in violence.

The debacle that followed the royal takeover in Nepal showcased contending approaches by India and China. India emphasized the importance of returning back to a democratic system of governance, fearing that the new monarch would take a more pro-China approach. India had historically sought to promote democratic values in its neighboring states. King Gyanendra’s coup was against the very notions of such values, as his administration curtailed civil and political liberties (Chellaney 2005: 36). In the spirit of democratic values, India firmly criticized the royal takeover but the greater concern was the historical susceptibility of the Nepalese monarchy to use what was called the “China Card.” Balancing Indian influence by bringing in China into the equation was a hallmark of the Nepalese monarchy since the time of King Mahendra. Nevertheless, China backed off from supporting the Maoists and instead supported the royal government, citing the developments in Nepal as its own internal matter (Dillon 2005). The ironical situation of Mao’s homeland not supporting those who drew from his ideology showcases China’s attempt at maintaining favor with the Nepalese government, while the Indian administration was clearly concerned with Beijing’s cozying up with King Gyanendra.

As was the case for much of Nepal’s modern history, it was yet to go through another transformation. In 2006, the political parties sidelined

by the monarchy joined forces with the Maoists. Under immense domestic and international pressure, King Gyanendra abdicated and returned the power to the civilian government (Ray 2011: 460). The victory of the Jana Andolan 2 or people's movement in English was to usher in a new era of democracy in Nepal, a development India had openly welcomed. But, in the 2008 Constituent Assembly elections, the Maoists had emerged as the largest party after its entrance into the mainstream political arena of Nepal. Much to the chagrin of India, the Maoists espoused a pro-China rhetoric. The Maoists did not have the strong links that other political parties of Nepal enjoyed with their counterparts in India; thus, they sought to use a rhetoric similar to the ones used by the preceding monarchs (Chaturvedy 2012: 300).

Between 1990 and 2007, Nepal witnessed a transition from absolute monarchy to constitutional monarchy and the emergence of a civil war that ravaged the country. Furthermore, it was wrecked by the royal massacre, and further troubled by the consolidation of power in the monarchy. In a political context of such upheaval, China and India played crucial roles. India was instrumental in pressuring King Gyanendra to hand over power back to a civilian-led government. The monarchy in Nepal, in return, sought to use China as a counterbalance against Indian pressures. On the other hand, China gladly accepted Nepal's invitation for furthering bilateral ties, with its concerns emanating from Nepal's shared border with the Tibet Autonomous Region.

### **The Awakening of the Dragon: 2008 to Present**

The most important political disjuncture with regards to Nepal's importance in regional security occurred in 2008. Widespread anti-Chinese riots took place in the Tibet Autonomous Region (TAR) just before the Beijing Olympics, prompting alarming levels of security concern in China (Reeves 2012: 526). Even before the riots, Nepal had figured into China's security equation given the country's proximity to the TAR and the presence of over 20,000 Tibetan refugees in the country. Thus, to a large extent, China's policy towards Nepal was to maintain cordial relations with the government in power, regardless of its nature. This explains China's willingness to engage with King Gyanendra's administration and later, the Maoist led Constituent Assembly.

Since the 2008 riots in the TAR, China has stepped up its involvement in Nepal. Unlike previous time frames in this chapter, the post-2008 period witnessed vigorous and even strident Chinese approaches in Nepal. China has stepped up aid, opened new cultural centers, and also extended non-lethal military aid to Nepal (Chaturvedy 2012: 307-08). China has extensively used economic measures to prop support in Nepal, without any overt political maneuvering in its domestic politics. China's growing foreign direct investment in Nepal is also a matter of concern for India; between July and December 2014, China accounted for 60 percent of Nepal's total FDI commitment (Krishnan 2014). In addition, China has vigorously promoted Nepal as a tourist destination for its citizens prompting an increase from 32,272 visitors in 2009 to 113,173 in 2013, a jump of approximately 250 percent (Yingxue 2015). The surge in tourist numbers has led to China becoming the second largest source of visitors to Nepal, after India. In addition, investments in hotels and other tourism related sectors have also increased and fluency in Mandarin is taking root, particularly in the professions dealing with tourists (Yingxue 2015).

India has been wary of growing Chinese efforts in Nepal, a factor which is bound to be exacerbated as China's economic and strategic presence expands internationally. In 2014 India's new government under the BJP leader Narendra Modi made an overture towards Nepal. In August 2014, Prime Minister Modi became the first Indian head of government in 17 years to visit Nepal; during the visit, the Indian administration pledged USD 1 billion in line of credit to Nepal (*The Times of India* 2014). This overture can be contextualized within the larger concern of India towards Nepal's growing ties with China, who has invested heavily in Nepal's infrastructure and hydroelectricity projects.

The Sino-Indian competition in Nepal was also apparent in the direct aftermath of the April 25, 2015 earthquake. India's response was large scale and the biggest of any country with the prompt mobilization of one C-130J, two C-17 and one IL-76 aircrafts with 46.5 tons of relief material along with 295 members of the National Disaster Response Force (NDTV 2015). India has also pledged USD 1 billion in long-term reconstruction; the largest amount committed by any government and, double than that of China's commitment of USD 483 million (Giri 2015). China led the

second largest delegation consisting of 40 rescuers, 10 medical workers, and 12 seismic experts; an emergency relief fund of USD 3.3 million was also promised along with 55 PLA soldiers and 186 tons of emergency supplies (Tiezzi 2015). The Chinese relief effort was its largest overseas venture ever, signaling Nepal's importance and China's willingness to prop up support in its tiny neighbor.

Between 2008 and the present, the Sino-Indian dynamics in Nepal has intensified immensely. China's rising capability and willingness to extend influence in the region and India's unwillingness for extensive external intrusion in Nepal has led to the emergence of a competitive dynamic in this buffer state. China is increasing using material resources to woo Nepal in order to maintain stability in the TAR, while India has also made overtures under the BJP led government to maintain its strategic foothold in Nepal.

## **Conclusion**

Connecting the buffer concept with the geopolitical context of Nepal helps explain the intense Sino-Indian rivalry being played out in the tiny Himalayan country. Comparing the five timeframes discussed in the preceding helps showcase the push and pull between the two large powers in the buffer state. It is clear that there has been a shift in the geopolitical equation between India, Nepal, and China over the time. The initial timeframe between 1947 and 1955 showcases the emergence of Indo-Nepalese relations and the problems inherent in it. But it is also characterized by a joint security concern in both the states vis-à-vis China after its incorporation of Tibet. The 1950 Treaty also cemented Indian preponderance in Nepal while providing the latter with economic and security concessions. As for the second period between 1955 and 1962, there are shifts in the domestic foreign policy of Nepal; under King Mahendra, Nepal attempted to expand its foreign policy maneuvering by establishing diplomatic ties with China and allowing transportation links. In essence, this period was marred with Nepal's efforts to balance overwhelming Indian influence by reaching out to China. But, it proved to be unfruitful, as India once again pressured Nepal into controlling Chinese construction along its borders. Much of it stemmed from economic pressures, as Nepal relied heavily on India for trade.

The third period between 1962 and 1989 showcased India's ability to constrain Nepalese foreign policy and shift the balance towards its favor. During the 1971 Bangladeshi Liberation War, India showcased its military might, which was clearly read by Nepal as a signal that it was indeed within India's security umbrella. This was made clear in 1989, when India initiated an economic blockade on Nepal highlighting the concerns over arms purchase from China. Thus, Nepal's repeated attempt at balancing was unfruitful up to this time frame, as India time and again utilized subtle coercion to showcase its extensive influence in the country.

The fourth period between 1990 and 2008 witnessed significant change in the political landscape of Nepal. It was no longer an absolute monarchy and it witnessed a democratic resurgence. But, it was also faced with a homegrown Maoist rebellion. This period was marred by India and China supporting separate factions; the former supporting the democratic political parties, while the latter erred in the side of whoever was in power. The final timeframe between 2008 and the present showcases immense Chinese intrusion in Nepal; despite the country's reliance on India for much of its trade. Nevertheless, it is to be noted that China has emerged as an economic powerhouse, one that is seeking to establish itself as a Great Power. As the recent debacle between India and Nepal showcases, China is willing to extend its influence in Nepal. As this chapter is being written, China has dispatched 1,000 metric tons of petroleum to Nepal, the first time in history that fuel is being imported from a country other than India (Mandhana 2015). The message here seems to be clear; Beijing has interests in Nepal and perhaps, the wider South Asia region and it now has the economic capability to extend its influence.

## References

- Baral, Lok Raj (1986), "Nepal's Security Policy and South Asian Regionalism," *Asian Survey* 26 (11): 1207-19.
- Baral, Lok Raj (1992), "India-Nepal Relations: Continuity and Change," *Asian Survey* 32 (9): 815-29.
- Chaturvedy, Rajeev R. and David M. Malone (2012), "A Yam between Two Boulders: Nepal's Foreign Policy Caught between India and China," In *Nepal in Transition: From People's War to Fragile Peace*, edited by Sebastian von Einsiedel, David M. Malone, and Suman Pradhan, 287-312. New York, New York: Cambridge University Press.

- Chellaney, Brahma (2005), "India Must Engage a Failing Nepal." *Far Eastern Economic Review* 168(3): 35-38.
- Chowdhury, Mahfuzul H. (2013), "Asymmetry in Indo-Bangladeshi Relations." *Asian Affairs: An American Review* 40(2): 83-103.
- CIA Factbook (2015), Accessed October 10, 2015. <https://www.cia.gov/library/publications/the-world-factbook/>
- Dabhade, Manish and Harsh V. Pant (2004), "Coping with Challenges to Sovereignty: Sino-Indian Rivalry and Nepal's Foreign Policy." *Contemporary South Asia* 13(2): 157-69.
- Diehl, Paul F. (1985), "Contiguity and Military Escalation in Major Power Rivalries, 1816-1980," *The Journal of Politics* 47(4): 1203-1211.
- Dillon, Dana R. (2005), "China's Zombie Countries." *The Heritage Foundation*, May 11. <http://www.heritage.org/research/commentary/2005/05/chinas-zombie-countries>
- Egreteau, Renaud (2012), "The China-India Rivalry Reconceptualized," *Asian Journal of Political Science* 20(1): 1-22.
- Garver, John W. (1991), "China-India Rivalry in Nepal: The Clash over Chinese Arms Sales." *Asian Survey* 31(10): 956-975.
- Garver, John W. (2010), "Evolution of India's China Policy," In *India's Foreign Policy: Retrospect and Prospect*, edited by Sumit Ganguly, 83-105. New Delhi, India: Oxford University Press.
- Gear, Mary (1941), "Role of Buffer States in International Relations." *The Journal of Geography* XL(3): 81-89.
- Giri, Anil (2015), "Generous Aid Pledges Delight Nepal," *The Kathmandu Post*, June 26. <http://kathmandupost.ekantipur.com/printedition/news/2015-06-25/generous-aid-pledges-delight-nepal.html>
- Hutt, Michael (2007), "A Nepalese Triangle: Monarchy, Maoists, and Political Parties." *Asian Affairs* 38(1): 12-22.
- Krämer, Karl-Heinz (2003), "Nepal in 2002: Emergency and Resurrection of Royal Power." *Asian Survey* 43(1): 208-214.
- Krishnan, Ananth (2014), "China is Largest FDI Source for Nepal," *The Hindu*, January 26. <http://www.thehindu.com/news/international/world/china-is-largest-fdi-source-for-nepal-overtakes-india/article5618081.ece>
- Mandhana, Niharika (2015), "Nepal Signs Fuel Deal with China Amid Fuel Shortages." *The Wall Street Journal*, October 29. <http://www.wsj.com/articles/nepal-signs-fuel-deal-with-china-amid-supply-disruptions-1446116320>.
- Mathisen, Trygve (1972), *The Functions of Small States in the Strategies of the Great Powers*. Oslo, Norway: Universitetsforlaget.
- Nayak, Nihar (2010), "India-Nepal Peace and Friendship Treaty (1950): Does it require Revision?" *Strategic Analysis* 34(4): 579-593.
- Nepal, Mani, Alok K. Bohara, & Kishore Gawande (2011), "More Inequality, More Killings: The Maoist Insurgency in Nepal." *American Journal of Political Science* 55(4): 886-906.
- NDTV 2015. "India's 'Operation Maitri' in Earthquake-Hit Nepal Ends," Accessed October 15, 2015. <http://www.ndtv.com/india-news/indias-operation-maitri-in-earthquake-hit-nepal-ends-768795>.

- Partem, Michael G. (1983), "The Buffer System in International Relations," *The Journal of Conflict Resolution* 27(1): 3-26.
- Ray, Jayanta K. (2011), *India's Foreign Relations, 1947-2007*, New Delhi, India: Routledge.
- Reeves, Jeffrey (2012), "China's Self-Defeating Tactics in Nepal," *Contemporary South Asia* 20(4): 525-531.
- Rose, Leo (1964), "Nepal: The Quiet Monarchy," *Asian Survey* 4(2): 723-28.
- Ross, Thomas E. (1986), "Buffer States: A Geographer's Perspective." In *Buffer States in World Politics*, edited by John Chay and Thomas E. Ross, 11-28. Boulder, CO: Westview Press.
- Subedi, Surya (1994) "India-Nepal Security Relations and the 1950 Treaty: Time for New Perspectives." *Asian Survey* 34(3): 273-84.
- Thompson, William R. (2001), "Identifying Rivals and Rivalries in World Politics." *International Studies Quarterly* 45(4): 557-586.
- Tiezzi, Shannon (2015), "After Devastating Earthquake, China Rushes Aid to Nepal." *The Diplomat*, April 28. <http://thediplomat.com/2015/04/after-devastating-earthquake-china-rushes-aid-to-nepal/>
- The Times of India (2014), "Modi Concludes Historic Visit to Nepal." Accessed October 09, 2015. <http://timesofindia.indiatimes.com/india/Modi-concludes-historic-visit-to-Nepal/articleshow/39628843.cms>.
- Tyagi, Sushila (1974), *Indo-Nepalese Relations: 1858-1914*, Delhi, India: D.K. Publishing House.
- Upadhyaya, Sanjay (2008), *The Raj lives: India in Nepal*, New Delhi, India: Vitasta Publishing.
- Yingxue, Claire L. (2015), "The Chinese are Coming." *Nepali Times*, 16-22 October. <http://nepalitimes.com/article/nation/number-of-Chinese-tourists-growing-in-nepal, 1917>.

# 6

## India-Nepal Economic Relations in the 21st Century

Simi Mehta

### **Abstract**

Nepal and India are two traditional trade partners. This paper discusses in brief the role of bilateral trade treaties in improving trade relations between the two countries, and identifies the scope and areas of improvement in Indo-Nepal trade relations. It is observed that with the economic reform programs adopted by the two countries along with the subsequent signing of the Treaty of 1996, the various problems of quantitative restrictions, content of domestic materials and others were resolved. Thus, the treaty of 1996 is understood to be a milestone in the progress of Indo-Nepalese economic relations. A combination of descriptive and explorative research methodology has been adopted in pursuit of this study. Based on the secondary data, the study has made an attempt to derive a firm view with regard to the established objectives of this study. This paper calls for a revamped strategic economic partnership between the two countries in the 21<sup>st</sup> century era of globalization and increased international interdependence.

### **Introduction**

India and Nepal share an extraordinary relationship of friendship and cooperation. There are very few countries in the world whose histories,

cultures and traditions have been so closely interlinked with each other. It is characterized by close geographical proximity, free and spontaneous movement of people across the borders of about 1800 kilometers, who share contacts of kinship and culture. Formal and informal trade relations between the two countries have existed for centuries, which are significantly influenced by the socio-ethical norms and values. The cultural ties and non-existence of a visa-system have created an amicable atmosphere for the conduction of free trade between India and Nepal. After the induction of democracy in Nepal in 1951 India was a premier donor country that played an important role in mobilizing aid to Nepal under Colombo Plan.<sup>1</sup> The 1950 Indo-Nepal Treaty of Peace and Friendship agreed to give the nationals of one another in each of their territories, a national treatment with respect to participation in the economic development of that territory,<sup>2</sup> which contributed significantly to the economic development of Nepal. They also agreed to grant, on a reciprocal basis, same privileges in matter of residence, ownership of property, movement and participation in trade and commerce.<sup>3</sup>

By late 1960s, about 95 per cent of Nepal's trade was with India. Starting from 1971, India began with the preferential treatment to Nepalese exports through trade treaties. India's cooperation with Nepal in the field of bilateral trade, investment and transfer of technology have been instrumental in accelerating the pace of economic development in Nepal in recent years. In an era of interdependence and globalization, even though India's economic assistance program has been expanding over the years, it becomes imperative to call for revamped economic ties between the two countries. This paper conforms to the given fact and calls for a strategic economic partnership between the two countries for generations to come.

### **Economic Relations**

Early 1990s witnessed the launch of comprehensive economic reform programs between the two countries, almost simultaneously. A steady move towards economic liberalization brought changes in the pattern and direction of economic exchanges between them, and as a result, the economic relations between India and Nepal that had existed since time

memorial, assumed new dimensions. Nepal eased the import licensing system and eliminated the quantitative restrictions (QRs), reduced the tariff rates and progressed towards a competitive trade sector.

An Inter-Governmental Committee (IGC) headed by the Commerce Secretaries of the two countries looks into the issues relating to trade, transit and cooperation to control unauthorized trade between the two countries. The various agreements that have been reached have aimed at promoting Nepal's international trade. India has offered preferential treatment to Nepalese exports since 1971. Since then, the bilateral trade treaties of 1971, 1991, 1993, 1996, 2002 and 2009 have offered tariff and other duty concessions to Nepalese exports. Bilateral trade between India and Nepal increased substantially since the signing of the Trade Treaty in 1996.

Tariff concessions lie at the core of Indo-Nepal trade arrangements. These concessions have been offered on primary and manufactured products. In 1991, Nepal and India agreed to provide duty-free access on imports of 14 primary products on a reciprocal basis from each other. In the 2009 treaty, the two countries have expanded the list to 16 items. In order to improve the environment for investment, the Industrial Enterprise Act (1992) and the Foreign Investment and Technology Transfer Act (1992) were enacted in accordance with the open, liberal and market-oriented policy that were conducive to greater Foreign Direct Investment (FDI) in Nepal.

A bilateral trade treaty between India and Nepal was signed in 1996 that further supported the trade reform program of Nepal. The treaty allowed Nepal to export manufactured products to India free of customs duty and quantitative restrictions. Thus, the Indo-Nepal Trade Treaty of 1996 was a landmark in Indo-Nepal bilateral trade, as India provided duty-free access to all products manufactured in Nepal on the basis of a Certificate of Origin issued by the Nepali authorities. Only three products that were not allowed duty-free entry into India were liquor, perfumes and cosmetics, and cigarettes and tobacco.

Nepal continued to demonstrate its interest in the liberalized and the globalized environment by formally acceding to the World Trade Organization (WTO) in 1999. The Comprehensive Economic Reform Program of 2002 made several arrangements to facilitate export and industrial sectors, for

instance, provision of bonded warehouse facility for the exports of ready-made garments to India and efforts to improve the situation of industries and hotels including tourism sector, necessary facilities were to be provided effectively to the sick industries, among others.

The treaty between India and Nepal that was signed in 2002 introduced three stringent conditions for duty-free access of Nepalese products into India. First, the treaty reintroduced the value addition norm of 30 per cent. Second, articles manufactured in Nepal could qualify for preferential access to the Indian market provided the manufacturing process led to a change in classification at the four-digit level of the Harmonised Commodities Description and Coding System.<sup>4</sup> Third, a tariff rate quota was imposed on four items, namely, vegetable ghee, acrylic yarn, copper products and zinc oxide, under which duty-free access was allowed only up to a specified limit. Beyond the quota limit, the most-favoured nation (MFN) tariff was applicable. In the 2009 Treaty, these conditions have been retained except that the tariff rate quota (TRQ) for copper products has been increased by 2,500 metric tonnes.

The above discussion points that the trade policies of India and Nepal since the 1990s have largely complemented each other. While, the trade policy of Nepal envisaged enhancing the contributions of trade sector to national economy by promoting internal and international trade with the increased participation of private sector through the creation of an open and liberal atmosphere, the trade policy of India has undergone fundamental shifts to correct the earlier anti-export bias through the withdrawal of quantitative restrictions (QRs), reduction and rationalization of tariffs, liberalization in the trade and payments regime, and improved access to export incentives besides a realistic and market based exchange rate. Nepal's policies have aimed to diversify trade by identifying, developing and producing new exportable products through the promotion of backward linkages for making export trade competitive and sustainable, and India's economic policies have focused on export promotion activity and improving competitiveness of Indian industry to meet global market requirements.

According to the noted strategic expert and the present Deputy National Security Advisor of Government of India, Arvind Gupta, bilateral trade treaty revised in 1996 was the turning point in the economic and trade

relations between India and Nepal. The revised Indo-Nepal Treaty of Trade of 2009 noted the need to fortify the traditional connection between the markets of the two countries, to strengthen economic cooperation between them and urged to develop their economies for their several and mutual benefit and encouraged collaboration in economic development. As a result, the two countries pledged to undertake measures to reduce or eliminate non-tariff, para-tariff and other barriers that impede promotion of bilateral trade. They agreed to accord one another favorable treatment with regards to customs duties and charges of any kind imposed on or in connection with importation and exportation, and (b) import regulations including quantitative restrictions.

### **India's Economic Assistance to Nepal: An Overview**

India has had a long history of providing economic aid and assistance to Nepal, which contributed to the development of the latter's economic structure in Nepal. Areas of economic cooperation were mainly confined to the basic infrastructure like building of airports, irrigation, agriculture, supply of drinking water, roads, bridges, power projects, health, industrial estates, communication, surveys, education, forestry, and others.

Indian assistance to Nepal has increased over the years. From the assistance of an average of 150 million rupees in the mid-1980s, it has reached to rupees 750 million in the year 1999-2000. During the SAARC summit held on January 3-6, 2002 a grant of 800 million rupees in Nepali currency was announced by the Prime Minister of India for developmental projects in the social sectors including health, education and rural development of Nepal.

The unfortunate earthquake that hit Nepal in the month of May 2015 saw an unprecedented aid and assistance effort from India to reach out to the affected with rescue operations, providing essential supplies such as food, water and medicines. Under the nomenclature of Operation Maitri, the Indian Armed Forces and the National Disaster Response Force provided incessant humanitarian assistance to the Nepalese citizens.

### ***Exports and Imports: Major Items***

90 per cent of the total export of Nepal goes to India. Major commodities

exported to India include; vegetable ghee, polyester yarn, pulses, twines, snacks, cardamom, noodles, vegetables, live animals, hide and skins, ginger, catechu, oil cakes, tooth paste, toilet soap, herbs, rosin, rice bran oil and cattle feed.

Principal exports of India include the agricultural and allied products, ores and minerals, manufactured goods, mineral fuels and lubricants and others. The major imports of India include food and live animals; cereals and cereal preparations; raw materials and intermediate manufactures; petroleum products; animal and vegetable oils and fats; fertilizers and chemicals; pulp and paper; iron and steel; electrical machinery, apparatus and appliances; transport equipment and others.

Since 1996, Nepal's exports to India have grown more than eleven times and bilateral trade has grown more than seven times; the bilateral trade that was 29.8 per cent of total external trade of Nepal in year 1995-96 has reached 66.6 per cent in 2013-14. The bilateral trade grew from Rs. 17.55 billion in 1995-96 to Rs. 332.592 billion in 2013-14. Exports from Nepal to India increased from Rs. 2.30 billion in 1995-96 to Rs. 37.135 billion in 2013-14 and India's exports to Nepal increased from Rs. 15.25 billion in 1995-96 to Rs. 295.456 billion in 2013-14. Major exports from India to Nepal included petroleum products (28.6 per cent), vehicles and spare parts (7.8 per cent), mild-steel billets (7 per cent), machinery and parts (3.4 per cent), medicines (3.7 per cent), hot and cold rolled sheets (5.1 per cent); wires, rods, coils, bars (1 per cent), electrical equipment (2.7 per cent), cement (1.5 per cent), threads and chemicals (2.1 per cent), cotton yarn and cloth, woolen cloth, chemicals, kerosene and salt. Main items of exports from Nepal to India were polyester yarn (6 per cent), textiles, jute goods (9.2 per cent), threads (7.7 per cent), zinc sheet (8.9 per cent), juice (5.4 per cent), cardamom (4.4 per cent), wire (3.7 per cent), mild steel pipes (2.1 per cent) as well as rice and other food grains, hides and skins, oilseeds, timber, ghee and medicinal herbs.

Despite the large number of goods imported and exported, Nepal's trade deficit with India has continued to expand in the recent years with continuously rising imports and sluggish exports. Bilateral trade was Rs. 273.65 billion during the fiscal year 2010-11. Nepal's import from India amounted to Rs. 235.30 billion and exports to India were Rs. 39 billion. In

the first six months of fiscal year 2011-12, Nepal's total trade with India was about Rs. 125.45 billion; Nepal's exports to India were about Rs. 185.1 billion; and imports from India were about Rs.106.60 billion.

According to the latest data available for the Nepalese fiscal year 2069/70 (ending July 2013), bilateral trade with India accounted for sixty-six per cent of total Nepalese external trade, Two-thirds of our annual trade is with India. India is Nepal's largest source of foreign investment, accounting for forty per cent of the total foreign investments in Nepal.

### **Indian Investments in Nepal**

India is also the largest source of foreign investments in Nepal, accounting for about 40 per cent of the total approved foreign direct investments (FDI). As of July 2013, the Government of Nepal approved a total of 2652 foreign investment projects with proposed FDI of Rs. 63.255 billion. Indian ventures lead the list with 566 projects and proposed FDI of Rs. 25.39 billion. There are about 150 operating Indian ventures in Nepal. They are engaged in manufacturing, services (banking, insurance, dry port, education and telecom), power sector and tourism industries. Some of these are: ITC, Dabur India, Hindustan Unilever, VSNL, TCIL, MTNL, State Bank of India, Punjab National Bank, Life Insurance Corporation of India, Asian Paints, CONCOR, GMR India, IL&FS, Manipal Group, MIT Group Holdings, Nupur International, Transworld Group, Patel Engineering, Bhilwara Energy, Bhushan Group, Feedback Ventures, RJ Corp, KSK Energy, Berger Paints, Essel Infra Project Ltd. and Tata Power, India etc.

Major investment areas are the manufacturing sector, services sector and tourism. Tourism, services, agro-based and construction categories include printing press and advertisement service, LPG gas refilling, computer training, auto workshop, hotel service, animal feeds, tea garden and processing, restaurant, cargo service, educational-medical, marketing service, transport service, and computer parts, etc. are not given much importance in Indian investments.

Also, Nepal has a huge hydropower potential; yet it is power deficient and currently an importer of power from India. This sector, however, has the potential to fundamentally alter the Nepalese economy in two ways – first, the generation of hydropower has forward and backward

linkages<sup>5</sup> and second, export of power from Nepal to India can bridge its trade deficit with India. India and Nepal have taken several initiatives to develop hydropower in Nepal but these projects have not made much progress as inter-governmental agreements between them were not easy to reach. On the other hand, private initiatives have been forthcoming but the investments have not been very large. This is because of problems related to the regulatory framework in Nepal and those related to power trading with India. Nepal lacks an integrated hydropower sector policy, and is therefore, not able to address problems related to infrastructure, multiple clearances, land acquisition and licensing. Moreover, Nepal does not have an independent regulator. The Nepal Electricity Authority, a government-owned entity, controls all aspects of power, viz., generation, transmission and distribution. Nepal has also had inconsistent policies with regard to the incentives offered for hydropower developers. Disagreement on pricing of power has been the most important hurdle in power trading between India and Nepal largely because prices are not fixed on commercial principles. The other problem that has inhibited power trading between the two countries is lack of grid interconnections and transmission lines. Thus, to attract larger private investment in hydropower, Nepal will have to formulate an integrated hydropower policy and establish an independent electricity regulatory commission. In addition, private investors could join hands with multilateral agencies to ensure larger investments.

The tourism sector has been one of the most important sectors in the economy. Even though India is the largest source of tourist arrivals into Nepal, Indian investors have done little to help with the unfurling the beauty of the ecstatic Himalayan republic. Also, in recent years, there has been a sharp decline in the number of tourists visiting Nepal. Between 1999 and 2006, the number of tourists fell from 492,000 to 384,000. A reversal in trend has been visible only in the last two years, namely, 2007 and 2008, when the number of tourists increased to 500,000. Between 1999 and 2008, the proportion of Indian tourists visiting Nepal decreased from 28.6 per cent to 18.2 per cent.

India and Nepal can cooperate on developing a more sustainable tourism industry that would contribute to the long-term growth of the economy. Another important area where India can contribute in the tourism industry

of Nepal is in terms of developing skilled manpower suitable for the hotel and hospitality industry. In this regard, Indians can set up training institutes in Nepal to train the Nepalese people in this industry.

## **Conclusion**

Geographical proximity, socio-cultural linkages and increased interactions between the people of the two countries, trade, commerce and economic cooperation have been expanding along with the growth in other aspects of bilateral relationship. From the above discussion it is clear that India is Nepal's important trade partner, where trade between the two countries has been growing every year. India is also a major source country of Nepal's foreign direct investment, with a number of joint venture projects in operation.

India has cooperated with Nepal in the construction of various projects, especially in the sectors of infrastructure, health, education and other technical fields. There are other projects that benefit both the countries, for example those relating to cross-border connectivity, are in the pipeline. It is understood that development of infrastructure, communication and technological capabilities of Nepal facilitates mutual gains through commercial, economic and technical cooperation between the two countries.

Close and interconnected economic ties between the two countries facilitate space for Nepal's drive towards faster economic growth as a consequence to India's economic growth. India would benefit by re-focusing its attention on long term economic relations and in building human resource capacities in Nepal. India needs to look at new sectors for engagement with Nepal. Agriculture, services sector, tourism, high-valued medical facilities, educational services, preservation of the Himalayan ecology, look at adverse impact of climate change, capacity building and human resource development.

It has been recognized that Nepal possesses limited exportable articles when compared with India, primarily because of being predominantly a land-locked and agrarian country. Due to the persistence of unequal balance between demand and supply of goods and articles, and the inability of Nepalese goods to compete in the Indian market on the grounds of quality, price and supply capability, the question of balance of trade and balance of payments have been central issues when studying Indo-Nepal trade relations.

In a study undertaken by South Asia Network of Economic Institute (SANEI) in the year 2001 to identify the extent of informal trade between Nepal, Bangladesh, Sri Lanka and India, it was observed that submission of unnecessary documents, administrative hassles at custom offices, additional detention charges and untimely delivery of goods increase the cost of transaction in formal trade.

As mentioned above, Nepal and India share an open border of more than 1800 km. It has advantages as well as disadvantages. While the trade is operated through twenty-two transit points as per the Treaty of Transit that was signed by the two countries in Kathmandu in the year 1999, the open borders have led to informal trade practices, where it is frequently reported that goods and articles are imported and exported through unofficial transit points, which affects the government's revenue of both countries.

Trade relations between India and Nepal are crucial, especially for the latter particularly due to its land-locked geography. Both the countries have realized the significance of bilateral trade. Trade with India is likely to play a key role in trade and industrial fronts in the future as well. Trade and transit treaties held between the two countries are continuously reflecting the fact. These treaties have increasingly guided the trade direction; more specifically in the case of Nepal and provides an optimistic picture of the macro-economic performance of the country in the times to come.

There is huge potential to enhance the bilateral trade beyond the current five billion dollars. Both countries need to explore areas of economic cooperation for mutual benefit. One major field is the exploitation of water resources for mutual benefit. Hydropower development in Nepal would contribute a favorable trend in the balance of payment for Nepal. Nepal must ensure conducive environment for the investors along with their security. This would go a long way in balancing out the huge trade deficit that Nepal has with India. Other areas include the building up of the tourism industry, given the scenic locations and cultural heritage of beautiful Nepal. Tourism has emerged as one of the most dynamic and promising sectors in the country providing employment opportunities, and income generation for small and large entrepreneurs. India could also gain the benefits from the tourism development in Nepal.

In accordance with the changing scenario, both the countries can promote mutual understanding and cooperation through a process of wide sharing of knowledge and professional talents in both academic pursuits and technical specializations. India and Nepal could also launch collaboration in the commercial exploitation of mineral resources like limestone, magnesite, dolomite, silica, clay, construction stone, iron ore, lead and zinc etc. Several major limestone deposits have been identified in Nepal and exploitation of some of these deposits for the manufacture of cement and agricultural and industrial lime is already underway. Mineral exploration and exploitation in some of the areas identified offer promising prospects for cooperation and investment.

The two countries need to take advantage of the developments in the areas of information and communication technology (ICT), as Nepal has well-educated and trained manpower in this sector. This sector offers a wide scope to go hand in hand to serve common interests.

It is in the best interests of both countries to regularly hold high level economic and commercial delegations, particularly from business and economic communities to see how India can help Nepal. It would be useful for India to take a long term view and remain engaged in Nepal's economy, especially in the geo-political context of increasing Chinese interests in Nepal. It has been suggested that the government of India must consider a USD 1 billion package of assistance for projects in selected areas of infrastructure and capacity building in Nepal, as has been done in the case of Bangladesh and Afghanistan. It is interesting to note that Indian companies which have remained invested in Nepal are making profits. A sustained engagement with Nepal at this critical juncture will pay dividends in the long term to both countries. In the short-term, India could also consider selling power to Nepal which is reeling under power-shortage. This will be a timely and critical help. The meetings of the Inter-Governmental Committee meetings must be regularized and not be constrained by mere procedural issues.

Expanding economic diplomacy is the urgent need of the hour, for Nepal to foster its economic progress and for India, so that China doesn't take advantage of the situations and becomes deeply engaged with Nepal. To conclude, political issues must not inhibit the growth of Indo-Nepalese ties,

because in the words of the former Prime Minister of Nepal, Dr Baburam Bhattarai, “The major thing is to build trust between our two countries, two governments, and two peoples”, and this alone has the potential to be sustainable and build an environment of peace and prosperity, with cooperation and mutual understanding, both stand to gain a great deal for the benefit of their respective people.

The significance of a strategic economic partnership would be further enhanced in the decades to come. Trade relationship between Nepal and India, by and large, is being considered to be smooth. In the realm of global trade integration, the trade relation between these two countries needs to improve further. On the other hand, in the present era of trade specialization both the countries need to develop their own specific trade activities based on the scale of economies, value addition and competition.

## References

- Bhattarai, Baburam (2011), A vision for Nepal-India relations, *The Hindu*, October 19, 2011.
- Choudhary, N., and A. Ghosh (2014), Indo-Nepal Economic Cooperation: A Subregional Perspective, *Asia-Pacific Development Journal*, 21(2).
- Dahal, Madan K. and Shankar Aryal (2003), Improving Nepal-India Economic Relations: A Study of the Impact of Foreign Direct Investment (FDI) and Transfer of Technology in Nepal, Paper presented at a conference organized by South Asia Network of Economic Institutes (SANEI), Colombo, Sri Lanka on August 15-17, 2003 [Online Web] URL: [http://saneinetwork.net/Files/04\\_07.pdf](http://saneinetwork.net/Files/04_07.pdf)
- Economic Survey, 2008-09, Ministry of Finance, Government of Nepal.
- Embassy of India, India-Nepal Relations, Kathmandu, [Online Web] URL: <http://www.indianembassy.org.np/index1.php?option>
- Embassy of Nepal, Nepal-India Relations, New Delhi [Online Web] URL: <http://nepalembassy.in/ecorele.htm>
- Embassy of Nepal, Treaty of Transit, New Delhi, [Online Web] URL: <http://www.nepalembassy.in/treaty-of-transit.htm>
- Gupta, Arvind (2010), India needs a new paradigm in its Nepal policy, *Institute of Defence Studies and Analysis*, New Delhi, [Online Web] URL: [http://www.idsa.in/idsacomments/IndianeedsanewparadigminitsNepalpolicy\\_agupta\\_180810.html](http://www.idsa.in/idsacomments/IndianeedsanewparadigminitsNepalpolicy_agupta_180810.html)
- Pant, YP (1962), Nepal-India Trade Relations Some Recent Trends, *The Economic Weekly*, [Online Web] URL: [http://www.epw.in/system/files/pdf/1962\\_14/8/nepalindia\\_trade\\_relationssome\\_recent\\_trends.pdf](http://www.epw.in/system/files/pdf/1962_14/8/nepalindia_trade_relationssome_recent_trends.pdf)
- Rajbhandary, Sujana and Steve Strand (2004), Trade Policy Evolution and Nepali

- Export Performance (A study of Import Substitution – Export Promotion, Changes in Nepali Trade Policy and Effects on the Nepali Export Sector), Carleton College, Minnesota
- Shreshtha, Gyanu Raja (2003), *Nepal-India Bilateral Trade Relations, Problems and Prospects*, Research and Information System for the Non-Aligned and Other Developing Countries (RIS), New Delhi.
- Subedi, Surya P. (2005), *Dynamics of Foreign Policy and Law, A Study of Indo-Nepal Relations*, Oxford University Press, New Delhi.
- Taneja, Nisha and Sanjib Pohit (2001), Characteristics of India's Informal and Formal Trading with Nepal: A Comparative Analysis, *South Asia Network of Economic Institutes*, [Online Web] URL: <http://www.eldis.org/vfile/upload/1/document/0708/doc13113.pdf>
- Taneja Nisha and Subhanil Choudhary (2011), Role of Treaties in Facilitating Nepal's Trade with India, *Economic and Political Weekly*, 14(7): 27-29
- Taneja, N., et.al. (2011), "India-Nepal Economic Cooperation: Towards a New Paradigm", *India Quarterly: A Journal of International Affairs*, 67 (2): 129-147

## Endnotes

1. The Colombo Plan for Cooperative Economic and Social Development in Asia and the Pacific was conceived at the Commonwealth Conference on Foreign Affairs held in Colombo, Ceylon (now Sri Lanka) in January 1950 and was launched on 1 July 1951 as a cooperative venture for the economic and social advancement of the peoples of South and Southeast Asia. India and Nepal were amongst the founding members.
2. Letter exchanged to Shri Chandreshwar Prasad Narain Singh( Ambassador Extraordinary and Plenipotentiary of India at the Court of Nepal, Indian Embassy, Kathmandu) by Maharaja, Prime Minister and Supreme Commander-in-Chief of Nepal Mohun Shamsher Jang Bahadur Rana, dated 31 July, 1950.
3. Article 6, Treaty of Peace and Friendship between India and Nepal, Kathmandu, 31 July 1950
4. The Harmonized Commodity Description and Coding System generally referred to as "Harmonized System" or simply "HS" is a multipurpose international product nomenclature developed by the World Customs Organization (WCO). It comprises about 5,000 commodity groups; each identified by a six-digit code, arranged in a legal and logical structure and is supported by well-defined rules to achieve uniform classification. It is used for the as a basis for their Customs tariffs and for the collection of international trade statistics (for more details, see <http://www.wcoomd.org/en.aspx>).
5. Forward and backward linkages are the channels that create a network of economic interdependence, that is, the growth of one industry leads to the growth of other industries, thereby leading to higher incomes for the people by generating employment opportunities and hence greater demands for goods and services.

# 7

## Hydropower and Pipelines: Bridging the Diplomatic Distance between India and Nepal through Energy

Ashay Abbhi

### Abstract

Diplomatic relations between India and Nepal have remain limited to political camaraderie so far, seldom extending to the ground-level issues plaguing the lands on both sides of the open border.

India and Nepal complement each other well to enable the exploitation of untapped energy resources. Nepal has waterways and India has the technology and the requisite financial muscle to harness the energy. Bilateral trade has been revived as the Indian political regime works toward its newfound focus on international trade and solidarity, bringing Nepal to the top of the list due to its geopolitical proximity to India.

The relationship is fundamentally governed by the 1950 India-Nepal Treaty of Peace and Friendship, with various revisions over the years. It allows Nepal to overcome the disadvantages of being a land-locked country as essentials move through India to support life in the country. Energy can further bilateral trade with cooperation, for water resources being the most significant.

Nepal's nearly 40,000 MW hydropower potential has largely been untapped, with only 680 MW being harnessed, even as the demand for energy grows considerably. Most projects have experienced time and cost overruns, creating further energy and power deficits. The

recent power trade agreement between Nepal and India will solve cross-border energy woes. The Raxaul-Amlekhgunj pipeline project, that attempts to halve the cost of petroleum products in Nepal, is a positive step in energy, and by extension, diplomatic cooperation.

As both countries prioritize energy cooperation, it could culminate in closer political and diplomatic relations that could also help counter the growing Chinese influence in the Indian subcontinent. Nepal and its water resources mean more for India than just energy and power-sharing. This paper will explore the diplomatic transformations between India and Nepal through energy resource utilization and distribution, leading to mutual development and closer political proximity.

## **Introduction**

India has eyed Nepal's abundant water resources for power generation ever since the technology was introduced in the region. India's never-ending thirst for power, especially due to the accelerated industrial growth has driven it toward its resource-rich neighbour, but rarely has the political will given way to the development of Nepalese hydro-energy reserves. While nearly 42 Giga Watt (GW) of potential economically recoverable electricity is stored in the perennially flowing rivers of the Himalayan country, only 0.75 GW<sup>1</sup> of it has been developed, pointing towards the lack of development in the sector that can catapult Nepal's status from that of a sleepy valley to one that is economically growing. With 98 per cent of its water resources awaiting exploitation, Nepal's prospects as a power trading hub seem bright. Along with solving the problem of India's power deficit, it could also lead to a closer political and diplomatic bond between the two countries, making them mutually stronger in the region.

Nepal derives nearly all of its electricity for domestic consumption through its hydro-power projects. Given the country's dependence on water for electricity, it is surprising that such little development has taken place over the years. Only about 40 per cent of the Nepalese population has access to electricity – thanks to the underdeveloped grid infrastructure – which amounts to it being responsible for merely 1 per cent of the total energy consumption of the country, the rest being fulfilled by fuel wood (~69 per cent), animal waste (7 per cent), agricultural waste (15 per cent)

and fossil fuels (8 per cent). Development has been a driving political agenda for parties in the country ever since the democratic system took over in 2008. However, the political upheaval has taken away the attention and the will to achieve the required level of growth. Development of water resources is a necessity for the country's overall progress and will be beneficial for India as well.

India has a delicate balance of its energy resources dominated by coal, oil and gas, with an increasing share of renewable sources and the upcoming nuclear power projects – now possible after the country's acceptance into the coveted nuclear suppliers group. Coal accounts for 59 per cent of India's power generation, followed by hydro-power at 16 per cent, renewable energy at 13 per cent, natural gas contributing about 9 per cent, nuclear energy at 2 per cent and diesel at 1 per cent.<sup>2</sup> The distribution of power generating resources is biased toward particular regions. Coal and water resources are dominant in the northern, eastern and north-eastern regions of the country, while the southern and western regions are richer in solar and wind energy. Despite the availability of coal and water in these regions, the state of power generation and the development of resources remain dismal. Lack of political will, bureaucracy, red-tapism and blatant corruption plague the regions, leading to the country's significant power deficit.

India's ambitions of economic and industrial growth will require not only the development of its own resources but also of any strategic resources it can harness. Nepal's hydropower potential provides India with the appropriate reserves to address its electricity concerns. India has the financial power and technology to develop Nepal's water resources, benefitting the two nations not only through mutual development but also bringing them together diplomatically.

This chapter explores the political and diplomatic relationship of India and Nepal with respect to cooperation for the sake of energy. The historical and present contexts have been studied to provide an insight into the future prospects of the energy and political balance between the two nations. The primary objective of this chapter is to provide a rationalisation for the route of energy cooperation for successful Indo-Nepal diplomacy, creating a mutually benefitting relationship.

The chapter seeks to provide a perspective into the larger gains of mutual development of resources leading to human, industrial and economic growth. Because of the porosity of the borders and the non-requisition of a visa to travel, there is already a robust people-to-people connection. Furthermore, cultures of both nations although purportedly similar, are not exactly that. Nepal is not homogenous, but has a majority population that conforms to a certain body of ideologies, while India has too heterogeneous social arrangement. The route of energy development will only bring the people closer, engaging in stronger track II diplomacy, while creating socio-economic benefits and solidarity. Development of these resources and the consequent social growth will help by positively impacting the problems plaguing the two neighbours, such as poverty, lack of rural electrification, women empowerment, health, education and employment.

This chapter looks at the lack of development of Nepal's abundant natural resource, its impact on the energy balance in the region and the diplomatic tools that can be used to achieve the goals of the mutual growth with India. Along with the bilateral diplomatic ties, the paper also studies the geopolitical impact of electricity trade between the two countries with respect to the balance of power in the region.

### **Historical Background**

The cooperative association between India and Nepal on hydro-power projects dates back to the 1950s.<sup>3</sup> The Kosi project in 1954<sup>4</sup> and Gandak in 1959<sup>5</sup> were the first ever multipurpose projects to be built in Nepal with India's help, followed by the Trishuli, Devighat and Phewa projects. Two decades later, the two countries further strengthened their relationship with a significant power exchange program. A team of Nepalese and Indian officials was constituted in 1987<sup>6</sup> to take stock of the power exchange situation. The primary purpose was the development of the Karnali Chisapani project.<sup>7</sup> Some of the projects that followed this were: Arun-III hydroelectric project (the controversial project that was protested against due to environmental issues and still remains under development),<sup>8</sup> West Seti (the stagnant project that has now been taken over by Chinese companies),<sup>9</sup> Upper Karnali (now being developed by GMR and expected

to be commissioned by 2021)<sup>10</sup> and the Mahakali Pancheshwar project (the bilateral project has recently been revived by the agreement between the two governments in 2014).<sup>11</sup>

Born through an agreement in 1954, amended in 1966, Kosi was developed as a flood and irrigation control project, with only a small component being dedicated to power generation. The multipurpose project was divided into three phases – the first was to build a barrage to anchor the Kosi River, the second phase included the construction of barrages to hold the water in desired places and the third was the development of a dam for irrigation and power generation. While the first two phases were implemented smoothly, the final phase proved to be a hurdle in the completion of the project due to several political reasons. This has now taken form of the Sapta-Kosi High Dam Multipurpose and Sun Kosi Storage-cum-Diversion Scheme projects. Their detailed project reports (DPR) were finalized in the meeting of the Joint Ministerial Commission on Water Resources between India and Nepal in 2012.<sup>12</sup>

During the initial project development phase, it was agreed by the two countries that Nepal will be able to use half of the electricity generated by any power plant constructed by India in a ten mile radius from the barrage point. The Kataiya power plant in Bihar, India, with installed capacity of 0.68 Mega Watts (MW) was constructed but technical problems never allowed it to function at full capacity. The silt from the Kosi River prevented proper running of the plant and the power supply from it to Nepal was intermittent at best. This marked the first instance of power import by Nepal from India.

A few years later, in 1959, the Gandak project was proposed for similar purposes as the Kosi river project. The project included the construction of a power plant with installed capacity of 1.5 MW within the Nepalese territory, connected to the grid in the Indian state of Bihar, from where India was to supply power to Nepal upto the Raxaul border from where the Nepalese transmission line would ferry the electricity to the interiors. The fate of this project somewhat followed Kosi's with technical difficulties preventing the running of the power plant at full capacity. Designed and constructed for 1.5 MW, the plant could only function at 0.75 MW. As power from this plant was to be supplied to India, the Hetauda powerhouse

was constructed to compensate for this loss and power was traded through the Hetauda-Ram Nagar power line, marking the first export of power from Nepal to India.<sup>13</sup>

While the Kosi and Gandak projects marked the beginning of power trade between India and Nepal, the foundation of this relationship was laid by the India-Nepal Treaty of Peace and Friendship signed in 1950. The political class of the two countries realised the requirement of a formal friendship agreement to start multifaceted development benefitting both sides of the border. A diplomatic green channel was established as part of this treaty, granting Nepalese nationals the freedom of entry, movement, residence and business in India. The Citizenship Act of 1952 of Nepal provided similar status to Indian nationals in Nepal. Defence collaborations and setting up of Indian military missions in Nepal followed in 1952 and 1954. The introduction of the Kosi project in 1954 was a significant breakthrough in the Indo-Nepal relationship at a time when dissent in both countries was growing, owing to the special favours granted to the other, and Nepal beginning to lean towards China as an alternative.

The 1962 Sino-India war, however, marked a significant change in the Indo-Nepal relationship. A more cordial stance was taken by Kathmandu and New Delhi towards each other. Nepal was able to get access to several transit rights to other countries while also getting access to the Indian markets. India, on the other hand, achieved monopolistic status as the arms supplier to Nepal through a secret agreement in 1965. This period also witnessed the development of the Trishuli hydroelectric project. The project with a total installed capacity of 21 MW was financed and completed with Indian grants and was built completely for Nepalese domestic consumption.<sup>14</sup>

By 1969 the Indo-Nepal relations had begun growing cold when Kathmandu challenged the Treaty of Peace and Friendship of 1950 and demanded the removal of the Indian security posts from the country. This was met with some resistance from India but the posts were withdrawn to appease the neighbour. Following the annexation of Sikkim by India in 1975, Nepal criticized India's move while also demanding an international acknowledgment of the country as a 'Zone of Peace', a move which was refused by India, though supported by China and Pakistan.<sup>15</sup> Increasing

Chinese influence in Nepal had now seeped into its political establishment, much to India's resentment and the 'Zone of Peace' move by Nepal had almost rendered the Treat of Peace and Friendship of 1950 irrelevant, removing any formally binding agreement between the two nations.

At this point, it became imperative for India to contain its relations with Nepal and to this effect, the Fewa Dam project was proposed in the early 1970s. With an installed capacity of 1 MW, located in Pokhara and developed entirely with Indian grants, it did some damage control for the Indian government leading to a stage of dialogue between the two countries. The same period also established a marked understanding between India and Nepal to provide electricity access to the UP-Bihar border towns of Nepal, fixed for about ten villages at 5 MW. When the Kosi and Gandak power trading agreements were also brought under the purview of this understanding, Nepal was found to be a net importer of electricity from India. By the end of this decade, India had also worked out separate trade and transit treaties according to Nepal's long standing demand to allowing it further satisfaction.

Until the turn of the millennium, the last Indo-Nepal joint power project was the Devighat hydropower plant. Built and financed entirely by India with installed capacity of 14.1 MW, Devighat was developed in late 1970s and handed over to Nepal in the early 1980s.

The late 80s and early 90s witnessed heavy diplomatic tension between the two countries. India imposed sanctions against Nepal that prevented it from using port facilities at Calcutta, thus disallowing it to receive the oil supplies from Singapore. From 1989 till 1990, an economic blockade was imposed by India on Nepal. In a retaliatory move, Nepal delinked its currency from the Indian Rupee, the consequences of which led to the fall of Nepal's GDP from 9.7 per cent in 1988 to 1.5 per cent in 1989.<sup>16</sup> While suffering economically and socially due to sanctions imposed by India, the political scenario in Nepal changed. Struggling with the deficiency of essential goods, King Birendra had to institute a democratic government, whose first order of business was to reinstate the political and trade relations with India.

### **Current Scenario**

After the formation of Nepal's parliamentary democracy in 1990, its

relations with India were restored and the India-Nepal Treaty of Peace and Friendship of 1950 once again became the governing document, attempting to cement the fragile relationship. However, the Royal Palace massacre that left Nepal orphaned in 2001, brought about another twist in the Indo-Nepal friendship. As King Gyanendra took over the monarchical reins of Nepal, the relationship between the two countries soured again. In 2008, after the fall of monarchy and Nepal's transition to a complete democracy at the hands of the Maoists, the expectation of better relations was somewhat defeated when the then Prime Minister of Nepal, Pushpa Kamal Dahal Prachanda, chose to visit China before India, breaking a long standing tradition where India used to be Kathmandu's first port of call.

However, during the same visit, the cold relationship thawed as India and Nepal jointly held talks over the sharing of the latter's water resources in Kathmandu. This was the first instance in four years when a high level meeting was held, a primary focus of which was to revive the dormant hydroelectricity projects. The talks resulted in work finally starting on the Sapta Kosi and Pancheswar multipurpose projects. The Naumure hydropower plant with installed capacity of 240 MW, to be built with Indian aid, was also discussed as part of the talks.<sup>17</sup>

Due to Nepal's political instability, talks concerning water projects remained largely suspended for the next six years, until in 2014, when the change of regime in India's government rekindled the Indo-Nepal friendship. Prime Minister Modi visited Nepal in August 2014, making it the first visit to Nepal by an Indian Head of the Government in seventeen years. During this visit, multiple deals were signed, some of which included significant mutually benefitting energy initiatives. Most notable of these was the USD 1 billion hydropower plant initiative extended by India to Nepal.

According to the deal, India will build a 900 MW hydropower plant on Nepal's Arun River. The state-owned Sutluj Jal Vidyut Nigam has been assigned to the task of generating first power from the project by 2021. The Arun River project is a twin of the Upper Karnali project being developed by another Indian private company, GMR, that was awarded to it in 2008 but the Project Development Agreement signed only in 2014. With installed capacity of 900 MW, the Upper Karnali project is also

expected to be commissioned by 2021. Developed under the Build Own Operate Transfer (BOOT) basis, GMR will be transferring ownership rights to Nepal at the end of 25 years since commission.<sup>18</sup>

Looking beyond the power trade through water resources, the Indian government has added a new dimension to Indo-Nepal energy relations with the announcement of a 41 kilometre long oil pipeline, extending from Raxaul in India to Amlekhgunj in Nepal.

Nepal's dependence on India for petroleum products such as petrol, diesel, LPG, aviation turbine fuel cannot be stressed enough. Being a landlocked country, Nepal's only options to import oil and petroleum products are China and India. Topographically, India makes greater sense for the transport of these products as the two countries are connected through plains – the Terai region in Nepal and Uttar Pradesh and Bihar in India. India has been exporting petroleum products to Nepal since 1974 through a five-year contract with India's premier national oil company, Indian Oil Corporation Limited (IOCL). The geographical location and small size of Nepal's market further takes away its bargaining chip for petroleum products, as another country would have to first invest a considerably large amount to realise a trade route, giving India the monopoly over Nepal's petroleum imports. This monopolistic status has not gone down well with China, and consequently, voices of dissent have risen in Nepal over time. India not only enjoys but is also keen on continuing this arrangement, as part of which the deal to construct the Rs. 2 billion pipeline has been inked. This deal has come with its fair share of hiccups as IOCL wanted a 15 year commitment from Nepal to buy petroleum products only from the company, whereas Kathmandu tried to continue the five-year contract with IOCL.<sup>19</sup>

Given the volatility of Nepal's political scenario, it is necessary for India to continue its monopolistic trade over petroleum products. China's 'String of Pearls' theory<sup>20</sup> gained significant momentum in the past decade and has only now met with its match in India's 'Reverse String of Pearls', where the Indian government is trying to win allies in the region. Nepal, being in the middle of the India and China, assumes geopolitical importance, requiring India to not only invest in the country but also overlook minor contractual conditions. The development of Nepal's water resources for

electricity generation and the oil pipeline – a much stronger, cheaper and long-lasting trade route as compared to the current use of road for transport of petroleum products to Nepal – have brought the two countries back to a stronger relationship in the current context.

### **Future Scenario**

Energy has become the new bullion in the global political context: the more one has, the stronger one is. India and Nepal are part of a developing region where the political picture is as dynamic as it is volatile. With China on one hand and India on the other, Nepal stands to either benefit from both or become a victim to the race to regional supremacy by both sides. The energy situation in both countries is similar, with China being a potentially better candidate, thanks to its huge shale gas reserves that, although, are yet to see any commercial development. India struggles to meet its daily energy demand, often falling short of meeting the power requirement. It imports 70-80 per cent of its crude oil. The country's status as a refinery hub helps to reduce the price of the petroleum products, which it exports to various countries including the Middle East, giving it the requisite importance in the energy world, perhaps, even an edge over China, which is, so far, definitely a strong market for oil producing countries but does not provide any value addition to their portfolio.

Nepal has traditionally been the arena for the two countries to showcase their political muscle, energy being central to India's theme. India and Nepal are similarly unfortunate when considering the power supply deficit. Nepal's hydropower resource is a strong answer to tackle the power shortage in the two countries, one that demands the alignment of all stakeholders.

Making their friendship an existential necessity for the country, India is the route for all essential things for Nepal – from automotive spare parts and vehicles to industrial equipment, from medicines to hospital machinery, from fertilizer to agricultural equipment and parts, from chemicals to petroleum products. Besides trade, India provides Nepal with constant financial aid, the latest being a USD 1 billion strong concessional line of credit extended by the Export-Import Bank of India<sup>21</sup> for the purpose of development of pending hydropower projects, infrastructure

and irrigation projects in Nepal. India also functions as a market for the Nepalese products, with traders being able to fetch better prices in India as compared to Nepal. India's exports to Nepal reached USD 4.17 billion in 2012-13 while its imports were at only USD 579.8 million. India accounts for nearly 40 per cent of all investments in Nepal, of the order of Rs. 25.39 billion till 2013, made by some of the largest Indian corporate institutions.<sup>22</sup>

Along with finances, India brings considerable global political clout to Nepal. Closer relations between the two countries can provide Nepal with greater influence with India's strategic allies, who are willing to extend their friendship to India's friends. Though the only threat to Nepal's sovereignty is from the two nations surrounding it, the dynamics of a global stand-off can seldom be trusted. In the case of a global war, India will be the pivot for Nepal's survival by ensuring that the supply of essentials is not disrupted. Also, India can provide Nepal with the defence cover in the unlikely event that China decides to take advantage of the war to colonize the country. With India comes multiple benefits and allies, even in global organizations, such as the United Nations or regional institutions such as SAARC.

The Power Trade Agreement signed in 2014 by the two countries forms the basis of a strong energy based future, where the development of hydropower projects becomes a fundamental point in their cooperation. While it gives India access to a source of power generation, it opens a large and uninitiated market for power producers in Nepal. Without the assurance of a ready market, Nepalese power producers have been reluctant to invest in power projects but the agreement gives them access to the competitive Indian market that gives them increased bargaining power. In addition to Pancheshwar and Upper Karnali multipurpose projects, two other projects will be developed by India, bringing the total investment to USD 17 billion in four projects.<sup>23</sup>

Assessing the facts from the historical background of the relationship of the two countries, it can safely be inferred that the crests of friendship have been accompanied by energy and hydropower initiatives. From the first project in the early 1950s to the latest deal in 2014, Indo-Nepal friendship has followed a pattern that seems dependent on their energy trade and development agreements. This provides a significant lesson for the two

countries to establish better energy-based relationship to create a stronger friendship, one that is mutually beneficial. With the latest projects, where Nepal gets a 27 per cent equity share and is eligible for 12 per cent of the power generated, it can be assumed that the relationship will last a minimum of the period until the projects are developed and transferred to the Nepalese authorities at the end of the stipulated 25 years. Similarly, with the pipeline now being developed, Nepal's petroleum import bill has the potential to be halved in the coming years, making India's friendship increasingly beneficial.

China has become a significant investor in Nepal's hydropower projects after it entered the country through the Three Gorges International Corp in 2012 with a proposal to develop the Seti Hydropower project at the cost of USD 1.6 billion.<sup>24</sup> To be completed by 2021-22, the 750 MW project has now been cleared by the Nepalese Investment board in 2015. Apart from this, China has earmarked USD 145 million for upgrading the 114 kilometre road from Kathmandu to the Tibetan border. China has doubled its investment in Nepal between 2007 and 2011, as the latter increasingly becomes strategically significant for gaining political power in the region. With India being a strong influence in Nepal, China is exerting power to tilt the balance in its favour through the channel of financial diplomacy. As with India, China has also positioned itself as a ready market for Nepalese hydropower, giving a longer bargaining leash to the Nepalese producers.

Nepal's importance for China and India alike can work towards significant and rapid development of the country. As Beijing and New Delhi exert themselves by giving Kathmandu lavish hydropower projects and lines of credit, the infrastructural and power issues can be resolved quicker than the government anticipated. India has vested interests in developing Nepal's water resources as it hopes to solve its own electricity woes, while also creating a strong political ally in the region.

China's energy deficiency also brings it to Nepal but there is a stronger ulterior motive behind its move – to secure a significant ally and assert greater control in the region. Through the financial development packages, China expects to exert greater influence on the scores of Tibetan refugees residing in Nepal.<sup>25</sup> However, having entered only in 2012 in the water and energy sector of Nepal, China is a relatively new as compared to the

Indian influence that goes back more than 60 years. Also, the Nepalese government is cautious about the Chinese companies because they extend financial aid in the form of loans and not grants.

Given the political force exerted by India and China, it is for Nepal to take control of its resources and divide them accordingly, as it is the pivot to the balance of power in the region. This puts Nepal in a delicate but an extremely important geopolitical position, one that can develop the country out of poverty into prosperity if the gift of diplomacy is used well. Nepal has to be careful as to not relinquish control over its water and energy resources, which could be detrimental to the sustainability of the country in the long-term. A free-for-all situation could wreak havoc in the region, with a possibility of a physical war looming large over it, perhaps leading to colonization by either of its neighbours.

As opposed to making Nepal the venue for a political match between India and China, mature diplomacy can lead to a convergence of the interests of the two, resulting in a business-partner like relationship. Nepal's assertion against becoming a diplomatic war zone, now possible as it exerts significant bargaining power with both India and China, shall work towards creating a much needed balance in the region. While incoming investment, often in the form of grants not loans, can tempt the administration into approving multiple projects that could be beneficial in the short-term but jeopardise the nation in the long-term. Nepal will have to exercise caution and restraint on its part to analyse the projects and approve only if they are sustainable in the future.

## **Conclusion**

India and Nepal are, at present, riding a diplomatic crest in the roller-coaster political relationship. Energy initiatives in the form of hydropower project development and pipelines for petroleum products have provided a strong foundation for carrying this peak forward into the long-term. The financial, hydropower, diplomatic and geopolitical benefits for Nepal are too many for it to ignore India's increasing influence. Its energy and water resources are the key to the friendship between the two countries, and also to Nepal's economic alleviation from the ditches of poverty. Be it 1950s, 1960s or the 2010s, India and Nepal have experienced closeness

with agreements involving energy and power. The recent visits by the Indian Prime Minister and the reciprocation by the Nepalese officials have created conducive environment for the two countries to work together in the future. The internal political chaos in Kathmandu and India's reservation on its new constitution, is but a minor hurdle in the trail that appears to be smoothening after experiencing much roughness during the reign of King Gyanendra. Nepal's dependence on India provides it with a considerable ally but India's dependence on Nepal to address its energy deficit also provides it with significant bargaining power, quashing the claims made by some who call Nepal as India's bonded backyard. Even as China enters Nepal with the intent of tilting its allegiance towards Beijing, it will take a long time for it to break what India has built over the last six decades. However, the centre of power in the region truly lies in Kathmandu, where the clever diplomacy can lead to the emergence of an economically developed nation.

Energy and water are the two key aspects holding the Indo-Nepal relationship together and bringing them closer. The road from New Delhi to Kathmandu is expected to become smoother with scenic hydropower projects on the way, oil pipelines running in parallel, en route to economic development, prosperity and diplomatic victories.

## Endnotes

1. "India and Nepal sign a \$1bn Hydropower Deal", *The Deccan Chronicle*, (November 25, 2014) <http://www.deccanchronicle.com/141125/business-latest/article/india-nepal-sign-1-billion-hydropower-deal>
2. India: International Energy Data and Analysis (June 26, 2014) <http://www.eia.gov/beta/international/analysis.cfm?iso=IND>
3. Leo E. Rose, *Nepal: Strategy for Survival* (Berkeley: University of California Press, 1971), p. 187; Bhuwan Lal Joshi and Leo E. Rose, *Democratic Innovations in Nepal. A Case Study of Political Acculturation* (Berkeley: University of California Press, 1966); Anirudha Gupta, *Politics In Nepal* (Bombay: Allied Publishers, 1964); Lok Raj Baral, *Oppositional Politics in Nepal* (New Delhi: Abhinav Publications, 1977), Chap. II.
4. Medha Bisht, "Revisiting the Kosi Agreement: Lessons for Indo-Nepal Water Diplomacy" *Institute for Defence Studies and Analyses* (September 22, 2008) [http://www.idsa.in/idsastrategiccomments/RevisitingtheKosiAgreement\\_Medha%20Bisht\\_220908](http://www.idsa.in/idsastrategiccomments/RevisitingtheKosiAgreement_Medha%20Bisht_220908)  
See S. D. Muni, *Foreign Policy of Nepal* (Delhi: National Publishing House, 1978), p. 98; New China News Agency, October 6, 1962. For further details, see

- Satish Kumar, "Nepal and China," *The Indian Journal of Political Science* (Delhi), Vol. 24, 1963, pp. 79-93; Ramakant, "Nepal's Foreign Policy and China," *India Quarterly* (Delhi), Vol. 27, 1971, p. 210. Ministry of External Affairs, Revised Agreement on Chose Project Annexure, Agreement 25 April 1954 (December 19, 1966) <http://mea.gov.in/bilateral-documents.htm?dtl/6156/Revised+Agreement+on+Chose+Project+Annexure+Agreement+25+April+1954>
5. Ministry of External Affairs, Agreement regarding Gandak Irrigation & Power Project (December 04, 1959) <http://mea.gov.in/bilateral-documents.htm?dtl/6239/Agreement+regarding+Gandak+Irrigation+amp+Power+Project>
  6. Ministry of External Affairs, Joint Press Statement on External Affairs Minister's visit to Nepal (July 26, 2014) <http://www.mea.gov.in/bilateral-documents.htm?dtl/23748/Joint+Press+Statement+on+External+Affairs+Ministers+visit+to+Nepal>
  7. Nabin Chaudhary, "Karnali Chisapani Multipurpose project" (July 8, 2013) <https://nabinchaudhary1.wordpress.com/2013/07/08/karnali-chisapani-multipurpose-project/>
  8. Arun III HEP <http://sjvn.nic.in/project-details.htm?13>
  9. Hydroworld, "CTG receives final approvals for Nepal's 750-MW West Seti hydropower project" (April 15, 2015) <http://www.hydroworld.com/articles/2015/04/ctg-receives-final-approvals-for-nepal-s-750-mw-west-seti-hydropower-project.html>
  10. N. Ravi Kumar, "GMR announces finalisation of PDA on Upper Karnali Hydro Power Project" *The Hindu*, (September 22, 2014) [www.thehindu.com/news/international/south-asia/gmr-announces-finalisation-of-pda-on-upper-karnali-hydro-power-project/article6435678.ece](http://www.thehindu.com/news/international/south-asia/gmr-announces-finalisation-of-pda-on-upper-karnali-hydro-power-project/article6435678.ece)
  11. Nepal, India approve charter of 6,720 MW Pancheshwar project, *Business Standard* (September 24, 2014) [www.business-standard.com/article/news-ians/nepal-india-approve-charter-of-6-720-mw-pancheshwar-project-114092400269\\_1.html](http://www.business-standard.com/article/news-ians/nepal-india-approve-charter-of-6-720-mw-pancheshwar-project-114092400269_1.html)
  12. India, Nepal fast-track Sapta-Kosi power project, *The Indian Express*, (February 17, 2012) [www.archive.indianexpress.com/news/india-nepal-fasttrack-saptakosi-power-project/913206/0](http://www.archive.indianexpress.com/news/india-nepal-fasttrack-saptakosi-power-project/913206/0)
  13. DDP Secretariat, Gandak Project, [www.unep.org/dams/documents/ell.asp?story\\_id=108](http://www.unep.org/dams/documents/ell.asp?story_id=108)
  14. Santa Bahadur Pun, "Hydropower Development in Nepal: Lessons from Past Models" [www.nepjol.info/index.php/HN/article/viewFile/1152/1167](http://www.nepjol.info/index.php/HN/article/viewFile/1152/1167)
  15. US Library of Congress, Foreign Policy <http://countrystudies.us/nepal/64.htm>
  16. Enayetur Rahim - Economic Statecraft and Foreign Policy: Sanctions, Incentives, and Target State Calculations, Jean-Marc F. Blanchard, Norrin M. Ripsman; Yadu Nath Khanal, "Nepal's Foreign Policy: Some Reflections," *The Realm* (Kathmandu), 1:3, 1990, p. 20.
  17. India-Nepal water talks resume after four years (2008) <http://twocircles.in/node/107489>
  18. Mahesh Kulkarni, "GMR signs agreement with Nepal for 900 Mw project", *Business Standard*, (September 22, 2014) [www.business-standard.com/article/companies/gmr-signs-agreement-with-nepal-for-900-mw-project-114092200852\\_1.html](http://www.business-standard.com/article/companies/gmr-signs-agreement-with-nepal-for-900-mw-project-114092200852_1.html)
  19. Manish Vaid, India-Nepal Energy Initiatives Hit Political Roadblock, *The*

- Diplomat*, (February 23, 2015) [www.thediplomat.com/2015/02/india-nepal-energy-initiatives-hit-political-roadblock/](http://www.thediplomat.com/2015/02/india-nepal-energy-initiatives-hit-political-roadblock/)
20. Ashay Abbhi, String of Pearls: India and the Geopolitics of Chinese Foreign Policy (July 26, 2015) E-IR, <http://www.e-ir.info/2015/07/26/string-of-pearls-india-and-the-geopolitics-of-chinese-foreign-policy/>
  21. Exim Bank Provides \$1bn Line of Credit to Nepal, (May 14, 2014) [www.business-standard.com/article/pti-stories/exim-bank-provides-1-bn-line-of-credit-to-nepal-115051401360\\_1.html](http://www.business-standard.com/article/pti-stories/exim-bank-provides-1-bn-line-of-credit-to-nepal-115051401360_1.html)
  22. Ministry of External Affairs (India) "India–Nepal Relations" [http://www.mea.gov.in/Portal/ForeignRelation/Nepal\\_July\\_2014\\_.pdf](http://www.mea.gov.in/Portal/ForeignRelation/Nepal_July_2014_.pdf)
  23. Victor Mallet, "Nepal launches hydropower growth plan with \$1.4bn deal" (September 22, 2014) <http://www.ft.com/intl/cms/s/0/ff40a2d2-422c-11e4-a9f4-00144feabdc0.html#axzz3GNTgfXMt>
  24. Gopal Sharma, "Nepal clears \$1.6 bn hydropower project by China's Three Gorges" (April 13, 2015) [www.reuters.com/article/2015/04/13/nepal-hydropower-china-idUSL4N0XA4EN20150413](http://www.reuters.com/article/2015/04/13/nepal-hydropower-china-idUSL4N0XA4EN20150413)
  25. John Daly, "India and China Vie for Influence in Nepal" (March 13, 2012) [www.oilprice.com/Geopolitics/Asia/India-and-China-Vie-for-Influence-in-Nepal.html](http://www.oilprice.com/Geopolitics/Asia/India-and-China-Vie-for-Influence-in-Nepal.html)

# 8

## Race of Elephant and Dragon in Nepal

Geeta Kochhar and Soumya Awasthi

### **Abstract**

Given the fact that Nepal is strategically and geopolitically located between India and China, it has gained a natural significance for the two Asian giants both in domestic and international politics. Rivalry between India and China is very old and it has intensified in the territory in and around Nepal with the rise of anti-China activities by the Tibetans and with the economic development interests of Nepal. Apart from the strategic position, India and China have been looking for opportunities to influence Nepal for their own benefits and ambitions. They are regarded as interfering in Nepalese domestic affairs to ensure success of their national interests. Their rivalry has further intensified due to the prolonged political transition in Nepal

The chapter focuses at the foreign policy behaviour of both India and China with regard to buffer states like Nepal in international politics. It also looks at the contributions made by the two nations in Nepal and how it has benefited Nepal as well as the contributing nations. It is an attempt for comparative study to find out who scores better in terms of trade and commerce, health, education, infrastructure and security to name a few areas of development and also to assess how far both India and China have been successful in influencing Nepal's domestic and international politics.

## **Introduction**

Nepal is yet again amidst the political crisis, which not only challenges the democratic process but also indicates the geopolitical vulnerability of the country that is sandwiched between the two Asian giants - India and China. The ongoing political tribulation is caused due to the inability of the Himalayan nation to draft an inclusive constitution, coupled with the accelerated unrest of the Madhesi and Tharu ethnic groups in the southern part of Nepal. It has invited domestic and international opposition as this new federal division and the provincial borders will marginalise the political rights of the Madhesi and Tharu communities.

The new constitutional arrangement has also been criticised by the Indian government, which has raised severe objections on the implementation of the new constitution. India views the new constitution as 'non-inclusive' that has de-stabilized Nepal. As a result of this, there have been protests at the bordering areas of India and Nepal causing an unofficial blockade stopping the transportation of Indian goods and fuel to the country. This has direct implication on the shortage of fuel and other important consumer goods in Nepal. The aim behind this turmoil is to pressurise Nepal to relook at its constitution and incorporate equal rights for the neglected ethnic groups, as the protests also have direct consequences on the stability issues in the Bihar region of India where some sections of Madhesi community is settled. It is suggestive that India has a 'hidden hand' in the protests and blockade, which is interfering in the domestic politics of Nepal. However, such an attitude from the Indian side has some international implications as well.

Any kind of political and diplomatic disrupt in Nepal which has linkages with India has always attracted the attention of China. The situation becomes complicated when China acts or reacts to Nepal's situation. This chapter looks at the emerging Chinese influence in Nepal compared to India and the position of the two giants in the race for competing influence. It argues that the Chinese government has used the instability between India and Nepal's relations to its own advantage and if China continues unabated in Nepal, India might face multiple security threats in future.

India and Nepal have around 1800 kilometre long open border that runs through 20 districts of five Indian states; while China and Nepal share a

long border of about 1,414 kilometres. China has always used its strategic policies to vaporise the Nepalese dependency on India. The Communists and Royalists in Nepal have always played the China card to counter-balance India. Rails and road infrastructures have been created through which China can move to Indian heartland. The economic and other Chinese packages are designed to weaken India's strategic gains in Nepal. And in all this, the laid back attitude of India and negligence towards its neighbours further push Nepal into the kitty of China, giving bad name and negative image of India.

Nepal occupies a distinctive geostrategic position where real politics is at constant play and which has been a win-win situation for Nepal on several occasions. Nepal is well aware of the growing competition between China and India for its influence on Nepal. Nepal also understands its own strategic importance, which was acknowledged way back in the 18<sup>th</sup> century as the Nepalese King Prithvi Narayan Shah called Nepal as a “delicate yam between two boulders” (Thapa, 2014).

In 1960, China signed a border agreement with Nepal resolving much of the outstanding issues. In the same year, both nations signed the Treaty of Peace and Friendship, which is a parallel treaty to the historic 1950 Indo-Nepal Treaty of Peace and Friendship. Since the 1960s, China has provided Nepal with developmental aid, largely in the form of infrastructural build-up like roads and highways. The most commonly known is the Kathmandu-Kodari road, also known as the Arniko highway; named after the Nepalese artisan who in the 13<sup>th</sup> Century led a delegation of 80 artisans to China (Adhikari, 2010). China's strategic interest in Nepal is also significant due to the existence of an entry point to Tibetan region, which in China is a region of national priority. With Nepal having a sizeable strong Tibetan exile community, the stability of Nepal remains also becomes a priority for China.

This increasing interest of China was clearly spelled out by the Chinese Ambassador Zheng Xianglin in his speech delivered at the Council of World Affairs in August 2008. He stated that “Nepal is situated in a favourable geographical position in South Asia, and a passage linking China and South Asia.” China's interest in Nepal is not new, but was a focus region since the post-Liberation period of China. The then leader Mao Zedong

had talked of the five finger policy for China's South Asia policy, which regarded Nepal as one of the five fingers along with Ladakh, Bhutan, Sikkim and Arunachal Pradesh. The five fingers were essentially meant to serve as a 'new buffer' zone between India and China after the 'old buffer' (Tibet) came under China's sovereign control in 1951 (Bhattacharya, 2009). China has laid down a four-pronged policy to strengthen its bilateral relations with Nepal: First, accommodate each other's political concern; second, enhance the economic cooperation on the basis of mutual benefit; third, boost people-to-people and cultural exchanges; fourth, strengthen the coordination and cooperation in international and regional affairs (Bhattacharya, 2009).

In the initial periods, China was seen as sharing a bond with the Monarchy; while India has always maintained closer ties with the pro-democratic forces. During the late 1980s, Nepal's political parties initiated pro-democracy protests supported by numerous mainstream Indian political parties. These protests had been further accelerated by India closing its trade routes with Nepal. The economic blockade had been imposed due to major disagreements over trade between the two countries as well as due to Nepal's acceptance of Chinese light arms and other military hardware in 1988 which was in contravention to an earlier agreement signed in 1965 with India making it the exclusive supplier of defence equipments to Nepal (Singh, 2003). Till 2005, Beijing continued to be apprehensive of the democratic forces and therefore supported the Palace in Nepal. One of the reasons possibly was that a democratic setup in Nepal could provide an opportunity to the Tibetans wage protest that could undermine China and its peripheral stability. After the Maoists came to power in 2008, there was a further tilt towards China as the then Prime Minister Prachanda made his first state visit to China.

Nepal is referred to as the only Hindu Kingdom which has strong social, cultural and religious ties with India. Indian cultural linkages are so intertwined that at the most important Pashupatinath temple of Kathmandu, it is the Indian priest who performs the daily prayers. A large number of Nepalese have their kith and kin in India and thousands of Nepalese serve in the Indian Army in the Gorkha Battalion. China is conscious of the deep rooted Indian cultural linkages and has established a number of

China Study Centres (CSC) to promote culture and language exchanges among the Nepalese people to tame the influence of Indian linkages. There are 33 CSCs established in southern Nepal adjoining the Indian border (Bhattacharya, 2009).

During 2008-2009, there has been an accentuation of diplomatic exchanges between China and Nepal. An estimated 38 official delegations from China and 12 Nepalese delegations travelled between both nations (Ranade, 2013). Importantly, in 2005, Nepal supported China's inclusion into South Asian Association for Regional Cooperation (SAARC) as a member despite India's reservation on the same. At the sidelines of the SAARC Summit in Dhaka, former Foreign Secretary Shyam Saran had told a group of reporters that "We (India) would welcome inclusion of China on mutually-beneficial basis, but certain modalities have to be worked out" (Rediff News, Nov 12, 2005).

In 2012, during Chinese Premier Wen Jiabao's visit, Nepalese government reaffirmed the 'One China' policy, "extended support to China for upholding its sovereignty, national unity and territorial integrity", and assured to not allow any anti-China activities on its soil (China Daily, August 16 2012).

## **Competing Influences of India and China in Nepal**

### **Trade and Commerce**

The economic relationship between China and Nepal is based on the Joint Economic and Trade Committee that was formed in 1983. In April 1996, both countries signed an agreement to establish a forum for non-governmental cooperation during the Nepalese Prime Minister's visit to China. However, the trade volume continued to be relatively low. The trade between China and Nepal is mainly through Tibet and Hong Kong. During 2009-2010, Nepalese total export to China was 1.38 billion NRs; while import to Nepal was 43.45 billion NRs. In 2010-2011, the export to China declined by 1.2 percent; while the imports to Nepal increased by 11.5 percent. In recent years, with the growing Chinese interest in Nepal, the volume of China-Nepal trade has showed growth trend.

China is keen to enhance its investment in Nepal. However, the law

and order situation in the country is a bigger hindrance. According to the Nepalese Department of Industry, China had 100 investment projects in Nepal during 2012-2013; while in the year 2011-2012, there were just 77 projects (China Daily, 21 August 2013). China is the second largest FDI provider to Nepal, next only to India. In April 2009, China and Nepal agreed to open two more custom points along with the existing five to enhance the volume of trade.

In addition to investment, China has increased aid to Nepal. In 2005-2006, China's aid to Nepal was a mere USD128,200, but in 2011 increased to USD32.5 million. In 2011, Asia Pacific Exchange and Cooperation (APEC) Foundation, a Beijing based non-governmental organisation, proposed to invest USD3 billion to convert Lumbini, the birthplace of Lord Buddha, to an international religious tourist destination. The project required huge investment to build up the infrastructure i.e., construction of international airport, auditorium halls, a Buddhist university, roads and railways between Lumbini and Tibet via Kathmandu. China has aimed at enhancing its commitments to Nepal, so that the dependence on India decreases and it becomes more reliable to China. Interestingly, the second China-South Asia Exposition held in Kunming in June 2014 was inaugurated by the Nepalese Prime Minister Sushil Koirala and Nepal was chosen as the "Country of Honour" (Jaiswal, 2016).

However, historically speaking, India has always given priority to Nepal and their economic cooperation began in 1951. India's aid assistance has been mostly in the form of grants and limited loans; while the Chinese aid is in the form of gifts and interest-free small loans. Till the end of sixth five year plan, India's aid to Nepal accounted for 30 percent of the total aid; while China accounted for only 18 percent (Lama, 2003). In 2010-2011, however, Indian aid to Nepal jumped to USD 50,728,502; while China disbursed aid worth USD 18,843,988 to Nepal. In terms of joint ventures, Indian investment amounts to 48 percent of all the joint ventures in Nepal, which provides employment opportunities to 56,407 individuals. China comes next to India with 10.30 percent joint ventures that employ 23,325 individuals. Indian aid is three times more than the Chinese aid, but of late the number of

Chinese joint ventures has surpassed the Indian joint ventures in terms of numbers.

### **Infrastructure – Roads and Highways**

China has assisted Nepal in building major roads and highways such as the Kathmandu-Bhaktapur highway, the Kathmandu-Pokhara, and the Pokhara-Surkhet roads. The Chinese also provided aid for building numerous small scale and medium sized industries. Since 2002, China and Nepal are working to open the Kyirong-Rasuwa route which is an easier access to Lhasa. China has also explored the possibility of linking six additional highways with Nepal and developing cross-border energy pipelines (Kumar, 2010).

On the other hand, the Government of India has constructed 807 kilometres of the total 1024 Kilometres of the East-West Highway from Mahendranagar to Mechi (Mahendra Raj Marg) of Nepal. On Kohalpur-Mahakali section of the East West Highway, India constructed twenty two bridges, which were fully operational by 2001. Besides, in recent times, India constructed eight roads and one bridge in Nepal under Small Development Projects Programme with an assistance of Rs. 128.3 million. India is also working on constructing eight roads and three bridges at a cost of Rs. 204.3 million. It is also funding the upgradation of road from Dakshinikali (Kathmandu) to Kulekhani (Makwanpur) at an approximate cost of Rs. 93.7 million and an additional fund of Rs. 31.1 million has been assigned for drainage, land sliding, slop stabilisation etc. (Jaiswal 2010). Besides, India has provided assistance of Rs.137.7 million for the electrification of 28 Villages through Nepal Electricity Authority.

There is a dominant perception in Nepal that Indian policy of investing in roads and communication is basically to serve its interests – to use Nepal as an extended market for Indian goods and encourage cheap Nepalese migrant labour into India. The Nepalese believe that Indian projects come with lots of conditions and completion of projects is always delayed, unlike the Chinese projects that finish on time. In fact, there are also a few Chinese projects such as Melamchi, which have not been completed within the stipulated time.

With regards to the hydropower projects, there are innumerable small issues between India and Nepal, but it is commonly acknowledged that even if India would not be a major investor in the hydro sector, it would definitely be a potential market. India has already taken up the upgradation of Thame Khola small hydropower plant in Solukhumbu district and provided an assistance of Rs. 27.6 million (Jaiswal, 2016). India and Nepal have also signed few agreements to develop hydropower projects in Nepal.

However, certain Nepalese political parties oppose energy cooperation with India as they fear that India can gain exclusive rights to Nepal's water resources. Although both the Nepali Congress and the major Maoist parties support the deal, there are still some persistent doubts about the Indian intentions. Meanwhile, Beijing is funding a 60-megawatt hydropower complex on the Trishuli River and a 750-megawatt plant on the Seti River (Embassy of India, n.d.).

### **Telecommunications**

In 2008, China had set up an advanced optical fiber cable network between Zhangmu and Kathmandu (Xinhua News Agency, August 30, 2008). India provided an assistance of Rs.740million to Nepal for laying 904 kilometres optical fibre cable along the East-West Highway and setting up of 80 stations of SDH equipment. The fibre optics cable has formed the backbone of telecommunication network in Nepal and has transformed the lifestyle of Nepali citizens with faster and reliable connectivity.

### **Railway**

In 2008, China and Nepal announced to connect the Tibet Autonomous Region (TAR) with a 770 kilometres long rail link between Lhasa and the Nepalese border town Khasa, which is about 80 kilometres north of Kathmandu (Sakhuja, 2011). China now plans to move the railway point to Kyirong-Rasuwa route. China has also promised to construct a railway line from Lhasa to Rasuwagadhi at the Nepal-China border and in response to this India has announced to extend its railway links to Nepal along the border.

India has announced assistance worth NRs. 10.88 billion for the expansion of railway service in five places along the India-Nepal border. The first phase of expansion from Bardibas to Birgunj has already started. India and Nepal are establishing cross-border railway links at five locations: (i) Jaynagar in India to Bardibas in Nepal involving conversion of 51 km railway line from Jaynagar to Bijalpura into broad-gauge and its 17 km extension to Bardibas, (ii) Jogbani in India to Biratnagar in Nepal linking the 17.65 km rail link, (iii) Nautanwa in India to Bhairahawa in Nepal, (iv) Rupaidiha in India to Nepalgunj in Nepal, and (v) New Jalpaiguri in India to Kakarbhitta in Nepal. Estimated cost of the Jaynagar-Bardibas and Jogbani-Biratnagar rail links is proposed to be more than Rs. 8 billion (Jaiswal, 2016).

## **Education**

Indian investment in Nepal focuses on the creation of infrastructure to provide good buildings, equipped with furniture, labs, computers etc. for providing proper education. It has ensured that proper basic facilities are provided for students and staff. India is providing assistance to institutions at all levels, starting from primary schools to universities in Nepal. The total number of educational school projects undertaken by the Government of India in Nepal as SDPs covering nearly all Districts in the country comes to 273 at a cost of approximately Rs. 33.6 million (Embassy of India, n.d.). At the Manmohan Memorial Polytechnic that provides technical education in three engineering streams and several vocational courses, a six member Indian faculty team was positioned for the five academic years. The estimated cost of the project was Rs. 320 million. China, on the other hand, has been contributing in educational sector by providing scholarships to 100 Nepalese students annually to pursue higher studies in China.

After India provided a development assistance of Rs. 100 million for the remote hill region of Mustang, China immediately proposed financial assistance worth Rs. 10 million for the construction of a library, science laboratory, and a school building with computers in Chhoser village (adjoining Jhongwasen district of Tibet) to counter Indian influence.

## **Health**

Health is one of the core areas of cooperation between India and Nepal. Beginning with the supply of medicines and equipment, the cooperation has gone on to build and develop health infrastructure ranging from major hospitals to numerous health posts in even the farthest corners of the country. India has funded premier medical institutes like Bir hospital and B. P. Koirala Institute of Health Sciences. China has of late also taken up projects to build hospitals in Nepal. In November 2008, Nepal built Chinese funded 132-bedded Civil Service hospital and in 2014, China supplied medical equipments to the hospital worth NRs. 200 million (about USD 19,700).

## **Defence & Security**

China's enthusiastic policy towards Nepal can also be seen in the military assistance. China has provided massive support for modernisation and capacity building to security agencies of Nepal in order to gain trust and confidence. At an opportune time, China will be able to efficiently use it as a cover against any plausible anti-Chinese activities by the Tibetan rebels/refugees in Nepal (Jaiswal, 2016).

In 1988, although India had strong opposition, China had supplied military hardware to Nepal. After the visit of the Royal Nepal Army chief in 1999, China's defence supplies to Nepal increased drastically. In February 2001, Chinese Defence Minister Chi Haotian visited Kathmandu and emphasised the need to improve the training of senior level Nepal Army officers. The Chinese side agreed to the Nepalese proposal for the development of a UN Regional Peace Keeping Centre at Panchkhal. China also agreed to increase the number of positions of senior Nepalese Army officers in their military academy (Bhasin, 2005).

Although, India had a Gorkha regiment that employed Nepali Gorkhas for long, but by 2005 a major shift was seen in Nepal's defence procurement policy when it became fully reliant on China for military supplies. In October 2005, China was the only country that provided military assistance of USD989,000 to Nepal to curb the Maoist insurgents; while India, US and UK had refused to help (The

Himalayan Times, 18 June 2005). China became the first country to deliver military supplies to Nepal after the coup and delivered five Armoured Personnel Carriers (APCs) and other military equipments to Nepal (The Himalayan Times, 18 June 2005). In 2007, China announced military aid worth USD 1.3 million which increased to USD 2.6 million with the Maoists coming to power. In the recent past, China has been providing a range of military hardware to the Nepalese Army including non-lethal equipments such as construction and engineering machinery.

In 2008, the Chinese military assistance to Nepal increased as the Tibetans became active to protest against the Olympics. The same year, Nepalese Defence Minister Ram Bahadur Thapawa was invited as an observer to the Chinese PLA military exercises “Warrior 2008” conducted in northern Inner Mongolia Autonomous Region (Paul Soren, 2008). Moreover, during this period, the Nepalese Chief of Army Staff Chhatra Man Singh Gurung was visiting India to meet Indian foreign and defence ministers, senior government officials and army top brass to strengthen military and civil relations between India and Nepal and to seek more military aid (Nepal News, 16 December 2009).

Since 1962, India has been providing Nepalese army weapons with 70 percent of the aid in grant. Under the Nepal-India Peace and Friendship Treaty of 1950, Nepal has been purchasing weapons from India. Article 5 of the treaty states, Nepal shall be free to import arms from any third country, but it needs consultation with the Indian government. In 1989, India blocked Nepal’s trade route as it purchased arms from China without India’s consultation (Prys 2012: 133). It is only after the conclusion of the peace process and with the integration of the former Maoist combatants into the Nepalese Army, Nepal had sought military supplies worth NRs 1.76 billion (USD 18.33 million) from India (Sedhain, 2014).

## **Conclusion**

Nepal lies between the two big powers of Asia - India and China, which is a major concern for its own security and stability. At the same time, the turbulence in Nepal affects these two neighbouring states the most. As both China and India are marching towards becoming global economic

powerhouse, their quest to influence the region's economy is high. Particularly in Nepal, both the countries seem to be struggling hard to gain points. In this race of competition, at times there is confluence of interests, but at other times there is conflict of interest.

In recent times, however, with the political changes in Nepal, the security interests of both China and India are overlapping. With the rise in protests against the newly adopted constitution in Nepal, the rivalry between India and China has taken a new shape. While the Chinese ability to influence Nepal's policy decisions seem to increase, but the fact that left parties are highly fragmented will certainly dilute the influence unless the support of other political parties is gained to consolidate power. Nevertheless, Chinese engagements in Nepal are bound to accelerate, as the concerns for Tibet and the influence of the West on it is on critical levels.

Nepal has been the major beneficiary in this big power tussle and is able to garner assistance from both its neighbours especially in trade, transit and security areas. Nepal looks at China as an alternative to the Indian dominance as well as a corrective to Indian attitude. It tends to forget that Nepal-China diplomatic relations were established with the mediation of the Indian side. It is but obvious that India's close cultural linkages and geographical proximity will remain a dominant factor and Nepal will not be able to underestimate the importance of India in its foreign policy

Nepal's economic cooperation with India is greater than with any other countries and it would be impossible for China to alienate Nepal from India. Even if Nepal wishes to tilt towards China and go against India, the very close contacts between India and Nepal would make it impossible for China to fulfil Nepal's requirements. Hence, there is a limitation to China's relationship with Nepal.

Although there are multi layered interactions between India and Nepal, India lacks innovative ways (cultural as well as diplomatic) to reach out to the Nepalese government and its people. On some occasions, India has neglected the opportunity to strengthen its ties with Nepal, the advantage of which was taken by. In fact, similar culture and traditions in Nepal create a kind of extended cultural zone for India, which India needs to cash.

In terms of visibility, however, the Chinese aid projects are more visible. Compared to India, China has the advantage of having less ambitious

objectives, i.e., to ensure threat to its security from the Tibetan rebels and to enhance its influence within Nepal, and therefore, it uses its aid in that direction. India, on the contrary, has diverse objectives, un-coordinated activities among its agencies, and an exaggerated sense of its influence (otherwise natural) in Nepal. Furthermore, Indian-aided projects are undertaken in a disorganised manner, more to mark bilateral visits of Prime Ministers and other dignitaries and special occasions of India like Republic Day and Independence Day. There is very little homework and planning to allocate these projects strategically to meet larger developmental needs of Nepal and manage popular perceptions about India in Nepal.

There is a dominant perception in Nepal that Indian policy of investing in roads and communication is basically to serve its interests – to use Nepal as an extended market for Indian goods and encourage cheap Nepalese migrant labour into India. With relatively smaller stakes, China has comparatively reaped better dividends than India out of its engagement with Nepal. As China's engagement with Nepal deepens, riding on the perception of China as a benign neighbour with limited interests in Nepal, its influence is likely to grow.

Dhruba Kumar, a Political Science Professor at Kathmandu's Centre of Nepal and Asian Studies says, "Their (China's) foray into Nepal shows that it has become a launch pad for their broader strategic alliance." Similarly, Professor S.D. Muni of Jawaharlal Nehru University of India attributes China's upper hand in Nepal to its pragmatism. "Beijing does not have any serious emotional or cultural bonds with Nepal like India does. It can therefore relate itself with any political force in control of Nepal, be it Maoists or the army," he says (Kondapalli, 2010). In sum, observing the growing trends of China-Nepal ties, it is evident that Nepal has been clearly inclining towards China at the cost of India and is far from pursuing a policy of equidistance. This policy is neither conducive for Nepal, nor will benefit the India-Nepal bilateral ties.

## References

- Adhikari, P. (2010), *Ties That Bind – An Account Of Nepal-China Relations*, (Kathmandu: Sangam Institute).
- Bhasin, A. S. (2005), *Documents on Nepal- India, Nepal-China Relations*, (1947-2005), Vol. 1-5, (New Delhi: Geetika Publishers).

- Bhattacharya, A. (2009), "China's Inroads into Nepal: India's Concerns", <http://www.idsa.in/node/756/117> (accessed on January 8, 2016).
- China Daily Europe, (2012), 'Closer ties with Bhutan, Nepal', August 16, [http://europe.chinadaily.com.cn/china/2012-08/16/content\\_15680201.html](http://europe.chinadaily.com.cn/china/2012-08/16/content_15680201.html) (accessed December 20, 2015).
- Dabhade, M. & Pant, H. (2004), "Coping with Challenges to Sovereignty: Sino-Indian Rivalry and Nepal's Foreign Policy", *Contemporary South Asia*.
- Das, P. (2013), 'Need to effectively manage the India-Nepal Border', *IDSAs*, [http://www.idsa.in/idsacomments/ManagetheIndiaNepalBorder\\_pdas\\_190913](http://www.idsa.in/idsacomments/ManagetheIndiaNepalBorder_pdas_190913) (accessed December 28, 2015).
- Embassy of India (n.d.), Kathmandu, Nepal, 'Economic Cooperation'.
- Jaiswal, P. (2010), 'India-China Power Game in Nepal and the Consequences', *IDSAs Comment*, 16 September, <http://www.idsa.in/node/5970/1703> (accessed 12 December 2013).
- Jaiswal, P. (2016) "Nepal between India and China: Demystifying Big Powers Interplay" In *India-China-Nepal: Decoding Trilateralism*, edited by Pramod Jaiswal & Geeta Kochhar, 81-206. (New Delhi: G.B. Books).
- Kondapalli, S. (2010), 'India-China Relations 2009-10', *World Focus*, September.
- Kumar, A. (2010) 'The danger from China's border infrastructure', *Observer India*, [http://www.observerindia.com/cms/export/orfonline/modules/analysis/attachments/The\\_danger\\_from\\_China\\_border\\_infrastructure\\_1267876993069.pdf](http://www.observerindia.com/cms/export/orfonline/modules/analysis/attachments/The_danger_from_China_border_infrastructure_1267876993069.pdf) (accessed December 20, 2015).
- Kumar, S. (2011), 'China's Expanding Footprint in Nepal: Threats to India', *Journal for Defence Studies*, Institute for Defence Studies and Analysis (IDSA), Vol.5 No.2, April.
- Mishra, R. (2004), "India's Role in Nepal's Maoist Insurgency", *Asian Survey*, 44 (5): 627-645.
- Murthy, P. (2010), 'Nepal between India and China', *World Focus*, September.
- Nayak, N. (2014), *Strategic Himalayas: Republican Nepal and External Powers*, (New Delhi: Pentagon Press).
- Nishchal, P. (2011), 'Developing infrastructure connectivity between India and China through Nepal', *Nepal News*, [http://www.nepalnews.com/archive/2011/others/guestcolumn/jan/guest\\_columns\\_01.php](http://www.nepalnews.com/archive/2011/others/guestcolumn/jan/guest_columns_01.php) (accessed December 20, 2015).
- Paul, S. (2008), 'Nepal-China Military Cooperation', *Observer Research Foundation*, <http://www.observerindia.com/cms/sites/orfonline/modules/analysis/AnalysisDetail.html?cmaid=15340&mmacmaid=15341> (accessed December 28, 2015).
- Prys, M. (2012), *Redefining Regional Power in International Relations: Indian and South African perspectives*, (New York: Routledge).
- Ranade, J. (2013), *China Unveiled: Insights Into Chinese Strategic Thinking*, (New Delhi Knowledge World).
- Rediff News (2005), 'India favours inclusion of China in SAARC as observer' November 12, <http://www.rediff.com/news/2005/nov/12saarc1.htm> (accessed December 20, 2015).
- Sakhuja, V. (2011), 'China's Strategic Advantage in Nepal', *China Brief*, The Jamestown Foundation, Volume 11, Issue No. 11, <http://www.jamestown>.

org/single/?no\_cache=1&tx\_ttnews%5Btt\_news%5D=38070#.Vo-ddxV97ja  
(accessed December 20, 2015).

Saurabh (2010), 'Emerging Dynamics of China –Bangladesh-Nepal Relations in South Asia', *World Focus*, Vol.XXXI, No 9, September.

Sedhain, P.R. (2014), "India-Nepal Military: Relation and Aid", *The Daily Journalist*, <http://thedailyjournalist.com/the-strategist/india-nepal-military-relation-and-aid/> (accessed 20 June 2015).

Singh, S. (2003), *China-South Asia: Issues, Equations, Policies*, (New Delhi: Lancers Books).

Thapa, G. (2014), 'Yam, Buffer, Bridge', *The Kathmandu Post*, <http://kathmandupost.ekantipur.com/news/2014-11-04/yam-buffer-bridge.html> (accessed on January 8, 2016).

# 9

## Nepal-China Relations in Present Times

Gunjan Singh

### **Abstract**

Nepal and China established diplomatic relations in 1955. This diplomatic relationship has never been a simple bilateral relationship. A number of external actors like India and Tibet have always played a prominent role in shaping this relationship.

With economic and military rise of China and loss of Tibet as a 'buffer' zone between China and India, Nepal has played a prominent role for both China and India. Both China and India have shown keen interest towards helping Nepal. Even though it is a small, landlocked country, the change in the diplomatic dynamics in between China and India has brought increased focus on Nepal.

With this background, this chapter attempts to look at the various changes which the Nepal-China relationship has witnessed in last few decades. It will provide a historical background of this relationship and look at some of the recent events which have renewed the international focus, like the 2015 earthquake in Nepal.

### **Introduction**

Nepal, a land locked country, is strategically located between two very strong and powerful countries of Asia, China and India. The general term used to describe Nepal's geographical position is "sandwiched". Both these Asian

giants are vying and competing for influential position globally as well as regionally. Historically it is seen that Nepal is closer to India (culturally) than China. However, one of the most diplomatically challenging tasks for the Nepalese kings and leaders has been to successfully balance China and India.

The number of Nepalese people working in India is estimated to be between 800,000 to 1.7 million.<sup>1</sup> It is also very common practice for Indian and Nepalese to have cross border marriages. Even though Nepal and India share long open border and have thick people to people contacts, the relationship, at times, has been wrought with problems. However the relationship between Nepal and China, even though largely confined at the political level, appears to be smooth. In the words of Shakya and Gurung (2015), “But it is China’s distance and remoteness that has earned it a positive, even awe-inspired image among its southern neighbors.”

This paper will attempt to discuss the recent developments in the China-Nepal relationship, highlighting the developments in the year 2015 which marks the 60<sup>th</sup> anniversary of the establishment of diplomatic relations. The chapter will look at the factors which help China and Nepal in strengthening their bilateral relationship. It will also discuss the Indian reactions to this developing bilateral relationship.

## **Nepal-China Relations**

China and Nepal established diplomatic relations on August 1, 1955<sup>2</sup> though it is believed that China and Nepal had contacts as early as the 7<sup>th</sup> century.<sup>3</sup> They share a border of 1415 kilometers.<sup>4</sup> Both sides signed a boundary agreement on March 21, 1960.<sup>5</sup> However it was under the rule of King Mahendra Shah that the relationship between China and Nepal started to develop.<sup>6</sup> Thus the year 2015 marks the 60<sup>th</sup> anniversary of establishment of diplomatic relations. In the past six decades this relationship had transformed to a great deal. The domestic and political changes within Nepal have also asserted change in the overall foreign policy and other bilateral relations exercised by the country. Nepal has been trying to be more assertive and independent in its foreign relations. The most prominent relationship where this change is obvious is the one between China and Nepal. Nepal has been attempting to wring out of

the all-encompassing control of India. It wants to be increasingly able to assert its independent character and is not comfortable with the Indian dominance. In the last few years Nepal has been happy with the increase in the Chinese attention and is happy to exploit the benefits offered to it. China is also increasingly attractive for Nepal as it is helping the latter to counter its trade deficits.<sup>7</sup>

While discussing the 60 years of bilateral relationship the Chinese Foreign Minister Wang Yi said that, "China and Nepal have established a comprehensive cooperative partnership featuring everlasting friendship, and it has become the consensus of the Nepalese government and all sectors of the community to promote the friendly cooperation between China and Nepal. China and Nepal achieved fruitful results in economic and trade cooperation".<sup>8</sup> The Nepali side while marking the anniversary issued a press statement. According to this press release, "The Nepalese people hold the Chinese people in high esteem as true and trusted friend, and this has found the best expression during the devastating earthquake that struck Nepal recently".<sup>9</sup>

According to Dinah Gardner, "In China's favour is the fact that many Nepalese politicians see its gifts as coming with no strings attached, whereas India is seen as a country that wants to siphon off Kathmandu's resources and meddle in its politics".<sup>10</sup> Under the leadership of the new Prime Minister K P Sharma Oli, it is argued that Nepal will prefer to have closer ties with China.<sup>11</sup> It is also argued that it was China which successfully managed to convince Prachanda to give up his opposition to the new constitution and thus helped Nepal in the process of adopting the recent Constitution.<sup>12</sup> Prachanda had asserted in September 2015, that Nepal does not want to play the role of "yes man" of India.<sup>13</sup> In the words of Sharachchandra Bhandary, "China has always supported Nepal's independence, development, peace and stability and worked together in regional and multilateral forums like the South Asian Association for Regional Cooperation (SAARC), the Non-Aligned Movement and the United Nations".<sup>14</sup> These statements clearly highlight the Chinese attempts to boost up the 'independent' notion which the Nepalese have always felt lacking when it came to their dealings with India. Kathmandu has always complained and argued that New Delhi has been always directing it to do

things in a certain way. Nepal's craving for an independent foreign policy and diplomacy is successfully satisfied in its dealings with Beijing.

### **Economic Cooperation**

In the last few years China has undertaken a large number of infrastructure projects in Nepal. Some of those undertaken by China in the initial days are Arniko Highway, the Prithivi Highway, Kathmandu's Ring Road, Pokhara-Baglung Road and Narayanghat-Gorkha Highway.<sup>15</sup> The Nepalese 750-MW West Seti Project is being helped by the Chinese Three Gorges International Cooperation.<sup>16</sup> In the last six months of 2013, China surpassed India and became the number one source of Foreign Direct Investment (FDI) in Nepal. More than 60 percent of Nepalese FDI was coming from China.<sup>17</sup> In July 2015, China's Hongshi Holdings Limited was set to establish a Cement Plant in collaboration with Nepal's Shivam Cement, the total Chinese FDI was USD 360 million.<sup>18</sup> In addition, China has also been keen to start negotiations and discussions on the Nepal-China Free Trade Agreement.<sup>19</sup> China has also agreed to provide assistance in the form of technology to build a dry port at Tatopani near Kodari.<sup>20</sup>

China has also been investing heavily in the tourism sector of Nepal. As per December 2014, China had started work on almost 219 tourism projects and had promised a total of Rs. 3 billion.<sup>21</sup> Around 71,861 Chinese tourists visited Nepal in 2012 and 113,173 in 2013.<sup>22</sup>

China and Nepal are also collaborating in the field of Science and Technology. Sino-Nepal Joint Research Center for Geography was established in 2014 between The Chinese Academy of Sciences' Institute of Mountain Hazards and Environment (IMHE) and Tribhuvan University (TU) to study ecology of mountains and monitoring the environment. In addition to this, in 2007 the China Hebei Economic and Trade University and the Kathmandu University opened a Confucian Institute in Nepal.

China and Nepal also signed an oil supply deal on October 28, 2015. Even though Beijing had promised to donate around 1.3 billion liters of petrol to Nepal, this is the first ever instance where China will be supplying petrol to Nepal commercially. Nepal Oil Corporation (NOC) signed the agreement with the China National United Fuel Corporation, where

Beijing agreed to supply oil to Nepal as per international rates which may prove cheaper than the price Nepal was paying for its imports from India.<sup>23</sup> In October 2015, China agreed to supply an additional 30,000 liters of fuel to Humla district of Nepal.<sup>24</sup> This comes at the backdrop of the general perception within Nepal that India has reduced the supply of required fuel as it is not happy with the new Constitution of Nepal. The sentiment was expressed by the Nepali Home Ministry spokesperson Laxmi Prasad Dhakal in September 2015 when he stated that, “Our stand is this is a vengeance from India as they are not happy with Nepal’s new constitution. This is a trade blockade, just not officially announced”.<sup>25</sup> China has adopted a different approach as compared to India and has expressed its support for the New Constitution, while arguing that Nepal should look after the interest of all sections of people and has asserted that it will fully respect the Nepalese sovereignty.<sup>26</sup>

### **One Road One Belt**

Chinese President Xi Jinping announced the desire to revive the “old silk routes” through the One Belt One Road (OBOR) initiative. This will be connecting countries of Asia, Europe and Africa with China as the hub. This initiative greatly benefits China and also helps it in strengthening its leadership position globally as well as regionally.<sup>27</sup> Nepal has been very vocal in its support for the Chinese proposed OBOR. Nepalese Foreign Minister Mahendra Bahadur Pandey had said that, “With due respect to our long-standing cordial relations with China, the government of Nepal has extended its support for China’s Silk Road Economic Belt initiative”.<sup>28</sup> In addition to this, in December 2014 during the Nepal-China Inter-governmental Business and Investment Coordination, Nepal signed a four point document with China approving the Silk Road Economic Belt.<sup>29</sup> China has also concluded a RMB bilateral swap agreement with Nepal in December 2014 to help promote border and bilateral trade.<sup>30</sup> The Chinese plan is to connect with South Asia and Nepal by extending the Qinghai-Tibet railway. The proposal is that China will extend the existing railway line from Shigatse to Kerung, which is the closest Chinese town to Nepal. From here the line will be extended to Rasuwagadhi in Nepal. A second extension of Shigatse will

be to Yadong which is on India-Bhutan border. China hopes to extend the railway line till Kathmandu.<sup>31</sup>

### **High Level Exchanges**

There has also been an increase in the number of political and high-level visits between China and Nepal. The Chinese Foreign Minister Wang Yi visited Nepal in June 2015 after the disastrous earthquake.<sup>32</sup> The President of Nepal, Ram Baran Yadav became the first Nepalese President to visit China after Nepal became a Republic in March 2015. He went to China to attend the Boao Forum.<sup>33</sup> In October 2015, the former Prime Minister Prachanda visited China and discussed bilateral issues with the Chinese President.<sup>34</sup>

Chinese Assistant Minister of the International Liaison Department of the Central Committee of the Communist Party of China (CPC) Dou Enyong visited Nepal in August 2015 and met with Prime Minister Sushil Koirala.<sup>35</sup> In December 2013, a delegation led by Vice- Minister of Communist Party of China Ai Ping had visited Nepal.<sup>36</sup>

With regard to India's role, Bhadra Kumar (2015) has argued that India is the "preeminent" and not the "dominant" power in the South Asian region and it also needs to revisit its strategy with respect to Nepal.<sup>37</sup> However, the view of the Indian government officials towards Nepalese dependence on China is that, "Geography and costs make it unsustainable for Nepal to rely on China".<sup>38</sup> This statement was made in the wake of the recent domestic unrest in Nepal which resulted in the disruption of supplies coming from India and thus, Nepal decided to sign an agreement with China in order to meet its requirements. The signing of this agreement clearly came as a major blow to the India-Nepal relationship. It greatly highlights that if India is not ready to do enough for its northern neighbor, China is more than willing to step in and fill the vacuum.

### **Military Cooperation**

In 1988, China and Nepal signed an agreement to share intelligence. China agreed to supply arms to Nepal even though India was upset with this development. China has regularly provided arms to Nepal.<sup>39</sup> In April 2011, Chinese Army Chief General Chen Bingde and a team visited

Nepal. During the visit China promised to provide Nepal with military aid worth USD 19.8 million.<sup>40</sup> In July 2013, General Gaurav Shumsher Rana, Nepal Army Chief visited China and met with top ranking officials of the People's Liberation Army (PLA) and also expressed the unwavering Nepalese support to the One-China Principle.<sup>41</sup> During this visit China promised to provide Nepal with USD 8 million in military aid.<sup>42</sup> Such cooperation has been on the rise. China has been supplying weapons and other military hardware to Nepal whenever the latter has been in need. There has also been an increase in the high level exchanges between the two militaries.

### **Case Study of the 2015 Earthquake**

Nepal faced a massive earthquake on April 25, 2015. During this time of natural calamity, China came forward in full support. China sent a 62 member International Rescue Team which consisted of 12 seismic experts, 10 medical experts and 40 rescuers carrying 13 tons in medical aid and was supposed to stay in Nepal for 10 days.<sup>43</sup> China had also deployed around 1088 military and police personnel in order to help in relief efforts and according to the PLA's General Staff Headquarters, this was the largest aid mission undertaken by China.<sup>44</sup> Apart from manpower, China also sent sniffer dogs, blankets, medicines, generators and tents.<sup>45</sup> Beijing also announced USD 3.3 million in aid, which amounts to three times the amount promised by the United States.<sup>46</sup>

With respect to the relief work undertaken by China and India, the Chinese Foreign Ministry spokesperson Hong Lei said, "China and India are neighbours to Nepal. We would like to work together and co-ordinate positively with India our assistance efforts to help Nepal rebuild its homeland".<sup>47</sup> According to Mahendra Bahadur Pandey, foreign minister of Nepal, "China is our good neighbor, who shares our pain and happiness; and is our good partner, who plays a significant role in our country's development".<sup>48</sup>

Even during the devastating earthquake, Nepal was so concerned towards not hurting the "core interests" of China that it refused the aid and help which was extended to it by Taiwan.<sup>49</sup> Some Nepalese Communist leaders like Mohan Baidhya of CPN-Maoist called the Indian presence

during the rescue work as a threat to the internal security of Nepal and asserted that the rescue work undertaken by India on the northern borders can affect the China-Nepal relationship.<sup>50</sup>

### **Tibetans in Nepal**

Nepal forms an important part of the route which Tibetans undertake while emigrating from China to India. According to some figures the number of Tibetans in Nepal is around 18,000.<sup>51</sup> The presence of Tibetans in Nepal is a very important factor in the increasing attention of Beijing towards Kathmandu. China has been increasing its financial and political pressures on Nepal with the hope that Nepal will aid it in preventing the outflow of Tibetans. The investments provided by China have today successfully managed in reducing the number of Tibetans coming to Nepal. As per the U.N. High Commissioner for Refugees, from 1991 to 2008, the number of Tibetans crossing into Nepal was around 2,200 (per annum), however only 171 came to Nepal in 2013.<sup>52</sup> In 1989 Nepal had stopped issuing refugee papers, known as R.C. to Tibetans and also accepted the One China Policy, acknowledging that Tibet is a part of China.<sup>53</sup> Things become worse when Nepal refused issuing new R.C. to children born to refugee parents residing in Nepal.<sup>54</sup>

The Human Rights Watch published a report in April 2014 titled *Under China's Shadow: Mistreatment of Tibetans in Nepal*. According to the report, "Tibetan refugee communities in Nepal are now facing a de facto ban on political protests, sharp restrictions on public activities promoting Tibetan culture and religion, and routine abuses by Nepali security forces".<sup>55</sup> Some Tibetans have complained that since 2008 there has been an increase in the Nepalese government's restrictions. They have been forced to cancel a number of cultural programmes and religious gatherings.<sup>56</sup>

Reports also argue that the Chinese are paying bribes to the Nepalese in order to prevent the movement of Tibetans. According to one Tibetan living in Mustang which is in Northern Nepal, "The situation is such that the Chinese army is paying bribes to Nepalese forces at the border to keep control of Tibetans fleeing through this route".<sup>57</sup>

## **Conclusion**

2015 is the 60<sup>th</sup> anniversary of China-Nepal diplomatic ties; it is the year when Nepal was hit by a massive earthquake. It is also the year when Nepal adopted its new constitution and signed an agreement with China for oil supplies and thus ending the Indian monopoly. 2015 can be regarded as the year of a number of firsts for Nepal.

There has been a steady growth in the closeness shared between China and Nepal. China has increased its amount of investments in Nepal, which has converted into Nepal following Chinese stand towards the Tibetan population and has accepted the One-China Policy. The level of help provided by China during the Nepal earthquake strengthens the argument that China is keen towards furthering its relationship with Nepal. Beijing perceives Kathmandu as an important player in its overall role and agenda in the South Asian region. However one cannot discount the fact that Chinese attention towards Nepal also extends from its own domestic necessities as well. China has been facing increasing resistance in Tibet and it requires the unparalleled support of the Nepalese government in order to prevent the Tibetans from reaching India. The extensive relief work undertaken by China during the earthquake disaster is also being perceived as an effort to reduce the international criticism vis-à-vis the slow Chinese response during the typhoon in the Philippines in 2013.

The Indian reaction to the new constitution adopted by Nepal in September 2015 has further deteriorated the relationship between India and Nepal. This has increased the anti-India nationalism within Nepal in addition to the disturbances caused by the shortage of food and fuel due to the blockade between India and Nepal. Even though India also extended massive help and aid towards Kathmandu in the wake of the earthquake, it failed to garner a singular positive response. India was generally clubbed with China while discussing aid and help. Everything which India does is generally perceived as an extension of the big brotherly attitude. The lack of contact between the leaders of both countries is obvious from the fact that Narendra Modi became the first Indian Prime Minister in 17 years to visit Nepal. Such lack of attention from New Delhi towards its neighbours is one of the primary reasons why China has become increasingly attractive for the South Asian countries. China's increasingly role and presence in

South Asia, especially within countries like Pakistan, Sri Lanka and Nepal is a reason for grave concern for New Delhi. The threat of 'China Card' is becoming highly real for Indian diplomatic endeavours.

With respect to Nepal, there is an urgent need for India to become more pro-active and not rely on the historical examples. There is an urgent need for better public relations management as well. Even though India is one of the largest aid and donor to Nepal in the post-earthquake period, the general perception is not positive. India needs to rethink its overall strategy and approach towards Nepal. The changes in the domestic political situations in Nepal need to be accepted and adopted in the New Delhi's approach towards Kathmandu. What is hurting the efforts undertaken by India is its general arrogance towards Nepal. This very weakness in the Indian approach towards Nepal is successfully being exploited by China and is helping it in making inroads in South Asia which India perceives to be its natural sphere of influence.

The increasing military cooperation between China and Nepal and infrastructure development by China in Nepal is another major cause of concern for New Delhi. Even though the figures of aid from China to Nepal Army (NA) do not appear to be great, the interesting fact is that there are Chinese inroads in the Indian sphere. The military ties between India and Nepal have been very strong where people from Nepal are recruited to serve in the Indian Army's Gorkha regiment. Thus it is no surprise that the closeness between the PLA and NA are a cause of concern for New Delhi.

India is wary of the increased Chinese presence in Nepal. The new roads and railway lines bring China pretty close to the Indian border. Such construction can be used for offensive measures by China in case of any conflict with India. The unsettled border and dispute between China and India has further increased the level of mistrust. The increasingly closeness between China and Nepal is aggravating the security concerns for India. The growing closeness between China and Nepal can be perceived when Kathmandu exploits New Delhi's weakness vis-à-vis Beijing.

Another question which looms is how long Nepal can exploit the *China Card*. India is Nepal's largest supplier of electricity and funds. Geographically trade between China and Nepal will be highly difficult as compared to India and Nepal. In addition how long will Beijing be ready

to woo Kathmandu? The most important factor which makes Nepal so attractive to Beijing is the Tibetan issue and only time will tell how this situation changes in the post-Dalai Lama phase.

## References

1. Gyawali, Manish, "Nepal and the Great Power Courtship", *The Diplomat*, January 20, 2015, Accessed October 15, 2015, URL: <http://thediplomat.com/2015/01/nepal-and-the-great-power-courtship/>
2. (1955) "Nepal-China Relations", *The Economic Weekly*, 3 September, 2955, p. 1062, Accessed 20 October, 2015, URL: [http://www.epw.in/system/files/pdf/1955\\_7/36/nepalchina\\_relations.pdf](http://www.epw.in/system/files/pdf/1955_7/36/nepalchina_relations.pdf)
3. Tiwari, Chitra K., "China-Nepal Border: Potential Hot Spot?" in Bruce Elleman, Stephen Kotkin, Clive Schofield ed. *Beijing's Power and China's Borders: Twenty Neighbors in Asia*, (2013) M. E. Sharpe, p. 205
4. Jha, Hari Bansh, "Nepal's Border Relations with India and China" *Eurasia Border Review*, p. 72, Accessed October 20, 2015, URL: [https://src-h.slav.hokudai.ac.jp/publicn/eurasia\\_border\\_review/Vol41/V4N104J.pdf](https://src-h.slav.hokudai.ac.jp/publicn/eurasia_border_review/Vol41/V4N104J.pdf)
5. "China-Nepal Boundary", *International Boundary Study*, No. 50 – May 30, 1965, p. 2, Accessed October 20, 2015, URL: <http://archive.law.fsu.edu/library/collection/limitsinseas/ibs050.pdf>
6. Gyawali, Manish, "Nepal and the Great Power Courtship" *The Diplomat*, 20 January, 2015, accessed 17 November, 2015, URL: <http://thediplomat.com/2015/01/nepal-and-the-great-power-courtship/>
7. Sehgal, Saransh, "China Expands into Himalayan Neighbor Nepal" *Defence Review Asia*, 15 January 2015, Accessed 27 October, 2015, URL: <http://www.isn.ethz.ch/Digital-Library/Articles/Detail/?id=175398>
8. "Foreign Minister Wang Yi Talks about China-Nepal Relations in the Past 60 Years" *Embassy of People's Republic of China in the United States of America*, 31 July, 2015, Accessed 27 October, 2015, URL: <http://www.china-embassy.org/eng/zgyw/t1286487.htm>
9. "Nepali president, prime minister hail 60th anniversary of establishing diplomatic ties between Nepal and China" *Xinhua*, 1 August, 2015, Accessed 27 October, 2015, URL: [http://news.xinhuanet.com/english/2015-08/01/c\\_134469168.htm](http://news.xinhuanet.com/english/2015-08/01/c_134469168.htm)
10. Gardner, Dinah, "Power play: China and India jostle for influence in Nepal" *South China Morning Post*, 17 August, 2014, Accessed 19 October, 2015, URL: <http://www.scmp.com/magazines/post-magazine/article/1572819/caught-middle>
11. "New Nepal PM Sharma, K.P., Oli is 'pro-China', says Chinese official media" *Economic Times*, 16 October, 2015, Accessed 23 October, 2015, URL: <http://economictimes.indiatimes.com/news/international/world-news/new-nepal-pm-k-p-sharma-oli-is-pro-china-says-chinese-official-media/articleshow/49415129.cms>
12. Gupta, Manoj, "China undercuts India in Nepal, plays an active role", *CNN-IBN*, 22 September, 2015, Accessed October 23, 2015, URL: <http://www.ibnlive.com/news/world/china-undercuts-india-in-nepal-plays-an-active-role-1108631.html>

13. "Nepal does not want to be India's 'yes man': Prachanda" *Indian Express*, 22 September 2015, Accessed 23 October, 2015, URL: <http://indianexpress.com/article/world/neighbours/nepal-does-not-want-to-be-indias-yes-man-prachanda/#sthash.sCvQpFfo.dpuf>
14. Bhandary, Sharach Chandra, "Sixty years of Sino-Nepal relations growing steadily, *Republica*, 31 July, 2015, Accessed 27 October, 2015, URL: <http://www.myrepublica.com/politics/story/25536/sixty-years-of-sino-nepal-relations-growing-steadily.html#sthash.5iu1WGtS.dpuf>
15. Lamsal, Yuba Nath, "Why China is Important for Nepal" *Gorkhapatra Online*, 23 October, 2015, Accessed October 23, 2015, URL: <http://trn.gorkhapatraonline.com/index.php/op-ed/4447-why-china-is-important-for-nepal-yuba-nath-lamsal.html>
16. Shrestha, Prithvi Man, "China noses ahead of India in FDI pledge" *Kathmandu Post*, 22 July, 2014, Accessed 23 October, 2015, URL: <http://kathmandupost.ekantipur.com/news/2014-07-22/china-noses-ahead-of-india-in-fdi-pledge.html>
17. "China is largest FDI source for Nepal, overtakes India" *The Hindu*, 26 January, 2014, Accessed 23, October, 2015, URL: <http://www.thehindu.com/news/international/world/china-is-largest-fdi-source-for-nepal-overtakes-india/article5618081.ece>
18. "Nepal approves \$360m investment from Chinese firm" *China Daily*, 29, July 2015, Accessed 23 October, 2015, URL: [http://www.chinadaily.com.cn/business/2015-07/29/content\\_21442523.htm](http://www.chinadaily.com.cn/business/2015-07/29/content_21442523.htm)
19. "Xi Jinping Meets with President Yadav, Ram Baran of Nepal" *Ministry of Foreign Affairs of the People's Republic of China*, 29 March, 2015, Accessed 27 October, 2015, URL: [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1250563.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1250563.shtml)
20. Krishnan, Ananth, "Ahead of President's visit to China, Nepal pitches for road links" *India Today*, 20 March, 2015, Accessed 27 October, 2017, URL: <http://indiatoday.intoday.in/story/nepal-president-china-visit-ram-baran-yadav-road-links/1/424948.html>
21. "Aggressive Chinese investment in tourism" *London Nepal New*, 11 January, 2015, accessed 23 October, 2015, URL: <http://www.londonnepalnews.com/aggressive-chinese-investment-in-tourism/>
22. "Aggressive Chinese investment in tourism" *London Nepal New*, 11 January, 2015, accessed 23 October, 2015, URL: <http://www.londonnepalnews.com/aggressive-chinese-investment-in-tourism/>
23. "China to supply oil to Nepal at cheaper rate than India" *Indian Gorkhas*, 29 October, 2015, accessed on 29 October, 2015, URL: <http://www.indiangorkhas.in/2015/10/china-to-supply-oil-to-nepal-cheaper-india.html>
24. "Nepal to get another 30,000 litres of fuel from China" *The Economic Times*, 8 November, 2015, accessed 10 November, 2015 URL: [http://economictimes.indiatimes.com/articleshow/49706775.cms?utm\\_source=contentofinterest&utm\\_medium=text&utm\\_campaign=cppst](http://economictimes.indiatimes.com/articleshow/49706775.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst)
25. Tiezzi, Shannon, "China Steps In After Indian Fuel Stops Flowing to

- Nepal” *The Diplomat*, 27 October, 2015, accessed 29 October, 2015, URL: <http://thediplomat.com/2015/10/china-steps-in-after-indian-fuel-stops-flowing-to-nepal/>
26. Krishnan, Ananth, “China says will support Nepal 'sovereignty' after landmark fuel deal” *India Today*, 29 October, 2015, accessed on 29 October, 2015, URL: <http://indiatoday.intoday.in/story/china-will-support-nepal-fuel-deal/1/510070.html>
  27. “‘One belt, one road’ initiative will define China’s role as a world leader” *South China Morning Post*, 2 April, 2015, Accessed October 29, 2015, URL: <http://www.scmp.com/comment/insight-opinion/article/1753773/one-belt-one-road-initiative-will-define-chinas-role-world>
  28. “Nepal sees China's Belt and Road initiative as chance for Asia” *China.org*, 25 March, 2015, Accessed 29 October, 2015, URL: [http://www.china.org.cn/business/2015-03/25/content\\_35148206.htm](http://www.china.org.cn/business/2015-03/25/content_35148206.htm)
  29. “Nepal to join Silk Road Economic Belt through Tibet” *The Hindu*, 3 January, 2015, accessed 29 October, 2015, URL: <http://www.thehindu.com/news/international/south-asia/nepal-to-join-silk-road-economic-belt-through-tibet/article6749342.ece>
  30. “China, Nepal sign agreement to use currencies for border trade” *The Economic Times*, 23 December, 2015, accessed 29 October, 2015, URL: [http://articles.economictimes.indiatimes.com/2014-12-23/news/57349923\\_1\\_border-trade-bilateral-trade-and-investment-pboc-governor-zhou-xiaochuan](http://articles.economictimes.indiatimes.com/2014-12-23/news/57349923_1_border-trade-bilateral-trade-and-investment-pboc-governor-zhou-xiaochuan)
  31. “One Belt One Road’ initiative” *Frontline*, 1 May, 2015, accessed 29 October, 2015, URL: <http://www.frontline.in/world-affairs/one-belt-one-road-initiative/article7098506.ece>
  32. “Wang Yi: Offering Help to Nepal Is What Friends Are for” *Ministry of Foreign Affairs of the People’s Republic of China*, 25 June, 2015, Accessed 27 October, 2015, URL: [http://www.fmprc.gov.cn/mfa\\_eng/zxxx\\_662805/t1276893.shtml](http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1276893.shtml)
  33. “Nepali President’s visit to China has taken bilateral ties to new high: minister” *Xinhua*, 1 April, 2015, Accessed October 27, 2015, URL: [http://news.xinhuanet.com/english/2015-04/01/c\\_134116965.htm](http://news.xinhuanet.com/english/2015-04/01/c_134116965.htm)
  34. “Nepal’s former PM Prachanda to visit China next week for high-level talk” *Times of India*, October, 2015, Accessed 27 October, 2015, URL: <http://timesofindia.indiatimes.com/world/south-asia/Nepals-former-PM-Prachanda-to-visit-China-next-week-for-high-level-talk/articleshow/49247476.cms>
  35. “PM, Dou talk Nepal-China relations” *Kathmandu Post*, 26 August, 2015, Accessed 27 October, 2015, URL: <http://kathmandupost.ekantipur.com/news/2015-08-26/pm-dou-talk-nepal-china-relations.html>
  36. “Beijing sends another high profile delegation to Nepal” *IANS*, 18 December, 2013, Accessed 27 October, 2015, URL: <https://in.news.yahoo.com/beijing-sends-another-high-profile-delegation-nepal-103804984.html>
  37. Bhadrakumar, M.K., “How China pipped India at Nepal post” *Asia Times*, 17 October, 2015, Accessed October 23, 2015, URL: <http://atimes.com/2015/10/how-china-pipped-india-at-nepal-post/>

38. Jha, Prashant, "India asks Nepal to solve crisis, warns against 'China card'" *Hindustan Times*, 1 October, 2015, Accessed 23 October, 2015, URL: <http://www.hindustantimes.com/india/india-asks-nepal-to-solve-crisis-warns-against-china-card/story-X52JaCNSZn0JrLNdJvieDJ.html>
39. V. Pant, Harsh, "China's Rising Global Profile: The Great Power Tradition", 2011, Sussex Academic Press, pp. 46
40. "Security Trends South Asia: Nepal: China Expands Military Cooperation" *Security Risks.com*, 16 April, 2011, accessed 19 November, 2015, URL: <http://www.security-risks.com/security-trends-south-asia/nepal/china-expands-military-cooperation-1264.html>
41. "China, Nepal agree to deepen military ties" *The Hindu*, 25 July, 2013, accessed 19 November, 2015, URL: <http://www.thehindu.com/news/international/world/china-nepal-agree-to-deepen-military-ties/article4951454.ece>
42. Brendan PO' Reilly, "Nepal claims strategic middle ground" *Asia Times*, 31 July, 2013, accessed 19 November, 2015, URL: <http://www.atimes.com/atimes/China/CHIN-01-310713.html>
43. "Spotlight: Chinese presence in Nepal's earthquake rescue operations" *Xinhua*, 29 April, 2015, accessed 16 November, 2015, URL: [http://news.xinhuanet.com/english/2015-04/29/c\\_134195850.htm](http://news.xinhuanet.com/english/2015-04/29/c_134195850.htm)
44. "Nepal thanks China for helping in earthquake recovery" *South China Morning Post*, May 13, 2015, Accessed on 2 November, 2015, URL: <http://www.scmp.com/news/asia/article/1794748/nepal-thanks-china-helpingin-earthquake-recovery>
45. Biswas, Soutik, "Nepal earthquake: How India and China vie for influence" *BBC*, 28 April, 2015, accessed 16 November, 2015, URL: <http://www.bbc.com/news/world-asia-india-32492273>
46. Balachandran, Manu and Timmons, Heather, "China's and India's charity in Nepal has a hidden political agenda" *Quartz India*, 28 April, 2015, accessed 16 November, 2015, URL: <http://qz.com/392295/chinas-and-indias-charity-in-nepal-has-a-hidden-political-agenda/>
47. Sengupta, Kim, "Nepal earthquake: How the regional rivalry between China and India has spilled over into the international rescue effort" *Independent*, 5 May, 2015, accessed 16 November, 2015, URL: <http://www.independent.co.uk/news/world/asia/nepal-earthquake-how-the-regional-rivalry-between-china-and-india-has-spilled-over-into-the-10224298.html>
48. Zhao, Yanrong, "Aid plans underscore close links" *China Daily Asia*, 31 July, 2015, accessed 16 November, 2015, URL: [http://www.chinadailyasia.com/asiaweekly/2015-07/31/content\\_15298132.html](http://www.chinadailyasia.com/asiaweekly/2015-07/31/content_15298132.html)
49. Shakya, Tsering and Gurung, Ashok, "Was Nepal a Soft Power Victory for China?", *Foreign Policy*, May 1, 2015, Accessed on October 15, 2015, URL: <http://foreignpolicy.com/2015/05/01/nepal-china-earthquake-aid-taiwan-power/>
50. Variyar, Mugdha, "Nepal's Pro-China Communists Call India's Earthquake Relief 'National Security Threat'" *International Business Times*, 2 May, 2015, accessed 16 November, 2015, URL: <http://www.ibtimes.co.in/nepals-pro-china-communists-call-indias-earthquake-relief-national-security-threat-631110>

51. Seemangal, Robin, "Disaster Diplomacy: After Nepal Earthquake, China and India Race to Give Aid" *The Observer*, January 5, 2015, accessed on 2 November, 2015, URL: <http://observer.com/2015/05/in-nepal-china-and-india-engage-in-disaster-diplomacy/>
52. Demick, Barbara, "Tibet's Road Ahead Tibetans Lose a Haven in Nepal Under Chinese Pressure" *Los Angeles Times*, August 6, 2015, accessed 2 November, 2015, URL: <http://www.latimes.com/world/asia/la-fg-tibet-nepal-20150806-story.html>
53. Chitrakar, Naves, "Tibetans in Nepal", *Reuters*, March 2015, accessed 2 November, 2015, URL: <http://widerimage.reuters.com/story/tibetans-in-nepal>
54. Krakauer, Jon, "Why Is Nepal Cracking Down on Tibetan Refugees?" *The New Yorker*, 28 December, 2011, accessed 9 November, 2015, URL: <http://www.newyorker.com/news/news-desk/why-is-nepal-cracking-down-on-tibetan-refugees>
55. "Nepal: Increased Pressure from China Threatens Tibetans Authorities Increase Surveillance and Abuses Against Refugees" *Human Rights Watch*, April 1, 2014, accessed 2 November, 2015, URL: <https://www.hrw.org/news/2014/04/01/nepal-increased-pressure-china-threatens-tibetans>
56. Wong, Edward and Sharma, Bhadra, "Tibetans Repressed in Nepal, Rights Group Finds" *The New York Times*, 1 April, 2014, accessed 9 November, 2015, URL: [http://www.nytimes.com/2014/04/02/world/asia/rights-group-documents-repression-of-tibetans-in-nepal.html?\\_r=0](http://www.nytimes.com/2014/04/02/world/asia/rights-group-documents-repression-of-tibetans-in-nepal.html?_r=0)
57. Sehgal, Saransh, "China Finds the Lost Kingdom" *The Diplomat*, 24 September, 2015, accessed 17 November, 2015, URL: <http://thediplomat.com/2013/09/china-finds-the-lost-kingdom/>

# 10

## Role of China and India in Nepal's Economic Development: Post 1990

Bhoj Raj Poudel

### **Abstract**

Nepal's economy has failed to take off despite the fact that democracy was restored and reform measures were adopted in 1990. Even though Nepal is surrounded by world's two largest markets; China and India, it could neither exploit the markets nor attract enough amount of foreign direct investments from those markets in last two and half decades. Additionally, it could not even work on technology transfer from these emerging economies. Rather, Nepal started to rely on remittance that mostly comes from Middle East in post-1990 period. Nepal's economy was stagnated and even veiled by an intense decade long civil war, which, now, has turned into a prolonged peace and constitution-writing process.

This paper will look at the post-1990 China-India-Nepal relationship from the Nepal's macro-economic perspective; for instance, the contribution in Nepal's economic development from the inflow of FDI from these two countries, movement of people and sharing of knowledge and technology. Further, this paper will also gauge the rationale behind unfolding the idea of "Trilateral Cooperation" among China, India and Nepal in 2010, which has been discussed since then in all high level meetings among and between the leaders of these three countries. Eventually, it

will touch upon how this Trilateral Cooperation can be a boon for Nepal's growth and creation of jobs through investment and movement of people.

This paper will treat Chinese and Indian FDI, movement of people and sharing of technology and knowledge as an exogenous factor of Nepal's growth, which is imperative to attain a double-digit growth in Nepal vis-à-vis utilization of untapped resources that it has in store such as water and tourism.

## **Introduction**

The economic progress of Nepal has been subject to political ups and downs in post-1990 period. With the restoration of democracy in 1990, economic liberalization was one of the prime concerns of the then government. However, that could not be achieved in full scale for various reasons. The economic growth that had gone up to the level of almost 8 percent in early 1990s with the wave of democratic practices but newly formed elected government didn't last long. Economic slowdown was attributed to many factors including unstable governments and failure to kick off economic reform policies to a full scale (Francis 2002).

Nepal's economic development is not merely a matter of domestic policy formulation so far but it is also a byproduct of the relationship that it maintains with its immediate neighbors; both China and India (Rose 1971). This argument gets even clearer while looking at political developments in Nepal and the level of engagement of both neighbors, particularly of India (Jha 2014). Historical evolution of the relationship between India and Nepal is so intertwined that the economic development of the latter is fully dependent. Nepal's geographic location could be taken as one of the factors for this situation (Reporter 2015). Indian engagement in Nepal's economic and political development has both pros and cons. However, Nepal has failed to tap the positive sides of the relationship due to its ultra-nationalist fervor while dealing with India. That has pushed Nepal back and forth in the lap of China and India.

Looking from the perspective of trilateral cooperation, Nepal's development is partly a result of where China and India see themselves playing in the field. This idea of trilateral cooperation, however, was non-

existent till 2009 and had no discussion on China and India both can be engaged in Nepal's development (Patel 2013). In the absence of the idea of trilateral cooperation, China and India had an engagement in Nepal in their own ways from various channels such as trade, foreign direct investment and development aid. It is wise to see how these two countries were trying to be engaged in Nepal in order to see the actual contribution of these two countries for Nepal's economic development.

Exploring the bilateral trade, level of FDI inflow from the neighbors and economic cooperation, this paper will be focused on the extent to which involvement of China and India was beneficial for Nepal's economic development. Further, it will also try to see the future prospects of Nepal enjoying the relationship with both the neighbors as both are emerging economies in the region. In this backdrop, it is important to note that Nepal is historically south-oriented and has much larger economic dependence. Economic development of small countries like Nepal can be also a spillover effect of neighboring countries, if the latter continue to accelerate their growth rate. Nepal could be a fitting example of this assumption but it is a matter of question whether that actually has been the case when it comes to Nepal. In this regard, it is important to look at the contribution that China and India has made in Nepal's economic development. However, the limitation is that it is not possible to see a scenario of Nepal's economic development keeping the engagement of China and India completely away. Hence, this study will be looking at the relative contribution from both the countries.

### **Economic Reforms in Nepal: Post-1990**

End of party-less Panchayat system in Nepal was coincided with the fall of Soviet Union and establishment of liberal values in the world order. That has an effect in the development of small countries like Nepal. The effectiveness of International Monetary Fund (IMF) was visible as it extended a Structural Adjustment Program to Nepal aiming to help to maintain balance of payment (International Monetary Fund 1991). With that the economic growth was gradually going upward till the Maoist declared their armed struggle in 1996 (Jha 2014). The economic growth prior to the 1990 was more based on agricultural sector though during

that period agriculture itself was in subsistence level. With the restoration of democracy in the country, individual property right was guaranteed by Nepal's Constitution of 1990, which built the ground for emergence of small, medium and large-scale enterprises from private sector (Basnett 2009).

The government adopted slew of economic reforms aiming to boost investment from the private sector as well as to lure foreign direct investment (FDI) from abroad (Mahat 2005). Given the geographical location of Nepal and the dimensions of its strategic location, China and India were more interested in injecting investment compared to other countries. However, FDI from former Soviet Union during the period of Cold War was significant to establish several state-owned enterprises in the country. But interestingly, after the 1990, the government made a move to privatize most of the state-owned enterprises and could succeed to do in many cases (Mahat 2005). The goal was to let the market decide the fate of the economy.

The economic progress of the country, in post-1990 period, was partly a result of the development of the private sector with a sense of security regarding private property. However, such a sense of security didn't mean much with the emergence of armed struggle in the country, which made people feel more vulnerable as the Maoists started to seize the private property in several rural areas of the country.

### **Trade with India & China**

Nepal's more than two third of total foreign trade is concentrated with India. China is another major trading partner of Nepal. However, trade balance with both the countries is in deficit. Nepal enjoys the market of both the countries. China and India both have provided duty-free, quota free access to Nepali goods in their respective markets. Even with that access, Nepal has failed to utilize the prospects it has in these markets. Nepal's export basket is too small to cover the trade deficit with both China and India. Bilateral trade and investment framework has been signed between India and Nepal whereas it is underway to sign with China. The signing of the Bilateral Investment and Protection Agreement (BIPPA) was supposed to foster better environment for further investment inflow from India. However, this agreement in itself is not taken as an assurance for investment.

China and Nepal have been working on signing similar kind of agreement (Giri 2014). However, two countries are working on finalizing the terms and conditions of the agreement in mutual understanding. Nepal's trade with India and China both is more or less a boost for the Nepali economy but that is not a sufficient condition for economic growth of the country. However, Nepal's economic growth is more or less guided by trade and investment relationship it could foster with its two neighbors. Most of the investments that come to Nepal get politically contentious without weighing the magnitude of their importance. India's investment in Nepal after the 1990 is in upward scale, which has helped Nepal to grow in some sectors. India's investment in Nepal ranges from agriculture to hydropower. In this backdrop, Nepal and India also have signed Power Trade Agreement (PTA) aiming to boost investment in hydropower sector (Shrestha 2014). This newly enacted agreement between the two countries is expected to be instrumental to bring investment in Nepal from India.

China being another major trading partner of Nepal, the former has provided zero-tariff facility to Nepal for 8,787 goods and services. However, Nepal has failed to exploit this facility, as its export basket is too small. This begs a question to be asked whether Nepal has actually been able to utilize the relationship it has with neighbors in order to boost its economic growth. Notwithstanding, the zero-tariff facilities that it has been enjoying from both China and India are being mostly unused for economic development and industrialization. Trade itself is yet to become the main driver of the economic development of the country. Hence, the foreign trade is not ideally a source for growth.

### **Foreign Direct Investment from China and India**

Foreign direct investment (FDI) is still an issue in Nepal. Indian FDI inflow in Nepal is the highest in terms of amount (Department of Industry, Government of Nepal 2015). In terms of number of industries registered, China ranks first with 695 firms registered in Nepal with Chinese origin of FDI whereas India ranks second with 588 firms registered in fiscal year 2014/15. However, the investment in Nepal is not significant enough for the development of infrastructures. Following that, the second largest investor in Nepal is China. Both the countries have interest in investing

in Nepal despite the political odds (Poudel 2015). Investment from both China and India is in upward scale from early 1990s but Chinese FDI has gone significantly up after the establishment of Republic of Nepal (Department of Industry, Government of Nepal 2015). However, there are not convincing argument why China has been active after Nepal entered into the era of republicanism.

The role of FDI in the economic development of the country is negligible (Ministry of Finance, Government of Nepal 2015). The government has formulated foreign direct investment policy and has been working in luring foreign investment in the country. Establishment of Investment Board of Nepal (IBN) is one step in that direction, which is assigned to facilitate to bring FDI in the country. Such initiatives from the government's side are being fruitful to attract FDI in the country to build large-scale infrastructures (Giri, *The Kathmandu Post* 2015). Moreover, IBN is also a signal to foreign investors that Nepal is in line of providing a favorable environment for those who are interested in investing in Nepal. Such new developments may not be reflected in the economic development of the country overnight (Khadka 2015). Hence, China and India's investment in Nepal could be an exogenous factor for the economic growth given that these two countries pour money not only out of profit motive but also with an aim of having their foothold in the ground (Poudel 2015). This approach of China and India in Nepal results into geopolitics and securing their strategic interests in Nepal. Understanding this, Nepal has jumped to an idea of being a 'vibrant bridge' between these two countries (Reporter, *The Kathmandu Post* 2012). Going back, Nepal put a proposition between China and India saying that there could be a trilateral cooperation in this region among these three countries for the development and also to smoothly manage geopolitical interests (Poudel 2015). Although, India is not very forthcoming in this platform, Nepal has been pushing for it in all the possible forums (Dixit 2015).

### **Trilateral Cooperation & Benefit Sharing**

As discussed earlier, the idea of trilateral cooperation was originated with an aim to benefit from the rise and development of both China and India in all levels. While unfolding the trilateral cooperation, all the three

countries' can foster a mechanism from where they could work together in terms of infrastructure development, connectivity and eventually boost flow of people (Sapkota 2015). Right from the beginning of floating the idea of trilateral cooperation among these three countries, the discussion is in the direction of connecting these three countries with an economic corridor, which has been even further materialized after China and India both discussed about it (*PTI* 2015).

Development of economic corridor to connect these three countries falls largely under China's initiative to connect Eurasia under its "One Belt, One Road" Project (Hofman 2015). Nepal being a small country in between two rising economies, it could benefit from the development of the economic corridor and several other projects that could come out as byproduct of this large mission of China and India's ambition to rise in the region as well as in the global forum (Lynes 2015). However, Nepal will also have to be in a tight position to manage the interests of these two regional powers, which have interests to have footholds in small countries in this region especially driven by their interests in natural resources (Poudel 2015). The friction that arises from the interests of China and India in natural resources could be reflected in the domestic politics as well and subsequently it could be a reason for an unstable political set up of the country. The goal is to gain economic benefits as well as utilizing the technology advancement that come from these countries. Again, the issue is whether Nepal can manage the economics of influence from these countries.

Nepal's role in this trilateral cooperation cannot be more than being a mere partner since it has no wealth to invest in building of the infrastructures (Poudel 2015). Thus, Nepal should, at least, be able to manage the interests of these two giant neighbors and build its economy in the long run. China and India both have been showing interests in taking this cooperation forward given that they both will have leverage to play in South Asia and exploit market and resources this region has (Pillalamarri 2015). Given that Nepal could manage interests of these two countries, it could gain from the rise of two neighbors in economic front. Managing the interests of neighbors, however, is a difficult task for Nepal (Poudel 2015).

Nepal is historically south-oriented and has engagement with it in various fronts. Nepal's dependence on India in economic and political front makes Nepal more vulnerable while trying to expand its relationship with other partners in the region especially with China (Poudel, *Republica Daily* 2014). Whether a country can benefit from some specific mechanism or not depends on how much that country works to exploit it. In a broader framework, this trilateral cooperation also can be attributed to the idea of Asian Century (Pant 2015). This makes a compelling case arguing that Nepal can benefit from the rise of these two countries and also with the advancement of entire Asia. Hence, Nepal should work on devising its policies aiming to exploit these on-going activities in the region.

Nepal, being a small country, sandwiched between the two giants should take into account the fact that strategic relationship between and among countries are founded on their economic magnitude and military capacity (Luttwak 2012). Acknowledging that, Nepal should work with China and India based on its own devised policy. As China and India both have come out with their respective 'Neighbourhood Policy', similarly, Nepal should also work on formulating policies in that direction. In the absence of a policy to work with these neighbours, it would be always just survival (Rose 1971). Economically more powerful countries like China and India can be a challenge for Nepal to balance and that could put the entire trilateral cooperation into discomfort. In order to avoid that situation, Nepal should engage both the neighbors in a meaningful dialogue. Nepal should identify the areas of cooperation in which it can engage these two neighbors. One of such areas could be infrastructure building in Nepal and its bordering areas.

### **Nepal's Economic Development and Role of China and India**

Nepal's economic development is largely an outcome of agricultural production and remittance inflow rather than boost in industrial production and services sector. It is fairly a tough task to measure the contribution of investment and trade with its two neighbors. However, it could be argued that the share of trade and foreign direct investment in gross domestic product (GDP) of the country can be attributed mostly to China and India.

China and India are involved in Nepal's economic development with their investment and the market they have opened for Nepal. Similarly, tourist inflow from these countries is also significantly higher than from other countries. Nepal's relationship with China and India in itself is one of the factors for the country's economic development, looking at the economic dimensions of these countries (Murthy 1999).

Right from the beginning of 1990s, China and India both have shown their interests in being involved in Nepal's political as well as economic activities (Lama 2015). However, it was Nepal's weakness that it could not fully exploit the involvement of these two neighbors in the country's various sectors including infrastructure development and hydropower. Rather, the presence of China and India was heavily politicized arguing that the sovereignty of the country could be compromised while allowing these two neighbors to be fully active in Nepal. India's interest in Nepal could be resulted from the water resources.

## **Conclusion**

Nepal's economic growth has been sluggish throughout the period since 1995. Despite the rise in economic growth during the early years of 1990s, most of the economic activities were disturbed with the outburst of Maoist insurgency. The effects of the insurgency were widespread since then and the country's economy was faltered. However, investment inflow was relatively more satisfactory compared to the growth rate during that period, especially from China and India. With the opening of the job opportunities in Middle East for Nepali migrant workers, remittance inflow was in upward scale from mid-1990s. Young people left country in search of jobs for Middle East. One of the reasons was intense insurgency and unavailability of jobs in the domestic market. Manufacturing sector as well as services sector was disturbed due to lack of enough electricity in the country as well as labor disputes.

Signing of the 'Peace Accord' in 2006 between the then rebel group (Maoists) and mainstream political parties ended the decade long insurgency in the country and brought the Maoists in mainstream politics. This new beginning paved the road for federal and republic Nepal. Nepal started to look more lucrative for its Northern neighbour China. By the

time of 2010, Chinese FDI was at par with Indian investment in Nepal. Inception of the idea of trilateral cooperation among China, India and Nepal was another instrumental incident, which made Nepal even more active in luring FDI from both China and India. Nepal signed BIPPA with India paving the road for further inflow of FDI from Southern neighbor. Meanwhile, Nepal is also working on signing BIPPA with China for the same purpose.

In a nutshell, contribution of China and India's investment in Nepal and trade with these two countries is undoubtedly a factor for the country's economic growth. However, the question is to what extent, Nepal can exploit the relationship and bring FDI in the country. Similarly, Nepal also should work on expanding its export basket in order to minimize the trade deficit with these two countries.

With the rise of China and India in the region, both of these two countries can be utilized for the development of Nepal by balancing the power structure and managing their geopolitical interests. Nepal can't afford to play one against another with China and India.

## References

- Basnett, Yurendra, *From Politicization of Grievances to Political Violence: An Analysis of the Maoist Movement in Nepal*, Working Paper, Development Studies Institute, London School of Economics and Political Science, London: LSE, 2009.
- Department of Industry, Government of Nepal, *Foreign Investment in Nepal*. Report, Kathmandu: DoE, GoN, 2015.
- Dixit, Kunda, *Nepali Times*. May 11, 2015, <http://nepalitimes.com/blogs/kundadixit/2015/05/11/lessons-from-sichuan/> (accessed December 26, 2015).
- Francis, Mohan G. Global Policy Forum, October 2002. <https://www.globalpolicy.org/component/content/article/209/43014.html> (accessed December 16, 2015).
- Giri, Sanjeev. *The Kathmandu Post*. 12 12, 2014. <http://kathmandupost.ekantipur.com/news/2014-12-12/nepal-forwards-revised-bippa-draft-to-china.html> (accessed 12 24, 2015).
- . *The Kathmandu Post*, December 21, 2015, <http://kathmandupost.ekantipur.com/news/2015-12-21/ibn-approves-rs14b-chinese-investment.html> (accessed December 27, 2015).
- Hofman, Bert, *East Asia and the Pacific on the Rise*, April 12, 2015. <http://blogs.worldbank.org/eastasiapacific/china-one-belt-one-road-initiative-what-we-know-thus-far> (accessed December 24, 2015).
- International Monetary Fund. *Annual Report*, Annual Report of the Executive Board, International Monetary Fund, Washington DC: International Monetary Fund, 1991.

- Jha, Prashant, *Battles of the New Republic: A Contemporary History of Nepal*. New Delhi : Aleph , 2014.
- Khadka, Baburam, *Karobar Economic Daily*. November 4, 2015. <http://np.karobardaily.com/2015/11/70282/> (accessed December 25, 2015).
- Lama, Jigme Yeshe, "China and its Peripheries: Securing Nepal in South Asia," *Issue Brief*, Prod. Institute of Peace and Conflict Studies, New Delhi , 2015.
- Luttwak, Edward N., *The Rise of China vs. The Logic of Strategy*, Cambridge, MA: The Belknap Press of Harvard University Press , 2012.
- Lynes, Rob. *The Diplomat*, November 3, 2015, <http://thediplomat.com/2015/11/britain-needs-to-boost-ties-with-india/> (accessed December 25, 2015).
- Mahat, Ram Sharan, *In Defence of Democracy Dynamics and Fault Lines of Nepal's Political Economy*, New Delhi: Adroit Publishers, 2005.
- Ministry of Finance, Government of Nepal, *Economic Survey*. Prod. Ministry of Finance. Kathmandu, July 10, 2015.
- Murthy, Padmaja, "India and Nepal: Security and Economic Dimensions," *Strategic Analysis* , 12/ 12, 1999: 1531-1547 .
- Pant, Harsh V., *The Telegraph*, June 13, 2015. [http://www.telegraphindia.com/1150613/jsp/opinion/story\\_25356.jsp#.VoDn7DZfndk](http://www.telegraphindia.com/1150613/jsp/opinion/story_25356.jsp#.VoDn7DZfndk) (accessed December 24, 2015).
- Patel, Dharmesh. "The entangled triangle of Nepal, India and China," *The Bulletin of the Centre for East-West Cultural and Economic Studies* (Centre for East-West Cultural and Economic Studies) 10, no. 2 (1 2013): 40-44.
- Pillalamarri, Akhilesh. *The Diplomat*. January 8, 2015. <http://thediplomat.com/2015/01/nepal-chinas-gateway-to-south-asia/> (accessed December 26, 2015).
- Poudel, Bhoj Raj, "Changing Regional Political Landscape and Challenges for Trilateral Cooperation," In *India-China-Nepal: Decoding Trilateralism*, edited by Pramod Jaiswal and Geeta Kochhar, New Delhi: G.B. Books, 2016.
- . *Republica Daily*, August 8, 2014, [http://www.myrepublica.com/portal/index.php?action=news\\_details&news\\_id=81305](http://www.myrepublica.com/portal/index.php?action=news_details&news_id=81305) (accessed December 25, 2015).
- PTI. *www.economictimes.indiatimes.com*. July 2, 2015. [http://articles.economictimes.indiatimes.com/2015-07-02/news/64039345\\_1\\_railway-line-tibet-china-daily](http://articles.economictimes.indiatimes.com/2015-07-02/news/64039345_1_railway-line-tibet-china-daily) (accessed December 25, 2015).
- Reporter, Post, *The Kathmandu Post*, August 29, 2012. <http://kathmandupost.ekantipur.com/printedition/news/2012-08-28/country-will-be-a-vibrant-bridge-between-india-china.html> (accessed December 27, 2015).
- . *The Kathmandu Post*, December 16, 2015. <http://kathmandupost.ekantipur.com/news/2015-12-16/having-good-relations-with-india-in-nepals-interest-rae.html> (accessed December 16, 2015).
- Rose, Leo E., *Nepal: Strategy for Survival*, Berkeley, California : University of California Press , 1971.
- Sapkota, Rupak, "China-India-Nepal Trilateral Initiative: Nepal's Quest for Decent Role," In *India-China-Nepal: Decoding Trilateralism* , edited by Pramod Jaiswal & Geeta Kochhar, 175-209. G.B. Books, 2016.
- Shrestha, Prithvi Man, *The Kathmandu Post*. 10 22, 2014, <http://kathmandupost.ekantipur.com/news/2014-10-22/nepal-india-enact-power-trade.html> (accessed 12 24, 2015).

# 11

## Indian 'Economic Embargo': The China Factor

Biswas Baral

### **Abstract**

Since its independence India has been the predominant foreign power in Nepal. The first Indian Prime Minister Jawaharlal Nehru set the tone for Indo-Nepal ties when he described Nepal as falling under the “Indian sphere of influence.” This characterisation, made around the time of China’s annexation of Tibet in 1950, was meant to signal that India would not tolerate greater Chinese inroads into Nepal.

Nearly 70 years on, the Indian establishment continues to view Nepal with the old Neruvian lens. India remains as paranoid about the Chinese in its traditional backyard. Modi government got a feeling that while Chinese concerns were accommodated in Nepal’s new constitution promulgated on 20 September 2015, Indian interests were neglected. For instance, the federal provinces were carved out largely based on economic viability (which China wanted) while India’s suggestion that ethnicity should also be factored in, were ignored. This, India felt, would do injustice to Madheshis, the inhabitants of the Nepali lowlands who share close ties with Indians across the border.

To express its displeasure, India started an ‘economic embargo’ on vital goods and fuel supply into Nepal. But, paradoxically, the embargo, instead of making Kathmandu toe New Delhi’s line, has

pushed Kathmandu closer to China. The roads to Tibet are being upgraded; a long-term oil contract with China has recently been signed; and there is now widespread feeling among Nepalis that China is a better friend as compared to India.

If it wants to protect its interests in Nepal, India must let go of its obsession with China. Nepal-China ties can never match the centuries-old Nepal-India relations based on shared cultures, religions and traditions. Importing more from India makes economic sense, too. But if India keeps pushing Nepal into China's arms, China, as we are seeing, will be only too happy to oblige the paranoid Indians.

## **Introduction**

Scholars on Nepal have long wondered how the country has managed to stay independent for so long, sandwiched, as it precariously is, between India and China. Leo Rose, considered among the most astute foreign readers of Nepali politics, recalls his conversation in 1962 with one of the ministers in King Mahendra's cabinet who predicts that "Nepal's fate is likely to be eventual absorption by either India or China, and that furthermore the decisions and actions of the Nepali government would not be crucial in determining the result."<sup>1</sup>

But that would be a simplistic reading of the delicate balancing act between India and China that Nepal has been maintaining for the past 250 years of its existence as a sovereign, independent nation-state. Even Rose thought such absorption by either India or China was unlikely. But the hard truth is that the founder of modern Nepal, Prithvi Narayan Shah, initiated the process of unification of the territories that constitute today's Nepal with brute force, in the process bringing together vastly different regions and ethnic communities that had little in common.

It could be argued that the continuity of such a forced unity was possible only under the autocratic Shah monarchy and its imposition of uniform (Nepali) language and (hill) culture. But with the monarchy overthrown by the sovereign Constituent Assembly in 2008, all the latent divisions, the holdovers from the unification campaign, are coming to the surface. In no other area has these divisions been as apparent as in the

process of transformation of the old unitary structure into a federal state following the end of monarchy.

### **Seeds of Discord**

The demand for 'One Madhesh' province in the new federal state, spanning the entire plain region of Nepal adjoining India, was first heard in course of the 2007 Madheshi Uprising. The uprising was the first collective movement in Madhesh for the rights of the native Madheshi people, who constitute around 30 percent of national population, who had for the past 250 years been treated as second-class citizens. They were protesting to be treated as equals, to be given their fair share.

The demand for One Madhesh was, arguably, also the first, articulated attempt at a decisive rupture of the Nepali state since the 1815 Treaty of Sugauli between the British rulers in India and Nepal (The treaty had resulted in loss of a third of territories of unified Nepal at the time). At least that was how the One Madhesh demand was seen by the mostly hill Kathmandu establishment, a reading that was not entirely erroneous.

The 2007 Madheshi uprising had the support of common Madheshis, but the illogical demand for 'One Madhesh', the Kathmandu establishment felt, was not what Madheshi people wanted and the divisive agenda was being pushed by New Delhi.<sup>2</sup> Since India's independence in 1947 there has always been a constituency in Delhi that has believed that the Tarai belt in Nepal, inhabited by people with close contacts with Indians across the border, should come under the sovereignty of India.<sup>3</sup>

This is perhaps also the basis of the fear in Nepal that what India accomplished in Sikkim with the help of its external intelligence agency, the Research & Analysis Wing (RAW)—absorption of the former protectorate into Indian union—could be repeated in Nepal. India, in this belief, is looking to play in the political vacuum created after the abolition of monarchy in 2008. The activities of RAW in Nepal, as documented in Sudhir Sharma's book *Prayogshala*, vastly increased after the first Constituent Assembly elections in 2008.<sup>4</sup> The previous Indian Prime Minister Manmohan Singh did not visit Nepal once during his 10 years in power. As Sharma convincingly argues, Singh seemed happy to delegate Nepali affairs to Indian foreign ministry bureaucrats and RAW spies.<sup>5</sup>

During Singh's reign, India thus became directly involved in making and breaking governments in Nepal. India also engineered a divide in the Maoist party in order to isolate its India-baiting radical wing under Mohan Baidya. New Delhi, it was increasingly felt in Kathmandu after 2008, wanted to 'micromanage' events in Nepal.<sup>6</sup>

Compared to the hidebound Manmohan Singh, Prime Minister Narendra Modi promised to be a breath of fresh air. He made the unprecedented move of inviting the heads of all SAARC countries to his swearing-in ceremony on May 26, 2014. He seemed to have made restoring political level engagement with all SAARC countries as priority. As Harsh V Pant noted at the time, "With India's immediate neighbors, there are certainly signs that there is a new dynamism in bilateral ties as New Delhi is putting renewed emphasis on revitalizing its regional profile."<sup>7</sup>

One of Modi's first foreign visits as the head of government was to Nepal, thereby ending a 17-year-long drought of Nepal visit by a sitting Indian Prime Minister. During his first Nepal trip, he charmed everyone with his mesmerizing oratory skills. He seemed to have the common touch that his predecessor, Manmohan Singh, lacked and he made it a point to engage common Nepalis during his two-day stay in Nepal. But Modi's tone had vastly changed when he visited Nepal for the second time to attend the 18<sup>th</sup> SAARC Summit in Kathmandu in November 2014.

It was during his second visit that he first advised Nepali political parties to write a new constitution only on consensus basis. He said there would be "many difficulties ahead for Nepal"<sup>8</sup> if it passed the new constitution based on numerical strength in the Constituent Assembly (CA). This meant that for a constitution to emerge from the CA there would have to be near absolute consensus in its favour, which was impossible.

### **The Old Script**

It appears that Modi, like his predecessors as Prime Minister, hews close to the old Neruvian policy whereby Nepal's Himalayan frontier with Tibet is considered the northern border of Indian "sphere of influence". This is understandable: instability in Nepal would have direct impact on Indian security since Nepal and India share nearly 1,800-km open and porous border.

Modi clearly believed that bringing a constitution through majority process as opposed to a consensual process—by ignoring the demands of the Madheshi parties, even though they were in clear minority—would result in violence in the Tarai belt that runs parallel to India-Nepal border. So, yes, India had legitimate security concerns in the lead up to the promulgation of the new Constitution of Nepal in September 2015. Continued instability in the Tarai would, sooner or later, spill over into its own territories.

Moreover, a chaotic Tarai, India has always feared, would, among other things, be a breeding ground for the ISI, the Pakistani military intelligence wing, and other Muslim extremist groups. Counterfeiting of Indian currency has been another Indian concern in Nepal, which, in India's reckoning, would receive a boost if the Nepali Tarai is further destabilised and the security situation there spirals out of control of both Kathmandu and New Delhi.<sup>9</sup>

So for India, the main concern in Nepal has always been peace and stability. So India was bang on when it insisted that its genuine security concerns in Nepal must be recognised by Kathmandu in the lead up to September 20, 2015. Its concerns regarding the place of the Madheshi people in the new constitution were also well placed.

It seems that by choosing to employ a crude instrument like an 'economic embargo' to achieve its goal, the Indian establishment overreached. If India wasn't happy with some aspects of the new constitution, it could have leveraged its vast backchannels in Kathmandu to get more concessions for Madheshis. If the past is anything to go by, India would have had its way: it has since 2006 chopped and changed governments in Kathmandu at its will.

Even as the Terai belt was witnessing protests ahead of the promulgation of the new constitution, people in Nepal were given to believe New Delhi was happy to let Nepali actors settle outstanding constitutional issues. But somewhere down the line India decided that Kathmandu was ignoring its subtle signs to accommodate Madheshis in new constitution and a more muscular approach was warranted.

After the sovereign Constituent Assembly of Nepal had already started clause-wise voting on new constitution, India sent a special envoy, Foreign Secretary S Jaishankar, to Kathmandu to dress down Nepali leaders. India

was surely aware that Nepali lawmakers could not afford to be seen bowing down to such overt Indian bullying at the eleventh hour. On September 20, 2015, as the rest of the world hailed the new Nepali charter, India, Nepal's closest neighbour, merely 'noted' its promulgation.<sup>10</sup>

In its September 20, 2015 press brief, the Indian Ministry for External Affairs expressed its concern that "the situation in several parts of the country bordering India continues to be violent" and urged that issues on which there are differences should be resolved "in a manner that would enable broad-based ownership and acceptance."<sup>11</sup> In other words, what India was looking for, again, was near absolute consensus in the CA. By then, India had already started tightening the movement of goods and fuel into Nepal.

### **Enter the Dragon**

This was not the first time India had decided to impose an economic embargo on Nepal. In 1969, the issue was the construction of Arniko Highway, which would link Kathmandu with Tibet, and bring Nepal closer to China. India back then was also not happy with Nepal's growing engagement with the rest of the world. The second blockade, in 1989, was the result of "King Birendra's adventure of importing anti-aircraft guns from China," a move that in India's reading was a clear case of violation of the 1950 Indo-Nepal Treaty of Peace and Friendship.<sup>12</sup>

Whatever India's public stand is, even this third 'embargo' of 2015, had a lot to do with China. In the international order governed on the basis of *realpolitik*, you don't intervene so blatantly in another country to protect the rights of some of its people (as India seemed to be doing on the behalf of Nepali Madheshis). You only intervene if you believe your national interests are under threat.

SD Muni noted "The Indian establishment got a feeling that while India was being ignored, lobbyists working on behalf of China and the European Union, and Christian groups were being accommodated [in the new constitution]"<sup>13</sup> after the imposition of the Indian embargo.

Since its humiliating loss to China in the 1962 war, India has been near paranoid about protecting its primacy in the Asian subcontinent. It wants to avoid another 'Chinese encirclement' at all cost. As David M. Malone

writes, “China is a more neuralgic subject in Indian national debates than India is in China. China does not appear to feel threatened in any serious way by India while India at times displays tremendous insecurity in the face of Chinese economic success and military expansion.”<sup>14</sup> Recent Chinese maneuverings in Nepal had clearly touched some raw nerves in New Delhi.

It is true that in the two months leading up to September 20, 2015, China had been sending one after another high-level delegates to Kathmandu to impress its concerns over the new constitution. China, above all, didn't want ‘ethnic states’ in federal Nepal, which, it believed, would stoke similar demands in the neighboring Tibet.<sup>15</sup> The Chinese concerns were largely addressed in the six-state model (later amended to seven) outlined in the new constitution, with the provinces carved out largely based on their ‘economic viability’.

India, on the other hand, had backed the Madheshi parties' proposal for no more than two provinces in the Tarai belt, carved largely along ethnic lines. But in the new federal map drawn up by the four biggest parties in the CA, the belt was divided between four separate provinces. This happened, in the view of India, largely because China was able to take KP Oli and Pushpa Kamal Dahal, the leaders of the second and third biggest parties in the CA, both communists, into its confidence. Without the Chinese support, the Kathmandu establishment, in India's reading, would not have gone against India.<sup>16</sup>

### **The Indian Express**

But the helter-skelter, last-minute Indian diplomacy, culminating in the third ‘economic embargo’, smacked of desperation and played right into the hands of the old Kathmandu elite which had until recently been at the beck and call of New Delhi. Most leaders of Nepali Congress and CPN-UML, the two biggest parties in the Constituent Assembly, had at some point or the other curried personal favours from Indian establishment. This in turn had badly compromised their standing in Nepal. But post-embargo, they could claim to be ardent nationalists who had the courage to stand up to the Big Brother.

India need not have been so spooked by the Chinese in Nepal when New Delhi was in any case calling all the shots from behind the scenes. As former Prime Minister Manmohan Singh's media advisor Harish Khare

writes “Unfortunately, the Nepal mess is one setback that cannot be laid at the door of the ‘duplicitous Pakistanis’ or the ‘devious Chinese.’ This is a disaster entirely of our own making.”<sup>17</sup>

Another irritant for New Delhi, as hinted by Muni (2015) above, was changing of the once Hindu kingdom into a secular republic in the new constitution. Right-wing Hindu groups in India, including the Bharatiya Janata Party (BJP), had looked at Nepal with “enormous religious-cultural empathy” and some BJP Members of Parliament had publicly supported the idea of Nepal as a ‘Hindu Rashtra’.<sup>18</sup>

Whatever the case, the new hardball Indian diplomacy has, ironically, played into China’s hands.

The geopolitical ground in Nepal has shifted. When Nepali leaders tried to play the infamous ‘China card’ in the past, India could safely ignore it. Almost all top politicians in Nepal were cogs in the vast Indian patronage network which New Delhi could leverage to secure its interests in Nepal. But with India so badly botching the constitutional end-game in Nepal, India can no longer easily swat away threats of China. And the Chinese were only too happy to oblige the panicky Indians.

As India tightened its screws on Nepal, Chinese President Xi Jinping issued a veiled threat to India from the platform of the United Nations General Assembly on September 28, 2015. “All countries’ right to independently choose social systems and development paths should be upheld,” Xi Jinping told the UNGA while talking about the emerging international order. This generic statement would perhaps have gone unnoticed if the Chinese president’s wording weren’t so eerily similar to China’s statement welcoming the new constitution in Nepal. “China will support and respect Nepal’s right to choose a system and development path,” the statement said.<sup>19</sup>

Prime Minister KP Oli rightly put it; the undeclared blockade by India and the resultant humanitarian crisis had undermined historic ties between the two nations and impinged on Nepal’s rights as a landlocked country under international law. He then promised that the volume of trade with China would increase in the years to come.<sup>20</sup>

During the last SAARC Summit in Kathmandu, China, with the backing of Nepal, had pitched the improbable idea of its inclusion as a full SAARC

member state. India was not pleased. Nepal could even contemplate inviting China in its traditional backyard. Nepal quickly backed down. But much has changed since.

With its economic embargo, Sumit Ganguly and Brandon Miliate write in *Foreign Policy*, “India has practically invited Beijing directly into New Delhi’s traditional sphere of influence.”<sup>21</sup> Tunku Varadarajan writes “A crippled, impoverished nation [destroyed by earthquakes] has been handed a lifeline by Beijing—giftwrapped in New Delhi.” “History teaches us,” Varadarajan continues, “that once the Chinese get a foothold somewhere, they never leave. Does Modi really want to be remembered as the man who lost Nepal to China?”<sup>22</sup>

### **Chinese Inroads**

In the first sign of diversifying away from India, Nepal on October 28<sup>th</sup>, 2015 signed a historic oil trade deal with China, ending a four-decade supply monopoly of the Indian Oil Corporation (IOC). “Finally, we have the second oil trade partner. We can bring any amount of fuel... from the north [China],” said a spokesperson for Nepal Oil Corporation.<sup>23</sup>

There is renewed impetus on development and expansion of the eight road links with Tibet, the single-lane roads which are now virtually impassable during winter months. The extension of the Lhasa-Shigatse rail line to Kathmandu could also be expedited. Tibet officials say the railway could be extended to Kathmandu, even to Buddhist site of Lumbini in Southern Nepal based on the willingness of both the governments.<sup>24</sup>

There could also henceforth be preference for Chinese companies in key hydro and infrastructure projects over their Indian counterparts. Already, China, note Indian commentators with alarm, is picking major deals in Nepal. Recent moves include Kathmandu’s decision to buy four Chinese aircraft and offer contracts for building power transmission lines to Chinese companies.<sup>25</sup>

The idea of oil pipeline between Nepal and Tibet, last scotched at the insistence of India in 1990, could also be revived. In order to guarantee steady fuel supplies, Nepal Oil Corporation has already advised Nepal government to hammer out such an agreement with China at the earliest.<sup>26</sup> These, once unthinkable prospects, are now serious policy options for Nepal.

Whatever the Indian may like to believe, the one and only Chinese concern in Nepal remains Tibet. But it's a serious concern. During the 1960s, the CIA had secretly trained Tibetan refugees in Nepal to wage guerrilla war against China.<sup>27</sup> China, to this day, "remains extraordinarily sensitive to the history of externally sponsored Tibetan unrest" as a result of which "Chinese leaders have placed Tibet on a short list of 'core national interests' that they would protect with military force."<sup>28</sup>

China has invested heavily in Nepali security forces recently so that they can crack down on 'Free Tibet' activists in Nepal and prevent them from organizing. Beijing quadrupled its foreign direct investment in Nepal to USD 128 million in 2015, up from USD 24 million in 2014,<sup>29</sup> plus it will build a police academy in Nepal.<sup>30</sup>

The relation between Nepal and China, however, should not be exaggerated. China will never be able to match the extensive political, economic and people-to-people ties that exist between India and Nepal. Nor does China want such a dominant role in Nepal right now, not at the risk of alienating India. The former foreign minister of Nepal recently told this author, "The Chinese always advised us to remain in good terms with India."

China is clearly reluctant to jeopardize its growing economic ties with India, which is to its clear advantage: India's trade deficit with China increased 34 percent to USD 48.43 billion in 2014-15.<sup>31</sup>

There have also been instances of India and China entering into 'bilateral' agreements over issues also concerning Nepal. For instance, during Modi's 2015 China visit, India and China agreed to expand border trade at Qiangla/Lipu-Lekh Pass. Nepal took serious exception to the agreement over Lipu-Lekh which Nepal claims to be part of its territory.<sup>32</sup>

So, again, China won't directly challenge India in Nepal. But if Nepal requests China to supply it with vital goods and fuel on humanitarian grounds, it will be hard for China to reject such a request. This is where India is wrong. China is finding it increasingly difficult not to come to a beleaguered country's rescue and try to portray itself as an exemplar of a true friend of small and poor countries before the lecturing West.

## The Big Picture

Another worry for India is the regional impact of the blockade. Again, to quote Sumit Ganguly and Brandon Miliate in *Foreign Policy*: “Beyond Nepal, India’s actions may endanger its standing in South Asia, as many of its other, smaller neighbors, Pakistan, Bangladesh, Sri Lanka, and Bhutan look on.” Indian high-handedness in Nepal makes these countries much more vulnerable to Chinese charms.<sup>33</sup>

India, of course, would have had far less to worry about, had it been keen about strengthening SAARC and serious about its role as the leader of South Asia. It is due to India’s carefree attitude to meaningful regional cooperation, and India-Pakistan rivalry, that the idea of SAARC has never taken off. Thirty years after SAARC’s establishment, intra-regional trade is barely five percent of the total trade of eight SAARC member countries. The regional free trade agreement has been in limbo for over a decade. If India wants to be acknowledged as the undisputed leader in the region, there is no option to enacting a version of the Gujral Doctrine, with India—which accounts for 70 percent of SAARC area and population—taking the initiative for greater regional cooperation. That would also be the best way to minimize Chinese influence.

For whenever India’s relation sours with one of SAARC member states, China is quick to jump in. This is the reason for the recent spate of bilateral trade and fuel agreements with Nepal. Farther afield, Pakistan has always been a staunch Chinese ally. Now China is casting its net wider. It is now a major investor in the Maldives. After the ouster of pro-India President Mohamed Nasheed and coming to power of Abdulla Yameen—who recently told India to stop meddling in his country—the Chinese have expressed their desire to establish military bases in the island state.

The Indian paranoia is such that even innocuous gestures that remotely signal warming ties between China and one of the countries under the traditional Indian ‘sphere of influence’ can entail the harshest of response. Take the latest instance of overt Indian interference in Bhutan.

In 2012, Jigme Thinley, the first democratically elected prime minister of Bhutan, met the then Chinese Prime Minister Wen Jiabao on the sidelines of the Rio Conference on Sustainable Development. But for the prime minister of Bhutan—a country that traditionally coordinates its

foreign policy with India—to talk to the Chinese premier without India's knowledge was an unforgivable offence in the eyes of Indians.<sup>34</sup>

As Indian commentator Teslu Singh put it at the time, “Until now, Bhutan has never played its China card. Today, the security of Bhutan is vulnerable... Bhutan is no more a protectorate of India and is steadily moving towards China. Thus any policy towards Bhutan, therefore, will have to be carefully calibrated.”<sup>35</sup>

The ‘carefully calibrated’ policy response he was talking about came in 2013. To corner Thinley, India cut its fuel subsidy to the tiny kingdom on the eve of its 2013 general elections. Opponents, egged on by India, blamed Thinley for inflicting hardship on Bhutanese people, which in turn led to a humiliation loss of his party. Replacing him as Prime Minister was India's trusted hand, Tshering Tobgay.

Similar instruments of coercive diplomacy are being applied in Nepal. It's nota coincidence that India considers Bhutan and Nepal at the heart of its sphere of influence. But it is worthwhile to understand why India is so eager to earn these ‘short-term victories’ with ‘long-term consequences’.<sup>36</sup>

It is the time India revisits its old Nehruvian mindset whereby it feels the needs to project hard power even against small states like Bhutan and Nepal. It should rather be taking the initiative to work out mutually beneficial deals with other countries in the region. For instance, by encouraging greater movement of goods and people through quick implementation of SAFTA; the long-dormant regional free trade agreement. This—rather than hardball diplomacy against the small and weak states—would be the strongest evidence of India's ability to lead the SAARC region.

Most importantly, India should ditch its obsession with China and feel more confident about its soft power as the biggest democracy in the world.

## **Conclusion**

For the past 70 odd years there has been a wide acceptance, both in Nepal and abroad, that Nepal falls within the Indian ‘sphere of influence’. This primarily means two things: one, any significant political/security-related development in Nepal has a direct impact on India; and two, India will consequently not allow any other big power to expand in its traditional

backyard. This cold war mentality first articulated by Jawaharlal Nehru has its utility. But this approach has also some serious shortcomings.

Whenever Nepal tries reach out to the outside world, mainly for the expansion of its trade, or when Nepali political establishment makes important decisions without India's express consent, India reacts in a knee-jerk fashion and excessively. Such disproportionate reaction was evident in the latest economic embargo on Nepal, India's third since 1969. It was imposed because Indian establishment had a feeling that while Kathmandu ignored its concerns over the new charter that was being drafted, Kathmandu at the same time went out of its way to accommodate Chinese concerns in the new constitution.

This Indian reading of events in Nepal was only partially correct. The Chinese were concerned about the new constitution and had advised Nepali political leaders against carving federal provinces along strict ethnic lines. It feared such ethnic states in Nepal would stoke similar demands in neighboring Tibet. If we look at the recent history of Chinese involvement in Nepal, its only concern is that Nepal does not become a hotbed for pro-independence Tibetan activists. China is not, in any way, trying to 'counter' India in Nepal, which is impossible because of the deep, multi-faced relations between Nepal and India—and China knows this; apparently, India does not.

India, I believe, should be more open about Nepal's ambition to expand its external linkages, especially with China, secure in the knowledge that however close Kathmandu-Beijing ties, they can never match the extensive relationship between Nepal and India.

India, as a confident global power, should be helping Nepal expand its trade links with the outside world, for instance by easing Nepal's third-country trade through its ports. India should also be more secure about the broad appeal of its soft power as the largest democracy in the world—compared to the one-party dictatorship in China—not just in Nepal but in the entire South Asian region. India's push for greater economic integration of SAARC region, rather than coercive tactics like embargos, would be the best way to counter Chinese influence in the neighborhood.

It is not suggested that China was the only reason India decided to intervene so forcefully in Nepal, rather its China's fear that often

makes India act in all kinds of irrational, counterproductive ways. For example, there were many less intrusive ways to ensure Indian interests were safeguarded in the new constitution Nepal recently drafted. But by choosing to impose hardship on common Nepalese through an embargo, India, ironically, has brought the Nepali political leadership closer to China, and made the people of Nepal more amenable to explore China as India's alternative in Nepal. Nepalese increasingly feel it is better to trust an autocratic China that treats Nepal as its equal rather than a democratic India that interferes in Nepal.

## References

1. Rose, Leo E. (2010), *Strategy for Survival* (Kathmandu: Mandala Book Point), p. 291.
2. Pradhan, Pushpa Raj, "From greater Nepal, to a fragmented Nepal?", *People's Review Weekly*, November 12, 2014
3. Rose, Leo E. (2010), *Strategy for Survival* (Kathmandu: Mandala Book Point), p. 291.
4. Sharma, Sudhir (2014), *Prayogshala* (Kathmandu: Fine Print).
5. *Ibid.*
6. *The Kathmandu Post*, "Dahal tells India not to 'micromanage' Nepal", September 23, 2013.
7. Pant, Harsh V., "Out With Non-Alignment, In With a 'Modi Doctrine'", *The Diplomat* (Tokyo), November 13, 2014.
8. "Text of the PM's speech at the official handover and inaugural ceremony of National Trauma Center in Kathmandu, Nepal" *narendramodi.in*, November 25, 2014.
9. Sashikumar, V.K., "Pakistan's export of fake currency via Nepal", *Indian Defense Review*, January 13, 2012.
10. Ministry of External Affairs, "Statement on the situation in Nepal" September 20, 2015.
11. *Ibid.*
12. Author's interview with Bhekh Bahadur Thapa, published in *Republica*, September 30, 2015,
13. Muni, S.D., "Nepal's New Constitution: Towards Progress or Chaos?", *Economic & Political Weekly*, October 3, 2015.
14. Malone, David M. (2011), *Does the Elephant Dance?* (Oxford University Press) p.129-130.
15. Kamal Dev Bhattarai, "The Geopolitics of Nepal's Federal Structure", *The Diplomat*, October 27, 2014
16. *The Times of India*, "New Nepal PM KP Sharma Oli is 'pro-China': Chinese media" October 16, 2015.
17. Khare, Harish, "How Nepal was 'Lost'", *The Tribune (Chandigarh)*, October 9, 2015.

18. *DNA*, "Nepal's 'no' to Hindu tag", September 16, 2015.
19. *Republica*, "China welcomes new constitution", September 17, 2015.
20. Ghimire, Yubaraj, "Nepal's Prime Minister K.P. Oli slams India again, praises China", *The Indian Express* November 16, 2015 .
21. Ganguly, Sumit and Militate, Brandon, "India pushes Nepal into China's arms", *Foreign Policy*, October 23, 2015.
22. Varadarajan, Tunku, "Modi's biggest failure to date is one of foreign policy", *The Indian Express*, November 1, 2015.
23. Prasain, Sangam, Khanal, Rajesh, "Nepal inks historic oil agreement with China" *The Kathmandu Post*, October 29, 2015.
24. Sedhai, Roshan, "Rail network can be extended upto Kathmandu, say Chinese officials", *The Kathmandu Post*, July 19, 2015.
25. Dasgupta, Saibal, "China picking major infrastructure deals in Nepal", *The Times of India*, December 3, 2013.
26. SouthAsia.com.au, "Nepal finally does it: China formally requested to fill in the petroleum gap", October 20, 2015.
27. Demick, Barbara, "Tibetans lose a heaven in Nepal under Chinese pressure", *LA Times*, August 6, 2015 .
28. *Armed Confrontation Between China and India Contingency Planning Memorandum No. 27*, Council on Foreign Relations, November 2015.
29. Demick, Barbara, "Tibetans lose a heaven in Nepal under Chinese pressure", *LA Times*, August 6, 2015.
30. Dasgupta, Saibal, "China raises Nepal aid 5-fold to compete with India", *The Times of India*, December 24, 2014.
31. *The Hindu*, "India-China trade deficit swells 34% to \$48 billion", May 13, 2015.
32. Pradhan, Shirish B., "Nepal Objects to India-China Trade Pact Via 'Disputed' Lipu-Lekh Pass", *The Economic Times*, June 9, 2015.
33. Ganguli, Sumit and Militate, Brandon, "India pushes Nepal into China's arms", *Foreign Policy*, October 23, 2015.
34. Ahmed, Omair, "The foolish belief in India's power has worked against Nepal and us", November 13, 2015.
35. Singh, Teshu, "Sino-Bhutan Relations: Implications for Indian Security", Institute of Peace and Conflict Studies, July 31, 2012.
36. Ganguli, Sumit and Militate, Brandon, "India pushes Nepal into China's arms" *Foreign Policy*, October 23, 2015.

# 12

## Revisiting India's Relations with Nepal and the Role of SAARC

Sangit Sarita Dwivedi

### **Abstract**

In South Asia, the smaller states fear Indian dominance and India fears the combined opposition of the smaller states. For the small Himalayan country, Nepal, the only practical transport links for the passage of trade run through India. The Cold War politics affected India-Nepal relations. Since then the ground realities have changed. India reacted strongly to Nepal's new constitution. Concern has been expressed over the disturbed situation in the terai region that borders India. Nepal has been urged to resolve differences "through dialogue in an atmosphere free from violence". The statements and the underlying warning on the issue of supplies have brought a sudden low in the bilateral relationship which had received a boost after Prime Minister Narendra Modi's first visit to Nepal in 2014. India and Nepal decided to lay Rs. 2 billion pipeline for supplying petro-products to the Himalayan country, the first oil pipeline project between two countries in the SAARC region.

The relevance of a regional organisation becomes evident when it stands with member countries during crises. SAARC's failure to respond to the Nepal tragedy reflects the absence of a collective response mechanism to mitigate common threats to the region. The general attitude among Nepalis is that whatever India does for them

is in India's own interest. But, what China and other countries do is "without strings attached" and, therefore, deserve recognition and reciprocation in kind. Instead of blaming India and Pakistan for SAARC's failure, Nepal could have set an example by providing leadership to charter an effective role for SAARC in disaster management. SAARC connectivity depends on PM Narendra Modi's development vision. Nepal is an old friend and a special neighbour, and must be treated accordingly. Many interest groups try to influence India's position in Nepal, though not on the same wavelength. Strong India-Nepal ties and positive postures between them would strengthen SAARC.

## **Introduction**

Hedley Bull once said that the deepest source of fear for a smaller state is often its powerful close neighbours. No other region displays the level of asymmetry that South Asia does. In the last two decades, the international contexts have undergone substantial transformations. Since the 1990s, India's growth has attracted attention world-wide which has added to its international prestige as a major South Asian power. Relations between India and Nepal are close yet fraught with difficulties stemming from geography, economics, and the problems inherent in big power-small power equations, and common ethnic and linguistic identities that overlap the two countries.

Nepal, one of the poorest and most underdeveloped countries in the world, lies in South Asia. Topographically, the country is characterised by three ecological zones – the terai, the hills and the mountain. The world's highest mountain range – the Himalaya – and a region of hills and valley cover most of Nepal. The Terai – a fertile river plain along Nepal's border with India – covers the rest of the country. Nepal and India share an open border and the flow of people is allowed without any restriction. For much of its history, Nepal has been heavily influenced by India. Hindus are the majority community in India and Nepal. There are a large number of Hindi speakers in Nepal and Nepali speakers in India. For the small Himalayan kingdom of Nepal, the only practical transport links for the passage of trade run through India. India is Nepal's largest trading partner and has significant contribution in development of the nation. Nearly 60 percent of

Nepal's foreign trade is with India and 48 percent of its FDI comes from India (MEA Govt. of India). Around 40 percent of Nepal's tourists come from India and more than 5 million Nepalese find employment in India (cseindiportal, 2012). Nepal has not been able to leverage its geostrategic value or natural resources to develop special relations with other regional powers. India, on the other hand, has enjoyed special and privileged relationship with Nepal. India has traditionally viewed Nepal as a buffer against China. Nepal was an active participant and a voice of moderation in the United Nations (UN) and the non-aligned movement.

India, has regarded itself as the hegemonic power of South Asia because of its size, strength and strategic location. India's critics have pointed to the interference in the affairs of its neighbours like operations in Nepal in 1950 and 1988-89. India defends by saying that intervention has been at the request of the government concerned. Complaints of encroachment of Nepali territory often create tension between these two countries. In case of Nepal, a weak economy, unemployment, illiteracy, ethnic division, religious antagonism and rapid growth in population has exacerbated the problems of political harmony. Because of India's growing influence and Nepal's corresponding dependence on India, international diplomacy has always been a vital element of Nepal's survival strategy. The present chapter intends to enquire India's engagement with Nepal and the root causes of continued tensions. The analysis also takes into account the active role of SAARC.

### **India and Nepal: Historical Issues and Perspectives**

The internal political dynamics in Nepal has influenced the making of its foreign policy with India. Beginning in 1950, New Delhi and Kathmandu initiated their intertwined relationship based on two treaties – Indo-Nepal Treaty of Peace and Friendship and accompanying letters defined security relations between the two countries and an agreement governing both bilateral trade and trade transiting Indian soil (India Foreign Policy 2001). Under the Treaty of Peace and Friendship, ratified in July 1950, each government agreed to acknowledge and respect the other's sovereignty, territorial integrity, and independence; to continue diplomatic relations; and, on matters pertaining to industrial and economic development,

to grant rights equal to those of its own citizens to the nationals of the other residing in its territory (Tan, 2009). The treaty stated that “neither government shall tolerate any threat to the security of the other by a foreign aggressor” and obliged both states to “inform each other of any serious friction or misunderstanding with any neighbouring state likely to cause any breach in the friendly relations subsisting between the two governments” (Trivedi, 2008: 179). These accords cemented a “special relationship” between India and Nepal that granted Nepal preferential economic treatment and provided Nepalese in India the same economic and educational opportunities as Indian citizens. In the Treaty of Trade and Commerce, ratified in October 1950, India recognised Nepal’s right to import and export commodities through Indian territory and ports. Customs could not be levied on commodities in transit through India. The Citizenship Act of 1952 allowed Indians to immigrate to Nepal and acquire Nepalese citizenship leading to resentment in Nepal. And, Nepalese were allowed to migrate freely to India – a source of resentment in India. The same year (1952), an Indian military mission was established in Nepal. In 1954, a memorandum provided for the joint coordination of foreign policy, and Indian security posts were established in Nepal’s northern frontier. At the same time, Nepal’s dissatisfaction with India’s growing influence began to emerge. To counter India, Nepal initiated its bonding with China.

In the 1950s, Nepal welcomed close relations with India, but as the number of Nepalese living and working in India increased and the involvement of India in Nepal’s economy deepened in the 1960s and Nepalese got discomfort with special relationship. Tensions came to emerge in the mid-1970s, when Nepal pressed for substantial amendments in its favour in the trade and transit treaty and openly criticized India’s 1975 annexation of Sikkim as an Indian state. In 1975 India agreed to separate trade and transit treaties, satisfying a long-term Nepalese demand. In 1975, King BirendraBir Bikram Shah Dev proposed that Nepal be recognised internationally as a ‘Zone of Peace’. He received support from China and Pakistan. In New Delhi’s view, if the king’s proposal did not contradict the 1950 treaty and was merely an extension of non-alignment, it was unnecessary, if it was a repudiation of the special relationship, it represented a possible threat to India’s security and could not be endorsed.

India continued to support the Nepalese opposition and refused to endorse Nepal as a 'Zone of Peace'. Nepal continuously promoted the proposal in international forums with Chinese support. By 1990, it had won the support of 112 countries. In 1987, India urged expulsion of Nepalese settlers from neighbouring Indian states, and Nepal retaliated by introducing a work permit system for Indians working in Nepal. That same year, the two countries signed an agreement setting up a joint commission to increase economic cooperation in trade and transit, industry, and water resources. In 1988, when the two treaties were up for renewal, Nepal's refusal to accommodate India's wishes on the transit treaty caused India to call for a single trade and transit treaty. Therefore, Nepal took a hard-line position that led to a serious crisis in India-Nepal relations.

Nepal-India relations underwent major jolts starting in June 1988 when King Birendra concluded a secret arms purchase with China, whereby Beijing would supply obsolescent air defense artillery. India came to know about the deal and protested vigorously that Birendra's action had violated the spirit of the 1950 treaty. New Delhi perceived the arms purchase as an indication of Nepal's intention to build a military relationship with Beijing, in violation of the 1950 treaty and letters exchanged in 1959 and 1965, which included Nepal in India's security zone and precluded arms purchase without India's approval. India interpreted the sale as insensitive to India's vital interests. King Birendra pointed out that Nepal's use of air defense assets against India would never arise as long as Indian fighters respected Nepalese air space.

Economic factors are very critical in Indo-Nepal relationship as Nepal is heavily dependent on India economically and, thus, very vulnerable to Indian pressure. On occasions, New Delhi has used economic tactics, for instance, delaying the transit of exports from India and third countries across the Nepal border. In March 1989, the Nepal-India trade and transit agreement came up for renewal. Indian Prime Minister, Rajiv Gandhi, refused to extend the agreement unless Nepal agreed to meet India's commercial and defense concerns. After two extensions, the two treaties expired on March 23, 1989, resulting in a virtual Indian economic blockade of Nepal that lasted until late April 1990. India allowed the agreement to lapse and closed thirteen of the fifteen border check-posts that regulated

most of Nepal's trade with the outside world. There was shortage of petrol, kerosene, fire-wood, sugar and salt, and the government was forced to impose rationing and control prices. Strikes, riots, and pressure from aid donors finally persuaded the King to relent. The blockade was a severe blow to Nepal and many Nepalese saw New Delhi's actions as 'punishment' and as a manifestation of India's supposed policy of isolating and subjugating its smaller neighbours. The relationship with India was further strained in 1989 when Nepal decoupled its rupee from the Indian rupee which previously had circulated freely in Nepal. India retaliated by denying port facilities to Nepal in Kolkata, thereby preventing delivery of oil supplies from Singapore and other sources.

These problems continued in 1980s and have been reinforced by growing dissension over the Nepali and Indian community's resident in the other country that have not been granted full citizenship rights even though they were born in their country of residence. Nepalese were convinced that India had the capacity and will pressurize its small neighbours in pursuit of its foreign policy objectives. Nepal had to move back after worsening economic conditions led to a change in Nepal's political system, in which the King was forced to institute a parliamentary democracy. Indian PM Rajiv Gandhi and King Birendra maintained an open but friendly dialogue which reflects the greater sense of realism in both Kathmandu and New Delhi on critical security, economic and social issues, but the pressures on both leaders to assume more hard-line positions were also evident. The Cold War politics affected India-Nepal relations. Since then the ground realities have changed. A swift turn in India-Nepal relations followed the success of the Movement for the Restoration of Democracy in early 1990. Nepal-India relation was relatively less controversial in the period 1990 to 2005.

### **Post 1990: India-Nepal Relationship**

Sher Bahadur Deuba, Nepal's Prime Minister in 2004 said, "Nepal is in a deep crisis. The number one challenge is resolving the Maoist conflict" (Johnson, 2005: 62). Similarly, Pushpan Kamal Dahal, the leader of the Maoist movement envisaged 'Nepal as a base area of world revolution, internationalist in content and national in form with close solidarity with

the struggles of other countries' (Johnson, 2005: 64). In the words of former Nepalese Minister for Industries and senior leader of Communist Party of Nepal, Keshab Badal, "We urge the Indian Government not to lend support to the Nepal government that could end up with the latter turning even more repressive towards the movement for democracy in Nepal. We seek the sympathy of the Indian Government in our endeavours to replace the monarchy in Nepal with a democratic republic" (*The Hindu*, 11 December 2005).

The increasing dominance of Maoism in Nepal's domestic politics, along with the strengthening economic and political influence of China, has led the Nepalese government to gradually distance itself from India. The special security relationship between New Delhi and Kathmandu was established during the meeting of Nepal's Prime Minister Krishna Prasad Bhattarai and Indian Prime Minister V. P. Singh in June 1990 in New Delhi. In June 1990, a joint Kathmandu-New Delhi communiqué was issued pending the finalisation of a comprehensive arrangement covering all aspects of bilateral relations that included restoring trade relations, reopening transit routes for Nepal's imports, and formalising respect of each other's security concerns. Essentially, the communiqué announced the restoration of the status quo ante and the reopening of all border points, and Nepal agreed to various concessions regarding India's commercial privileges. Kathmandu also announced that lower cost was the decisive factor in its purchasing arms and personnel carriers from China. The communiqué declared that Kathmandu and New Delhi would cooperate in industrial development, in harnessing the waters of their common rivers for mutual benefit, and in protecting and managing the environment. India was able to negotiate new water management with Nepal in the early 1990s.

Indo-Nepal relations gradually returned to normal and improved significantly after Nepal's democratically elected government assumed office in May 1991. The King dissolved the cabinet, legalised political parties and invited the opposition to form an interim government, promising free elections in 1991. India's economic blockade had strongly influenced Nepal's domestic politics. The new government sought quick restoration of amicable relations with India. Linking security with economic relations,

India insisted in reviewing India-Nepal relations as a whole. When the Nepalese PM Girija Prasad Koirala visited India in December 1991, the two countries signed new, separate trade and transit treaties and other economic agreements designed to accord Nepal additional economic benefits. India showed keen interest to accelerate the pace of economic development in Nepal which was necessary to consolidate the democratic aspirations of the people. The improvement in the relations resulted in the increased industrial production which increased by 19.26 percent for the year 1990-91 whereas the rate of growth in the last fiscal year was estimated to 4.4 percent. The first volume of trade between the two countries increased from NRs 5,273.6 million in 1988-89 to NRs 9,473.6 million in 1990-91 (Thapliyal, 1997). The trade deficit of Nepal vis-à-vis India has declined sharply and has turned into surplus in 2002. India-Nepal relations were reassessed when Nepal's PM Man Mohan Adhikari visited New Delhi in April 1995 and insisted on a major review of the 1950 Indo-Nepal Treaty of Peace and Friendship. He sought greater economic independence for his landlocked nation while simultaneously striving to improve ties with China.

The recent conflict in Nepal is the Maoists rebellion against the government since 1996. (Katharine & Wyatt, 2010: 234). India's strong presence in the region was demonstrated by its role in the Nepalese peace process. The Maoist leadership guided most of its violent campaign in Nepal from 1996 to 2006. It was basically operated from Bihar, Uttar Pradesh, Himachal Pradesh, Mumbai and Delhi. India mediated between the Maoists and Nepal's seven political parties through a deal referred to as the "12-point understanding" signed in New Delhi in November 2005. The 19-day agitation in April 2006 brought the nine month-old royal rule to an end. Nepal's new political leaders declared that the world's only Hindu kingdom will henceforth be a secular, federal and republic. The Constituent Assembly elections in 2008 legitimised the Maoists party as the biggest party without a majority. They refused to transform into a democratic party accountable to Parliament. They did not implement the internal peace accord. India favoured an arms embargo on Nepal following the monarchy's attempt to crack down on dissent. The peace process yielded an agreement in 2006.

However, India's priorities have changed. India is troubled by its own Maoist insurgency and is alarmed by the growing closeness of the Nepalese Maoists to the Chinese. India has offered more support to the Nepalese army, which is reluctant to integrate the Maoists, despite the dangers that it could derail the peace process. India is also alleged to have intervened in the elections held in 2008. At the same time, India is uneasy about international involvement in its sphere of involvement, namely the United Nations mission in Nepal. American, British and Indian military advisors were brought in to assist in the retaining of the security forces. In April 2008, voters elected a Constituent Assembly tasked with writing a new Constitution. The Maoists won the most seats in the Assembly. The Government officially abolished the monarchy in May and declared Nepal a republic. In May 2012, the PM abolished the Parliament over its failure to agree on a new Constitution. In March 2013 an interim government was sworn in to oversee new elections. Elections for a new Assembly were held in November 2013.

It is believed that there would be no fundamental shift in India's policy towards Nepal under Prime Minister Narendra Modi's regime. The Prime Minister had recently spoken about the need for improvement in trust between the two countries. He also stressed on the importance of economic cooperation by enhancing trade capacity. PM Modi, during his visit to Nepal had proposed three agreements including 5,600 MW Pancheshwar Multipurpose Project. India and Nepal signed an electricity trading pact in September to help Nepal exploit their hydro-power potential. The deal allowed both the countries to sell electricity to each other. When the bilateral relationship between two nations reflects development and security, other conflictual and contentious issues can be automatically focused.

According to Nepal's diplomat, Dr. Bhekh Bahadur Thapa, mutual understanding between the two sides is possible. He said, "While different problems will have different remedies, the best way to go about now is for Nepal to understand India's real security concerns in the context of each other's location. And India will earn much more respect in Nepal by leaving Nepal's political process to the Nepalese" (Ghimire, 2014).

Nepal announced its new constitution on 20 September 2015 which invited criticism at domestic and international level. The Constitution's

proposed federal divisions proved to be controversial. Concern has been expressed over the disturbed situation in the Terai region that borders India. In Nepal's Southern district, Madhesis and Tharu ethnic groups represent over 40 percent of the population in Nepal's Terai region. They argue that the newly proposed provincial borders could lead to their political marginalisation. India has raised its objections to the new constitution on the basis of the argument that the new constitution has failed to "support a federal, democratic, republican, and inclusive" Nepal. As per India's argument, the constitution is a top-down, undemocratic initiative which did not consult major political groups that will finally fail to stabilise Nepal and ensure the rights of its citizens. However, the fact cannot be ignored that Madhesis are an important voting block in Bihar (India). India reacted strongly to Nepal's new constitution because of different reasons. As being a democracy, it could not mute to violence and killing of peaceful protestors at its neighbourhood. As a federal polity, it had to take into account concerns of states like Bihar whose people share close links with Terai. Nepal has been urged to resolve differences "through dialogue in an atmosphere free from violence".

After Nepal adopted its new constitution, border trade between India and Nepal slowed down. It may be assumed that India's unofficial blockade is an attempt to force the government of Nepal to concede to New Delhi's demands. In other words, the entire process demonstrates India's ability to influence Nepal's domestic politics. These actions will have its impact on Nepali economy and may force Kathmandu to make changes to the new constitution. At the same time, India's aggressive posture against a small South Asian state may force Nepal to reassess its reliance on India and will take Nepal closer to China. As its consequence, it may demonstrate to other neighbouring states the dangers of India's dominance which may have its impact on India's future position in the region.

Nepal has also become a place for terrorists and separatists operating in India. This is evident from the arrests of two high profile terrorists – Abdul Karim Tunda and Mohammed Ahmed Sidibappa which have brought the India-Nepal border into sharp focus. India has been seeking Nepal's cooperation in managing the border through several bilateral mechanisms. These issues have brought a sudden low in the bilateral relationship which

had received a boost after PM Narendra Modi's first visit to Nepal in 2014. It is not easy for a common man in a SAARC country to travel to another without undergoing tiresome formalities. The only exception to such requirements is to travel between India and Nepal, in accordance with the Treaty of Peace and Friendship of 1950. India continues to be a major trading partner of Nepal. However due to domestic political turmoil, lack of political will and a resource crunch, Nepal has been unable to effectively cooperate with India. But that could change if Nepal sees increasing political stability in near future.

### **SAARC Connectivity in Indo-Nepal Relations**

South Asia is often called the subcontinent. It is a region of immense diversity and great population density which cause ethnic tensions. All the attributes of India's national power—geography, demography, economy, military, and culture—give it an irrevocable edge over the rest of the countries in South Asia. But there have been significant problems. The problems of regional security which were looming large during the Cold War period made India a convert to the idea of SAARC which was first mooted by President Zia-ur Rahman of Bangladesh. India had always preferred to deal with its neighbours bilaterally thus preventing antagonistic ganging up with regard to common grievances. For this very reason, Bangladesh, which did not want to be left alone in its dealings with the huge neighbor – emphasized the need for regional cooperation. On the other hand, India also had some interest in keeping in touch with Pakistan and a forum of regional cooperation. Finally, the South Asian Regional Cooperation (SARC) took shape. After a round of meetings at foreign secretary level, a ministerial meeting was arranged in July 1983 in New Delhi where SARC was formally established. This was to be an association of states, stated at its first summit meeting, when the heads of government met in Dhaka in Dec 1985. Accordingly, a new name was adopted South Asian Association for Regional Cooperation (SAARC). The agenda of cooperation was confined to cultural, scientific, and economic affairs to begin with. All decisions have to be unanimous. Hence, even the smallest partner – the Maldives – could veto a resolution of SAARC. SAARC has a permanent Secretariat in Kathmandu, funded by voluntary

contributions and operates on the principle of unanimity in decision making. Discussion of contentious bilateral issues is excluded from the SAARC charter at Indian influence. Each of the member countries had a specific set of expectations from SAARC- bilateral as well as regional.

After independence, India adopted exclusivist principles in its regional policies while the other South Asian states practiced balancing strategies directed at limiting India's dominant status in the subcontinent. From 1947 to 1985, India adopted bilateralism as the basic principle in its efforts to resolve differences with neighbours which meant dealing with each country separately, on a bilateral basis, on all issues in dispute, even if these were multilateral in character. For instance, India's consistent refusal to hold multilateral talks with Bangladesh and Nepal on the Ganges River water question, demanding instead, that this issue be considered only bilaterally. Prime Minister Rajiv Gandhi modified the Indian government's position, agreeing to multilateral talks with regional powers on this and other issues. This is an important step in the process of resolving disputes within the subcontinent. A more constructive approach to the region was enunciated in the 'Gujral Doctrine'. He argued in 1996 that India as a dominant power had little to fear in South Asia and therefore could afford to be magnanimous with the smaller states (Katharine & Wyatt, 2010: 231).

By the mid-1990s, SAARC had yet to become an effective regional organisation, primarily because of mutual distrust between India and its neighbouring countries. The fact that India and other South Asian countries try to turn SAARC into a forum for resolving mutual disputes hampers its growth. Nonetheless, SAARC's eighth summit held in New Delhi in May 1995, declared their nation's commitment to eradicate poverty in South Asia by 2002. One of the world's least developed countries, Nepal faces several pressing challenges that are made more urgent by the nation's rapidly expanding population. Nepal is under pressure from international opinion to establish greater democratisation. However, in Nepal, there is ample evidence that civilian leaders caused so much dissatisfaction that the army felt compelled to step in. Nepal depends largely on international aid to fund important projects. Foreign aid, which supports approximately 35 percent of the Nepal's hard currency, pressures the government to find a solution to an international sphere. In keeping with the global economic

activism, both India and Nepal have emphasised on developing trade relations. India already has free trading arrangements with Bhutan, Nepal and Sri Lanka. India has adopted a preferential policy towards investment in SAARC countries. Contrary to regional expectations, expansion of economic relations with India has benefited the regional economies and India has granted numerous economic concessions. In the case of Nepal, for instance, the constraint of the value-added component imposed on Nepali products for duty-free entry into the Indian market was reduced from 80 percent to 50 percent, and now even this has been completely removed (Bhasin, 2008: 15). The 36-point Kathmandu Declaration of SAARC 18<sup>th</sup> Summit, 2014 states that members will continue their efforts to intensify regional cooperation on connectivity, renew their commitment to a South Asian Economic Union, strengthen the Social Window of the SAARC Development Fund, and reiterate their commitment to free South Asia from poverty.

In 2015, India and Nepal decided to lay Rs. 2 billion pipeline for supplying petro-products to the Himalayan country, the first oil pipeline project between two countries in the SAARC region. Bhutan, Bangladesh, India and Nepal (BBIN) signed a landmark Motor Vehicles Agreement (MVA) for the Regulation of Passenger, Personnel and Cargo Vehicular Traffic among the four South Asian neighbours in Thimpu, Bhutan on June 15, 2015 (*PIB*, Government of India 2015). The MVA agreement will pave the way for a seamless movement of people and goods across their borders for the benefit and integration of the region and its economic development. A BBIN Friendship Motor Rally was planned in October 2015 to highlight the sub-regional connectivity and the scope and opportunities for greater people-to-people contact and trade. It is a successful attempt towards promoting economic diplomacy. However, intra-South Asian trade remains low.

Nepal, a small South Asian country is situated between two major powers, India and China. Nepal has benefitted from the economic assistance of both India and China. Both India and China have vital interests in Nepal, and any imbalance in Nepal's relations with them may change the equation. India has close relations with Nepal which has its own internal problems. India has not evolved a positive approach to deal with the issue

of labour migration from Nepal. It has ignored the repeated requests by Nepal for assisting in the repatriation of Bhutanese refugees. However, as China's western regions are developing rapidly, there are increasing incentives and possibilities for promoting China-Nepal trade and political relations. India-Nepal relations should be a major concern for India. Many educational institutions including schools, colleges and university in Nepal have introduced Chinese language, Mandarin and Chinese studies. Nepal's foreign policy – based on King Prithvi Narayan Shah's "between two boulders" theory – should reflect the vital interests of both India and China. All the political parties of Nepal have worked closely with India. However, they all failed to deliver the constitution and restore peace. During his visit to Nepal on 8 November 2011, Karan Singh (leader of the Indian Congress party) said that India was keen to develop Lumbini. India's slow-moving plans on this project gave opportunities to China. In contrast to India's position, China was of the view that Nepal is capable of formulating its own constitution. It focused more on development assistance. China's presence in Nepal is visible in the post-2006 scenario and became more intense after the exit of the monarchy in May 2008. Chinese Premier Wen Jiabao during a visit to Nepal in January 2012 said that it is entirely for the Nepalese people to prepare their constitution without outside involvement. He offered a USD 120 million aid package and assistance for building a rail link connecting Lhasa to Lumbini. When democracy was restored in Nepal, India and Nepal promised to embark on enhanced cooperation in the hydro-power sector. At the same time, China has bagged the 760 MW West Seti hydro-power project, to be completed by 2019. India can seize the advantage by moving swiftly to develop infrastructure from the Indian side up to Lumbini on the Nepalese border. Once completed, India and China will have direct road and rail links. Furthermore, India and China were said to be competing for the most helpful neighbour when they offered aid to Nepal after the devastating earthquake in April 2015. PM Baburam Bhattarai said that instead of Nepal being a "buffer state" between India and China, Nepal will now act as a "friendship bridge" between the two (Jagaran Post, 2011).

India can expect to have some say in Nepal, but the equation may disturb India's relations not only with Nepal, but with other neighbouring

states. India's actions may endanger its position in South Asia, as many of its other neighbours, Pakistan, Bangladesh, Sri Lanka, and Bhutan will follow the same policy. Pakistan will present this act of India as an aggressive policy. Islamabad has long used to this strategy to justify its own defense policies. Bangladesh Nationalist Party (BNP) continues to be suspicious of India and have urged to develop close relations with China and Pakistan to minimize India's influence. Sri Lanka and Bhutan may make similar calculations. Nepal's grave internal security situation has impacted her foreign relations with India, the United States, the United Kingdom and China. It has hindered the search for a peaceful solution to Nepal's serious political and security problems.

Over the last 30 years, despite extremely difficult political circumstances, SAARC has managed to create institutions and forums where Heads of State meet. SAARC has tackled important issues for the region such as a social charter, development agreements and even the subject of terrorism. The food and development banks, agreement on transportation, energy are important steps in the right direction. India constitutes 70 percent or more of SAARC's area and population. The shortcomings in India's regional policies do not imply a complete absence of the leadership role. There are examples of India's efforts for the development of the region. India has put forth proposals for the free movement of media persons and media products in South Asia and the establishment of cultural sub-centres under the main SAARC Cultural Centre in Kandy. At the 14<sup>th</sup> SAARC Summit held in 2007, India offered unilateral concessions in the form of allowing duty free access to goods from the least developed countries of South Asia. India also initiated discussions on establishing a South Asia University and working towards creating a common currency for the region. India must increase its investment in SAARC for infrastructure. Prime Minister Narendra Modi's plan for a SAARC satellite that can launch the space exploration dreams for all countries of the region is a powerful idea.

Yet the success of SAARC has been quite limited when compared to ASEAN, primarily because bilateral conflicts between individual South Asian states, very often between India and its neighbour, prevents either the initiation or the implementation of multilateral efforts which would benefit all. In its 30 years of existence, SAARC failed to hold 11

annual summits for political reasons, both at the bilateral and domestic levels. The last summit in Kathmandu was held after a gap of three years. SAARC has certainly provided an opportunity for the policy-makers, and administrators to meet regularly and hold important dialogues on important bilateral and regional issues. The fact remains that India may be a source of worry to some neighbours. There are now a number of issues including international terrorism, proliferation of weapons of mass destruction, cross-border criminal activities which require India to work together with other countries for their resolution. The objectives and targets of SAFTA should be fulfilled as soon as possible. SAARC must then move beyond free trade area to enhance investment activity between its member states. It is said that SAARC has failed as an effective platform to promote the economic and security interests of the region. As a result, regional diplomacy will largely continue to be a bilateral affair, and this calls for a greater understanding of each other's concerns between Nepal and India.

South Asia with special reference to Nepal-India relations will attain a sense of integration if regional security, trade, food security and other related issues will form a common agenda. Preserving biodiversity, the ecosystem, agricultural patterns of both India and Nepal, addressing natural disasters, managing migration and controlling human trafficking are challenges that need to be worked in close cooperation. The immediate challenge for Nepal is to maintain the country's integrity, and discourage caste and ethnic divisions. Nepal and India must take a common position on terrorism and the criminal forces operating along the open border, and settle border disputes. A failed or weak state will not only be a problem for Nepal, it will also have its impact on the neighbouring countries. Despite the ups and downs in the relationship, the Nepalese ruling elites have tried to adjust with the changes that have been brought by political realities.

### **Assessment of India-Nepal Relationship**

India-Nepal relations have always been strong and cordial. Knowing India's pre-eminent position in the South Asian region, Nepal has tried to assert its independence and identity. India, on the other hand, keeping in view its own security interests, is trying to give more aid and pursue a policy of friendship. SAARC's ability to deal with many of South

Asia's economic and political problems is questioned. SAARC is hampered by mutual distrust. The growth of India's economy makes the neighbouring states fearful of any long term economic commitment and regional trade remain very slow. To some extent, India has assumed the mantle of paramount power in the subcontinent. But it is a position of regional hegemony resented by all its neighbours. India's internal politics has sometimes played a detrimental role to India's aspirations vis-à-vis SAARC. As population growth continues in the region, a Malthusian disaster may be averted by the exploitation of new GM crops, but energy needs will increase and threaten to outstrip the resources available (Black, 2004).

India's rise is perceived in more positive terms outside than by its own regional neighbours. It is general feeling that Indian media is insensitive towards its smaller neighbouring countries. There are, at least as many South Asian foreign policies as there are countries in the region. India and other regional states have usually had quite different perceptions of their interests and how these were best protected and advanced. The smaller states fear Indian dominance and India fears the combined opposition of the smaller states. India's lukewarm support for SAARC stems from the concern that its neighbours might coalesce against it to the detriment of Indian interests. India has to redefine its role to being prepared to meet the aspirations of all the SAARC nations.

The analysis of India's policies and her neighbour's expectations often turn out to be biased depending on which country is making the analysis. Advice is viewed as interference; assistance is viewed as instigation; guidance is viewed as domination (Bhasin, 2008: 2). Too many interest groups try to influence India's position in Nepal, not necessarily on the same wavelength. The advantage of an open border is felt by people living on both the sides. At the same time the use of the open border is also a cause of concern when misused by criminals, smugglers and other subversive elements against Indian security interest. Many Nepali citizens feel that India holds a "big-brother" attitude towards Nepal and interferes in its internal affairs. The general attitude among Nepalis is that whatever India does for them is in India's own interest. But, what China and other countries do is "without strings attached" and, therefore, deserves recognition.

SAARC's failure to respond to the Nepal tragedy (earthquake) reflects the absence of a collective response mechanism to mitigate common threats to the region. This could be sustained with a series of initiatives, economic developments at grassroots and constitutional bodies. India contributes to the development efforts of Government of Nepal by undertaking various development projects in the areas of infrastructure, health, rural and community development, education, etc. Cooperation on issues of mutual security concerns relating to the open border has been a hallmark of India's relations with Nepal. There is vast potential for cooperation between India and Nepal in the field of water resources. At the same time, instead of blaming India and Pakistan for SAARC's failure, Nepal should set an example by providing leadership to charter an effective role for SAARC in disaster management. Instead of making South Asia a place of rivalry, such regional cooperation will have to grow if South Asia is to develop as a region. However, SAARC remains an important institution. In spite of serious tensions and conflicts between states in the region, the organisation has expanded.

### **Conclusion**

As the most populous, the most economically endowed, militarily powerful and geographically the largest state in South Asia, India does bear an incommensurate responsibility for a responsible leadership in the region. The South Asian region cannot be ignored by India if it wants to realise its goal of becoming a global player. India's global ambitions specifically involve aspirations for a permanent seat in the UN Security Council, which could be hampered by poor relations with neighbours. The element of 'non-reciprocity' is an important aspect of India's policy for neighbours and is vital to be at peace with its South Asian countries. While India needs to take responsibility for activating SAARC, other South Asian nations should also show their commitment for the same. They should not use SAARC as anti-India platform, should not internationalize any bilateral issue beyond the SAARC forum, promote free trade and healthy relationship. It is an opportune moment for India to take SAARC forward, when it itself has a majority government and its neighbours have made transitions to new governments in the recent past.

For any country, peace, stability and prosperity of its neighbours are of utmost concern. Nepal is an old friend and a special neighbour of India, and must be treated accordingly. Strong India-Nepal ties and positive postures between them would strengthen SAARC. A majority of Nepali citizens think that no other nation can be as close with Nepal as India is because of many similarities between the two countries. The relevance of a regional organisation becomes evident when it stands with member countries during crises. Nevertheless, a beginning has been made and a forum established which may serve other purposes, too, in the course of future developments. SAARC connectivity also depends on PM Narendra Modi's development vision as he is determined to try and use SAARC as a major forum for regional peace, stability and economic progress. The effort to establish a viable regional system which would speak with one voice for the subcontinent has only just begun. All regional states should accept equal responsibility. Realising the complex nature of the region, India must pursue policies which would actively confront the negative perceptual notions of her neighbours and promise positive developments, the neighbours on the other hand, should acknowledge India's efforts.

## References

- Bhasin, M. (2008), "India's Role in South Asia – Perceived Hegemony or Reluctant Leadership?", *Indian Foreign Affairs Journal*, vol.3, No.4, October-December. [Online: Web] Accessed 20 November 2015, URL: <http://www.globalindiafoundation.org/MadhaviBhasin.pdf>
- Black, J. (2004), *War and the New Disorder in the 21<sup>st</sup> Century*, London.
- Ghimire, Y. (22 July 2014), Gateway House India-Nepal: dignifying interdependence. [Online: Web] Accessed 22 November 2015, URL: [http://www.gatewayhouse.in/nepal-dignifying-interdependence/#\\_edn10](http://www.gatewayhouse.in/nepal-dignifying-interdependence/#_edn10)
- India and Its Neighbours, cseindiaportal [Online: Web] Accessed 24 November 2015, URL: <https://cseindiaportal.wordpress.com/2012/11/06/india-and-neighbours>
- India Foreign Policy and Government Guide* (May 1, 2001) Vol.1, USA: International Business Publications.
- Jagaran Post* (16 September 2011), "Nepal to act as 'friendship bridge' for India, China: PM".
- Johnson, R. (2005), *A Region in Turmoil: South Asian Conflicts Since 1947*, Reaktion Books Ltd: London.
- Katharine, A. & Wyatt, A. (2010), *Contemporary India*, Palgrave Macmillan: UK.
- Ministry of External Affairs, Government of India [Online: Web] Accessed 22 November 2015, URL: <https://mea.gov.in/nepal-in.htm>
- Press Information Bureau (PBI), Government of India, Ministry of Road Transport

& Highways (15 June 2015) [Online: Web] Accessed 26 November 2015,  
URL:<http://pib.nic.in/newsite/PrintRelease.aspx?relid=122516>

Thapliyal, S. (December 1997), "Changing Trends in India-Nepal Relations", *Strategic Analysis*, Vol. XXI No.9, pp. 1303-1316. [Online: Web] Accessed 36 November 2015, URL: <http://www.idsa-india.org/an-dec-5.html>

*The Hindu*, 11 December, 2005.

Tan, C. (2009), *Rise of the Asian Giants*, China: Patricia Uberoi.

Trivedi, R. (2008), *India's Relations with her Neighbours*, India: Isha Books.

# Appendix-I

## **1950 Indo-Nepal Treaty of Peace and Friendship**

The Government of India and the Government of Nepal recognizing the ancient ties which have happily existed between the two countries for centuries;

Desiring still further to strengthen and develop these ties and to perpetuate peace between the two countries;

Have resolved therefore to enter into a Treaty of Peace and Friendship with each other, and have, for this purpose, appointed as their plenipotentiaries the following persons, namely, The Government of India, His Excellency Shri Chandreshwar Prasad Narain Singh, Ambassador of India in Nepal; The Government of Nepal, Mohan Shamsher Jangbahadur Rana, Maharaja, Prime Minister and Supreme-Commander-in-Chief of Nepal, who having examined each other's credentials and found them good and in due form have agreed as follows:

### **Article 1**

There shall be everlasting peace and friendship between the Government of India and the Government of Nepal. The two Governments agree mutually to acknowledge and respect the complete sovereignty, territorial integrity and independence of each other.

## **Article 2**

The two Governments hereby undertake to inform each other of any serious friction or misunderstanding with any neighboring State likely to cause any breach in the friendly relations subsisting between the two governments.

## **Article 3**

In order to establish and maintain the relations referred to in Article 1 the two Governments agree to continue diplomatic relations with each other by means of representatives with such staff as is necessary for the due performance of their functions. The representatives and such of their staff as many be agreed upon shall enjoy such diplomatic privileges and immunities as are customarily granted by international law on a reciprocal basis: Provided that in no case shall these be less than those granted to persons of a similar status of any other State having diplomatic relations with either Government.

## **Article 4**

The two Governments agree to appoint Consuls-General, Consuls; Vice-Consuls and other Consular agents, who shall reside in towns, ports, and other places in each other's territory as may be agreed to. Consuls-General, Consuls, Vice-Consuls and consular agents shall be provided with exequaturs or other valid authorization of their appointment. Such exequatur or authorization is liable to be withdrawn by the country which issued it, if considered necessary.

The reasons for the withdrawal shall be indicated wherever possible. The persons mentioned above shall enjoy on a reciprocal basis all the rights, privileges, exemptions and immunities that are accorded to persons of corresponding status of any other State.

## **Article 5**

The Government of Nepal shall be free to import, from the territory of India, arms, ammunition or warlike material and equipment necessary for the security of Nepal. The procedure for giving effect to this arrangement shall be worked out by the two Governments acting in consultation.

**Article 6**

Each Government undertakes, in token of the neighborly friendship between India and Nepal, to give to the nationals of the other, in its territory, national treatment with regard to participation in industrial and economic development of such territory and to the grant of concessions and contracts relating to such development.

**Article 7**

The Governments of India and Nepal agree to grant, on a reciprocal basis, to the nationals of one Country in the territories of the other the same privilege in the matter of residence, ownership of property, participation in trade and commerce, movement and privileges of a similar nature.

**Article 8**

So far as matters dealt with herein are concerned, this Treaty cancels all previous treaties, agreements, and engagements entered into on behalf of India between the British Government and the Government of Nepal.

**Article 9**

This Treaty shall come into force from the date of signature by both Governments.

**Article 10**

The Treaty shall remain in force until it is terminated by either party by giving one year's notice.

Done in duplicate at Katmandu this 31st day of July 1950.

(Sd.)

Chandreshwar Prasad Narain Singh  
For the Government of India

(Sd.)

Mohan Shamsheer Jangbahadur Rana  
For the Government of Nepal

## **Appendix-II**

### **Protocol (Annexed) to the 1950 Indo-Nepal Treaty of Peace and Friendship**

#### **(Letter of Exchange with the 1950 Treaty)**

Kathmandu

Dated the 31st July 1950

#### **Excellency**

In the course of our discussion of the Treaties of Peace and Friendship and of Trade and commerce which have been happily concluded between the Government of India and the Government of Nepal, we agreed that certain matters of details be regulated by an exchange of letters. In pursuance of this understanding, it is hereby agreed between the two Governments:

1. Neither Government shall tolerate any threat to the security of the other by a foreign aggressor. To deal with any such threat, the two Governments shall consult with each other and devise effective counter-measures.

2. Any arms, ammunition or warlike material and equipment necessary for the security of Nepal that the Government of Nepal may import through the territory of India shall be so imported with the assistance and agreement of the Government of India. The Government of India will take steps for the smooth and expeditious transport of such arms and ammunition through India.
3. In regard to Article 6 of the Treaty of Peace and Friendship which provides for national treatment, the Government of India recognize that it may be necessary for some time to come to afford the Nepalese nationals in Nepal protection from unrestricted competition. The nature and extent to this protection will be determined as and when required by mutual agreement between the two Governments.
4. If the Government of Nepal decide to seek foreign assistance in regard to the development of the natural resources of, or of any industrial project in Nepal, the Government of Nepal shall give first preference to the Government or the nationals of India, as the case may be, provided that the terms offered by the Government of India or Indian nationals, as the case may be, are not less favorable to Nepal than the terms offered by any other Foreign Government or by other foreign nationals. Nothing in the foregoing provision shall apply to assistance that the Government of Nepal may seek from the United Nations Organization or any of its specialized agencies.
5. Both Governments agree not to employ any foreigners whose activity may be prejudicial to the security of the other. Both Governments may make representation to the other in this behalf, as and when occasion requires.

Please accept Excellency, the assurances of my highest consideration.

(Sd.)

Mohan Shamsheer Jangbahadur Rana  
Maharaja, Prime Minister and Supreme  
Commander-in-Chief of Nepal

222 • Nepal's Foreign Policy and Her Neighbours

To

His Excellency

Shri Chandreshwar Prasad Narain Singh,

Ambassador Extraordinary and Plenipotentiary of India at the Court of  
Nepal,

Indian Embassy, Kathmandu.

## Appendix-III

### **Sino-Nepalese Treaty of Peace and Friendships, Kathmandu, 28 April 1960**

The Chairman of the People's Republic of China and His Majesty the King of Nepal, desiring to maintain and further develop peace and friendship between the People's Republic of China and the Kingdom of Nepal.

Convinced that the strengthening of good-neighbourly relations and friendly cooperation between the People's Republic of China and the Kingdom of Nepal is in accordance with the fundamental interests of the peoples of the two countries and conducive to the consolidation of peace in Asia and the world.

Have decided for this purpose to conclude the present Treaty in accordance with the Five Principles of peaceful coexistence jointly affirmed by the two countries, and have appointed as their respective Plenipotentiaries.

The Chairman of the People's Republic of China:  
Premier Chou En-lai of the State Council

His Majesty the King of Nepal:  
Prime Minister Bishweshwar Prasad Koirala

The above-mentioned Plenipotentiaries,  
Having examined each other's credentials and found them in good and due  
form, Have agreed upon the following:

### **Article I**

The Contracting Parties recognize and respect the independence, sovereignty and territorial integrity of each other.

### **Article II**

The Contracting Parties will maintain and develop peaceful and friendly relations between the People's Republic of China and the Kingdom of Nepal. They undertake to settle all disputes between them by means of peaceful negotiation.

### **Article III**

The Contracting Parties agree to develop and further strengthen the economic and cultural ties between the two countries in a spirit of friendship and cooperation, in accordance with the principles of equality and mutual benefit and non-interference in each other's internal affairs.

### **Article IV**

Any difference or dispute arising out of the interpretation or application of the present treaty shall be settled by negotiation through normal diplomatic channels.

### **Article V**

This present Treaty is subject to ratification and the instruments of ratification will be exchanged in Peking as soon as possible. The present Treaty will come into force immediately after exchange of the instruments of ratification and will remain in force for a period of ten years.

Unless either of the Contracting Parties gives to the other notice in writing to terminate the Treaty at least one year before the expiration of this period, it will remain in force without any specified time limit, subject to the right of either of the Contracting Parties to terminate it by giving to the other in writing a year's notice of its intention to do so.

Done in duplicate in Kathmandu on the twenty-eighth day of April 1960, in the Chinese, Nepali and English language, all texts being equally authentic.

Plenipotentiary of the  
People's Republic of China  
Sd/-  
CHOU EN-LAI

Plenipotentiary of the  
Kingdom of Nepal  
Sd/-  
B. P. KOIRALA

*Source:* Bhasin, A. S. (ed.), Documents on Nepal-India, Nepal-China Relations, (1947- 2005), pp.3076-77.

## Appendix-IV

### **Agreement between the Republic of India and the Republic of China on Trade and Intercourse between Tibet Region of China and India. Signed at Peking on 29 April 1954.\***

The Government of the Republic of India and the Central People's Government of the People's Republic of China,

Being desirous of promoting trade and cultural intercourse between Tibet Region of China and India and of facilitating pilgrimage and travel by the people of China and India,

Have resolved to enter into the present Agreement based on the following principles:

1. mutual respect for each other's territorial integrity and sovereignty,
2. mutual non-aggression,
3. mutual non-interference in each other's internal affairs,
4. equality and mutual benefit, and
5. peaceful co-existence,

And for this purpose have appointed as their respective Plenipotentiaries:

The Government of the Republic of India, H.E. Nedyam Raghavan,

---

\*Came into force on 3 June 1954, upon ratification by both Governments, in accordance with article VI.

Ambassador Extraordinary and Plenipotentiary of India accredited to the People's Republic of China; the Central People's Government of the People's Republic of China, H.E. Chang Han-fu, Vice-Minister of Foreign Affairs of the Central People's Government, who, having examined each other's credentials and finding them in good and due form, have agreed upon the following:

### **Article I**

The High Contracting Parties mutually agree to establish Trade Agencies:

1. The Government of India agrees that the Government of China may establish Trade Agencies at New Delhi, Calcutta and Kalimpong.
2. The Government of China agrees that the Government of India may establish Trade Agencies at Yatung, Gyantse and Gartok.

The Trade Agencies of both Parties shall be accorded the same status and same treatment. The Trade Agents of both Parties shall enjoy freedom from arrest while exercising their functions, and shall enjoy in respect of themselves, their wives and children who are dependent on them for livelihood freedom from search.

The Trade Agencies of both Parties shall enjoy the privileges and immunities for couriers, mail-bags and communications in code.

### **Article II**

The High Contracting Parties agree that traders of both countries known to be customarily and specifically engaged in trade between Tibet Region of China and India may trade at the following places:

1. The Government of China agrees to specify (1) Yatung, (2) Gyantse and (3) Phari as markets for trade. The Government of India agrees that trade may be carried on in India, including places like (1) Kalimpong, (2) Siliguri and (3) Calcutta, according to customary practice.
2. The Government of China agrees to specify (1) Gartok, (2) Pulanchung (Taklakot), (3) Gyanima-Khargo, (4) Gyanima-Chakra, (5) Ramura, (6) Dongbra, (7) Puling-Sumdo, (8) Nabra, (9) Shangtse and (10) Tashigong as markets for trade; the Government of India agrees that in future, when in accordance with the

development and need of trade between the Ari District of Tibet Region of China and India, it has become necessary to specify markets for trade in the corresponding district in India adjacent to the Ari District of Tibet Region of China, it will be prepared to consider on the basis of equality and reciprocity to do so.

### **Article III**

The High Contracting Parties agree that pilgrimage by religious believers of the two countries shall be carried on in accordance with the following provisions:

1. Pilgrims from India of Lamaist, Hindu and Buddhist faiths may visit Kang Rimpoche (Kailas) and Mavam (Tso Manasarovar) in Tibet Region of China in accordance with custom.
2. Pilgrims from Tibet Region of China of Lamaist and Buddhist faiths may visit Banaras, Sarnath, Gaya and Sanchi in India in accordance with custom.
3. Pilgrims customarily visiting Lhasa may continue to do so in accordance with custom.

### **Article IV**

Traders and pilgrims of both countries may travel by the following passes and route:

(1) Shipki La pass, (2) Mana pass, (3) Niti pass, (4) Kungri Bingri pass, (5) Darma pass, and (6) Lipu Lekh pass.

Also, the customary route leading to Tashigong along the valley of the Shangatsangpu (Indus) River may continue to be traversed in accordance with custom.

### **Article V**

For travelling across the border, the High Contracting Parties agree that diplomatic personnel, officials and nationals of the two countries shall hold passports issued by their own respective countries and visaed by the other Party except as provided in Paragraphs 1, 2, 3 and 4 of this Article.

1. Traders of both countries known to be customarily and specifically engaged in trade between Tibet Region of China and India, their

wives and children who are dependent on them for livelihood and their attendants will be allowed entry for purposes of trade into India or Tibet Region of China, as the case may be, in accordance with custom on the production of certificates duly issued by the local government of their own country or by its duly authorised agents and examined by the border checkpoints of the other Party.

2. Inhabitants of the border districts of the two countries who cross the border to carry on petty trade or to visit friends and relatives may proceed to the border districts of the other Party as they have customarily done heretofore and need not be restricted to the passes and route specified in Article IV above and shall not be required to hold passports, visas or permits.
3. Porters and mule-team drivers of the two countries who cross the border to perform necessary transportation services need not hold passports issued by their own country, but shall only hold certificates good for a definite period of time (three months, half a year or one year) duly issued by the local government of their own country or by its duly authorised agents and produce them for registration at the border checkpoints of the other Party.
4. Pilgrims of both countries need not carry documents of certification but shall register at the border checkpoints of the other Party and receive a permit for pilgrimage.
5. Notwithstanding the provisions of the foregoing paragraphs of this Article, either Government may refuse entry to any particular person.
6. Persons who enter the territory of the other Party in accordance with the foregoing paragraphs of this Article may stay within its territory only after complying with the procedures specified by the other Party.

## **Article VI**

The present Agreement shall come into effect upon ratification by both Governments and shall remain in force for eight (8) years. Extension of the present Agreement may be negotiated by the two Parties if either Party

requests for it six (6) months prior to the expiry of the Agreement and the request is agreed to by the other Party.

DONE in duplicate in Peking on the twenty-ninth day of April, 1954, in the Hindi, Chinese and English languages, all texts being equally valid.

*(Signed)*

Nedyam RAGHAVAN  
Plenipotentiary of the Government  
of the Republic of India

*(Signed)*

CHANG HAN-Plenipotentiary  
Government of the Central People's  
Republic of China

# Appendix-V

## Exchange of Notes - I

Peking, April 29, 1954

Your Excellency Mr. Vice-Foreign Minister,

In the course of our discussions regarding the Agreement on Trade and Intercourse between Tibet Region of China and India, which has been happily concluded today, the Delegation of the Government of the Republic of India and the Delegation of the Government of the People's Republic of China agreed that certain matters be regulated by an exchange of notes. In pursuance of this understanding, it is hereby agreed between the two Governments as follows:

1. The Government of India will be pleased to withdraw completely within six (6) months from date of exchange of the present notes the military escorts now stationed at Yatung and Gyantse in Tibet Region of China. The Government of China will render facilities and assistance in such withdrawal.
2. The Government of India will be pleased to hand over to the Government of China at a reasonable price the postal, telegraph and public telephone services together with their equipment

operated by the Government of India in Tibet Region of China. The concrete measures in this regard will be decided upon through further negotiations between the Indian Embassy in China and the Foreign Ministry of China, which shall start immediately after the exchange of the present notes.

3. The Government of India will be pleased to hand over to the Government of China at a reasonable price the twelve (12) rest houses of the Government of India in Tibet Region of China. The concrete measures in this regard will be decided upon through further negotiations between the Indian Embassy in China and the Foreign Ministry of China, which shall start immediately after the exchange of the present notes. The Government of China agrees that they shall continue as rest houses.
4. The Government of China agrees that all buildings within the compound walls of the Trade Agencies of the Government of India at Yatung and Gyantse in Tibet Region of China may be retained by the Government of India. The Government of India may continue to lease the land within its Agency compound walls from the Chinese side. And the Government of India agrees that the Trade Agencies of the Government of China at Kalimpong and Calcutta may lease lands from the Indian side for the use of the Agencies and construct buildings thereon. The Government of China will render every possible assistance for housing the Indian Trade Agency at Gartok. The Government of India will also render every possible assistance for housing the Chinese Trade Agency at New Delhi.
5. The Government of India will be pleased to return to the Government of China all lands used or occupied by the Government of India other than the lands within its Trade Agency compound walls at Yatung. If there are godowns and buildings of the Government of India on the above mentioned lands used or occupied and to be returned by the Government of India and if Indian traders have stores, godowns or buildings on the above-mentioned lands so that there is a need to continue leasing lands, the Government of China agrees to sign contracts with the Government of India or

Indian traders, as the case may be, for leasing to them those parts of the land occupied by the said godowns, buildings or stores and pertaining thereto.

6. The Trade Agents of both Parties may, in accordance with the laws and regulations of the local governments, have access to their nationals involved in civil or criminal cases.
7. The Trade Agents and traders of both countries may hire employees in the locality.
8. The hospitals of the Indian Trade Agencies at Gyantse and Yatung will continue to serve personnel of the Indian Trade Agencies.
9. Each Government shall protect the person and property of the traders and pilgrims of the other country.
10. The Government of China agrees, so far as possible, to construct rest houses for the use of pilgrims along the route from Pulanchung (Taklakot) to Kang Rimpoche (Kailas) and Mavam Tso (Manasarovar); and the Government of India agrees to place all possible facilities in India at the disposal of pilgrims.
11. Traders and pilgrims of both countries shall have the facility of hiring means of transportation at normal and reasonable rates.
12. The three Trade Agencies of each Party may function throughout the year.
13. Traders of each country may rent buildings and godowns in accordance with local regulations in places under the jurisdiction of the other Party.
14. Traders of both countries may carry on normal trade in accordance with local regulations at places as provided in Article II of the Agreement.
15. Disputes between traders of both countries over debts and claims shall be handled in accordance with local laws and regulations.

On behalf of the Government of the Republic of India I hereby agree that the present Note along with Your Excellency's reply shall become an agreement between our two Governments which shall come into force upon the exchange of the present Notes.

I avail myself of this opportunity to express to Your Excellency Mr. Vice-Foreign Minister, the assurances of my highest consideration.

*(Signed)*

N. RAGHAVAN

Ambassador Extraordinary and Plenipotentiary  
of the Republic of India

His Excellency Mr. Chang Han-fu  
Vice-Minister of Foreign Affairs  
Central People's Government  
People's Republic of China

# Appendix-VI

## Exchange of Notes - II

Peking, April 29, 1954

Your Excellency Mr. Ambassador:

I have the honour to receive your note dated April 29, 1954, which reads:

*[See note I]*

On behalf of the Central People's Government of the People's Republic of China, I hereby agree to Your Excellency's note, and your note along with the present note in reply shall become an agreement between our two Governments, which shall come into force upon the exchange of the present notes.

I avail myself of this opportunity to express to Your Excellency, Mr. Ambassador, the assurances of my highest consideration.

*(Signed)*

CHANG HAN-FU

Vice-Minister

Ministry of Foreign Affairs

People's Republic of China

H. E. Nedyam Raghavan

Ambassador Extraordinary and Plenipotentiary

Republic of India

# Index

- 8-point agreement 81
- 12-point agreement 79, 80, 81
- 25-point code of conduct 81
- 2014 Earthquake 75
- 2015 Earthquake 107, 116, 156, 162
  - relief work undertaken by China and India 162
- Abductions 82
- Abuses 28, 75, 80, 82, 163
- Acharya, Tanka Prasad, Nepal's Prime Minister 16
- Adhikari, Man Mohan, Nepal's Prime Minister 204
- Afghanistan 19, 25, 28, 84, 96, 122
  - entry into SAARC 19
- Aggression 3, 17, 18, 24
  - Chinese 24
  - external 17
- Agitation 76, 77, 204
  - Madhesi, impact of 77
- Agreement on the Monitoring of the Management of Arms and Armies (AMMA) 81, 82
- Agricultural waste 126
- Agriculture 72, 116, 174, 175
  - growth rate of 72
  - production 72
- Aksai Chin 98
- Alignment 3, 4, 7, 9, 17, 18, 22, 36, 40, 134, 200
  - geographical 36
- Alliances 6, 7, 9, 10, 11, 12, 13, 15, 25, 41, 45, 76, 153
  - bilateral 12
  - dangers of 15
  - external 12
  - military 41
  - multilateral 12
  - pattern 9, 10, 11
    - of balancing 9
  - political 45
  - shift 10
- Amlekhgunj 126, 133
- Anarchy 34
- Animal waste 126
- Antony, A.K. 84
- Appeasement, strategy of 11
- Arbitrators 6
- Armed groups 74, 75, 90
- Armed struggle 79, 87, 173, 174
- Arniko Highway 143, 159, 187

- Arunachal Pradesh 98, 144  
 Arun-III hydroelectric project 60, 128  
 Arun River project 132  
 ASEAN 211  
 Asian Development Bank 27, 75  
 Asia Pacific Exchange and Cooperation  
 (APEC) 146  
 Australia 14  
 Autonomy 17
- Baidhya, Mohan 162  
 Balance of payment 121, 173  
 Balancing 2, 9, 10, 43, 46, 50, 53, 55, 56,  
 61, 63, 94, 95, 97, 103, 109, 121, 180,  
 183, 208  
     diplomatic 53  
     patterns of 9  
 Balkan Slavic states 15  
 Baltic States 15  
 Bandwagon/Bandwagoning 9, 10, 11  
 Bangladesh 24, 102, 103, 121, 122, 192,  
 207, 208, 209, 211  
     birth of 102  
 Bangladeshi Liberation War of 1971 103,  
 104  
 Bargaining strength 9  
 Beijing Olympics 83, 106  
 Beldangi Camps 87  
 Bharatiya Janata Party (BJP) 107, 108,  
 189  
 Bhattarai, Dr Baburam, Prime Minister  
 of Nepal 123  
 Bhattarai, Krishna Prasad, PM 43, 54  
 Bhutan 59, 84, 87, 144, 161, 192, 193,  
 209, 211  
 Bhutan Gorkha National Liberation  
 Front 87  
 Bihar 129, 131, 133, 142, 204, 206  
 Bilateral Investment and Protection  
 Agreement (BIPPA) 174, 180  
 Bilateralism 24, 208  
 Biratnagar 75, 149  
 Birendra International Convention  
 Center 85  
 Boao Forum 161  
 Bombings 78
- Borders/Frontier  
     China-Indian 23  
     China-Nepal 23, 40, 148  
     India-Bhutan 161  
     India-Nepal 42, 86, 87, 104, 198  
     international 71  
     land 23  
     northern 163  
     open 38, 51, 77, 94, 95, 121, 125, 142,  
     157, 198, 212, 213, 214  
     peace and stability on 22  
     porosity of 128  
     security 22, 36  
     share 96  
 Boudha 88  
 Boundary treaty 22  
 Brazil 25  
 BRICS (Brazil, Russia, India, China and  
 South Africa) 25  
 Britain 13, 15, 36  
 British Army 28  
 British East India Company 18  
 British India 16, 36, 53  
 Buffer state 1, 7, 8, 9, 10, 11, 16, 17,  
 95, 96, 97, 98, 100, 102, 108, 141,  
 210  
     alliance pattern of 11  
     attack on 7  
     foreign policy behaviour of 1  
     importance of 98  
     intervene in 7  
     power differential of 7  
     predicament of 96  
     race for winning over 8  
     security of 7  
     shifting patterns 10  
     small 1, 8, 102  
     South Asian 11  
     theory 16  
     vulnerable 7  
 Build Own Operate Transfer (BOOT)  
 133  
 Buzan, Barry 68
- Calcutta, port facilities at 131  
 Canada 14, 87

- Capability 3, 10, 97, 98, 108, 109, 120
  - aggregate 10
  - leadership 3
- Capitalism 13
- Central East Asian Treaty Organisations (CENTO) 22
- Child labour 68
- Children 74, 163
- Chile 15
- China and India
  - bilateral trade 24
  - border 23
  - clash 98
  - competition 94, 95, 97, 98, 99, 107
  - competition in Nepal 86, 94, 95, 98, 99, 107
  - conflict of interests 98
  - geopolitical competition 24
  - power play 85
  - relations 24, 25
  - rivalry 83, 84, 98, 99, 108, 152
    - impact of 83
  - strategic bases in Nepal 23
  - trade deficit 191
- China and Nepal 23, 40, 42, 54, 58, 101, 142, 145, 146, 147, 148, 152, 156, 157, 158, 159, 160, 161, 164, 165, 175, 183
  - bilateral relations 51, 144
  - border 23, 40, 148
  - border agreement 143
  - boundary treaty 22
  - comprehensive cooperative partnership 158
  - cooperation
    - economic 158, 159
    - military 60, 161
    - trade 158
  - cultural exchange 86
  - defence cooperation 60
  - diplomatic relations 51
  - diplomatic ties 164
  - engagement 63
    - economic 50, 58
    - political 50
    - strategic 50
  - military assistance 61
  - national Highways 20
  - “non-lethal” military aid 84
  - oil supply deal 159
  - principles of peaceful coexistence 22
  - relations/ties 42, 53, 58, 85, 157, 183, 191
    - bilateral 156
    - diplomatic 156
    - economic 145
    - friendly and cooperative 52
    - in present times 156
    - military 42
    - nature and scope of 16
    - trade and investment 63
  - road agreement 40, 53
  - treaty of peace and friendship 22, 36
- China card 19, 46, 57, 143, 189, 193
- China Hebei Economic and Trade University 159
- China-India-Nepal 171
- China-India-Russia strategic triangle 25
- China National United Fuel Corporation 159
- China, People's Republic of
  - economic and military aid to Nepal 83
  - engagement in
    - developing countries 26
    - Nepal 19, 26, 28, 172, 173
  - foreign policy 18, 25, 26, 51, 86
    - determinant of 18
    - towards Nepal 18
  - importance for Nepal 22
  - influence in Nepal 94, 95
  - interest in
    - Nepal 19, 20, 26, 57, 83, 102, 143, 145
    - South Asia 97
  - Investments in
    - Nepal 58, 145
    - South Asia 103
  - military expedition of 1789-92 21
  - military rise of 156
  - modest policy towards Nepal 51
  - national interest of 22
  - perception 19

- policies
  - engagement in Nepal 28
  - maximising influence on king 19
  - Nepal 19
  - non-interference 26
- relations with developing countries 26
- rise of 24, 156, 180
  - economic 156
- security 23, 94, 106
- Silk Road Economic Belt initiative 160
- South Asia policy 144
- supports to Pakistan 25
- China Radio International 59, 86
- China Study Centre (CSC) 59, 85, 145
- Chinese Academy of Sciences' Institute of Mountain Hazards and Environment (IMHE) 159
- Chinese Army 161
- Chinese Three Gorges International Cooperation 159
- Citizenship Act of 1952 of Nepal 130
- Citizenship rights 202
- Civil War 27, 78, 106, 171
- Clausewitz 13
- Climate change 27, 90, 120
- Coercion 17, 104, 109
- Cold War 22, 36, 67, 98, 174, 194, 197, 202, 207
  - power blocs 22
- Colombo Plan 113
- Commercial ties 28
- Common enemy 13
- Communist Party of China (CPC) 161
- Communist Party of Nepal-Maoist (CPN-Maoists) (CPN-M) 18, 20, 74, 105, 162
- Communist Party of Nepal-United Marxist Leninist (CPN-UML) 44, 77, 188
- Communists 36, 50, 143
- Comprehensive Economic Reform Program of 2002 114
- Comprehensive Peace Agreement (CPA) 81, 82
- Concessional line of credit 134
- Conditionalities 27, 28
- Conflicts 1, 5, 6, 15, 27, 28, 54, 63, 69, 73, 74, 78, 83, 98, 102, 103, 152, 165, 202, 204, 211, 214
  - armed 73
  - bilateral 211
  - internal 83
  - Internal 69
  - international 6
  - violent 74
- Confucian Institute 159
- Confucius Institute 59
- Constituent Assembly (CA) 20, 58, 74, 80, 81, 82, 106, 183, 184, 185, 186, 187, 188, 204, 205
  - election of a 80
- Constitution 76, 77, 80, 82, 158, 160, 174, 186, 205
  - adoption of 83
  - drafting process 76
  - Interim 82
  - making process 76
  - New 38, 46, 67, 76, 77, 89, 138, 142, 158, 160, 164, 182, 185, 186, 187, 188, 189, 194, 195, 197, 205, 206
    - adoption of 46, 76
    - of 1990 80
    - promulgation of 77
- Constitutional changes 81
  - military 28
- Cooperation 2, 3, 17, 18, 23, 28, 54, 55, 56, 57, 59, 60, 61, 63, 72, 80, 112, 113, 114, 116, 120, 121, 122, 123, 125, 126, 127, 135, 144, 145, 146, 148, 150, 152, 158, 162, 165, 172, 173, 176, 177, 178, 180, 192, 201, 205, 206, 207, 209, 210, 212, 214
  - commercial 120
  - diplomatic 126
  - economic 116, 120, 121, 144, 146, 152, 159, 173, 201, 205
  - energy 126, 127, 148
    - route of 127
  - military 161
  - mutual benefit 18, 121
  - peaceful 2, 3

- regional 17, 192, 207, 209, 214
- security 54, 55
- technical 120
- trilateral 171, 172, 173, 176, 177, 178, 180
- Corruption 69, 73, 127
- Country/Nation/States
  - advantages of 8
  - alliance pattern of 10
  - behaviour of 2, 4, 10, 12
    - alliance 10
    - anti-balance manner 5
    - short-term and geographically limited perspective 5
  - big 11
  - communist 13
  - developing 26
  - development of 5, 75, 198
  - independent sovereign 5
  - land locked 1, 2, 20, 83, 133, 156, 189
  - large 5, 96, 99, 102
  - major 13
  - micro- 11
  - non-aligned 9
  - political experience of 3
  - powerful 10, 12, 13
  - rival 96
  - role in the international system 5
  - security 71
  - small 1, 2, 4, 5, 6, 7, 8, 9, 10, 11, 12, 14, 15, 17, 67, 69, 96, 97, 98, 99, 177, 178, 193, 197, 198, 208, 213
    - alternatives for 7
    - anti-balance behaviour 6
    - attitude of 5
    - behaviour of 4, 5, 6
    - definition 11
    - diplomatic skills 8
    - division of 11
    - foreign-policy decisions of 6
    - foreign policy of 4, 5, 8, 9
    - function as mediators 6
    - geographical positioning 1, 8, 9
    - geo-strategic location 8, 55
    - in international politics 4, 8
    - legalistic-moralistic attitude 6
    - mediators in international conflicts 6
    - military and economic strategy options 6
    - narrow safety margin 12
    - security of 67
    - strategic importance 14, 143
    - theorisation of the behaviour of 4
    - validity 6
    - vulnerable 6
    - weakness of 14
  - sovereign 2
  - stronger 15
  - underdeveloped 14, 198
    - economic aid to 14
  - weak 8, 10, 12, 13, 14, 15, 16, 193, 212
    - behaviour of 13
    - integrity of the 15
    - wealth of 8
- Credibility gap 55
- Crime 69
- Criminals 73, 74, 90, 212, 213
  - political protection of 74
- Crisis 6, 8, 15, 72, 77, 79, 82, 142, 189, 201, 202
  - financial 72
- Cuba 15
- Cuban Missile crisis 15
- Culture 11, 15, 59, 73, 86, 113, 145, 152, 163, 183, 207
  - abuses by Nepali security forces 163
  - Chinese 86
  - local 15
  - Tibetan 163
- Customs duties 116
- Dalai Lama, Tibetan spiritual and political leader 19, 20, 88, 98, 100, 166
- Government-in-exile, Dharamsala 88
  - office in Kathmandu 19
- Dalits 80
- Dam 129
- Decision making 2, 5, 7, 35, 208
  - autonomy in 17
  - independent 7
  - processes 2, 5, 16
    - autonomous 5
  - structure 35

- Defence 6, 10, 13, 21, 22, 23, 55, 60, 61, 135, 144, 150, 151
  - alliance 6
  - establishment 21
  - planning 23
  - policy 22
  - treaties 13, 22
    - multilateral 13
- Democracy 35, 78, 79, 82, 91, 104, 106, 113, 131, 132, 144, 171, 172, 174, 193, 194, 202, 203, 206, 210
  - multiparty 78, 104
  - parliamentary 131, 202
  - restoration of 82, 172, 174
  - transition to 79
- Democrats 104
- Dependency School 13
- Desai, Morarji, Indian Prime Minister 42
- Deuba, Sher Bahadur, Nepalese Prime Minister 78, 105, 202
- Development
  - constitutional 27
  - disparities in 72
    - inclusiveness in 71
  - economic 3, 17, 22, 24, 26, 53, 57, 61, 71, 75, 86, 90, 113, 116, 138, 141, 171, 172, 173, 175, 176, 178, 179, 199, 204, 209
  - energy route of 128
  - hydropower 60
  - industrial 199
  - infrastructure 20, 83, 165, 177, 179
  - mutual 126, 127, 128
  - national 22
  - resource 34, 120
  - sustainable 75
- Devighat hydropower projects 128, 131
- Dichotomy 37, 38, 39, 46
- Dignity 18
- Diplomacy 9, 10, 13, 14, 89, 95, 97, 102, 103, 122, 127, 128, 136, 137, 138, 159, 188, 193, 199, 209, 212
  - big-power 14
  - coercive 193
    - aggressive 89
    - economic 89, 122, 209
    - financial 136
    - Indian 188
    - Indo-Nepal 127
    - junctures in 103
    - track II 128
    - use of 9
- Diplomatic balancing 53
- Diplomatic bond 126
- Diplomatic cooperation 126
- Diplomatic ties 103, 108, 128, 164
  - bilateral 128
- Disarmament 81
- Disarmament process 81
- Disintegration 78
- Disputes 18, 41, 98, 179, 208, 212
  - peaceful settlement of 41
  - settlement of 18
- Domestic considerations 2
- Domination 4, 61, 213
  - Western practices of 4
- Donors 26, 27, 28, 82, 88, 113, 165, 202
  - bilateral 27
  - multilateral 27
  - Western 26, 27, 28, 82
    - methods of operations in Nepal 27
- Drinking water 116
- Drugs 69, 74
  - users 74
- Dry port 118, 159
- Eastern Europe 15
- East Pakistan 103
- East-west axis 21
- East-West Highway 147, 148
- Economic
  - affairs 207
  - aid 14, 85, 116
  - assistance 19, 113, 209
  - benefits 12, 128, 177, 204
  - blockade 42, 88, 89, 102, 103, 104, 109, 131, 144, 201, 203
  - bottlenecks 72
  - commitment 213
  - cooperation 159
  - corridor 177

- development 3, 17, 22, 24, 26, 53, 57, 61, 71, 75, 86, 90, 113, 116, 138, 141, 171, 172, 173, 175, 176, 178, 179, 199, 204, 209
- diplomacy 89, 122, 209
  - aggressive 89
- dominance 14
- exchanges 113
- growth 25, 26, 62, 72, 101, 120, 127, 128, 172, 173, 175, 176, 179, 180
- incentives 86
- interests 25, 35, 54
  - impact of 35
- policy 72
- power 14
- reforms 26, 173, 174
- relations 24, 112, 113, 120, 145, 203, 209
- security 69
- self-interest 26
- slowdown 172
- tension 73
- underdevelopment 73
- Economy 17, 21, 71, 72, 89, 115, 118, 119, 122, 152, 171, 174, 175, 177, 179, 199, 200, 206, 207, 213
  - national 89, 115
  - Nepalese 118
  - weak 71, 72, 199
- Ecuador 15
- Education 71, 116, 118, 120, 128, 141, 149, 214
- Elections 20, 27, 58, 74, 78, 80
  - multi party 43
  - municipal 79, 80
  - processes 27
- Electricity 60, 119, 126, 127, 128, 129, 131, 134, 136, 165, 179, 205
  - access to 126
  - dependence on water for 126
  - domestic consumption 126
  - Nepalese domestic consumption 130
  - trade 128
    - geopolitical impact of 128
- Emancipation 70
- Emergency relief fund 108
- Employment 72, 96, 121, 128, 146, 199
  - growth rate of 72
  - opportunities 121, 146
- Energy power
  - balance 127, 128
  - impact on 128
  - consumption 126
  - cooperation 126, 127, 148
    - route of 127
  - deficits 125, 126, 127
  - demand for 125
  - development
    - route of 128
  - exchange 128
  - export of 119, 130
  - generation 126, 127, 129, 135
  - hydro- 60, 126, 127, 128, 205, 210
  - import 129
  - nuclear 127
  - relations 133
  - renewable 127
  - resources 125, 126, 127, 137
    - balance of 127
    - exploitation of 125
    - utilization 126
  - solar 127
  - supply deficit 134
  - trade 126, 130, 133
  - trading hub 126
  - wind 127
- Environment protection 75
- Environmental
  - change 75
  - decay 69
  - degradation 75
  - insecurity 75
  - security 75
  - sustainability 75
  - Equality 5, 18
    - formal 5
    - mutual 18
- European Union 88, 187
- Expansionism 24
- Exploitation 2, 3, 13, 52, 59, 77, 121,

- 122, 125, 126, 158, 165, 171, 175,  
177, 178, 179, 180, 205, 213  
commercial 122  
Export-Import Bank of India 134  
Exports 58, 113, 114, 115, 116, 117, 118,  
119, 130, 134, 135, 145, 174, 175,  
180, 200, 201  
duty-free access 58, 114, 115  
Extortion 82  
Extremism 68  
Extremist 73, 186
- Far West 75  
Fewa Dam project 131  
Financial  
assistance 149  
crisis 72  
development packages 136  
diplomacy 136  
institutions 72, 88  
multilateral 88  
Fisheries jurisdiction 15  
Floods 75, 129  
control project 129  
Foreign adventures 14  
Foreign Direct Investment (FDI) 107,  
114, 118, 120, 146, 159, 171, 172,  
173, 174, 175, 176, 178, 180, 191, 199  
Foreign policy 1, 2, 3, 4, 5, 6, 7, 8, 9, 10,  
12, 14, 17, 18, 22, 25, 26, 33, 34, 35,  
36, 37, 39, 40, 41, 42, 43, 44, 45, 46,  
47, 49, 51, 54, 55, 56, 61, 62, 64, 86,  
90, 94, 95, 96, 97, 99, 100, 101, 102,  
103, 104, 108, 109, 141, 152, 157,  
159, 190, 192, 193, 199, 200, 202,  
210, 213  
activism 34, 37, 44  
aggressive 7  
alternative 6  
realistic 6  
analysis of 3  
creation of 2  
decision making  
structure 35  
decisions 5, 6  
definition 4  
development of 2  
elements of 3  
expansive 7  
expression 35  
framing of 35  
goals of 4  
independent 39, 40, 43, 47, 54, 159  
instrument of 14  
making 34  
making institutions 3  
objectives 2, 3, 18, 202  
in international relations 2  
shaping and implementation of 3  
paradigm 39  
'patterns' 3  
principles 17  
processes of 3  
shaping 4  
small states 5, 9  
strategy 6  
success 9  
successful 34  
task of 4  
uni-dimensional 36, 46  
*Foreign Policy: "Beyond Nepal"* 192  
Foreign trade 14, 16, 174, 175, 199  
Forestry 116  
Fossil fuels 127  
Fox, Annente Baker 8  
*The Power of Small States* 8  
France 13  
Friendship 16, 18, 22, 24, 36, 46, 51, 56,  
112, 130, 132, 134, 135, 136, 137,  
158, 210, 212  
policy of 22, 212  
Friendship agreement 130  
Fuel wood 126  
Fundamental rights 73
- Gachhadar, Bijay Kumar 76, 84  
Gandak project 128, 129, 130  
Gandhi, Rajiv, Indian Prime Minister  
201, 202, 208  
Gardner, Dinah 158  
Gentleman's agreement 87  
Geographical proximity 10, 37, 49, 61, 113, 152

- Geopolitics 18, 24, 25, 26, 176  
 role of 24
- Germany 14, 44
- Glacier 75
- Global affairs 33, 34, 47
- Globalization 71, 112, 113
- Globalized world 12
- Global war 135
- GMR 60, 85, 118, 128, 132, 133
- Gobi desert 21
- Gorkha regiment 22, 28, 144, 150, 165
- Governance 26, 27, 44, 45, 72, 73, 105  
 bad 69, 73  
 corporate 72  
 good 73  
 political issues of 45
- Government of India 39, 42, 100, 115, 131, 133, 142, 147, 149, 151, 161, 208, 209
- Government of Nepal 16, 27, 38, 40, 50, 52, 55, 56, 58, 88, 89, 90, 100, 105, 118, 137, 145, 152, 158, 160, 163, 164, 175, 176, 190, 203, 206, 214  
 Interim Government 81, 82
- Great Britain 15, 36  
 foreign policy of 36
- Great power game 26
- Global order 35
- Gstohl 9  
*Small States in International Relations* 9
- Gurung, Chhatra Man Singh, Nepalese Chief of Army Staff 151
- Harmonised Commodities Description and Coding System 115
- Health 27, 71, 75, 116, 120, 128, 141, 150, 214  
 infrastructure 150
- Hegemony 1, 213
- Hetauda powerhouse 129
- Hetauda-Ram Nagar power line 130
- Highways 20, 143, 147
- Himachal Pradesh 204
- Himalayan axis 20
- Himalayas 16, 20, 21, 51, 102, 104  
 central 21  
 southern 20
- Hindustan Times, The* 20
- Hirohito 14
- HIV/AIDS 74, 75  
 causes of 74
- Hongshi Holdings Limited 159
- Huldt 5, 6  
 idea on small states 6
- Human rights 19, 26, 28, 68, 79  
 abuses 28  
 protection of 26  
 violation 68, 79
- Human Rights Organization of Bhutan 87
- Human rights organizations 88
- Human Rights Watch 88, 163  
*Under China's Shadow: Mistreatment of Tibetans in Nepal* 163
- Hydroelectricity projects 107, 132
- Hydropower 60, 83, 85, 118, 119, 121, 125, 126, 127, 128, 131, 132, 134, 135, 136, 137, 138, 148, 175, 179, 205, 210  
 Nepalese 136  
 potential 118, 125, 127  
 projects 126, 128
- Iceland 15
- Identity 11, 17, 22, 33, 34, 43, 44, 46, 47, 49, 50, 53, 54, 198, 212  
 fused 43  
 quest of 34, 43, 44, 46  
 socio-cultural 50  
 sovereign 49
- Ideology 14, 105  
 Communist 14
- Imperialism 5, 13
- Import licensing system 114
- Imports 116  
 power 129
- India  
 accession of Sikkim to 52  
 aid assistance to Nepal 146  
 attitude 22

- border security 36
  - defence against China 23
  - eastern 21
  - economic
    - assistance to Nepal 116
    - embargo 182, 186, 187, 188, 190, 194
    - growth 127
    - policies 115
  - exclusive supplier of defence equipments to Nepal 144
  - foreign policy 51, 56
  - grants to Nepal 83
  - Gujral Doctrine 192, 208
  - importance of Nepal 23
  - industrial growth 127
  - influence in Nepal 37, 101, 104
    - political and economic 53
  - investment in Nepal 118, 149, 180
  - Janata Party government 42
  - merger of Sikkim 54
  - Nepalese dependency on 143
  - nuclear test 54
  - political and economic pressure on Nepal 16
  - power deficit 126
  - power generation 127
  - Rao government 43
  - sanctions against Nepal 131
  - security 23, 37, 38, 40, 54, 63, 100, 101, 102, 103, 109, 130, 185, 200, 201, 213
  - security
    - economic interests and 54
    - concerns of 28
    - interests 37
    - threat perception 51
  - strategic and defence planning 23
  - strategic interests in Nepal 28, 51
  - supply power to Nepal 129
  - trade policy of 115
- India and Nepal
- bilateral relationship 63
  - bilateral trade 114
  - border 21, 42, 94, 95
    - porous and open 94, 95
  - cooperation
    - economic 152
    - health 150
  - cultures and traditions 113
  - defence policy 22
  - diplomacy 127
  - diplomatic
    - distance 125
    - tension 131
    - transformations 126
  - economic
    - blockade 42, 88, 89, 103, 104, 109, 131, 144, 201, 203
    - cooperation 146
  - energy and power-sharing 126
  - exports and imports 116
  - free movement 100, 211
  - friendship 132, 135
  - frontier 23
  - historical-cultural-legal bonding 35
  - Inter-Governmental Committee (IGC) 114
  - joint power project 131
  - joint ventures 146
  - military assistance 55
  - people-to-people connection 128, 157
  - power exchange program 128
  - power trade 130
  - relations/ties 34, 36, 37, 39, 43, 45, 94, 95, 99, 108, 112, 122, 130, 138, 161, 171, 182, 183, 197, 201, 202, 203, 204, 210, 212
    - assessment of 212
    - dichotomy in 37
    - diplomatic 127
    - economic 112
    - emergence of distrust 38
    - energy 133
    - historical and geo-cultural 49
    - military to military 54
    - political 127
    - post 1990 202
    - SAARC connectivity in 207
    - strategic 54
    - trade 121
  - Small Development Projects Programme 147

- special relationship 16
- trade
  - agreement 126
  - arrangements 114
  - blockade 89, 160
  - routes 144
  - transit dispute and 42
  - transit treaty and 43, 200, 201
- treaty 35
  - impact of 35
- India card 44
- Indian Army 144, 165
- Indian Oil Corporation (IOC) 190
- Indian Oil Corporation Limited (IOCL) 133
- India-Pakistan rivalry 192
- Indo-Gangetic plains 21
- Indo-Nepalese Treaty of peace and friendship 24
- Indo-Nepal Trade Treaty of 1996 114
- Indo-Nepal Treaty of Peace and Friendship of 1950 23, 35, 36, 37, 42, 43, 45, 46, 50, 53, 54, 55, 56, 94, 95, 100, 101, 103, 104, 108, 113, 125, 131, 132, 143, 187, 199, 200, 201, 204
  - provisions of 37, 38, 39, 54
  - restriction on Nepal 38
  - revision of 45, 47
  - seeds of discord 184
  - violation of 42
- Indo-Nepal Treaty of Trade of 2009 114, 116
- Industrial Enterprise Act 114
- Industrial growth 126, 127, 128
- Industries 21, 73, 77, 115, 118, 147, 175
- Informal Service Sector (INSEC) 74
- Information and communication technology (ICT) 122
- Infrastructure 20, 59, 60, 71, 83, 107, 116, 119, 120, 122, 126, 134, 141, 143, 146, 147, 149, 150, 159, 165, 175, 176, 177, 178, 179, 190, 210, 211, 214
  - grid 126
  - health 150
  - poor 71
  - strategic 60
- Ingerbristen, Christene 9
- INGOs 28
- Innenpolitik School 11
- Insecurity 12, 55, 75, 188
  - concept of 12
  - environment 75
- Insolvency 72
- Instability 14, 71, 73, 78, 90, 132, 142, 185, 186
- Integration 27, 43, 56, 123, 151, 194, 209, 212
  - cultural and social 43
  - regional 56
- Integrity 15, 17, 18, 22, 42, 70, 145, 199, 212
  - cultural 15
  - territorial 17, 18, 22, 42, 70, 145, 199
- Interdependence 61, 67, 69, 112, 113
- International affairs 6
- International Monetary Fund (IMF) 173
- International obligations 40
- International organizations 5, 6, 15
- International Rescue Team 162
- International scourge 69
- International system 4, 5, 8, 9, 12, 67, 70, 98
- Intimidation 81, 82
- Intrusions 84
- Investment Board of Nepal (IBN) 176
- Irrigation 116, 129, 135
- ISI, the Pakistani military intelligence wing 186
- Isolation 3, 17, 34
- Isolationism 5
- Israel 12
  - aggressive designs on Arab lands 12
- Jaishankar, S, Foreign Secretary 186
- Jana Andolans 56
- Japan 14, 27
- Jhapa 76, 87
- Job 2, 72, 179
  - creation 72
- Joint exercises 54
- Joint Ministerial Commission on Water Resources 129
- Joint ventures 146, 147

- Karnali Chisapani project 128  
 Kataiya power plant, Bihar 129  
 Kathmandu-Bhaktapur Highway 147  
 Kathmandu-Kodari road 20, 143  
 Kathmandu-Lhasa road 54  
 Kathmandu-Pokhara Highway 147  
 Kathmandu University 159  
 Kautilya 70  
     *Arthashastra* 70  
 Keohane, Robert 9  
 Kerong pass 20  
 Killings 79, 80  
     extra-judicial 79  
 King Amshuverma 2  
 King Birendra Bir Bikram Shah Dev 41,  
     43, 44, 54, 104, 105, 131, 187, 200,  
     201, 202  
     adoption of a balancing foreign  
     policy 43  
     killing of 44  
     visit to China 54  
 King Gyanendra 19, 44, 78, 79, 81, 82,  
     84, 105, 106, 132, 138  
 King Mahendra 19, 23, 39, 40, 41, 54, 78,  
     99, 101, 102, 103, 104, 105, 108, 183  
     visit to USA 40  
 King Prithvi Narayan Shah 2, 18, 97,  
     143, 183, 210  
     yam between two boulders 2, 97, 143  
 King Tribhuvan 39  
 Kinship 113  
 Kirong pass 20  
 Koirala, Girija Prasad 80, 204  
 Koirala, Sushil 45, 146, 161  
 Kolkata 21, 202  
 Kosi river project 128, 129, 130, 131,  
     132  
 Kumar, Dhruva 153  
 Kutu pass 20, 21  
 Kyirong-Rasuwa route 147, 148  
  
 Labour 68, 147, 153, 179, 210  
     migrant 147, 153  
     Nepalese 147, 153  
 Ladakh 144  
 Lakes 75  
  
 Landslides 75  
 Language 14, 86, 145, 183, 210  
     Chinese 86, 210  
 Law and order 40, 77  
 Leadership 3, 40, 43, 53, 67, 158, 160,  
     195, 198, 204, 211, 214  
     capability 3  
     democratic 43  
     Nepali 67  
 League of Nations 6  
 Lhasa 54, 59, 147, 148, 190, 210  
 Liberal democratic movement 52  
 Liberalization 113, 115, 172  
     economic 113, 172  
 ‘Lilliputians’ Dilemma’ 8, 9  
 Lumbini 58, 146, 190, 210  
  
 Macridis 3, 14  
 Madhesi 67, 76, 77, 89, 91, 142, 182,  
     184, 186, 187, 206  
     accommodation of 76  
     agitation  
         impact of 77  
     political parties 77  
     reservations against the constitution  
         76  
     uprising 184  
 Madhesi Janaadhikar Forum 76  
 Mahabharat, 21  
 Mahakali Pancheshwar project 129  
 Mahakali treaty 44  
 Mahendra Raj Marg 147  
 Maldives 192, 207  
 Malone, David M. 187  
 Manmohan Memorial Polytechnic 149  
 Manniurizzaman, Bangladeshi security  
     expert 69  
 Maoism 203  
 Maoist movement 44, 45, 202  
 Maoists 18, 20, 36, 44, 45, 55, 56, 57, 58,  
     60, 61, 62, 63, 73, 74, 78, 79, 80, 81,  
     82, 83, 84, 85, 87, 104, 105, 106, 109,  
     132, 144, 148, 150, 151, 153, 162,  
     173, 174, 179, 185, 202, 204, 205  
     insurgency 78, 87, 179, 205  
     insurgents 78, 150

- intentions of 83
- rebels 78, 79
- Mao Zedong 143
- Marginalization 105
- Markets 14, 21, 26, 58, 104, 114, 115, 116, 120, 130, 133, 134, 135, 136, 147, 148, 153, 171, 174, 177, 179, 209
- Chinese 58
  - developing country 26
  - domestic 179
  - global 115
  - Indian 21, 115, 120, 130, 135, 209
  - Nepali 133
- Marriages 51, 157
  - cross border 157
- Marshy tract 21
- Martin, Ian, UN Secretary-General's Personal Representative 81
- Media 79, 80, 86, 87, 188, 211, 213
  - censorship 80
  - coverage 87
  - international 87
- Melamchi 147
- Middle East 134, 171, 179
- Mid West 75
- Migrations/Migrants 20, 38, 69, 74, 75, 147, 153, 179, 210, 212
  - forced 74
  - internal 74
  - inter-state 38
  - mass 69
  - temporary 74
  - trans-Himalayan 20
- Military
  - agreements 13
  - aid 58, 61, 83, 84, 107, 151, 162
    - non-lethal 61, 84, 107
  - alliance/ties 12, 13, 41, 85, 165
  - assistance 12, 13, 14, 15, 55, 61, 84, 150, 151
  - bases 54, 192
  - campaigns 97
  - cooperation 28, 161
  - equipment 14
  - invasions 96
  - procurement 80
  - suppliers 13
  - support 12
  - threat 12, 23
- Militias 82
- Minorities 76, 80, 186
  - ethnic 80
- Mobility 74
- Modelski, George 4
- Modi, Narendra, PM of India 45, 107, 132, 164, 182, 185, 186, 190, 191, 197, 198, 205, 207, 211, 215
  - visit to China 191
  - visit to Nepal 132, 197, 207
- Monarchy 18, 19, 20, 35, 43, 44, 45, 46, 47, 49, 56, 78, 79, 86, 91, 104, 105, 106, 109, 132, 144, 183, 184, 203, 204, 205, 210
  - abolition of 49, 184
  - constitutional 78, 104, 106
  - end of 79
  - fall of 132
  - seizure of power 80
  - Shah 183
- Mongolia Autonomous Region 151
- Morang 76, 87
- Morganthau, Hans 10, 16
- Most-favoured nation (MFN) 115
- Multilateral donors 27
- Multi-polarity 67
- Muni, SD 187
- Mutual
  - interest 25
  - respect 18, 23
  - trust 22, 24, 25
  - deficit 24
- Myanmar 10
- Narayanghat-Gorkha Highway 159
- National Disaster Response Force 107, 116
- National Highways 20
- National interest 2, 3, 19, 35, 46, 62, 141, 187, 191
  - safeguards its 3
- Nationalism 14, 17, 91, 164
- Nation state 34, 35, 46, 47

- Natural calamity 162
- Natural gas 127
- Naumure hydropower plant 132
- Nehru, Jawaharlal, Prime Minister of India 100, 103, 153, 182, 194
- Neighbour/Neighborhood 2, 5, 8, 13, 14, 17, 18, 22, 33, 35, 55, 62, 77, 94, 95, 128, 137, 143, 152, 162, 164, 178, 198, 199, 202, 207, 208, 209, 211, 212, 213, 214, 215
  - big 2, 8, 17, 62
  - immediate 18, 55
  - northern 22
  - policy 51
- Neo-imperialism 13
- Nepal
  - 1990 Constitution 44
  - abolition of the 240-year-old monarchy 20
  - abolition of the monarchy 18, 20
  - abolition of the monarchy in 2008 18
  - anti-China activities in 19, 22, 83, 150
  - anti-Indian stand 45
  - as a buffer state 16, 96, 97
  - balanced approach in its foreign relations 17
  - balancing policy 50, 56
  - Chinese
    - assistance 1, 20, 22
    - interests 62, 83, 102, 103, 104, 122, 145
    - maneuverings in 188
    - military assistance to 151
    - strategic leverage in 59
  - civil war in 78
  - concept of the Zone of Peace 17
  - defence against China 23
  - defence establishment 21
  - defence procurement policy 150
  - demand for the removal of the Indian security posts 40, 130
  - dependence on China 161
  - dependence on India 17, 22, 39, 41, 101, 133, 138, 146, 178, 199
    - petroleum products 133
  - diplomatic relations
    - China 16, 40, 101
    - diversification of 39
    - Pakistan 40
  - domestic
    - politics 19, 203, 206
    - polity in 84
    - unrest in 161
  - eastern 21
  - economic and trading interests 52
  - economic development 22, 113, 171, 172, 173, 178, 179
    - role of China and India in 171, 178
    - reforms in 173
    - status of 72
  - economy 21, 72, 122, 171, 200
  - engagement with China 56, 57
  - equal friendly relationship 18
  - equal friendship 16
  - equidistance policy 52
  - export to China 145
  - external engagement in 19
  - Foreign Direct Investment (FDI) in
    - 114, 118, 120, 159, 171, 181
    - Chinese 159, 172, 176, 180
    - inflow of 171
    - Indian 172, 175
  - foreign policy 2, 17, 18, 22, 33, 36, 37, 39, 41, 46, 47, 49, 54, 56, 94, 97, 101, 102, 104, 109, 210
    - adoption of 46
    - aspects of 33
    - determinants of 17
    - dimensions of 17
    - effort of 33
    - framework of 36
    - functional scope of 41
    - goal 18
    - goals 17
    - impact on 44
    - implementation and formulation of 18
    - India-centric 39
    - isolationist 39
    - nature of 35, 36, 46
    - objectives of 17, 18, 33
    - principles 17
    - projections 45

- Foreign Policy 1, 17, 33, 35
- foreign policy of 2, 17, 43, 44, 90, 108
  - impact on 44
- foreign relations 17, 94
- 'Free Tibet' activists in 191
- geographical location 22, 34, 35, 46, 133, 174
- geographical position 156
- geographic proximity 94
- geopolitical importance 133
- geopolitical location of 95
- geopolitical proximity 125
- geopolitical reality of 97
- governance in 44, 45
- gross domestic product (GDP) 178
- hydro-energy reserves 126
- hydropower development in 60
- hydropower potential 127
- hydropower projects 136
- hydropower resource 134
- impact of India-China rivalry 83
- importance for China and India 136
- important for India
  - strategically 51
- imports from India 118, 160
- inclination towards China 46, 57, 58, 59, 60, 61
- inclination towards India 43
- India and China policies towards 52
- Indian
  - assistance to 24, 116
  - defence of 23
  - impact on 46
  - interests in 36, 37, 39, 50, 104, 182, 195, 213
  - investments in 118, 149, 174, 180
  - military missions in 130
  - role in 52
  - ventures in 118
- influence of
  - China 17, 23, 24, 35, 53, 86, 94, 95, 103, 104, 126, 131, 142, 192, 194, 203
  - India 19, 35, 36, 39, 40, 41, 45, 46, 50, 101, 102, 103, 105, 108, 137, 149, 208
  - internal disturbances 17, 43, 70, 77
  - investment in 107, 136, 145, 149, 175, 176, 180, 191
  - Koirala government 40
    - dismissal of 40
  - land mass 21
  - Maoists government 58
  - military assistance to 61, 84, 151
  - military strength 22
  - mountain range 21
  - national interest 22, 64
  - natural resource 128
  - neutral stand between India and China 23
  - northern border 20, 51, 185
  - parliamentary democracy 131
  - policy
    - equidistance 49, 53, 55, 56, 153
    - nonalignment 18
    - regional cooperation 17
    - counterbalance India 56
    - India and China 49
  - political
    - activities of Tibetan refugees 83
    - and diplomatic disrupt in 142
    - development of 86
    - instability 132
    - leadership of 40
    - paralysis in 24
    - situation 102
  - pro-China policy 56, 57
  - relations with China 16, 17, 40, 42, 55, 58, 61, 63, 101, 160, 211
  - role in trilateral cooperation 177
  - Royal government in 102
  - Royal takeover in 105
  - sanctions against 131
  - security
    - against China 21
    - challenges 67, 72, 77, 163
    - competition over 84
    - internal 73
    - policy of 90
    - significance of 25
  - Sino-Indian
    - competition in 94, 95, 98, 99, 107

- dynamics in 94, 99, 108
- policy towards 51
- power dynamics in, impact of 94
- special characteristics of 67
- stand on the Non-Alignment Policy 17
- status as a Hindu nation 80
- strategic location of 14, 20
- strategic relationships of 2
- strategy of survival 2
- telecommunication network in 148
- Tibetans in 19, 163
- trade
  - policy of 115
  - reform program of 114
  - with India and China 174
- transit trade 16
- water resources 126, 127, 133, 136, 148
  - development of 133
  - western 21, 27, 28
  - aid to 27
  - engagement in 28
- Nepal and UK 28
- Nepal and USA 40
- Nepal Army (NA) 78, 80, 82, 84, 105, 150, 151, 165
- Nepal card 50
- Nepal-China Free Trade Agreement 159
- Nepal-China Friendship Association (NCFA) 54
- Nepal Electricity Authority 119, 147
- Nepalese Ministry of Foreign Affairs (MoFA) 18
- Nepalgunj 75, 149
- Nepali Congress (NC) 43, 77, 78, 80, 85, 102, 148, 188
- Nepali Diaspora 87
- Nepal Oil Corporation (NOC) 159, 190
- Neumann 9
  - Small States in International Relations* 9
- Neutrality 7, 8, 9, 102
- Non-aggression 18
- Non-Aligned Movement 4, 41, 98, 158
- seven point action plan 41
- Non-Governmental Organisations (NGOs) 19, 28
  - Western 28
- Non-interference 18, 23, 26
  - policy of 26
  - principle of 23
- Norms and values 11, 72, 113
  - socio-ethical 113
- North Atlantic Treaty Organization (NATO) 13
- North Eastern Frontier Agency of India 21
- Norwegian Refugee Council 74
- Nuclear
  - energy 127
  - power projects 127
  - proliferation 68
  - suppliers group 127
  - threat 41
- Offense-defence balance 10
- Official development assistance (ODA) 83
  - Indian 83
- Old silk routes 160
- Oli, K P Sharma, Prime Minister 158, 188, 189
- One Belt One Road (OBOR) 160
- One China policy 28, 52, 57, 58, 63, 83, 162, 163, 164
- Operation Maitri 116
- Optical fiber cable network 148
- Pakistan 24, 25, 39, 40, 77, 103, 130, 165, 192, 198, 200, 207, 211, 214
- Panchayat system 40, 43, 173
  - abolition of 43
  - party-less 40, 173
- Pancheshwar Multipurpose Project 135, 205
- Panchsheel 17, 19
- Pan-Slavic sentiments 15
- Pashupatinath Temple of Kathmandu 144
- Passes 20, 21, 59
- Peace 2, 11, 22, 24, 25, 27, 34, 36, 41, 42, 54, 73, 74, 78, 80, 81, 82, 89, 123,

- 151, 158, 171, 186, 204, 205, 210, 214, 215
  - negotiations 81
  - process 27, 82, 151, 204, 205
  - talks 80, 81
- Peace Accord 78, 179, 204
- Peace and Friendship Treaty 55, 57, 151
- Peaceful coexistence 22, 23, 40, 41
  - five principles of 23
  - policy of 40
- People's Liberation Army (PLA) 82, 108, 151, 162, 165
- People's Republic 57, 78, 84, 98, 100, 101
- People's War 74, 105
- Perceptions 3, 9, 10, 13, 19, 27, 28, 33, 40, 51, 69, 98, 147, 153, 160, 165, 213
- Peru 15
- Petroleum products 117, 126, 133, 134, 137
- Phewa projects 128
- Pipelines 120, 125, 126, 133, 134, 136, 190, 197, 209
  - energy 147
    - cross-border 147
    - oil 133, 134, 190, 197, 209
    - Raxaul-Amlekhgunj 126
- Pokhara 58, 75, 83, 85, 131, 147, 159
- Pokhara-Baglung Road 159
- Pokhara-Surkhet Road 147
- Policy
  - adventurist 9
  - balancing 50, 56
  - defence 22
  - equidistance 49, 52, 53, 55, 56, 153
  - expansive 9
  - foreign 2, 10, 213
  - friendship 22, 212
  - 'Going Out' 26
  - neighborhood 51
  - non alignment 3, 4, 9, 17, 18, 22, 40, 41, 200
  - non-interference 26
  - peaceful co-existence 40
  - specific 70
  - trade 115
- Political
  - alliance 45
  - appointments 80
  - change 24, 43, 152, 157
  - elites 3
  - experience 3
  - independence 22
  - instability 14, 73, 78, 90, 132
  - interference 23
  - issues 45, 71, 122
  - leadership 40, 195
  - paralysis 24
  - parties 19, 20, 43, 47, 57, 74, 76, 77, 78, 84, 86, 89, 103, 104, 105, 106, 109, 144, 148, 152, 179, 185, 203, 204, 210
  - reforms 26
  - relationship 25, 137
  - security 69
  - stability 18, 51, 90, 207
  - system 3, 44, 45, 202
  - tendencies 67
- Politics 1, 4, 5, 8, 17, 19, 39, 41, 44, 47, 68, 70, 79, 85, 103, 104, 107, 141, 142, 143, 158, 177, 179, 183, 197, 202, 203, 206, 213
  - cold war 197, 202
  - democratic 104
  - domestic 19, 104, 107, 141, 142, 177, 203, 206
  - international 1, 4, 8, 17, 39, 141
  - International 1
  - national 85
  - Nepali 44, 103, 183
    - realities of 39
    - small states in 4
  - world 70
- Poverty 68, 69, 72, 74, 128, 137, 208, 209
- Poverty line 72
- Power
  - balance of 5, 10, 128, 137
  - bargaining 14, 135, 137, 138
  - big 1, 9, 12, 14, 41, 151, 152, 193, 198
  - British 16
  - differential 7

- external 51
- global 24, 34, 194
- great 1, 2, 7, 8, 9, 10, 12, 14, 15, 16, 26
  - domestic system of the 15
  - emerging 2
  - encroachment by a 15
  - policies of the 12
  - power differential of 7
  - pressure of 8
  - rival/rivalry 7, 8, 9
  - war 7
- instruments of 14
- international 88
- major 5, 6, 12, 13, 14, 23, 53, 209
- maximization of 10
- military 11
- neighbouring 18
- political 43, 68, 136
- regional 24, 67, 95, 98, 99, 103, 177, 199, 208
- revisionist 11
- rising 25
- rival 7, 96
- small 8, 9, 11, 12, 15, 198
  - behaviour of 8, 9
  - coalition of 9
  - concept of 11
  - definition 12
  - status-quoist 11
  - strong 12, 13
  - weaker 12, 13
    - exploitation of 13
- Power Trade Agreement (PTA) 60, 131, 135, 175
- Prachanda, Pushpa Kamal, Dahal Prime Minister of Nepal 20, 45, 57, 58, 81, 84, 132, 144, 158, 161
  - visit to China 57, 132, 144
- Prithivi Highway 159
- Project Development Agreement 132
- Prosperity 2, 3, 22, 123, 137, 138, 215
- Protection 6, 12, 13, 16, 26, 70, 74, 75
- Public private partnership 72
  
- Qiangla/Lipu-Lekh Pass 191
- Qinghai-Tibet Railway 59, 160
  
- Quantitative restrictions (QRs) 112, 114, 115, 116
- Radicalization 87
- Railway and road network 59, 83, 116, 143, 146, 147, 148, 149, 153, 160, 161, 165, 183, 190
  - cross-border 149
- Rain falls 75
- Ranke, Leopold von 4
- Rationalisation 10, 127
- RAW 184
- Raxaul 126, 129, 133
- Raxaul-Amlekhgunj pipeline project 126
- Realism 10, 42, 69, 70, 202
- Red-tapism 127
- Reform 27, 112, 113, 114, 171, 172
  - security sector 27
- Refugees 51, 52, 75, 83, 87, 88, 104, 106, 136, 150, 163, 191, 210
  - Bhutanese 87, 210
  - problems 87
  - Tibetan 87
- Refugee Welfare Office 88
- Regional free trade agreement 192, 193
- Relation/Relationship
  - bilateral 2, 25, 42, 51, 56, 57, 63, 120, 144, 156, 157, 158, 197, 203, 205, 206
  - diplomatic 14, 16, 39, 40, 50, 51, 62, 99, 101, 126, 127, 152, 156, 157, 199
  - economic 24, 112, 113, 120, 145, 203, 209
  - energy 133
  - equidistance 86
  - external 45
  - extractive 4, 18
    - equal 18
  - foreign 2, 17, 94, 157, 211
  - friendly 18, 21, 37, 53, 55, 200
  - India-Nepal 39, 161, 171
  - informal 16
    - balance of power in 5
    - conduct of 4, 95
    - drawbacks in 8

- legalistic-moralistic attitude in 6
  - objectives of foreign policy in 2
  - theories of 4
- international 2, 4, 5, 6, 8, 9, 12, 67, 95
- political 25, 137
- special 16, 28, 39, 56, 86, 200
- strategic 2, 54, 63, 178
- trade 113
- Renewable energy 127
- Resources 3, 11, 12, 13, 34, 35, 38, 60, 85, 108, 120, 121, 122, 125, 126, 127, 128, 132, 133, 134, 136, 137, 148, 158, 172, 177, 179, 199, 201, 207, 213, 214
  - coal 127
  - development 34, 120, 127, 128
    - mutual 128
  - distribution 126
  - energy 125, 127, 137
  - internal 12
  - material 108
  - mineral 122
  - mobilization 34
  - natural 38, 60, 128, 177, 199
  - outflows of 13
  - power generating 127
  - strategic 127
  - utilization 126
  - water 60, 121, 125, 126, 127, 132, 133, 136, 137, 148, 179, 201, 214
- Restrictions 34, 112, 114, 115, 116, 163
  - quantitative 112, 114, 115, 116
- Retaliatory action 14
- Revenue 21, 121
- Reverse String of Pearls 133
- Ring Road 159
- Rio Conference 192
- Rivalry 8, 9, 25, 41, 83, 84, 95, 98, 99, 100, 102, 108, 141, 152, 192, 214
  - geopolitical 25
  - India-Pakistan 192
- Rivers
  - Arun 132
  - Brahmaputra 20
  - degradation of 75
  - Gandak 128, 129, 130, 131
  - Gandaki 21
  - Indus 20
  - Kamal 21, 57, 202
  - Koshi/Kosi 21, 128, 129, 130, 131, 132
  - Mekong 20
  - Salween 20
  - shared 75
  - systems 21
  - Yangste 20
  - Yellow 20
- Roads and Highways 147
- Rosenau, James N. 4, 15
- Rothstein 9, 11, 12
  - definition of small power 12
- Royal coup 78, 80, 82
- Royal Nepal Army 78, 105, 150
- Royal Palace massacre 132
- Rule of law 6, 73, 74, 90
  - international 6
- Russia 16, 20, 25, 96
- SAFTA 193, 212
- Sanitation 27
- Sapta-Kosi High Dam Multipurpose project 129
- Scandinavian countries 9
- Schroeder, Paul 11
- Schweller, Randall 11
- Secret agreement of 1965 130
- Security threats
  - theoretical 69
  - aspects of 69
  - border 22, 36
  - collective 13
  - competition 1
  - concept of 68, 69
  - concerns 22, 28, 36, 50, 70, 89, 94, 95, 100, 103, 165, 186, 203, 205, 214
  - considerations 36
  - cooperation 7, 54, 55
    - reverse 7
  - definition of 68
  - dilemma 7
  - direct 7
  - economic 69

- environment 75
- external 67, 70, 71, 87, 88, 89
- geopolitical 103
- human 90
- internal 67, 70, 71, 72, 73, 74, 76, 77, 89, 163, 211
- interpretations of 68
- non-traditional 69
- options 67, 68
- perceptions of 3, 9
- political 69
- regional 23, 106, 207, 212
- state 71
- technological 69
  - direct 7
- territorial 69
- traditional 69
- understanding of 70
  - realist 70
- Self-interest 2, 26
- Separatist groups 87
- Serbia 15
- Seven-Party Alliance-Maoist agreement 79
- Seven Party Alliance (SPA) 79, 80, 81
- Sex workers 74
  - commercial 74
- Sexually transmitted infection (STI) 74
- Shanghai Cooperation Organisation (SCO) 25
  - India's observer status 25
- Sharma, Sudhir 184
  - Prayogshala* 184
- Shifting Paradigm 49
- Shivam Cement 159
- Shur Sen, Indian king 2
- Sikkim 41, 52, 54, 59, 130, 144, 184, 200
  - annexation of 130, 200
- Silk Road Economic Belt 160
- Singapore 131, 202
- Singh, Dr Manmohan, Indian Prime Minister 184, 185, 188
- Singh, Ganesh Man 44
- Singh, V. P., Indian Prime Minister 203
- Sino-Indian War of 1962 21, 23, 40, 54, 102, 103, 130, 187
- Nepalese stand on 54
  - outbreak of 102
- Sino-Nepal Joint Research Center for Geography 159
- Siwalik, the 21
- Social
  - arrangement 128
  - contract 70
  - growth 128
  - indicators 71
  - structure 75
  - tension 73
- Solidarity 125, 128, 202
- South Africa 25
- South Asia 24, 25, 33, 34, 39, 40, 42, 86, 95, 97, 99, 103, 109, 121, 143, 144, 146, 160, 165, 177, 192, 197, 198, 199, 207, 208, 209, 211, 212, 214
  - Chinese influence 24
- South Asian Association for Regional Cooperation (SAARC) 19, 24, 25, 63, 116, 135, 145, 158, 185, 189, 192, 193, 194, 197, 198, 199, 207, 208, 209, 211, 212, 213, 214, 215
  - China's entry into, as an observer 24
- South Asia Network of Economic Institute (SANEI) 121
- South East Asian Treaty Organization (SEATO) 13, 22
- South Korea 15
- South Vietnam 15
- Sovereignty 1, 15, 18, 19, 26, 42, 53, 54, 69, 70, 135, 145, 160, 179, 184, 199
  - internal 69
  - preservation of 70
- Soviet Union 13, 14, 18, 36, 173, 174
- Sri Lanka 24, 28, 121, 165, 192, 209, 211
- Stability 17, 18, 22, 25, 26, 51, 54, 84, 85, 90, 105, 108, 142, 143, 144, 151, 158, 186, 207, 215
  - political 18, 51, 90, 207
- Strategic interests 19, 28, 51, 95, 96, 176
- Strikes 73, 74, 76, 78, 79
  - illegal 73
  - indefinite 76, 79
  - pattern of 78

- String of Pearls 133  
 Structural Adjustment Program 173  
 Subba, S.B. 87  
 Sun Kosi Storage-cum-Diversion Scheme project 129  
 Supreme Court 80  
 Sutluj Jal Vidyut Nigam 132  
 Sweden 14  
 Switzerland 14, 87
- Taiwan 15, 19, 162  
 Tarai/Terai 21, 74, 76, 77, 91, 103, 133, 184, 186, 188, 197, 198, 206  
   indefinite strike in 76  
 Tariff 115  
   rate 114, 115  
   reduction and rationalization of 115  
 Tariff rate quota (TRQ) 115  
 Tarul 17  
 Technology 60, 72, 90, 113, 122, 125, 126, 127, 159, 171, 172, 177  
   modern 72  
   transfer of 113  
 Telecommunications 148  
 Tension  
   communal 73  
   economic 73  
   political 3, 5, 13, 14, 16, 17, 18, 19, 20, 22, 23, 24, 25, 26, 35, 36, 40, 43, 44, 45, 46, 47, 50, 51, 53, 55, 56, 57, 58, 59, 62, 67, 68, 69, 71, 73, 74, 76, 77, 78, 79, 80, 82, 83, 84, 85, 86, 89, 90, 94, 95, 96, 98, 99, 100, 102, 103, 104, 105, 106, 107, 109, 122, 125, 126, 127, 129, 130, 131, 132, 133, 134, 135, 136, 137, 138, 141, 142, 144, 148, 152, 153, 157, 161, 163, 165, 172, 176, 177, 178, 179, 184, 185, 191, 193, 194, 195, 199, 202, 203, 204, 205, 206, 207, 210, 211, 212, 213  
   regional 23  
   religious 73  
   social 73  
 Terrorism 69, 211, 212  
 Terrorist 73
- Thame Khola hydropower plant 148  
 Thamel 85, 88  
 Tharu 142, 206  
 Tharuhat/Tharuwan Joint Struggle Committee 76, 77  
 Tharus 76  
 Third World 9  
 Threats 4, 6, 7, 10, 12, 13, 14, 15, 16, 23, 27, 37, 40, 41, 49, 51, 63, 67, 68, 69, 70, 71, 72, 73, 75, 78, 83, 87, 88, 89, 98, 135, 142, 153, 163, 165, 187, 189, 197, 200, 214  
   apprehensive of 23  
   balance against 10  
   Chinese 23, 27, 51  
   direct 13  
   disintegration 78  
   domestic 4  
   external 4, 6, 12, 13, 69, 70, 83  
     effective deterrent to 12  
   forms of 68  
   Indian 27  
   internal 13, 70  
   military 12, 23  
     protection against 12  
   nuclear 41  
   transnational 69  
   types of 14, 70
- Tibet 16, 18, 19, 20, 21, 23, 36, 59, 63, 87, 94, 97, 100, 101, 106, 108, 144, 145, 146, 148, 149, 152, 156, 160, 163, 164, 182, 183, 185, 187, 188, 190, 191, 194  
   China's annexation of 16, 18, 36, 182  
 Tibetan 2, 18, 19, 20, 23, 24, 28, 51, 52, 62, 63, 83, 87, 88, 98, 100, 106, 136, 141, 143, 144, 150, 151, 153, 163, 164, 166, 191, 194  
   anti-Chinese activities by the 150  
   ban on political protests 163  
   demonstrations in Kathmandu 19  
   movement of 163  
   paying bribes by Chinese army to Nepalese forces 163  
   sharp restrictions on public activities 163

- Tibetan exiles 83
  - ban on political demonstrations by 83
- Tibetan independence movement 24
- Tibetan Khampa rebels 18
- Tibetan rebellion 23
- Tibetan refugees 51, 83, 88, 106, 136, 191
  - anti-China activities 19, 20, 51, 52, 57, 62, 88, 141, 145
  - Anti-China activities 52
- Tibetan uprising 98, 100
- Tibet Autonomous Region (TAR) 20, 59, 94, 101, 106, 107, 108, 148
  - 2008 18, 20, 24, 45, 49, 52, 55, 56, 57, 58, 61, 83, 85, 86, 94, 97, 104, 106, 107, 108, 109, 119, 127, 132, 143, 144, 145, 148, 150, 151, 163, 183, 184, 185, 200, 204, 205, 209, 210, 213
  - 2008 riots 107
- Tibet issue 18
- Tito 14
- Tourism 28, 107, 115, 118, 119, 120, 121, 159, 172
- Trade and Commerce
  - bilateral 24, 59, 112, 113, 114, 115, 116, 117, 118, 121, 125, 160, 173, 192, 199
  - Bilateral 114, 117, 125, 174
  - blockade 89, 160
  - deficits 158
  - electricity 128
    - geopolitical impact of 128
  - informal 113, 121
  - international 114, 115, 125
  - intra-regional 192
  - monopolistic 133
  - Nepalese 21, 101
  - policy 115
  - power 126, 130, 133
  - regional 192, 213
    - formal 113
    - informal 113
  - relations 121
  - treaties 42, 131, 200, 204
- Trade-commerce and transit movement 34
- Trade unions, illegal strike of 73
- Trafficking 74, 212
- Trans-Himalayan adventures 21
- Trans-Himalayan belt 24
- Transit
  - link 34
  - points 42, 103, 121
    - unofficial 121
  - rights 130
  - routes 103, 203
  - trade 16
  - treaties 42, 121, 131, 200, 204
- Transportation 71, 74, 108, 142, 211
  - blockade 74
  - infrastructure 59
  - networks 71
- Treaty 13, 15, 22, 23, 24, 35, 36, 37, 38, 39, 41, 42, 43, 44, 45, 46, 47, 50, 53, 54, 55, 56, 57, 94, 95, 100, 101, 103, 104, 108, 112, 113, 114, 115, 116, 121, 125, 130, 131, 132, 143, 151, 184, 187, 199, 200, 201, 204, 207
  - bilateral 36
  - defence 13, 22
    - multilateral 13
  - forced 15
  - formal 15
  - obligation 46
  - trade 42, 131, 200, 204
  - transit 42, 121, 131, 200, 204
  - unequal 15
- Treaty of Peace and Friendship of 1960 22, 36, 53
- Treaty of Transit 121
- Tribhuvan University (TU) 159
- Trilateral cooperation 171, 172, 173, 176, 177, 178, 180
  - Nepal's role in 177
- Trishuli hydroelectric project 128, 130
- Truman 14
- Tsong Tsong Gompo, Tibetan King 2
- Turkey 36
- UK 27, 28, 150
- UK Department for International Development (DFID) 27

- Underdevelopment 68, 69, 73
- Unified Democratic Madhesi Front 76
- United Liberation Front of Asom 87
- United Nations (UN) 6, 17, 18, 74, 81, 82, 83, 88, 89, 101, 135, 150, 158, 189, 199, 205, 214  
     arms monitors, deployment of 82
- United Nations (UN) Charter 17
- United Nations (UN) General Assembly (UNGA) 189
- United Nations (UN) High Commission for Refugees (UNHCR) 74, 87, 88, 163
- United Nations (UN) Mission in Nepal 205
- United Nations (UN) Regional Peace Keeping Centre at Panchkhal 150
- United States of America (USA) 13, 14, 15, 18, 19, 25, 27, 36, 40, 44, 67, 79, 87, 88, 150, 162, 211  
     economic dominance of 14  
     foreign policy of 36  
     policy towards Nepal 25  
     strategy of encircling China 19
- Unrest 71, 142, 161, 191  
     domestic 161  
     internal 71
- Upper Karnali multipurpose project 60, 85, 128, 132, 135
- Urbanization 75, 90
- USAID 27
- USSR 15, 35  
     collapse of the 35
- Uttar Pradesh (UP) 131, 133, 204
- Violence 73, 74, 78, 81, 105, 186, 197, 206
- Vital, David 9, 17  
     *Inequality of States* 17
- Vulnerability 5, 7, 51, 67, 142
- Walt, Stephen 10, 70
- Waltz, Kenneth 10, 11
- War 3, 7, 13, 17, 23, 27, 36, 40, 52, 54, 67, 70, 76, 81, 102, 106, 130, 135, 137, 171, 187, 191, 194  
     'great power' 7
- Warsaw Pact 12, 13
- Water 27, 60, 85, 116, 121, 125, 126, 127, 129, 132, 133, 136, 137, 138, 148, 172, 179, 201, 203, 208, 214  
     projects 132  
     resources  
         development of 127  
         waterways 125
- Welsh School 69, 70
- Wen Jiabao, Chinese Prime Minister 83, 145, 192, 210  
     visit to Nepal 83, 145
- Western aid/donors 26, 27, 28, 82
- West Seti Hydropower Project 85, 128, 159, 210
- West Seti Hydropower Project agreement 60
- Women 74, 128  
     empowerment 128
- World affairs 5
- World Bank 27
- World order 4, 67, 173
- World Trade Organization (WTO) 114
- World War, First 15
- World War, Second 8, 15, 98
- Xenophobia 14
- Xi Jinping, Chinese President 160, 189
- Yadav, Ram Baran, President 84, 161  
     visit to China 161
- Yugoslavia 14
- Zheng Xianling, Chinese Ambassador 19, 143
- Zhuang Jinhuan, Ambassador to Nepal 23
- Zone of Peace 17, 41, 42, 43, 44, 55, 130, 131, 200, 201