

Sino-Indian Strategic Balancing in Nepal

Sameera Imran*

Abstract

This article examines Sino-Indian power balancing in Nepal to explore Kathmandu's policy options for security. Traditionally, both regional giants have sought to co-opt Nepal in a bid to outflank the other in the Himalayan region. India has exercised greater leverage profiting on ethnic and economic connections. Presently, China's rise has offered Kathmandu a window of opportunity to substitute the Indian foothold in Nepal. China's strategic leverage has increased due to the up-gradation of Sino-Nepalese political and economic connections. Nepal's tilt towards Beijing has led New Delhi to seek reassurances from Kathmandu. Sino-Indian overlapping cultural and competing politico-strategic objectives has increased Kathmandu's volatility to foreign intervention. The interplay of Sino-Indian regional balancing has constrained policy options for its security. Within this context, the article seeks to analyse the following questions: a.) What are Sino-Indian power ambitions and policy objectives in Nepal? b.) How has China's expansion of influence impacted on Nepal-India relations and Kathmandu's policy options for security? The theoretical cushion of neo-classical realism, employing qualitative techniques of content analysis has provided a befitting context to study Nepal's security challenges. The article argues that Kathmandu's security drive has to tread on a thin rope of power balancing caught in between India and China. Nepal balances between its tightly knit historic ties with India and the new opportunity dawned in building connections with Beijing. Nepal's approach marks philosophical approach of Kautilya's Raja Mandala as an expression of expedient move to win security.

Keywords: Sino-Indian Competition, Nepal, Raja-Mandala, Strategic Balancing, India, China.

* The author is Assistant Professor, Department of International Relations, Faculty of Contemporary Studies, NDU.

Introduction

The birthplace of two holy religions of Buddhism and Hinduism, Nepal is sandwiched between the power ambitions of India and China. This article overviews China's expansion of influence in the Indian historic foothold of Nepal and the latter's quest for security. It states that the historic buffer state of Nepal stands sandwiched between Himalayan neighbours of China and India each vying for greater influence and security. Beijing has opted for a dual policy approach of developing economic and political ties in Nepal arising from the Indian concerns. The dawn of 'Asia Century' has offered Kathmandu the opportunity to rethink its role from a manipulator of strategic opportunity to become a bridge of economic interconnectivity. Resultantly, the Modi government in India is under pressure to catch up with Nepal's thrust on economic diplomacy to avert Kathmandu's strategic tilt towards Beijing. India seeks to recalibrate relations with Nepal and tries to rejuvenate political, economic and strategic influence in Kathmandu.

Multiple scholarly perspectives offer analysis of Sino-Indian expansion of influence in Nepal employing a comparative perspective. Christian Wagner while examining the Sino-Indian role has portrayed a disadvantageous position for India compared to China in the region. Wagner argues that Indian political, economic and military capacities offer a dismal picture to pursue long term regional ambitions. South Asian states can easily play the China card to evade India's influence. China remains an economically more vibrant and politically more reliable partner for India's neighbours.¹ Scholars have drawn security implications for India in the hindsight of China's new pathways to Nepal. Other scholarly perspectives have viewed the Sino-Indian relationship in the shared neighbourhood of the Himalayas within the regional context. For example, Carla P. Freeman has offered a critical assessment of Beijing's pursuit of regionalism aimed at a comprehensive approach to international security, suggesting ways how to enlarge the regional institutional approach to minimise India's perception of insecurity.² Seig Fried O. Wolf has offered a domestic security approach

¹ Christian Wagner, "The Role of India and China In South Asia," *Strategic Analysis*, 40, no. 4(Routledge, Taylor and Francis Group, 2016): 307-320, <http://dx.doi.org/10.1080/09700161.2016.1184790>

² Carla P. Freeman, "China's Regionalism, Foreign Policy and China-India Relations in South Asia," *Contemporary Politics* 24, no. 1 (Routledge: Taylor and Francis Group, 2018): 81-97, <https://doi.org/10.1080/13569775.2017.1408168>

arguing that Nepal's reliance on Beijing will hamper the former's dependence on India, leveraging a greater role for China in politico-administrative structure, defence and security.³

Within this perspective, the limitations imposed on Nepal's policy options in the perspective of Sino-Indian strategic balancing need to be reviewed. The article seeks to fill in this gap by analysing Kathmandu's drive for security in the interplay of Sino-Indian strategic balancing. The article has argued that Nepal seeks a balance between the tightly knit historic relationship with India and the new opportunity dawned in rebuilding ties with Beijing. In treading on a thin rope balancing between India and China, Nepal's marks philosophical approach of Kautilya's *Raja Mandala* as an expression of expedient move to win security.

The paper argues that Nepal has to design its security options prudently despite volatility posed by the interplay of Sino-Indian great power ambitions in the Himalayan region.

The study is divided into the following parts: China's expansion of influence in Nepal, India-Nepal historic ties, Nepal's quest for security.

China's Expansion of Influence in Nepal

This section provides an overview of China's growth of political, economic and societal influence in Nepal. It argues that in building strategic ties with Nepal, China has challenged India's historic position. Beijing has gained a position of political, economic and strategic leverage in the regional balance against India in the Himalayan region. Furthermore, China has opted for a dual policy approach of developing economic and political ties with Kathmandu. Offering empirical manifestation of China's increasing hold in Nepal, the section argues that Nepal's drive to become part of China's Belt and Road Initiative (BRI) has strained Kathmandu's relations with India.

Multi-faceted ethnic, socio-economic and geographic factors have linked Nepal to India and China simultaneously. Tibetan-Mongoloid and Hindu-Buddhist civilisational imprint, geographical and water

³ Seig Fried O. Wolf, *SADF Focus*, South Asia Democratic Forum, issue no. 35, ISSN 2406-5633.

interconnections have locked Nepal in a regional security equation with India and China simultaneously. In the wake of China's growth of influence in Nepal, New Delhi has sought reassurances from Kathmandu. Indian Army Chief, Manoj Mukund Naravane's Nepal visit in November 4, 2019⁴ and Research and Analysis Wing (RAW)'s Chief, Samant Kumar Goel's recent visit to Nepal in October 21, 2020⁵ amid border tensions has indicated New Delhi's desire to reassert its historic control on Nepal. India has aspired to encash on the two armies' historic ties, despite Kathmandu's leaning towards Beijing.⁶ Within this context, Goel informed Oli of China's land grab policy in Nepali districts of Dolakha, Gorkha, Darchula, Humla, Sindhupalchowk, Sankhuwasabha and Rasuwa.⁷ Interestingly, Nepal has also confirmed Chinese extension of control in Dolakha (1.5 km) including the boundary pillar of Numatopani-Zhangmu and Rasuwagadhi-Kerung. Both these posts serve as two major trade points between Nepal and China. In Goel's visit, Nepal extended the olive branch to India by withdrawing the disputed land map, it had issued earlier against New Delhi.

The Gangetic plains geographical linkage to Central Himalayas has built Indian leverage of control in Nepal based on multifarious dimensions of trade, culture and religious interconnectivity. Indian influence has wielded a strong imprint on Nepal's internal economic, political and security dynamics. Politically, India has viewed Nepal as a sub-ordinate neighbour, maintaining a stake in Kathmandu's internal affairs.⁸ Strategically, the desire to dominate the north has shaped the Indian traditional mindset towards Nepal. The small states of Bhutan and Nepal comprise India's first line of defence against rival China in the north. Nepali independence offers India security against Beijing's undue interference and intrusion into the Himalayan region, preventing unfriendly government in Kathmandu.

⁴ "Friends Again, Ties with Nepal slowly emerge from Deep Freeze," *India Times*, November 3, 2020,

<https://economictimes.indiatimes.com/news/defence/friends-again-ties-with-nepal-slowly-emerge-from-deep-freeze/articleshow/79015617.cms>

⁵ Ibid.

⁶ Ibid.

⁷ Tatopani has been the closest trade point with China since 1960s but it was closed in 2015 after a severe earthquake and reopened only last year, impacting exports and imports. Bulk of Nepal's exports to China is consumed in Tibet.

⁸ Maya Chadda, "Rebellion and State Formation in Nepal: Implications for South Asian Security," in T.V. Paul, ed., *South Asia's Weak States: Understanding the Regional Insecurity Paradigm* (New York: Oxford University Press, 2011) ,265.

China has raised its political and security cooperation with Nepal from comprehensive to strategic levels.⁹ Politically, the Chinese Communist Party (CCP) contact with Nepal Communist Party (NCP) has expanded steadily. NCP and CCP have shared MoU for enhancement of high-level contacts; sharing and training of the communist ideology and development models in September 2019.¹⁰ China is working steadily to build a soft power image in Nepal. Cultural connections, grants for law and order, provision of school books, educational scholarships, airport construction and television transmission networks have improved perception about Beijing in Nepal. Waiver of visa fees for Chinese tourist has improved tourism and the Gautam Buddha and Pokhara International Airports are Beijing's largest investment in Nepal. Gautam Buddha International Airport is expected to attract Buddhist travellers all over the world as the BRI project.¹¹

Beijing's infrastructure development and Foreign Direct Investment (FDI) has established China's strategic clout in Nepal. To increase road connectivity, China has funded the reconstruction of the China-Nepal Highway (806 km) connecting Lhasa with the Nepal border.¹² The road connects to Sino-Nepal Friendship Bridge between Zhangmu and Kodari.¹³ Fibre connectivity links are being established to increase connectivity in Nepal. Under the Economic and Technical Cooperation Programme, China has extended grants, interest-free and concessional loans to Nepal to assist in development projects. Compared to the Indian component, Chinese projects have met the credibility of early completion in Nepal. Indian

⁹ "Chinese Political Activism on the Rise in Nepal," *India Times*, https://economictimes.indiatimes.com/news/international/world-news/chinese-political-activism-on-the-rise-in-nepal/articleshow/76900372.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst

¹⁰ Ibid.

¹¹ "Nepal Seeks Bid for International Terminal at Guatam Buddha Airport," <https://www.airport-technology.com/news/nepal-international-terminal/>

¹² Zhang Jing, "China's BRI boosts Nepal's Shift from Land-Locked to World-Linked," *China Daily*, <http://www.chinadaily.cn/a/201901/02/WS5c2c72d0a310d91240531c5.html>,

¹³ Cathrine Wong, "China and Nepal Sign off on Ports Deal to ease Kathmandu's Dependence on India for Trade," *South China Morning Post*, May 2, 2019, <https://www.scmp.com/news/china/diplomacy/article/3008617/china-and-nepal-sign-ports-deal-ease-kathmandus-dependence>

funded projects such as the Pancheshwar hydropower or Jainagar rail link project have remained in limbo.¹⁴ China has speedily completed the Bheri-Babai Multipurpose Diversion Project tunnel, having the capacity to irrigate 51,000 hectares including Tatapani border checkpoints in Nepal.¹⁵

Nepal shares 1,415 km border with China in the north in rugged topography. Seeking to penetrate the massive South Asian market via Nepal, the construction of trans-Himalayan rail and infrastructure network by China has aimed at building infrastructure and connectivity links from Tibet to Nepal. In the first phase, the high-speed railway line connecting Beijing to Tibetan capital Lhasa is extended to reach Korang — a village on the Nepal-China border. In the second phase, the railway line will interlink Korang to Kathmandu, spanning 72 km, comprising more than 90 per cent of bridges and tunnels in Nepal.¹⁶

With India, the Indo-Nepalese 1,868 km boundary has 20 entry and exit points for the trade. Nepal is dependent on the Indian ports for 60 per cent of its trade. Haldia, 84 km away from Birgunj dry port, handles most of Nepal's trade. Proximity to Birgunj helps Haldia to cater for most of Kathmandu's trade needs.¹⁷ However, huge vessels cannot be accommodated on it and goods transported to bigger ships at Singapore or Colombo increase trade time and cost. Vishakhapatnam, on the other hand, is Nepal's cargo gateway to China, Singapore, Southeast Asia, the US and Europe.¹⁸ However,

¹⁴ Biswas Bilal, "How Nepal Viewed the India-China Border Standoff: A Recent Dispute between the Two Regional Powers Highlights Risks to Smaller Neighbors Between Them," <https://www.theglobalist.com/nepal-india-china-standoff-bhutan-war-peace/>

¹⁵ Upper Trishuli Hydropower Project-Power Station and Transmission Line Projects, Food/Material Assistance in 15 bordering districts, Kathmandu Ring Road Improvement Project, Larcha (Tatapani) and Timure (Rasuwagadi) Frontier Inspection Station Project, Pokhara International Regional Airport, Upgradation of Syaprubensi-Rasuwagadhi Road, Upgradation of Civil Service Hospital etc. are some of the important Chinese projects in Nepal.

¹⁶ "China and Nepal Sign Trans-Himalayan Railway MoU," *IRJ*, <https://www.railjournal.com/regions/asia/china-and-nepal-plan-trans-himalayan-rail-link/>

¹⁷ "Why India is a More Cost-Effective Trade Option for Kathmandu," *Economic Times, Politics*, <https://economictimes.indiatimes.com/news/politics-and-nation/why-india-is-a-more-cost-effective-trade-option-for-kathmandu/articleshow/76904957.cms?from=mdr>

¹⁸ *Ibid.*

Vishakhapatnam is 1,422 km away from Birgunj. India has agreed to provide Nepal access to Dhamra port in Odisha and Mundra in Gujarat. Informal trade ties exist in the Terai region for goods mainly produced in UP, Bihar and West Bengal.

Nepal's geographical dependence to the outside world has remained India centric so far, allowing New Delhi to amass the bulk (70 per cent) of Nepal's external trade.¹⁹ Trade component comprises a vital pillar in Nepal-India bilateral relations. China seeks to modify Nepal access to its port through the Kathmandu-Rasuwadadhi highway. Nepal shares 1,415 km border with China in the north amid challenges posed by geography. Tatopani-Zhangmu and Rasuwagadhi-Kerung are two major trade points between Nepal and China.²⁰ The Nepal-China trade deal has allowed residents of the border areas to engage in barter trade within 30 kms vicinity.²¹ To offer more avenues to Nepal, China signed a trade and transit agreement in 2016.²² The deal gave Nepal access to Tianjin, Shenzhen, Lenzhou.²³ To boost bilateral trade, China has offered duty-free and quota-free access to 8,030 Nepali goods but Kathmandu has not been able to take advantage of the opportunity.²⁴ The most ambitious project in China's development plan, which Beijing is determined to implement and execute, is the trans-Himalayan railway project to boost trade with Nepal.²⁵ The plan offers a gateway to Nepal, connecting it to China and Euroasian networks, bypassing Indian tactics of squeezing Kathmandu through trade embargoes such as in 2015. The trans-Himalayan railway line, China plans to extend up to Buddha's birthplace Lumbini, down the southern Terai region close to India. However, on the Nepal side, the opposition parties have objected to the high cost of the project, citing investment risk and posing administrative difficulties. The huge cost of the project amounting US\$8billion has induced fears, particularly on the part of the railway department, that Nepal

¹⁹ Ibid.

²⁰ "From Tatupani to Rasuwa: An Analysis of Nepal-China Trade after the Earthquake," <https://ideas.repec.org/p/pramprapa/87543.html>

²¹ Ibid.

²² "Nepal-China Relations," Ministry of Foreign Affairs Nepal, MOFA, <https://mofa.gov.np/nepal-china-relations/>

²³ Ibid.

²⁴ Ibid.

²⁵ Ritu Raj Subedi, "BRI Boosts Nepal's Infrastructure Development," *China org.cn*, May 24, 2019, http://www.china.org.cn/opinion/2019-05/24/content_74815635.htm

may fall into a Chinese debt trap.²⁶ Passing through difficult mountainous terrain, the extensive work plan under the project will connect Nepal to Tibet, offering three-pronged connectivity further from Lhasa to Shanghai.²⁷ The railway line connects to Tibet's second-largest city Shigatse, functional since August 2014. The railway line will be extended to Jilong, linking it to Kathmandu via Timure by 2027.²⁸

China has invested in Nepal's energy production to tap Kathmandu's hydro-power generation potential of 84000 MW,²⁹ to uplift from 753MW present capacity.³⁰ Kathmandu has offered substantial tax exemptions to China for this purpose to invest in dam construction. The Seti project by China's Three Gorges Company's remains the biggest hydropower investment amounting US\$1 billion in Nepal.³¹ The Oli government offered lucrative investment opportunities to attract Chinese FDI in Nepal that brought US\$2.4 billion investment in hydropower, cement plants and agri-food park projects.³² China's investment worth Rs 1.5 billion in the cement industry at Talti, Mahadevsthan has the capacity to produce 60,000 sacks of cement per day. Thus, Beijing has successfully entrenched its influence in the wake of Nepal's search for new alignments.³³

India-Nepal Historic Ties

This section reviews Nepal-India relations to examine New Delhi's overtures to reclaim influence in Kathmandu. It argues that Modi's failure to

²⁶ "Nepal-China Railway Project: Fantasy or Reality,"

<https://www.thethirdpole.net/en/nature/nepal-china-railway/>

²⁷ Ibid.

²⁸ Ibid.

²⁹ "China Tops Participation in Upcoming Nepal Investment Summit," *Xinhuaet*, March 22, 2019, https://xinhuaet.com/english/2019-03/22/c_137915950.htm

³⁰ Stephan Starr, "China Moves to Bring Nepal in its Sphere of Influence," *Irish Times*, Monday 6, 2019.

³¹ "Ultra Modern Cement Industry to be established with FDI from China," *Himalayan*,

<https://thehimalayantimes.com/business/ultramodern-cement-industry-to-be-established-with-fdi-from-china-in-dhading/>

³² Xinhua, "Chinese Company to Setup Cement Factory in Nepal," *China Daily*, <http://www.chinadaily.com.cn/a/201712/28/WS5a448972a31008cf16da4002.html>

³³ Christopher Xavier, "How Nepal and India can Keep Their Relationship Special," *Wire*, August 2, 2017, <https://thewire.in/diplomacy/nepal-india-relations-china>, accessed Sept 2020

speedily implement the promised ‘Neighbourhood First Policy’ (2014) diverted Nepal towards Beijing. Although the new Modi government has sought to revive its lost influence, the pressure of a strained economy has pushed K. P. Oli towards Beijing. With India and China competing to increase influence, Oli’s interest is fixed on strategic ties and economic development.

India bilateral relations with Nepal have been regulated by Nepal-India border treaty 1950.³⁴ Constituted in 2016, Nepal-India Eminent Persons Group (EPG)³⁵ has proposed fundamental changes in Nepal-India relations.³⁶ New Delhi, however, reportedly is not ready as yet to implement EPG’s recommendations. India has continued to micromanage events in Nepal. Nepal-India relations faced a down turn with the victory of the Left Alliance in Nepal. Nepal’s new government, a union of communists and ex-Maoist rebels elected in December 2018, headed by Khadga Prasad Sharma Oli, in line with its election manifesto, has sought fundamental changes in the 1950 Nepal-India Treaty. In this context, both countries are revamping focus on economic development, seeking to settle political issues. EPG has insisted that Nepal be allowed to import military hardware independent of India.³⁷

Economic and transit leverage creates venues for Indian control on Nepal’s politics, institutional structures and future destiny. Several hiccups have stalled Nepal-India relations in the past. Indo-Nepalese relations for long have remained embittered on trade, water resource distribution and open border policy. Cross border travel, border monitoring system, drug trafficking, fake currencies exchange, international crime, smuggling, terrorism, water resources distribution, trade transit and border entry points comprise serious issues hampering cordiality in Nepal-India relations.

³⁴ “Nepal-China Relations.”

³⁵ “Eminent Persons Group on Nepal-India Relations Finalizes Report,” South Asia Sub-regional Economic Cooperation (SASEC), July 17, 2018, <https://www.sasec.asia/index.php?page=news&nid=910&url=epg-final-report>

³⁶ Eminent Person Group (EPG), a four member group, two from each side of Nepal and India are mandated to consider and propose changes in Nepal-India Treaty of Peace and Friendship (1950), proposing that some measures be scrapped altogether or be revised.

³⁷ Kalpana Jha, “Revising the India-Nepal Peace and Friendship Treaty,” *Regional Affairs*, South Asian Voices, December 15, 2017, <https://southasianvoices.org/revising-india-nepal-peace-friendship-treaty/>

Mutual grievances have aggravated involving Indian construction of dams on the land adjacent to the Nepal-India border, flooding millions of acres of Nepali farmlands every Monsoon. Demonetisation of Indian currency notes³⁸ and land encroachment on 60,000 hectares by India has strained Nepal-India bilateral relations. Secretary-level talks have failed to resolve the issue of boundary pillars' construction, repair and clearance on both sides of the Nepal-India border.

Nepal's adoption of the new constitution in 2015 has led to a down-turn in New Delhi's relationship with Kathmandu. Change in the political-institutional structure based on constitutional reforms, democratic rule, federalism, decentralisation and supremacy of the rule of law has set new trends in Nepal-India relations. The promulgation of the 2015 constitution has instigated Madhesi unrest, leading to the demand for political representation and devolution of powers in Nepal. The new constitution has been resented by the Madhesi parties demanding further concessions on inclusive democracy related to representation and human rights

India has used the Madhesi issue as the pretext to exercise leverage on Nepal's internal politics. India has insisted on reforming the basic structure of the Nepalese state, fostering representative, decentralised and pluralist institutions. India has demanded greater constitutional securities for the Madhesi community, resisting exclusive and majoritarian clauses.³⁹ To pressure K. P. Oli's leftist government, New Delhi even imposed an unofficial trade blockade on Nepal in 2015 to show solidarity with the Madhesi cause. A severe humanitarian crisis ensued leading to US\$5b losses in fuel and medicine. To de-radicalise and avert protracted conflict in the Terai lowlands, India has insisted on deeper socio-political reforms in Nepal. However, leftist control entailed Nepal's transition to democracy and the loss of monarchy has reduced Indian clout in Kathmandu. Maoists' leadership leaning towards Beijing has irked India particularly.

³⁸ Friction related to Indian demonetisation of 500 and 1000 currency notes, making exchange difficult for Nepali nationals. The Bank of India failed to provide exchange facilities to Nepal Rastra Bank — the Nepalese counterpart. *Hindustan Times*, <https://www.hindustantimes.com/world-news/rs-500-100-notes-being-illegally-exchanged-at-nepal-india-border/story-sMDe2sYgVnhozJphA6yVxM.html>

³⁹ Kamal Dev Bhattarai and Atul K Thakur, "Why Nepal is Keenly Watching India Elections," *The Diplomat*, May 7, 2019, <https://thediplomat.com/2019/05/why-nepal-is-keenly-watching-india-elections/>

India's relationship with China over the years has remained strained due to territorial and ideological rivalry. Beijing holds an unrelenting claim onto 90,000 sq miles of Indian Uttar Pradesh as 'Tibet's soft belly.'⁴⁰ Demarcation of the India-China border along the McMahon line remains a controversial issue, leading to frequent border skirmishes between the two. The controversy has helped India to usurp the Himalayan kingdom of Sikkim in 1979. Nepal fears that Indian immigrants and intermarriages in Nepal will change the demography and lead to the Indian usurpation of Nepal. Hence Kathmandu's New Citizenship Acts have tended to resist Indian nationals claiming nationality and property rights in Nepal.⁴¹ India must revamp its relations with Nepal on the basis of equality if it wants to regain strategic and political leverage in Kathmandu.⁴² India needs to refocus on interconnectivity to create greater strategic leverage in Nepal. Given Indian concern on BRI, the trilateral India-Nepal-China corridor can offer an interesting opportunity for strategic collaboration to test Beijing's flexibility and to get Kathmandu on board.

Security and economic connectivity must be accommodated to usher in a new Nepal-India partnership. To balance China's BRI, India seeks to develop an overarching security strategy to engage Nepal on an equal footing. Cross-border connectivity can foster fruitful opportunities for trade and investment. India and Nepal can revive bilateral relations, gaining from initiatives such as the Bangladesh-Bhutan-India-Nepal (BBIN) Initiative. The thaw in Nepal-India relations brought forth a 12 point MoU on Nepal-India bilateral economic cooperation during Modi's visit. The Bangladesh Bhutan-India-Nepal motor vehicle agreement, rail connectivity between Kathmandu and Raxaul, inland water connectivity, petroleum pipeline from Motihari to Amlekhgunj are examples of Indian alternative to China's BRI. India has aspired to improve connectivity and reduce non-tariff barriers. India's facilitation aims to help Nepal exploit its vast hydropower resources and promote energy trade with Bangladesh. Such an initiative will diversify the state's energy market from China.

⁴⁰ Devin Hagerty, ed., *South Asia in World Politics* (New York: 2005, Rowman & Littlefield Publishers), 54.

⁴¹ China asserts Sikkim as part of its peripheral territory. However, the Chinese claim on Sikkim remains dormant so far. In 2005, China released a map showing Sikkim as Chinese territory.

⁴² Robin Sharma, "The New Reality of India-China Relationship," *South Asian Voices*, <https://southasianvoices.org/the-new-reality-of-the-india-nepal-relationship/>

The section concludes by arguing that the list of Nepal's grievances emanates from the Indian hold on its internal and external political dynamics. Nepal has increasingly looked for ways to unshackle Indian control. Fearing to lose this hold, India has resented Nepal's building of alternate alliance in the South Asian security architecture, especially the one forming with Beijing. Traditionally, India and China have battled for influence in Nepal. Modi government, during its last tenure, failed to grant prominence to its much avowed 'Neighborhood First Policy.' However, presently, it has adopted a forward-looking approach to settle India-Nepal bilateral relations, keeping contentious issues at bay.

Nepal's Quest for Security

This section examines Sino-Indian balancing in Nepal to argue that Kathmandu's orchestration of security treads on a thin rope of power balancing, locked in between its two Himalayan neighbours. Nepal's approach marks Kautilya's philosophical approach of *Raja Mandala* as an expression of expedient move to win security.

Sino-Indian strategic entanglement unleashes repercussion for Nepal's territorial integrity and security. Entrenching Nepal in its vision for the future, Kathmandu's positioning with China has made the Himalayas the venue of great power politics. The huge market potential of South Asia has attracted Beijing for long. Accordingly, Nepal forms a strategic pillar of Xi Jinping's 21st Century Maritime Interconnectivity Initiative vision, for the South Asia based on infrastructure development, railways and roads construction.

Beijing's major power status offers the Himalayan Hindu commercial and material benefit, inducing changes in its historic pattern of a relationship with New Delhi. However, in the ensuing battle of influence, Nepal thus faces a dilemma between retaining its traditional ties with India and the dawn of new opportunity offered by Beijing. Prioritising economic development over geopolitical considerations, the thrust of Nepal's diplomacy is on economic and political engagement with China. Nepal balances between its tightly knit historic ties with India and the new opportunity in building connections with Beijing. K. P. Sharma Oli has sought to resort to *Raja Mandala* revising relations with both India and China. Kathmandu's desire to revamp relations with both its northern

Himalayan neighbours can be studied from the perspective of neoclassical realism. International and domestic factors have pushed Nepal to revitalise its relationship with both India and Beijing.

Nepal suffers from what Mahanaz Isphani has termed as ‘tyranny of terrain.’⁴³ Geography has wielded a land-locked status to Nepal, branding the state in the UN list of ‘Under Privileged States with Special Needs.’ Apart from structural and institutional weaknesses, a fragile industrial base and agrarian economy have posed a challenge to Nepal’s internal security. Poorest in the entire South Asian region, Nepal’s GDP, with a population of 26.4 million, was a meagre US\$24.47 billion in the fiscal year 2017-2018.⁴⁴ A devastating earthquake further ruined the state’s feeble economy, with the additional burden of US\$18 billion in infrastructure development.⁴⁵ Nepal’s majority of the population (almost 87 per cent) resides in rural areas.⁴⁶ The middle class comprises a small segment of the overall population. Big landlords wield oppressive political and economic power in the state. Small landholders make meagre income, living in serfdom. The newly independent status and lack of institutional growth have further hampered Nepal’s progress, international stature and growth. To tap it all, Kathmandu’s outlet to the outside world is largely dependent on New Delhi’s transit passage to ports in Bangladesh.

The sparsely populated kingdoms to India’s north were consolidated by Prithvi Narayan Shah in 1775 as a unified polity, establishing monarchical rule in the capital Kathmandu. In the 19th century, the Ranas of Nepal posed a challenge to the monarchy’s absolute power, setting up a hereditary reign of Rana Prime Ministers for the next 104 years. At the time of independence in 1947, India brokered a deal between Nepali Congress, the Ranas and the Shahs to broker peace. However, the monarchy’s absolute control was restored by King Tribhuvan, his son and grandson, who ruled

⁴³ Hagerty, ed., *South Asia in World Politics*.

⁴⁴ “Nepal: Microeconomic Update,” Asian Development Bank, vol. 8, no. 1 (April 2020) <https://www.adb.org/sites/default/files/institutional-document/577946/nepal-macroeconomic-update-202004.pdf>

⁴⁵ “Nepal Earthquake of 2015,” <https://www.britannica.com/topic/Nepal-earthquake-of-2015>

⁴⁶ “Trends and Drivers of Poverty Reduction in Nepal: A Historical Perspective,” Policy Research Working Paper, <http://documents1.worldbank.org/curated/en/285041474464529392/pdf/WPS7830.pdf>

Nepal under a party-less panchayat system till May 1991. King Mahendra's constitutional reforms brought the Nepal Congress Party at the forefront, with Bishweshwar Prasad Koirala elected as the prime minister.⁴⁷ However, the new constitution's imposition started the Maoist insurgency in Nepal in mid-1990s. In February 1996, Maoist parties declared 'People's War' against the monarchy, starting a full-fledge civil war.⁴⁸ The culmination of the civil war in Nepal was King Brindhera's assassination in June 2001.⁴⁹ Nepal Royal Army's crackdown started to quell Maoist resistance in the Western provinces.⁵⁰

A comprehensive Peace Agreement brought an end to Nepal's civil war in 2006, signed by Prime Minister Girija Prasad Koirala and Maoist Chairman Prachanda.⁵¹ The agreement put an end to Nepal's historic monarchical institution, mandating the constituent assembly to draft a new constitution for the state. The II Constituent Assembly of Nepal drafted a new constitution for Nepal in 2012, implemented eventually in 2015. The Madhesi parties have resented centralised nature of the new constitution, demanding greater pluralism, democracy and local autonomy for the provinces in Nepal. Institutional weaknesses entailed in the new constitution have activated Madhesi unrest, exposing the government to external pressures such as from New Delhi.

Since the inception of diplomatic ties in 1955, Nepal has enjoyed smooth and friendly relations with China. Nepal has adhered to One China Policy and the principles of *Panjsheela*, along the 1,414 km border in the Himalayan range. Nepal-China Joint Consultation Mechanism has remained instrumental in regulating the two states' bilateral relations. Nepal and China signed the border agreement on October 5, 1961, across the Tibetan Autonomous Region of China.⁵² However, India's annexation of Sikkim

⁴⁷ "Timeline of Constitutional Developments in Nepal,"

<https://constitutionnet.org/sites/default/files/Timeline.pdf>

⁴⁸ "Nepal (1946-present)," <https://uca.edu/politicalscience/dadm-project/asiapacific-region/nepal-1946-present/>

⁴⁹ Ibid.

⁵⁰ Neil De Votta, ed., *An Introduction to South Asian Politics* (New York: Taylor & Francis Group), 112.

⁵¹ "Comprehensive Peace Agreement 2006,"

<https://www.satp.org/satporgrp/countries/nepal/document/papers/peaceagreement.htm>

⁵² "Nepal-China Relations."/

strained Nepal's relations with its Himalayan neighbours to observe greater equity.⁵³

Indian interference in Nepal's internal politics has pushed Kathmandu to the Chinese orbit. India's strangulation has forced Nepal to build alternate bridges of economic connectivity. Nepal's thrust of focus rests on economic development and interconnectivity.⁵⁴ Benefitting from Beijing's promise of shared economic development and interconnectivity, the new government in Nepal is keen on bringing an end to its landlocked isolation. China's BRI has created alternate corridors of interconnectivity for landlocked Nepal.⁵⁵ China remains a credible alternative, investing in Nepal's infrastructure, hydropower or military modernisation technology. China envisages a connectivity-driven strategy based on road, railway and air linkages for Nepal's economic growth.

Sitting at the centre stage of Nepal-India bilateral relations is the Treaty of Peace and Friendship concluded in 1950.⁵⁶ Nepal's vulnerability to Indian intervention further emanates from the controversial historic treaty provisions. Successive kings in Nepal felt obliged to comply by Nepal-India historic treaty provisions. The treaty grants undue concessions to India. Following transformations at the global, regional and domestic levels, Nepal's new government has proposed revisions in the treaty to ameliorate Kathmandu's grievances and regulate India-Nepal bilateral relations based on equity.

Nepal terms Articles 2, 3, 4, 5 & 7 of the treaty as controversial and discriminatory, restricting Kathmandu's sovereignty, economic expansion

⁵³ Ministry of Foreign Affairs, Government of Nepal, Singha Durbar, *Treaty of Peace and Friendship*, July 31, 1950, Kathmandu, Nepal. available at: <https://mea.gov.in/bilateraldocuments.htm?dtl/6295/Treaty+of+Peace+and+Friends+hip>

⁵⁴ "China Looks at Nepal as a Gateway to South Asia, Expands Footprint in Market," *Hindustan Times*, August 18, 2018, <https://www.hindustantimes.com/world-news/china-looks-at-nepal-as-potential-gateway-to-south-asia-expands-footprints-in-market/story-utmY6zKXG8UQ2IIEg7J35I.html>

⁵⁵ "The Belt and Road Initiative: China's Vision for Globalisation, the Beijing Style," *The Conversation*, <http://theconversation.com/the-belt-and-road-initiative-chinas-vision-for-globalisation-beijing-style-77705>

⁵⁶ "Nepal-China Relations." /

and industrial growth.⁵⁷ For example, Article 5 conditions Nepal to solicit Indian prior consent to foreign military imports and ammunitions.⁵⁸ King Birendra's import of military equipment from Beijing resulted in the Indian imposition of a border blockade in 1989. In the year 1998 and 2005, India suspended all communications with Kathmandu, following King Birendra and King Gyanendra's leaning towards Beijing. Likewise, **Article 2 enjoins** 'mutual security commitment,' requiring both Nepal and India to inform each other of 'engagements, conflict or misunderstandings' with the third party (read China).⁵⁹ The provision curtails Nepal's independent discretion on the regulation of relations with external powers.⁶⁰

Article 6 demands preferential treatment to Indian contractors. The treaty provision grants India a virtual hold onto the Nepali economy. India exercises virtual control of Nepali trade, domestic market and industry. Nepal's weaker economy and fragile private sector can hardly compete with the superior Indian industrial and corporate sector. To harness Nepal's natural resources, Article 7 obligates Nepal to grant special concessions to Indians in residence, property ownership, trade, commerce and cross border movement. However, this provision runs counter to Nepal's domestic law, restricting foreigners from owning properties in Nepal. In a nutshell, the treaty provisions restrict Nepal's economic growth, preventing Kathmandu's alternate access to the outside world.

Aspiring to achieve a lower-middle-income status by 2030, Kathmandu seeks to enlarge its trade base and attract FDI. China remains on top of Nepal's Foreign Direct Investors list. Nepal received US\$505m in Chinese investment in the fiscal year 2017-2018, followed by Indian investment received at US\$46m. Chinese investment and infrastructure development have opened the small Himalayan state to the world market. So far, India had offered Nepal the only outlet to the world. Entangling a major chunk in its overall trade, New Delhi so far remained Nepal's largest trading partner.

⁵⁷ "Treaty of Peace and Friendship."

⁵⁸ Jha, "Revising the India-Nepal Peace and Friendship Treaty."

⁵⁹ Ministry of External affairs, Government of India, *Treaty of Peace and Friendship Between the Government of India and Government of Nepal*, July 31, 1950, <https://mea.gov.in/bilateral-documents.htm?dtl/6295/Treaty+of+Peace+and+Friendship>

⁶⁰ Ritu Raj Subedi, "Revise 1950 Peace and Friendship Treaty," *The Rising Nepal*, July 7, 2019, <http://therisingnepal.org.np/news/18202>

Presently, almost more than 70 per cent of Nepal's overall trade is with India, while the rest is multinational.⁶¹ Facing a huge trade deficit, Nepal exported Rs.55.67 billion goods to India while importing Rs.507.56 billion in the fiscal year 2017-2018.⁶² China has offered an alternate transit trade route to end India's strangulation of fuel and other commercial imports to Nepal.⁶³

The second-largest trading partner for Nepal is China itself, with Afghanistan, the US, the UK, Norway and other states enjoying a negligible portion in the overall Nepali trade. China builds up Nepal's bargaining power vis. a vis. India by diversification and extension for third-country trade.⁶⁴ Laying access to land and seaports, Beijing has taken Kathmandu in its loophole to trade as far as Europe and Africa.⁶⁵ Chinese harbours and land ports have granted Nepal transit passage to Japan, South Korea and Southeast Asia via a trade agreement signed in 2016. In 2019, Nepal and China signed eight agreements to enhance bilateral trade. Although China has granted a tariff exemption to over 8000 Nepali products since 2009, Nepal holds a trade deficit with Beijing, exporting above US\$23 million while importing US\$1.5 billion goods in trade for the fiscal year 2017-2018.⁶⁶ In June 2019, Nepal sold half a million Pashmina units to Beijing.⁶⁷ Although the Indian nearest seaport to Nepal's border is almost 700 km compared to the Chinese port almost four times that distance, trade diversification will enlarge Nepal's GDP while linking it to world markets.

Nepal will have to tread on a thin rope, exercising pragmatism to consider the Indian and Chinese security concerns in the region. Presently, Nepal remains hooked to the tremendous desire of a free ride on the 'vibrant economic drive' offered by its two great neighbours.⁶⁸ Oli aims to bring

⁶¹ "Nepal-China Relations."

⁶² Ibid.

⁶³ Nicola P Contessi, "As China Opens border Connections to Nepal, it's Ttime for India to Take Stock," *Scroll.in*, February 3, 2019, <https://scroll.in/article/911608/as-china-opens-border-connections-to-nepal-it-is-time-for-india-to-take-stock>

⁶⁴ Ibid.

⁶⁵ Ibid.

⁶⁶ "Trade Profile," Nepal-Nordea Trade Portal, https://www.nordeatrade.com/en/explore-new-market/nepal/trade-profile?vider_sticky=oui

⁶⁷ Ibid.

⁶⁸ Kamal Dev Bharatari, "Resetting Nepal-India Relations," *The Diplomat*, April 10, 2018, <https://thediplomat.com/2018/04/resetting-india-nepal-relations/>

massive investment from both India and China to fulfil his domestic promises of economic development and prosperity. Only a cost-benefit approach must guide Nepal while opting for dealings with India and China. Projects that are materially, economically and geographically feasible need to be picked up by Nepal. Beijing's current promises of support for Nepal will certainly tag a high price, lest grand infrastructure projects justify the credibility of investment by Nepal.⁶⁹ Kathmandu must stay aware of economic and strategic strangulation, if any, leading to a debt trap and political leverage for either by India or Beijing. With Myanmar and Sri Lanka's experience, Nepal, Bangladesh and the other South Asian states have become alarmed on Chinese investment.⁷⁰ India and the US have warned Nepal against opaque loans and financing conditions offered by China.

The territorial dimension has persisted on border dispute (4092 km) in Galwan and Aksai Chin regions. Militarisation of Sino-Indian borders adjacent to Nepal and increase in military expenditure strains Nepal's border security. The Sino-Indian downturn in relations puts up a challenge for Nepal's security. Balancing between the two regional hegemon remains a waxing drive for Nepal's security as manifested in the case of the Doklam issue. Sino-Indian water dispute on regulating the flow of the Brahmaputra has worried Nepal.

The Sino-Indian territorial tussle has tended to evade Nepal's hold on its territory such as Kalapani. A strategic highland in Nepal, Kalapani has allowed New Delhi to command a large area against Beijing. Occupied by India in the Sino-Indian war 1962, India believes Kalapani is far too important strategically to be conceded to Nepal. On the Chinese side, moving into Tibet, Beijing can launch a preemptive strike against India through Kalapani. Transit passage at Susta and Kalapani strike a tough cord in Nepal-India bilateral relations. India-China has an agreement to enhance trade via Lipulekh ancient trade tri-junction between Nepal and Tibet at Kalapani. The two states have signed agreements to enhance trade via

⁶⁹ Tom Vater and Laure Siegel, "Belt and Road Reaches Nepal's Wild North, Winning China Influence," March 9, 2019, <https://asia.nikkei.com/Spotlight/Belt-and-Road/Belt-and-Road-reaches-Nepal-s-wild-north-winning-China-influence>

⁷⁰ "President Xi Jinping has Announced US\$20b Grants and Loans for Bangladesh," *Wire*, October 14, 2016, <https://thewire.in/world/china-bangladesh-loan>

Lipulekh without consulting Nepal even both acknowledged its legitimacy as a third party in Kalapani.⁷¹ Buddhist refugees fleeing from Tibet into Nepal and India has constituted a contentious issue between the two states. Nepali authorities are under growing pressure from China to stop Tibetan refugees from reaching India. About 20,000 Buddhist refugees fled Tibet for Nepal after a failed uprising against Beijing in 1959.

Conclusion

In the quest to undue rival clout, both India and China have tended to defy Nepal's sovereign control over its territory. Both compete for greater regional influence and hold a tussle on Nepal's impartiality and neutrality. While caught in between major powers' strategic entanglement, Nepal endeavours to side with Beijing to offset the pressure from New Delhi. Sino-Indian great power potential contains both opportunities and challenges for Nepal. Kathmandu seeks to benefit from the Sino-Indian economic rise, rather than be entangled in their mutual rivalry which tends to undermine Nepal's security. The drive to play between China and India portrays Kathmandu's desire to assert independence in foreign policy. Nepal's security concerns, as evident from its new Citizenship Laws, preventing acquisition of land and citizenship rights may be a welcome move to curtail Indian leverage of influence in the Himalayan state. However, the presence of ethnic overlap across the north in Tibet has cautioned Kathmandu in becoming over ambitions towards Beijing.

South Asia is a unique region where the foreign policy of one state affects another. Despite geographic limitations and Kathmandu's geopolitical compulsions, Nepal's tiptoe approach, siding more with China than India is a welcome move for Pakistan. It will drag Nepal in the China-Pakistan security ambit in the region. Pakistan-Nepal diplomatic relations hold immense significance in the South Asian regional balance. For its part, Nepal has considered Pakistan an important player in South Asia vis a vis India. However, given the extent of New Delhi's influence and penetration in Kathmandu, the desire to come closer to Pakistan has remained limited. Strategically, Sino-Indian balancing in and across the Himalayan state tends

⁷¹ Biswas Bilal, "How Nepal Viewed the India-China Border Standoff," September 16, 2017, <https://www.theglobalist.com/nepal-india-china-standoff-bhutan-war-peace/>

to keep the Indian focus off Pakistan. Further, Nepal's tilt towards Beijing will uplift Kathmandu's economy, improving, in turn, its political say on matters of regional security. It is in Pakistan's interest that China breaks away from Nepal's India-clientist-status. Moreover, in the regional equation, the South Asian small powers have tended to off-balance India by siding with Pakistan. Nepal has always acted as an important SAARC partner in the context of countering any hegemonic designs that have anti-Pakistan nuance. Nepal's plea for the South Asian nuclear-weapons-free zone is the case in point. Economic independence will allow Nepal to emerge strong and become politically more vocal in matters affecting the region. Economically viable, stronger and independent Nepal can keep a tab on the Indo-US hegemonic preponderance in South Asia.

Pakistan has always revered Nepal's unity, sovereignty and territorial integrity. Islamabad has assured Kathmandu of its political support and adherence to the principles of non-interference in internal matters. Pakistan refers to the political change in Nepal as its internal matter and expresses confidence that Kathmandu will effectively overcome its political and economic difficulties.