

Gaida's Dance with Tiger and Dragon

Edited by Chandra D. Bhatta and Jonathan Menge



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INTRODUCTION

Gaida's Dance with Tiger and Dragon: A Primer¹

Chandra Dev Bhatta and Jonathan Menge²

The mighty peaks of the Himalaya towering in the distance over the city of Kathmandu are a powerful reminder of the importance of geography in Nepali politics. Nepal has always been in a very special geopolitical situation, even more so with the spectacular rise of China beyond the 'great wall' in the North. With India bordering on the West, South and East, Nepal is caught between two very ambitious giants that, today more than ever, are wrestling over influence in their neighborhood. And even if this, of course, is not a new situation, the dynamic has been fast paced in recent years.

Ties with India have always been closely interwoven – culturally, politically, and economically – while China was for a long time a rather distant relative. However, China's intensified engagement in its 'periphery' – not only in Nepal, but also in other parts of South Asia – has triggered India's suspicion and caught the eye of other major powers interested in containing the Chinese ambitions. Against this background it comes at little surprise that geopolitics is one of the most debated topics in Kathmandu. For the future of Nepal, it will be decisive how it positions itself and steers through this situation. Therefore, the Friedrich-Ebert-Stiftung (FES) Nepal office set out to take a closer look at different geopolitical dynamics and its implications for Nepal. This volume brings together some of the most distinguished scholars and experts from Nepal and collects perspectives from India as well as East and Central Asia.³ Our modest hope is that with this, we can contribute to initiate a fruitful discussion on the possibilities ahead.

At its core geopolitics is the study of something very concrete: geographical factors and its influence on (world) politics and inter-state relations. However, geopolitics is also a matter of social construction, not only in the sense that our understanding of the world and its regions is changing over time, but also in

¹ For the non-Nepali speaker, we should add: *Gaida* is the Nepalese word for the greater one-horned rhino. The species was very close to extinction by the early 20th century, but thanks to strict protection and management in northeastern India and southern Nepal the population has recovered significantly.

² The authors would like to thank Priyanka Kapar and Deepika Dhakal for the editorial support.

³ The contributions in this volume mostly include recent developments up until the end of 2020.

the sense that narratives impact the making of realities. For example, both the Chinese Belt and Road Initiative (BRI) and the American Free and Open Indo-Pacific (FOIP) strategy are transporting narratives – one rather technical and development oriented, the other clearly with a strong normative reference.

Therefore, it is noteworthy how dominant narratives perceive geopolitics in Nepal. Leo E. Rose's (1971) seminal work on Nepal's foreign policy and relations "Strategy for Survival" is a very interesting manifestation of this. The book's title echoes Prithvi Narayan Shah's description of his, then newly formed, kingdom as "a yam between two boulders". The metaphor is still very much alive in the Nepalese understanding of its geopolitical reality. However, the picture it paints is a rather passive and reactive one in the dealings with its neighbors. Notwithstanding that this might be inadequate in reflecting the skillfulness with which Nepalese leaders have been steering the tides, it also creates a certain understanding of the world.

In contrast, we deliberately chose another picture for the title of this book. We consider it as a challenge and invitation to think from new perspectives about geopolitical dynamics and how to realize potentials for the future. Potentials we believe not only rest with Nepal as a possible transition country for exchanges between two giants, but to have an active role in (re-)inventing the region. Even though, "hard power" might be overwhelmingly in favour of its neighbors, acting in unity on a clear strategy and using soft power resources can create plenty of opportunities. We firmly believe that such a change in perspective inherits huge potential for prosperity for one of the least developed countries in the world.

In the remaining of this introduction, we will explore the concept of geopolitics in more depth and line out some major global dynamics. Secondly, we will take a closer look at the Nepalese situation and visit some of the insights of the following chapters along the way.

The changing tides of geopolitics

Geopolitics has played an important role in shaping world politics for a long time. The concept itself, however, has become more pronounced only in recent years, particularly after the dawn of the new century. However, this development already started right after the end of the Cold War, which marked the beginning of a new era.

The earlier 'ideological bipolar world' ended abruptly with the fall of communism. Even though some states continued to be governed by communist parties, overall, the match seemed decided in favour of capitalism and liberal democracy. This perception of the world was most famously described by Francis Fukuyama (1992) in 'The End of History and the Last Man'. With the economic victory of capitalism over communism, it was expected that states around the world would turn to liberal democracy as preferred mode of governance sooner or later. In fact, the third wave of democratisation (Huntington, 1993) gave birth to many new democracies and seemed to prove this optimistic outlook. However, the often-assumed intrinsic connection between democracy and capitalism turned out to be an illusion. In retrospective, the end of the Cold War did not mark the 'end of history', but rather, once again, the dawn of a new era of world politics.

Meanwhile, the liberal world-order was further reinforced by the Washington Consensus that began setting an agenda of neo-liberal global governance. In combination with ever faster technological development, this gave rise to new heights of globalization. The rise of democracy and global governance was largely expected to bring about prosperity and peace. However, it just took a few years for the hopes of a golden post-1989 age to fade. Soon new forms of intra-state conflicts and 'new wars' (Kaldor, 1999) emerged in many parts of the world and some of the young democracies collapsed again in their wake. Scholars have described this as the rise of Fourth World Geopolitics (Ryser, 2012), where conflict arose between nations and states, while others referred to these new conflicts as 'hybrid wars' (Korybko, 2015; Zeihan, 2020). Once again, they brought about new dynamics and different geopolitical priorities for states. Nepal also seen its share of these new conflicts with the Maoist insurgency between 1996 and 2006.

At the same time and accompanying the neo-liberal globalization, the world has also seen the rise of non-state actors like Multi-National Corporations (MNCs) in global governance; some of which generate more annual revenues than the GDP of middle-sized states. But the rise of neo-liberal capitalism also gave rise to new 'cultural' or culturalised conflicts on a global scale (Barber, 1995), prominently referred to by Huntington (1996) as the "Clash of Civilizations". The attack on the World Trade Center – the symbols of 'Western liberalism' – and government facilities on American soil on 9/11/2001 marked a turning point in the world's political history. What followed was the rise of cleavages in global politics based

on a 'us versus them' logic (Bremmer, 2018) and a sharp increase in international terrorism. The entanglement of many democracies in the 'war on terror' and its many collateral damages further impacted the appeal of liberal democracy.

In addition, more and more Western democracies started to struggle with social cleavages 'at home'. Decades of neo-liberalism had given rise to inequality (Piketty, 2014), enabling the rise of populism. This was certainly felt in Eastern Europe after the fall of communism and in the context of European Union's eastern enlargements. Capitalism had disappointed the hopes of many for a better life and this, in connection with the destroyed trust in progressive parties, paved the way for populism (Berman, 2021). In the wake of the financial crisis 2007/2008 as well as the Euro-crisis in 2010, these developments also reached Western and Southern Europe. With the rise of the so-called 'Islamic State' in Syria and Iraq and the resulting refugee migration towards Europe coupled with the inconsistent reaction by European states acted as further catalysts for some of these trends. Overall, it is not surprising that authors claim today that Western democracies failed on the hopes they gave rise to after the end of the Cold War (Krastev and Holmes, 2019).

Dawn of the Asian century: New or old politics?

With the American hegemony fading, economically and morally, the stage was set for the rise of a new 'empire'. The 21st century has been referred to as 'the Asian century', since Asia is taking over as (or rather re-claiming) the center of the global economy (cf. Khanna, 2019; Mishra, 2011). Especially, the economic rise of China in recent decades has built the backbone to the challenge of American primacy in the region and beyond. Even though the Chinese ambitions are usually formulated in purely economic terms, it is hard to overlook the geopolitics connected to the Belt and Road/One Belt One Road Initiative (BRI) launched in the early 2010s. It is a highly ambitious project to further economic and infrastructural integration of Asia with Europe and parts of the African continent. While the Chinese investments are warmly welcomed in many states, the engagement also creates new dependencies, collides with strategic interests of other nations and, thus, has raised suspicion on many fronts.

At the same time, China is running into territorial conflicts with its neighbors, who are often close allies of the U.S., by furthering its interests through unilaterally creating new realities. The disputed Spratly Islands in the South China

Sea are a case in point. In addition to the security and economic interests, the China-U.S. rivalry is often also described as a rivalry of political systems, with the performance of the Chinese authoritarian development model challenging the normative primacy of liberal democracy. While the reference to the Chinese model and its success story is often used to justify the continued power grip by authoritarian leaders, it is also true that democratic processes are often slower in adapting to new realities. The systemic weaknesses and strengths have been displayed rather well during the early stages of the Covid-19 pandemic in 2019/2020.

During the U.S.-presidency of Donald Trump, the trade and interest conflicts between the two powers collided and escalated multiple times. However, even with the new administration under President Joe Biden the situation is unlikely to be resolved. China is clearly set on reclaiming its position in world politics, has been promoting the development of alternative institutions and formats like BRICS (Brazil, Russia, India, China, and South Africa), the Asian Infrastructure Investment Bank (AIIB) and the Shanghai Cooperation Organisation (SCO) and has increasingly been criticizing Western centered formats of global governance like the G7.

Thus, China's (re)emergence is perceived by rival powers – mainly the U.S. and its allies – as a significant threat to the existing world order and many fear a new Cold War rising (Mahbubani, 2020). Yet, this view has been challenged as Beijing is neither questioning the existing global institutions altogether nor is turning away from them like the country has done in the past.⁴ However, there are also clear signs that China is setting out to reform the global governance system in line with its own norms and interests (CFR, n.d.). While at the same time the global governance system took a big blow under the “America first” policy of the Trump administration, with the U.S. withdrawal from the Paris climate agreement and regular criticism of the World Health Organisation, which, in turn, opened new spaces for China to claim a leading role in global governance.

Apart from the dawning stand-off of the ‘new’ global superpowers – the U.S. and China – also a stabilization and increasing influence of other (regional)

⁴ The threat perception is often based on linear projections and imperfect historical analogies that are misleading and strategically counterproductive to Sino-American relations. A more nuanced understanding of the “China threat” and a more fact-based public debate would therefore be advisable. Cf. Al-Rodhan (2007).

powers can be observed like Russia, Turkey, and India. At the same time old alliances – like the transatlantic partnership and NATO – and strategic partnerships based on the principles of non-alignment championed by India and others have lost momentum. And the formation of new alliances is under way. For example, India has partnered with the U.S. in context of their engagement in the Indo-Pacific and other strategic agreements such as Quadrilateral Security Dialogue (QUAD). Overall, the promise of the post-Cold War period of development, symmetrical interdependence, mutual benefit and universal values is becoming less and less reliable in today's world, where struggles over identity fault lines become increasingly prominent as well.

New fields of contestation

Against this background of a growing U.S.-China rivalry some scholars claimed the 'return' or 'renaissance' of geopolitics (Guzzini, 2013; Kaplan, 2018). Though, it might be more adequate to understand it as a return to the center stage. Still, might be worth asking: What is new about what has also been termed 'new geopolitics'?⁵ While the primary objectives of states have remained rather static, there are, as we have already discussed, indeed new dynamics at play. In addition, there are also new fields of contestation, with some of them still emerging, and while some hold that technology has not negated geography (Kaplan, 2014), technology plays a crucial role here.

World politics is more technological driven today (Forbes, 2021) and while the U.S. held technological primacy for decades and exploited it to further its interests, the Chinese challenge to this primacy became clear in recent years. For example, the U.S. and some of their allies blacklisted the Chinese company Huawei on grounds of allegations of building in secret backdoors into its products and services for the Chinese government. As a consequence, Huawei lost its license to use android mobile operating system and other services connected to the google parent company Alphabet. Another major international controversy span around Huawei's involvement in the setting up of 5G networks. The technology will provide fast mobile network connections and is widely considered as one of the decisive innovations in context of digitalization processes. However, many European and other states like the United States have voiced security concerns against the company's involvement due to the

⁵ For example by Brookings (n.D.).

alleged close connections between the Chinese state and Huawei (Murphy and Parrock, 2021).

Strategic competition is not only growing in regard to technological infrastructure, but also in regard to big data, artificial intelligence and other key technologies (Ball, 2020). The growing U.S.-China rivalry became once again apparent when Donald Trump threatened to ban the TikTok application in the U.S. in September 2020, developed by the Chinese company ByteDance, (Knight, 2021). TikTok has been the fastest growing social network in recent years and the first non-U.S. major social network on a global scale. Considering these and other instances, it is highly likely that stand-offs between the U.S. and China will continue with implications for users and states around the world. It is evident that this will likely lead to a de-coupling of key technologies. For example, Huawei developed its own mobile operating system to reduce reliance on U.S.-software and business risks.

Recent trends in geopolitics certainly have been accelerated by the Covid-19 pandemic (Saxer, 2020). The pandemic has not only been interpreted in light of system rivalry – with China, after seemingly suppressing early warnings with consequences for the effective immediate answer to the pandemic, being able to largely contain the spread of the virus, while Europe and especially the U.S. were hit hard in later stages. It also became painfully clear that counties around the world were heavily relying on Chinese products – especially personal protective equipment (PPE) – and sparked discussions of re-shoring of strategic production capacities. In the meantime, China used the supply of PPE in context of the so-called ‘mask diplomacy’ and its Health Silk Road (Chow-Bing, 2020) to build soft power and with the Covid-19 vaccines the next highly sought-after commodity of foreign policy already entered the market.

New geopolitical fault lines in South Asia

Certainly, the repercussions of these changes can be found reflected in the priorities, objectives, the agents of and approaches to geopolitics (Cohen, 2011) in both big and small states. The undercurrents of change are forcing them to reformulate and adapt their foreign policies as well as developing international relations in new ways. In South Asia the traditional order is also fundamentally changing and has been mainly challenged by China’s engagement in the region (Wagner, 2021). For example, China has not only brought Pakistan, Afghanistan,

Nepal, Sri Lanka, and Bangladesh together through development diplomacy under the BRI framework, but also in context of the COVID-19 pandemic response. The U.S. and some of its closest allies, for their part, are advocating the “Free and Open Indo-Pacific”. The other emerging power in the region – India – appears to have aligned with the U.S., but also has traditionally claimed leadership in South Asia and has its own strategic interests.

Likewise, the formation of ‘regional alliances’ and ‘security blocks’ – e.g., between Russia and China or the U.S., UK, Australia, and India – might develop a momentum that will force countries towards strategic directions. This will also have an impact in South Asia as the states in the region are connected in various ways with these countries. China is already bending existing regional arrangements according to its interests and multiple new regional initiatives have been launched in South Asia in the recent past.

South Asia is one of the least integrated world regions, with the obvious resulting risks – especially for small countries, being once again highlighted in context of the COVID-19 pandemic. With established structures like the South Asian Association for Regional Cooperation (SAARC) largely being at a stalemate, a plurality of new sub-regional initiatives has been emerging. Many of these new initiatives like the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and others, though, have a clear tendency towards either the Indian or the Chinese sphere of influence (ibid.).

All this considered, especially those countries highly dependent on external support for development will certainly feel the heat of the new power configurations. Moreover, the new dimensions of geopolitics and the emerging new role of small states in these ‘new great games’ will provide further space to influence internal politics, developmental initiatives, and external affairs for political and non-political gains. Under such circumstances, countries like Nepal might need to blow away some cobwebs and misconceptions of the past to steer more safely its course of navigation in the uncertain waters of the new century.

New realities – Increased complexities

For Nepal – as a land-locked country with an underdeveloped economy, with large parts of its labour force working abroad and a major chunk of its national budget dependent on foreign aid – the prospects for development are closely

linked to its relations with other countries.⁶ Like most small and medium sized states, who have little interest in choosing sides in the growing confrontation between the U.S. and China, Nepal clearly would benefit most from multiple engagements. However, with growing competition, the pressure to choose one side might increase further in the future and make it more difficult to balance relations, while imbalances might backfire politically as well as economically.

China and India – the two most populous countries in the world – have made great economic progress during the last two decades, though, China's development was faster and has received far more attention. While China aspires to extend its connections and influence through the trillion-dollar BRI framework and its projects, India is also trying to reinforce its sphere of influence, especially in South Asia. In Nepal, India has scaled up its rail and road projects to connect the Southern region of Nepal with the capital Kathmandu. At the same time the relations between China and India are complex.⁷ While both countries had rather cordial relations for some time, frictions have re-emerged and pose new challenges for countries like Nepal. However, while both countries compete for influence in the region, they have also been cooperating when it comes to contain outside influences.

China's spectacular rise during the last decades has also heightened interest in its periphery by other major powers like the U.S., who are trying to contain the Chinese ambitions. This is also reflected by Nepal's involvement in the respective geopolitical initiatives. The country is part of China's BRI mega-project and was also the first South Asian country that qualified for the Millennium Challenge Cooperation (MCC), an independent U.S. foreign aid agency that provides grants to countries based on a range of criteria connected to political liberties, good economic policies, and potential for economic growth. Through the MCC, the U.S. offered Nepal a 500 million USD grant – the largest single grant Nepal has ever received – for infrastructural development.

However, the MCC-offer and its potential geopolitical repercussions have sparked multiple political controversies among the Nepalese elites, which became

⁶ Cf. Achyut Wagle in this volume.

⁷ Cf. Nihar R Niyak in this volume.

especially pronounced within the communist parties.⁸ This demonstrates the potential domestic reverberations of foreign policy decisions in Nepal and that failing to strike the right balance might result in political instability. Particularly since the struggle over influence may not only be reduced to pure power interests of competing countries but could turn into a clash of political systems and values that are projected on Nepal.

In addition to the BRI, China is has also increasingly used 'soft power' measures to consolidate its foothold in Nepal.⁹ For instance, just before the Covid-19 pandemic struck, more flights were connecting Nepal with China than with India. In recent times, China has also established a number of Confucius Centers and increasingly shown interest in influencing Nepal's political affairs. 'Xi Jinping's thought' has been promoted as a guiding philosophy especially among the communist parties. However, while the engagement with Nepal's (political) elites considerably increased during recent years, the exchanges on a broader people-to-people level are still relatively limited.

While China has become active in new ways and on a larger scale, India's role in Nepal has shrunk. However, even though Nepal seems to have applied a counter balancing strategy lately, using China as a counterweight against the Indian influence, it is unlikely that the country will be able to reduce its dependence on India completely. India is still the traditional power and will certainly act when it feels its security interests under threat. Furthermore, trade routes through India are much more accessible than China and the ties between Indians and Nepalis have grown strong over centuries and are manifold, even though Nepalis often are rather critical of the relationship.¹⁰ The challenge of complexity even increases due to Nepal's dependency on external relations. About one-fourth of Nepal's population lives outside in various countries for livelihood, education, and career enhancement and their concerns will need to be considered in foreign policy.

While this complexity brings new opportunities, it also entails risks. The heightened interest, thus, might lead external forces to try to exploit cleavages among local

⁸ The discussion took off after the MCC was connected by U.S. officials to the Free and Open Indo-Pacific Strategy. During a visit to Nepal in May 2019 David J. Ranz, Acting Deputy Assistant Secretary for South Asia at the U.S. Department of State, described the MCC as a crucial part of the U.S. Indo-Pacific strategy (Nepal, 2019).

⁹ Cf. Lila Nyaichyai in this volume.

¹⁰ Cf. Indra Adhikari in this volume.

elites to serve their own interests. Political elites can become vulnerable in their intention to acquire immediate political gains rather than deciding on the long-term interests of the country. In a country like Nepal, with its history of chronic political instability, this might even extend to inner-party dynamics.

Geopolitics and development: Nepal's chronic dilemma

Geopolitics and development are intertwined in many ways, especially since economic development comes with additional capacities in projecting power. When the United States became involved in Nepal's development in 1951, it was during a period of great changes in the Himalayan region. The establishment of a communist regime in China and the annexation of Tibet were two critical events in the neighborhood. In the following years India, China, the former Soviet Union and other countries, often in tandem with intergovernmental and international organisations, have stepped up their developmental support for Nepal, though, often mainly following their own objectives.¹¹ Yet 'Vikas', the Nepali equivalent of the term 'development', is far from becoming a reality (Bhatta, 2017), while Nepal is switching from one project to another.

Foreign aid usually comes with strings attached, which might be value or interest driven. Since Nepal's developmental process is donor-dependent and bound by external dependencies, the country has to deal with multiple ideas, conditionalities and approaches to development. However, the translation of these into project-reality depends on the priorities and the negotiating capacity of the recipient state as well. This becomes even more important in the case of Nepal, where foreign aid and developmental initiatives like BRI and MCC are lately interpreted primarily from a geopolitical angle. This nexus between geopolitics, foreign aid, development, the role of the state and social movements in (re) imagining development still needs further examination, especially against the background of the contestations between emerging donors like China and India as well as Western donors (Power, 2019).

Another challenge for Nepal has been the way 'developmental models' are designed and presented by development partners which may not fit with the diverse local contexts (Bhatta, 2017). This not only results in gaps between supply and demand (Shrestha, 1997; Gyawali et al., 2018), but also regarding

¹¹ Cf. Dhruva Kumar's contribution in this volume.

the question whether development of human resources or infrastructure should be prioritized. Meanwhile, the internal political dynamics have been volatile and made it difficult to harvest the opportunities donors have provided. In contrast, on many occasions, political elites have tried to use external factors for their own political interests. Altogether, these factors contributed to many faltered and failed developmental endeavours in Nepal (Shrestha, 1997). If Nepal cannot make its own decision what is needed and what is not, it will not only create mistrust towards its developmental partners but also slow the country's development.

Ultimately, it seems Nepal faces a dilemma resulting in chronic underdevelopment. Even though the overall pace of geopolitical dynamics has changed, the situation has not improved much for the country yet. Consequently, the developmental perspectives are closely connected to the country's future foreign policy. And while Nepal cannot ignore its neighbors, ignoring the West would dampen its developmental activities. Therefore, it will be important to align the country's foreign policy with national interests and find ways to tame foreign interests in a way that supports the country's developmental ambitions.

Time to rethink the foreign policy agenda?

Two hundred years ago, King Prithvi Narayan Shah suggested that Nepal should strike a fine balance between its northern and southern neighbors. His depiction of Nepal as a 'Yam' between two boulders did not necessarily imply non-engagement with others. Over time, scholars and political leaders have repeatedly endorsed these ideas and advocated approaches of 'equi-distance' and 'equi-proximity' in Nepal's relations with India and China. However, these approaches are closely bound to geographical realities and from our previous discussion of geopolitical trends it became clear how technology has brought (and keeps bringing) about fundamental changes. Some of these changes have already taken shape in Nepal's domestic politics as well as in the country's economy. The re-emergence of China and India both economically and politically on the world stage has generated reverberations of great magnitude, while Nepal's interactions with the West and other regions increased as well and have taken a new momentum.

In Nepal, as in many other places, internal political dynamics have played an important role in regard to foreign policy approaches. From a historical

perspective, during the Rana Regimes (1846 – 1951) foreign policy can be described as ‘regime-centric’. The Ranas largely followed an approach that served their own personal and family interests. Though, this did not necessarily mean that they compromised on national interests. The Ranas were always mindful of maintaining territorial integrity, national pride, and preserving national culture. From the 1950s, and even more pronounced, from 1990 onwards, Nepal’s foreign policy was increasingly ideology orientated. This development was owed to the introduction of the multiparty political system and the diverse actors that started shaping foreign policy along their ideological loyalties. While some of Nepal’s political parties were closer to the democratic West and India, others had reservations – towards the U.S. as an ‘imperial power’ and India for its alleged expansionist ambitions.

This historical tendency could also explain the more recent foreign policy turn towards China as well as the uproar over BRI and MCC, which seems at least partly a product of ideological approaches to foreign policy. However, such a principled approach to foreign policy might impact Nepal’s national interests in the long-term. Even more so in times of internal political instability and growing external complexities. Fast changing priorities regarding development projects or financial sources based on the priority to advance relations with this or that country might impact the overall development outlook and the attraction of foreign investments altogether.

Most of the above-mentioned approaches to Nepalese foreign policy were part and parcel of modernisation projects impacted by Cold War realities, but these often offered blueprints that failed to take the comparative advantage and national interests of the country into due consideration. Location certainly is an important factor in developing foreign policy in the context of Nepal, but it has always been looked at from the lens of survivalism. The ‘developmental’ perspective should become a key determining factor in Nepal’s foreign policy, which would encourage the country to interact with all states to fulfill its ambitions. Why not imagining the country as a hub for international exchange?

For a country like Nepal that is highly dependent economically on its immediate and distant neighbours, foreign policy doctrines should be adopted considering its own merits and demerits. Thus, especially in the light of the challenges of ‘the new geopolitics’, it might be time to revisit the country’s foreign policy. The ‘continuity and change’ theme in foreign policy thinking may be a good guideline

for this. While 'continuity' will be important to secure security interests, change would allow to face new challenges and geoeconomical dynamics. Such a process should analyse and take into account the new challenges outlined above. Moreover, it should engage with a broad range of stakeholders, which could not only contribute to increase the knowledge base but also build consensus about basic principles and cornerstones of the country's foreign policy orientation. A strong fundament to prepare Nepal for the future.

The challenge of today in regard to Nepal's foreign policy seems not only to strike a balance in the neighbourhood, but also beyond. Considering the regional realities of South Asia, the Indian and Chinese rivalry and their development initiatives could result in a rather vertical integration of the region – with the connection between China, India and the respective country improving – while the region might end up lacking horizontal integration between smaller countries (Wagner, 2021). Nepal and other countries in the region should be aware of such risks that might create increased dependencies and forge their own approaches to regional integration that promises plenty of growth potential.

Defining and adhering to a pragmatic foreign policy that will enhance Nepal's national interests and navigate the country from the current tides of geopolitical upheavals in the region seems essential for the future. However, at the same time both classic non-alignment and balancing approaches anchored already in Nepal's foreign policy might provide only little guidance in today's multipolar world. Nepal's foreign policy at times still seems to be dominated by a bipolar Cold War era thinking while world politics and the Nepali society have long since moved on. Foreign policy often has been hijacked by ideological positions of the political parties and the pressure emanating from street protests. However, a good foreign policy should go beyond this and focus on the larger interests of the country.

Of course, the country will still have to strike a fine balance between the two reemerging powers in its neighbourhood, while it will also have to redefine its relations with the West – as a development partner, but also home of many Nepalis. Yet, Nepal's foreign policy should neither become victim of great power politics nor a prisoner of geography or be used for petty political gains. While this might sound like a challenge for a 'small state' like Nepal, the notion of a 'small state' is more complex than it might seem on first look.¹² And while

¹² Cf. Ananda Aditya in this volume.

geography is an important factor, there are many examples of small states that are rather influential in world politics (Breiding, 2019). Some of them are resource rich, others profited from their location, but there are also examples of genuine political approaches and lessons to learn from other's experiences.¹³ They might be helpful for Nepal's imminent quest that surely lies beyond mere survival. Moreover, the polarization of Nepali society along geopolitical lines of the powerful states and ideological polarization of the political parties has their own consequences and has been often reflected in the foreign policy orientation of the state. Given the various ups and downs and geopolitical roundabouts taking different paths in the region, perhaps a fine balance between normative values and exploring pragmatic possibilities whilst crafting foreign policy, is the need of the hour. Neither too much of emotion nor antagonism are practical approaches in foreign policy conduct.

¹³ Cf. Mendee Jargalsaikhan on Mongolia's third neighbour policy and Nargiza Muratalieva on foreign policy practices in Central Asian countries.

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PROSPECTS FOR DEVELOPMENT

Nepal's Economic Development

Regional Geopolitical Considerations

Achyut Wagle

The geopolitical equations and trade-offs of any nation-state generally encompass a whole multitude of issues, national priorities, and interactions, that range from strategic, military, political, and economic to symbolic issues. Situated between two large neighbors, the People's Republic of China and the Republic of India, Nepal has often given in to the geopolitical interests of donors, mainly its neighbors; the strategic and geopolitical interests of these donors override the interests of the recipient nation. The capacity to negotiate favorable terms have been lacking in the case of Nepal. This write-up aims to evaluate Nepal's geopolitical position and its implications for the country's development.

Although the objective here is to explore the interplay of Nepal's geographical position with its development outcomes, it also provides a general setting of other key geopolitical aspects like security concerns and strategic maneuverings apart from purely economic give-and-takes. The arguments presented here are based on historical reviews, exploratory research, descriptive analysis, and qualitative data. It will also dwell on the modern history of Nepal with a tentative cut-off date of 1950-51, the year of democratic dawn in Nepal that nearly coincides with India's independence from British colonialism (1947) and the beginning of China's communist rule (1949).

Buffer state and security

Nepal is located between the Republic of India (in the east, west, and south), and the People's Republic of China (in the north). Surrounded by these two large countries, Nepal remains one of the poorest countries in the world when both of its neighbors have been growing into two of the largest economies of the world. Their geostrategic and geoeconomic influence, too, has been commensurately enhanced.

In 1960, Indian and Chinese economies were only 57 and 50 times larger than the Nepali economy, respectively. Sixty years down the line, in 2019, the size

of the Indian economy became approximately 120 and the Chinese 460 times larger than the Nepali economy. At present, each of them has a population size of more than forty times the estimated current Nepali population of 30 million. In terms of area, China, with which Nepal shares about 1,440 km-long land border, is 64 times larger, while India, with which Nepal shares more than 1,800 km-long border, is 22 times larger.

Table 1: GDP comparison of China, India, and Nepal			
Country/year	China	India	Nepal
1960	128	149	2.69
1970	187	220	3.43
1980	341	296	4.22
1990	828	508	6.7
2000	2,230	873	10.9
2010	6,090	1,680	16
2019	11,500	2,960	24.6

Source: The World Bank, 2020 (in billion USD at 2010 constant prices).

During the last 60 years, Nepal’s nominal GDP grew by only 9.2 times from 2.67 billion USD in 1960 to 24.6 billion USD in 2019 (Table 1) whereas India grew by approximately 20 times from 149 billion USD to 2.964 trillion and China from 128 billion USD to 11.537 trillion, or 90 times.

It is often argued that geopolitics may not always hinder a nation’s path to economic growth if it can formulate growth-enhancing policies and implement them through efficient institutions in place. But, Nepal’s experience demonstrates growth prospects and development process get derailed when powerful neighbors meddle in the domestic affairs of a small country, exerting undue influence to press it to serve their political, economic, and strategic interests.

Late King Prithvi Narayan Shah used the analogy of a yam between two giant boulders to explain Nepal’s delicate position. The theory of the ‘buffer state’ is a close analogue. According to Efremova (2019: 108), a buffer system exists “[...] if (1) the buffer state is situated between (the) great powers; (2) there is roughly equal power distribution among the great powers, and, simultaneously,

a substantial power disparity between them and the buffer state; (3) there is a rivalry between the great powers over the buffer state, which tries to resist their pressure and retain sovereignty”.

Efremova's description closely fits Nepal's context. Nepal is sandwiched between two large powers that are also rivals in the regional power game. The idea of Nepal as a buffer state was initiated by the British Raj in India in the south when Tibet in the north was a sovereign state. For all practical purposes, both the concept and treatment were inherited by independent India since 1947 and China followed suit, mainly after it annexed Tibet in 1951.

One predicament of a buffer state like Nepal is to be subjected to endure the competing influence of the rival powers that surround it. A buffer state unable to adequately defend its national interest on its own is forced to consider the 'sensitivity' of the 'grave' security concerns of adjacent powers. Nepal is one striking example of such a 'buffer state' predicament with ramifications for its economic growth and development. This has largely compelled Nepal to concentrate its foreign policy and strategic options to assuage its first-order neighbors, India and China, in efforts 'not to compromise' their security regardless of its own.

The threats to the national security of neighbors override everything in their foreign policy consideration toward Nepal. According to Jha, India's core interest in Nepal is a security concern inherited by the government of independent India as a part of the British imperial legacy. From India's first ambassador to Nepal, Sir C. P. N. Singh, to the present, the instances of diplomatic insensitivity and micromanagement of Nepali affairs are innumerable. This quest for micromanagement under the pretext of security concerns still remains the mainstay of Indian foreign policy formulation in the broader parlance of continuation of Nehruvian thought that sees its entire neighborhood as its sphere of influence.

From the Chinese angle, security concerns revolve around three major issues. First, the issues of independence of Tibet and reunification of Taiwan constitute China's key security concern in its immediate neighborhood (Hien, 2020), and its main attention is directed toward the activities related to the 'free Tibet' movement and possible infiltration of the movement into Tibet via Nepal.

Second is the U.S.' Indo-Pacific strategy and Quadrilateral Security Dialogue (Quad) comprising the U.S., Japan, India, and Australia, ostensibly designed to corner China in the global affairs amidst the escalating trade war and geopolitical rivalry between China and the U.S. And, the third is China's long-standing strategic objectives in South Asia which include a stable and friendly South Asia for promoting deeper economic ties and enhancing its political influence in the Himalayas to ensure Tibet's security, settle the boundary dispute with India and enhance overland connectivity to West Asia via Pakistan (Singh, 2020).

Genuine reasons do exist for both countries to be cautious about the role and support of Nepal in addressing their security threats. Nepal cannot brush aside the hijacking of Delhi-bound Indian Airlines Flight 814 on December 24, 1999, that had taken off Kathmandu and landed in Kandahar in Afghanistan, as also the frequent cases of confiscation of fake Indian currency notes. All this apart, the presence of representatives of the Dalai Lama in Kathmandu in different guises and the movements of Tibetan refugees in and via Kathmandu have always raised Chinese eyebrows.

The issue here is not the efforts of two large neighbors to secure genuine national interests but their exaggeration of security concerns to use the same as a weapon to intervene in or micromanage Nepal's politics and policy formulation. Apart from such diplomatic muscle-flexing, three other geopolitical determinants have impacted Nepal's economic policy: the small size of the economy coupled with landlockedness; Kathmandu's distance of 1,000 kilometers from the nearest ocean port in Kolkata and the limitation of one single broad-gauge railhead connecting it to the border point at Birgunj; and a long and barely regulated open border with India. But, as the global power balance shifts, Nepal will be compelled to put its strategic interests above the economic and other national concerns.

Geostrategic contestations

Apart from India and China, during the Cold War era, global superpowers and other powerful nations also provided economic support to Nepal. But, except for some humanitarian and emergency assistance during natural calamities, geopolitical interests remained attached to their agenda of economic support using Kathmandu as a vantage point.

One of the first economic assistance programs delivered to Nepal by the USA. after the enactment of the Mutual Security Act in 1951 was poised to contain the spread of the communist ideology in China's neighborhood.¹ The U.S. government signed a four-point agreement on January 23, 1951, with the Rana regime ignoring its anti-democratic credentials, implicating that the U.S.'s geopolitical and security concerns had clearly overtaken all other considerations.²

The geopolitical priority of the United States' policy becomes explicit occasionally. The three objectives of the support were peace and stability in South Asia, Nepal's independence and territorial integrity, and selected programs of economic and technical assistance to assist development. Evidently, economic development ranked third among the priorities listed. Nepal as the 'outpost and a portal into China' hypothesis forced the U.S. to align with India to 'support' Nepal, resulting in the tripartite regional agreement among Nepal, India, and the USA. The agreement, in a clear geopolitical swipe, claimed to 'contribute to promoting greater economic strength in the area of Asia as a whole'.

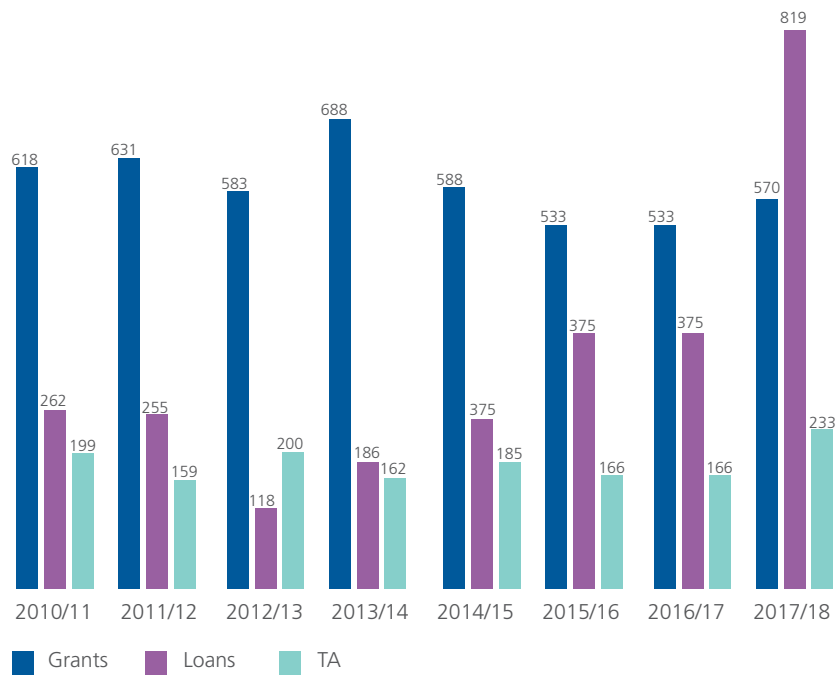
Other Western powers, except for Great Britain which already had century-long diplomatic relationships with Nepal, largely followed the U.S. foot steps to view Nepal's relations with China, lately developed as an Indo-U.S. foreign policy lens. This six-decade-old 'outpost and portal' perception still holds but seems to have expanded further as China is now the second-largest economy in the world, behind the USA. Other development partners also are 'believed' to have developed political interests to 'understand' China, and for that, most of them have their presence in Nepal. What certainly can be said here is that the donor community often design their aid keeping geostrategic factors in consideration. As Brown puts it, Nepal opened diplomatic relations gradually at first, providing a hedge against its dependence on India. The aid to Nepal by the early 1990s reached 10 per cent of the national GDP, way above the average three per cent for other low-income countries, but that it came down to seven per cent by 1995 after the end of the Cold War suggested there was a keener interest to be present in Nepal when the U.S. - China relations were tenuous. The figures below reflect the trend.

¹ The aim of the Act was to maintain security and promote foreign policy and provide for the general welfare of the United States by furnishing assistance to friendly nations in the interest of international peace and security.

² Diplomatic relations between the USA and Nepal were established on February 16, 1948.

Figure 1: Recent trends in foreign assistance to Nepal

Source: MoF/GoN (2018). TA: Technical assistance.



US\$ in million

Whether this growth in financial flow in aid supported Nepal's socio-economic development or it primarily served the donors' geostrategic interests is an issue to be looked into. The real impact of foreign aid on the economic growth of Nepal is negligible and statistically insignificant considering the large sums of aid inflows (Pradhan and Phuyal, 2020). But, they did undoubtedly add burden in devising Nepal's foreign policy and 'balancing' diplomatic relations with its two immediate neighbors. This balancing act has been very costly for Nepal's potential to grow and prosper. The theoretical mainstay of Nepal's foreign policy has been 'non-alignment' vis-à-vis the world and 'balanced' vis-à-vis its two neighbors. But, in practice, 'imbalance' in neighborhood relations and tacit 'clientelism' in dealing with global powers have also persistently hindered Nepal in achieving economic ambitions.

The handling of relations with India and China demands delicate diplomatic skills to prevent the precipitation of a spiral of counterbalancing intrusions (Brown, 1971: 664). It was such a context that prompted Rose (1973) to comment: “[...] under the special interpretation given to non-alignment by King Mahendra, Nepal must treat China and India on the basis of absolute equality, at least superficially. Indeed, a whole new historical mythos, recently formulated in Nepal, aims at proving that cultural and intellectual influences from China and India have been equally important in setting Nepali social values and culture. Factually, this is nonsense, but psychologically, it makes a very good sense.”

Why should this be the case? A part of the answer can be found in the very closeness of the ties between Nepal and India. This perceptive imbalance with relations to India and China has had an overarching impact on the formulation and management of balanced diplomacy with these powerful neighbors. Efforts to make Nepal's foreign policy meet its economic needs and expectations have been continuously overshadowed or defocused by a constant exogenous compulsion to manage or deflect the ‘spiral of counterbalancing intrusions’. The entire national energy—political, social and psychological—is exhausted to assert sovereignty and regime security, and only to a limited extent to further economic interest.

S.D. Muni (2016: 266), considered influential in shaping India's Nepal policy, said, “Nepal's sensitivity on sovereignty has always been a critical factor in Nepal's relation with India in view of the former's geographical, economical and socio-cultural proximity and dependence on the latter. It is widely known and accepted that Nepali nationalism has often been expressed in terms distinct, different and incompatible with India”. Brown (1971) also attests that the overriding goal of Nepal's foreign policy has been to maintain sovereign identity by counterbalancing the relationships with India and China.

The economic growth and development of Nepal have also been severely hindered by severe constraints of investible resources. To undertake any development project, reliance on foreign assistance has been the only option, evidenced by the fact that the initial plans of Nepal heavily depended on foreign assistance and there are many factors to that end.³

³ This is partly also because the national income was misused and often siphoned away to foreign countries by the rulers before the national budget system was introduced in 1951.

Table 2: Percentage of foreign aid in the first five periodic plans of Nepal

First (1956-61)	71
Second	81
Third	50
Fourth	58
Fifth (1975-80)	45

Source: MoF, Economic surveys of various fiscal years.

Nepal barely had any alternative to accepting such foreign aid and complying with the conditionalities and priorities of the donors. Apart from the USA, the first among such donors was India as an adjacent neighbor with age-old cultural and social ties. The other one was China. Both these countries started giving economic assistance to Nepal at the earliest and remained the top donors (Mihaly, 1965). India was the single largest bilateral donor after the U.S. and the largest for the next 15 years until other development partners like Japan and the United Kingdom increased their aid disbursement.

Nepal welcomed assistance also from two communist countries, China and the (then) Soviet Union in the late 1950s. They had joined in with their strategic calculations and interests: China to project its image as a leader of the international communist movement and the Soviet Union to compete with another global superpower, the USA (Khadka, 1997). Other countries and multilateral development partners, too, entered the scene and the trend continues (Bhatta, 2017). The foreign aid component in Nepal's national budget has remained to the tune of 30 per cent since the annual budget system as a part of the five-year periodic plan in 1956. Ironically though, in later years, Nepal's total capital expenditure has remained more or less equal to the size of the foreign aid.

Geopolitics of regional influence

Indian strategy

Nepal's interactions with India have been historically far more extensive than those with China due to the open border along the southern plains, socio-cultural similarities, cross-border nuptial exchanges, and Nepal's heavy dependence on India for centuries on trade and transit. It is in stark contrast to the north, where Nepal's border with the Tibetan autonomous region of China is marked by

the Himalayas with a few high mountain trails and passes that facilitate trans-Himalayan movement of goods and people.

Right from the days when Nepal started to accept development aid, the intentions of donors and recipient did not seem to fully align. For strategic reasons, India 'showed no interest in roads unless they are connected with the Indian border' (Mihaly, 1965: 148). In choosing Nepal as one of the three beneficiaries of financial assistance along with the protectorate states of Bhutan and Sikkim, the Indian strategy was clearly to place Nepal in the same category as these two countries and extend regional hegemony through aid.

The national interest in regional geopolitics can have diverse definitions and connotations. The foreign policy with geopolitical reality at the center may mean ensuring the security of population and territory, better bargaining over terms of trade, and securing the country's interests in harnessing natural resources. But, the Nepali rulers failed to strike a hard bargain for fears over their regime security. At times, the assertion of sovereignty coincided with the quest for regime security, particularly for the Shah monarchs and Rana prime ministers. One hypothetical perception based on several incidents is that whenever a Nepali ruler chose to bargain hard with India, he soon lost his grip on power.

Thus, in many cases, as a part of geopolitical compulsion, any Nepali ruler who chose to placate the Indian rulers was deemed to be wiser than the ones who confronted them: "It was neither inappropriate nor unnatural on the part of Prime Minister Chandra Shumshere to maintain excellent relations with the British government around 1920 so as to serve his own and Nepal's interest by learning a lesson from a bitter pill of history that earlier Prime Minister (Mukhtiyar) Bhimsen Thapa sacrificed one-third of the Nepali territory by provoking the far more powerful British government in 1814 that had become so bullish by its recent victory over Napoleon who had set out to conquer the world" (Pandey, 2019: 8).

Clearly, Rana oligarchs managed geopolitics primarily to serve their vested interests and sustained their regime for more than a century, confronting aggressive British imperialism and impulsively dominant China. As a gratitude to the Rana regime's support to the British government during World War I, the

British government in India, in March 1920, announced the support package of 1 million Indian rupees grant per annum and a one-time purse of 2.1 million rupees to Nepal. In October 1920, the British government, to the extreme elation of Chandra Shumshere, accorded him also the honor of 'His Highness' perceived to have constituted an implicit recognition of him as the prime minister of *sovereign* Nepal (ibid.).

This historical account is clear evidence of how the obsession with the regime security of Nepali rulers got factored into economic assistance, which often went into the pocket of rulers and became an intrinsic part of the geopolitical equation in place of the development needs and other national priorities. It may be safely argued that the intent, psyche, modus operandi, and fundamental features of foreign assistance have hardly changed even today after a century down the line.

Moreover, since such assistance becomes an instrument to pursue the foreign policy objectives of donors, their primary motive for India not being the exception has not been to strengthen Nepal economically or otherwise, but to weaken it to achieve the strategic objective of the 'investment' made. C.P. Thakur (2018: 8-9), who served at the leadership position in India's external intelligence agency, Research and Analysis Wing (R&AW), acknowledges this in his book 'R&AW and Civil Intelligence: A Factful Analysis' openly:

"Ever since the partition of the sub-continent India has been openly meddling in Nepal's internal affairs by contriving internal strife and conflicts through RAW to destabilize the successive legitimate governments and prop up puppet regimes which would be more amenable to Indian machinations. Armed insurrections were sponsored and abetted by RAW. In fact, under the garb of the so-called democratization measures, the Maoists were actively encouraged to collect arms to resort to open rebellion against the legitimate Nepali governments. The contrived rebellions provided India with an opportunity to intervene militarily in Nepal, ostensibly to control the insurrections which were masterminded by the RAW itself".

This first-hand account of a high-ranking Indian intelligence officer on how Nepal is viewed and treated by India explains why Nepal remains underdeveloped and poor. It is not difficult to see that India's general behavior, economic assistance,

and all other supports for Nepal tend to substantiate this strategy of 'first destabilize and then intervene'.

Inherent in all these machinations, policy preferences, and operations of India is its obsessive security concern, or in explicit terms, its perceived security threat from China. As an aid-dependent country, with almost 70 per cent economic and trade dependence on India, formulating an 'independent' foreign policy that truly supports its development becomes dauntingly difficult.⁴ What Leo E. Rose (1971) stated five decades ago still holds true:

"Nepal is extremely sensitive to external economic influences, particularly those stemming from India – a fact which imposes severe limitations upon Nepal's capacity to devise what is now usually called an "independent" foreign policy (Rose, 1971: 17-18)."

To take a cue from Thakur (2018) here, the ruling elites in Nepal, of both past and present, have traded with impunity the country's larger interests of economic well-being to guarantee their regime security. The 1950 Treaty of Peace and Friendship with India, widely regarded in Nepal not only as humiliating and unequal but also 'harmful to Nepal's sovereignty, independence, security, national integrity and well-being, was signed by the last Rana Prime Minister Mohan Shumsher to save the family rule (Thapaliyal, 2012). He was "...more concerned with getting the support of the new ruling elite of India for the safety of the regime rather than pursuing a broad and balanced policy frame" (Khanal, 1999: 13).

This, in fact, could be regarded to be the biggest trade-off of Nepal's national interest against regime security by any ruler in history. However, the Shah kings were not far behind in such trade-offs. On the Kalapani-Limpiyadhura India-Nepal border issue, which is now at the center of controversy in bilateral relations, the then King Birendra reportedly had asked the Survey Department officials to exclude the territory from the map published in 1975, apparently to not provoke the Indian establishment. According to Punya Prasad Oli, a former

⁴ According to 'A Dictionary of Diplomacy' (Berridge, 2001) economic diplomacy is: (1) Diplomacy concerned with economic policy questions, including the work of delegations to conferences sponsored by bodies such as the World Trade Organization; (2) Diplomacy which employs economic resources, either as rewards or sanctions, in pursuit of a particular foreign policy objective. This is sometimes known as 'economic statecraft'.

director-general of Nepal's Survey Department, King Birendra had asked him not to make an issue of the Kalapani dispute in the 1970s (Ghimire, 2020), concerned that India could work to end his rule. Earlier in 1962, his father, King Mahendra had permitted Jawaharlal Nehru to use the Kalapani area to station Indian troops during the India-China war. In exchange, the king, apparently, had convinced Nehru not to provide 'any' support to the Nepali democratic forces in Nepal and India.

Compromises made at the expense of national interests to safeguard personal or party interests by Nepali politicians, thus, have a long history. Sharma (2019: 471) argues that India is hardly willing to change the tendency "[...] to indulge in one experiment after another in Nepal, at the heart of which lies its desire to have a state of 'controlled instability', where no single force is decisive, so that Nepal's dependence on its (southern) neighbor persists and it can guide the country where it sees fit."

Some believe that after the BJP government came to power under Narendra Modi in 2014, the Indian foreign policy approach has undergone a sea change. But, the idea of competing with China in retaining regional influence remains intact. As a prominent critic of the Belt and Road Initiative (BRI), India has sought to forge its connectivity projects with South Asian partners and others, notably Japan, to promote *samridhi* or prosperity not just in India, but also in its neighborhood (Hall, 2019).

Chinese strategy

Soon after the establishment of diplomatic relations with China on August 1, 1955, the first aid agreement was signed on October 7, 1956, for 12.7 million USD over three years. The stated purpose was budget stabilization and the motive behind the support was evidently Peking's desire to normalize relations with Nepal (Bartke, 1975).⁵

Like India's first financial assistance focused on its two protectorates—Bhutan and Sikkim—and Nepal, China's initial financial aid picked three bordering communist

⁵ Nepal's relations with China were in a hiatus since 1950-51 as China was taking over Tibet, raising new fears in Nepal and Nepal's Prime Minister Mohan Shumsher trying to appease New Delhi to save his position.

countries—Vietnam, Cambodia, and North Korea, along with Nepal. In this context, Namboodiri (1979) states, Nepal enjoyed a top priority in China's aid policy due to security and ideological interests. It was not difficult to see that in all these offers, the geostrategic interest of the donor was more dominant than the economic interest of the recipient. According to Mihaly (1965), the then Chinese President Mao Tse-tung aggressively sought power equilibrium in South Asia by containing India. In a later edition of his book, he sums the Chinese intentions of the time up: "In the very long run, China may have looked forward to the incorporation of Nepal into the Chinese state or at least having Nepal as a communist-controlled state. Mao Tse-tung had described Nepal as a part of the ancient Chinese empire and indicated that it should be restored" (Mihaly, 2002: 117).

The prognosis of Mao's ambition of ultimate annexation may appear to be an overstatement, even purely anachronistic, in the present-day global order. But, it still persists as a reality of the day. The economic diplomacy of China in the Belt and Road Initiative has been reshaping global and regional engagement over the last seven years and has exacerbated competition over regional influence. After "Xi Thought" was adopted as a guiding principle for governance and diplomacy for contemporary China in October 2017, President Xi Jinping vowed to make the BRI an overarching Chinese framework for economic and diplomatic operations in China's neighborhood and beyond.

Nepal and China signed the BRI agreement on May 12, 2017. The MoU signed virtually incorporates every possible facet of Nepal-China relations, which makes the entire gamut of Nepal-China relations now a part of the BRI, meaning any Chinese support to Nepal would only be possible as some form of the BRI. The Chinese strategy is unambiguously straightforward. The cardinal objective of any support that China would provide to Nepal under the BRI is unlikely to be Nepal's well-being alone but contingent upon an inherent potential of the agenda to access the South Asian market and populace. What India fears here is Nepal's possible conversion into a 'buffer' or 'bridge' state, which means losing its regional geopolitical influence and, consequently, a threat to its national security.

Actually, Nepal does not fall into any of the six belt and road alignments identified by China under the BRI.⁶ Nepal also was not mentioned in any of the key BRI speeches made by President Xi, particularly the ones in May and October 2017. The nature of Nepal's participation depends largely on how China defines the 'extended' routes under the BRI. This may explain why Nepal's engagement in the BRI has largely remained sporadic even after three years of the signing of the MoU. China, though, appears keen to include Nepal in the BRI framework of regional infrastructural development, where for years China-Nepal railroad has been one key issue.

India has three key issues over the BRI: 1) Security (China-Pakistan Economic Corridor in the west, Myanmar-Bangladesh corridor in the east, and the 'string of pearls' strategy in the Indian Ocean cordon off India); 2) The 'debt trap'; and 3) India could lose its traditional sphere of influence in the subcontinent (Kumar, 2019).

China, on the other hand, seems determined to bring entire South Asia into the BRI fold, and intends to achieve it via Nepal: "If the China-Nepal railroad were to benefit only these two countries, it would be uneconomic. The most ideal proposition would be to connect this railroad to the Indian railway network making Nepal the transit state between mainland China and the Indian subcontinent. This will substantially reduce the distance of cargo transit between China and India" (Guohong, 2020).⁷

Regional geoeconomics and Nepal

The volume, frequency, focus areas, and nature of economic exchanges between the countries involved are undoubtedly the most tangible elements of geopolitical influence. But, only a comprehensive evaluation and analysis of the nature, priorities, timing and choice of the economic exchanges can objectively explain the exact motives and implicit agenda of such interactions.

⁶ The six main economic corridors under the BRI are – China-Pakistan Economic Corridor (CPEC), Bangladesh-China-India-Myanmar (BCIM) Economic Corridor, China-Indochina Peninsula Economic Corridor, China-Central Asia-West Asia Economic Corridor, New Eurasia Land Bridge Economic Corridor, and China-Mongolia-Russia Economic Corridor.

⁷ Qui Guohong was Chinese Ambassador to Nepal from 2008 to 2011.

The stark contrast of the size, capability, and economic growth rates of Nepal and its two neighbors and the persistent resource crunch back home have put Nepal at the receiving end in all economic negotiations as it cannot afford to shut any windows of economic support available regardless of their origin, intent, and adverse impact in the long run. The five domains of economic exchange of Nepal with its two neighbors are:

- Official development assistance (ODA)
- Trade, transit, and trade facilitation
- Foreign direct investment (FDI)
- Water resources and hydropower development
- Humanitarian and emergency support

Official development assistance: Projects and contexts

Both India and China started to provide development assistance to Nepal in the 1950s. The USA had entered the game of foreign aid in Nepal before them.⁸ Scholars by and large agree (Rose 1971, Mihaly 1965 and 2002, Garver 2001) that every Indian and Chinese economic assistance to Nepal bears three key features: competition, security interests, and strategic ambition to expand the sphere of regional influence.

Table 3 below compares the ODA offered to Nepal in two decades of planned development between 1958 and 1978 including grants and loans but excluding technical assistance, by India, China, and the U.S. India remained the single largest bilateral donor and China the third one (followed by the Soviet Union). India, overall, throughout these 20 years provided more than twice the volume of aid compared to China.

⁸ It is important to note here that during the Cold War, India and the U.S., both democracies, were not in the same bloc of alliance while relations between China and Soviet Union, both communist regimes, also remained frayed. India was practically in the Soviet bloc. But, all three were apprehensive about China.

Table 3: Nepal's foreign aid, 1958-1978 (in million Nepali rupees)

Year	China	India	USA
1958-59	12.6	17.102	17.951
1959-60	32.135	18.450	56.225
1960-61	3.8	22.355	86.997
1962-63	3.200	13.600	46.800
1963-64	14.700	34.000	74.400
1964-65	12.140	62.736	65.530
1965-66	16.200	93.000	57.000
1966-67	24.583	77.633	34.926
1967-68	26.160	95.867	32.226
1967-69	46.870	126.185	86.949
1969-70	76.670	160.301	66.747
1970-71	47.170	125.362	59.734
1971-72	53.100	109.270	45.202
1972-73	34.200	94.800	38.600
1973-74	34.300	112.700	31.850
1974-75	49.200	103.900	84.700
1976-77	105.900	117.600	42.800
1977-78	67.000	113.200	58.800
Total	659.928	1498.061	987.437

Source: Garver, 2001: 142 (data of missing years was obtained by the author from other various sources).

The nature of competition on aid between the two countries has not changed in recent years as the aggregate disbursement is nearly equal (see table 4). But, these countries are now the fifth or sixth largest donors to Nepal. India provided 9.25 per cent more aid to Nepal than China. Both countries are far short of disbursing their committed amount. India disbursed only less than 30 per cent of its commitments between 2010-2019, China almost 35 per cent.

Table 4: Foreign aid from India and China in recent years (USD million)

Year	India	China
2010-11	34.47	9.83
2011-12	50.62	22.48
2012-13	63.81	13.97
2013-14	47.80	36.30
2014-15	22.23	28.76
2015-16	35.77	46.26
2016-17	59.26	55.59
2017-18	56.76	58.73
2018-19	82.17	142.67
Total	452.89	414.58

Source: MoF/GoN, 2020.

The financial support from both countries at the beginning was mainly spent on the construction of highway projects which were at the center of Nepal's transport infrastructure development (see table 5). Beyond roads, both countries also competed to fund hydroelectric projects, first small ones, but later also larger projects. The pattern of the timing and size of the projects undertaken (see table 6) clearly indicates competition between the two in this regard as well.

Table 5: Road projects financed by China and India

China-aided road projects	Length (km)	Year constructed
Araniko (Kodari) Highway	104	1963-67
Prithvi (Pokhara) Highway	174	1965-67
Kathmandu–Bhaktapur Road	13	1969-71
Gorkha–Narayanghat Road	60	1976-82
Kathmandu Trolley Bus	14	1973-75
Kathmandu Ring Road	27	1974-77
Pokhara–Mustang Road	73	1987-90
India-aided road projects		
Tribhuvan Highway	116	1953-59
Siddhartha Highway	200	1965-72
Dakshinkali Road	19	1969
Mahendra Highway (Eastern section)	300	1969-75
Kathmandu–Godawari Road	16	1973-75
Kathmandu–Trisuli Road	69	1972-75
Hanumannagr–Phatehpur Road	28.2	1975-77
Hanumannagar–Rajbiraj Road	13.5	1983
Mahendra Highway (Butwal–Kohalpur)	310	1984-86
Mahendra Highway (Kohalpur–Banbasa)	200	1986-92

Source: Bhattarai, 2005: 76-78.

It was not only the roads that the two neighbors were found competing in. China panicked when the USSR entered the scene to finance cement and cigarette factories as well as a hydropower project at Panauti since China-Soviet relations were deteriorating in the 1950s.

China considered Asia historically to be under its sphere of influence and the Soviet Union as an interloper (Goldman, 1967) and, therefore, determined to neutralize Soviet influence. Nepal, thus, became a geopolitical battleground in the game of development aid.

Table 6: Foreign aid financing hydro projects

Country	Project	Year	Capacity	Cost (NR million)
India	Trishuli Hydropower	1958-72	21 MW	135.5
China	Sunkoshi Hydropwer	1968-72	10 MW	100
USSR	Panauti Hydropwer	1965-71	2.4 MW	27

Source: Nepal Electricity Authority Annual Report 2018/19.

China, thus, diversified its aid to establish factories that produced consumer goods in line with Nepal's priority of import substitution, which meant a reduction of imports from India. This included Bansbari Leather and Shoe Factory, Bhaktapur Brick and Tile Factory, Harisiddhi Brick and Tile Factory, Hetaunda Cotton and Textile Mills, Bhrikuti Paper Mills, and Lumbini Sugar Factory (Prasad, 2015).

The major highways built through foreign aid brought the geopolitical chess game to the fore. The four highways constructed by India and China (Tribhuvan, Siddhartha, Araniko, and Prithvi) illustrate this point. The first strategy of both donors was to connect its border with Kathmandu or a location of their interest like Pokhara. The Tribhuvan Highway that connects Kathmandu with the Indian border town Raxaul runs through the Mahabharata hills and was built by Indian army engineers. The road was deliberately aligned along a formidable terrain despite the availability of better alternatives, possibly to prevent the easy access of Chinese convoys to the Indian border or to create a market for Indian vehicles and spare parts.

Another road, built with Indian support, is the Siddhartha Highway that connects the Indian border point of Sunauli to Nepal's mid-hill town of Pokhara whose design and terrain covered are analogous to those of the Tribhuvan Highway and served three strategic purposes. First, it ran through hills settled by Magar and Gurung communities serving in the Indian Army and hence were major sources for recruitment. Second, the largest pension camp for the Indian

Army ex-servicemen from Nepal is in Pokhara. Third, Pokhara also houses many refugees who had fled Tibet after the Chinese occupation.

China wanted to build a road from its Tibetan border point, Kerung, to Kathmandu. However, due to the insistence of King Mahendra, it agreed in 1961 to finance Kodari Highway connecting Kathmandu with its border, then leading to Lhasa, the capital of the Tibetan Autonomous Region. The second road project was Prithvi Highway that connected Kathmandu with Pokhara. China also invested in several other small irrigation and hydel projects in Pokhara. The strategic importance for China to focus on this project was again the Tibetan refugees who were thought to be fueling unrest in Tibet. The Pokhara International Airport, now under construction, is also being financed by China.

The process of financing aid projects was not free from controversy. For example, there is a case of the Kohalpur-Banbasa strip which is perhaps the most glaring one. In 1984, India, despite its earlier commitment, was reluctant to build this section. Nepal then negotiated a loan of 50 million dollars from the World Bank and Arab Fund and invited a global tender which was bagged by China as the lowest bidder. Citing security concerns, India forced the Nepal government to cancel the deal with the Chinese company at the cost of two million US dollars.⁹ A new agreement with India was signed on September 28, 1985 (Bhasin, 1994: 1197).

China was also debarred from the Itahari-Dhalkebar section of the East-West Highway in the late 1970s. A project was signed by Nepal and China to construct a mid-hill Pokhara-Surkhet Highway with 'free financial aid' from China on February 2, 1975 (Bhasin, 1994: 1411). However, the project did not take off until recently due to the Indian objection to making the BP Highway a double lane. The Japan-funded highway leads to the Chinese border, and India saw a threat in the direct link with the Tarai plains by a double-lane highway. The Nepal government succumbed to the pressure of India (Ghimire, 2020). That sense of awe continues between the two powerful neighbors. Even as China is carrying out a feasibility study of a 72-km railway line to connect Kerung with Kathmandu, India has completed its pre-feasibility study to construct that 136-

⁹ A part of this information was obtained during an interview with a former senior engineer of the Nepal government, who did not want to be named but was then part of the bidding process.

km Raxaul-Kathmandu electric rail line. “To counter China’s influence through the proposed rail corridor, India has also planned other railway links in Nepal (Bhalla, 2020).

Transit and trade facilitation

Nepal has never enjoyed a trade surplus with India. Contiguous access, cultural links, and unhindered interaction facilitated the trade. In the past, Tibet was a major partner in Nepal’s trade. “For the last several hundred years prior to 1900, the prosperity of Kathmandu valley and intermediate areas along the main trade routes was largely dependent upon [...] trans-Himalayan trade” (Rose, 1971: 17). According to Garver (2001), since the 7th century, Nepal served as an entrepot and trade became a lucrative source of income for the Nepali rulers. But, Nepal was never a major manufacturing and exporting economy, which made it economically dependent on India, even for the basic needs of the people.

Table 7: Recent trend in Nepal’s trade with India and China (US dollar billion)

Year	Exp to India	Imp from India	Deficit w/ India	Expt to China	Imp from China	Deficit w/ China
2009/10	0.533	2.417	-1.885	0.020	0.422	-0.402
2010/11	0.571	3.250	-2.679	0.014	0.561	-0.547
2011/12	0.614	3.746	-3.133	0.010	0.691	-0.681
2012/13	0.610	4.249	-3.639	0.023	0.742	-0.719
2013/14	0.592	4.539	-3.948	0.024	0.732	-0.708
2014/15	0.593	5.211	-4.618	0.032	0.950	-0.918
2015/16	0.454	4.047	-3.593	0.018	0.915	-0.897
2016/17	0.397	5.850	-5.454	0.018	1.247	-1.229
2017/18	0.419	6.562	-6.143	0.022	1.271	-1.249
2018/19	0.460	8.332	-7.872	0.022	1.732	-1.709
2019/20	0.514	6.674	-6.160	0.013	1.532	-1.520

Source: Trade and Export Promotion Center Nepal, 2020.

This situation remains largely unchanged except that Nepal’s trade with India on a yearly average makes up roughly 70 and trade with China approximately

15 per cents of the total foreign trade of the country (see table 7). Yet, the majority of imports from China also use the Kolkata port to enter Nepal. There are several structural and efficiency issues like tariff and non-tariff barriers as well as economies of scale and comparative disadvantage, hindering mass production of consumer goods in Nepal since all raw materials must be imported.

Nepal's ever-burgeoning trade deficit, which at present is almost half of the country's GDP, makes Nepal a lucrative market for its neighbors. Nepal's export-import ratio with India is on a yearly average of 1:15 while with China, it is now more than 1:100 (see table 7). The explanation lies in Nepal's severe supply-side constraints and the absence of support to facilitate its trade.

As a landlocked country, transit trade is a more critical issue than merchandise trade for Nepal which has suffered frequent blockades by India. India was not a signatory to the 1965 International Convention on Transit Trade of Landlocked Countries that provided better transit rights to landlocked countries. It was only recently that India became a signatory to the UN Convention on the Law of the Sea that, in theory, provides Nepal access to a sea. But, there is also a catch: under international law, a landlocked country has a right to only one transit route to the sea and India argues that it has been magnanimous in providing several access points to reach the Indian ports.

Apart from the irritants and humiliations on trade and transit processes suffered by Nepal, which has little capacity to deflect, India has imposed three crippling 'economic blockades' obstructing trade and transit in recent history – in 1970, 1989, and 2015. Nonetheless, these blockades were not officially declared. The first two blockades were imposed after the failure to renew bilateral trade and transit treaties but were also protests against Nepal's deepening relations with China. With the 1970 blockade, Delhi expressed displeasure on the construction of the Araniko Highway that connected Kathmandu with the Chinese border point of Kodari. The second embargo in 1989 came as a reaction to Nepal's purchase of Chinese arms. The third one was clamped to express India's displeasure on Nepal's promulgation of a new federal constitution that embodied secularism, abandoning the traditional identity of a Hindu state which India's ruling party BJP wanted to retain. Altogether, these incidents reveal Nepal's geopolitical compulsions and weakness in asserting its trade and transit rights. The plunges that the country suffered in GDP growth rates in the years of blockades, for 13 months in 1989

and six months in 2015, are strikingly evident. In addition, the third blockade set off a new phase of diplomatic closeness with China.

China, on its part, was unable to extend help to Nepal. During all three blockades, China was not forthcoming to provide needed supplies of daily consumables. After the 2015 blockade, Prime Minister KP Sharma Oli solicited transit support and, in September 2018, Nepal signed a deal with Beijing that would allow it to move goods to the Chinese ports for sale in the third countries (Nayak, 2018). Nepal also received commitments to fund rail and power projects as India struggled to make up the ground lost with its neighbor (Hall, 2019). Yet observers like Sigdel do not see Oli's effort as a dramatic shift in Nepal's foreign policy except a diversified policy to take advantage of its geostrategic position.

However, since the nearest Chinese port of Tianjin is 3,800 km away from Nepal's border, compared to a 1,000 km distance of Kolkata port, the transportation cost is 2.1 times higher and unfeasible (Garver, 2001). Cultural plus linguistic differences and visa and documentation problems in customs are further barriers in the transit and trade with China. This explains why although it more than doubled from \$414 million in 2009 to \$990 million in 2017, the bilateral trade volume is still very small compared to India. All this means that Nepal's dependence on India for both trade and transit is unlikely to substantially alter anytime soon.

Foreign direct investment (FDI)

From an economic perspective, the most compelling argument in favor of the FDI is that it brings 'positive productivity effects' with increased economic efficiency. Bardhan (2001) argues, for instance, that the FDI engenders productive efficiency through three mechanisms via international trade and investment: new and cheaper capital goods become available in the form of factor inputs; new ideas and production techniques arrive; and market discipline, without which producers cannot compete, operates mainly in the export market. This, in turn, does 'wonders for productive efficiency'. Alfaro and others (2013) also argue foreign direct investment generates positive productivity effects in the host countries by modernizing a national economy and promoting economic development.

But, the multinational companies that invest particularly in resource-scarce countries like Nepal are often found also to be exerting considerable political influence on the foreign policy of the host nation through lobbying or their economic agenda-setting power. The FDI-led companies may also have their preferences on specific domestic policies, specifically tax, regulatory, and labor laws. Such political influence is often commensurate with the size of the investment made and the geopolitical clout wielded by the investor. Such influence becomes more pronounced when the investing companies are government-owned as in China, and to a certain extent, also in India.

Given its geographical location, it is not surprising that the foreign investment portfolio of Nepal is dominated by China and India. The two neighbors not only jointly constitute more than 70 per cent of the total inflow but also stand as equal contributors at approximately 36 per cent each (table 8). China surpassed India as the largest aid donor and source of foreign direct investment to Nepal in 2016 (Sharma, 2018).

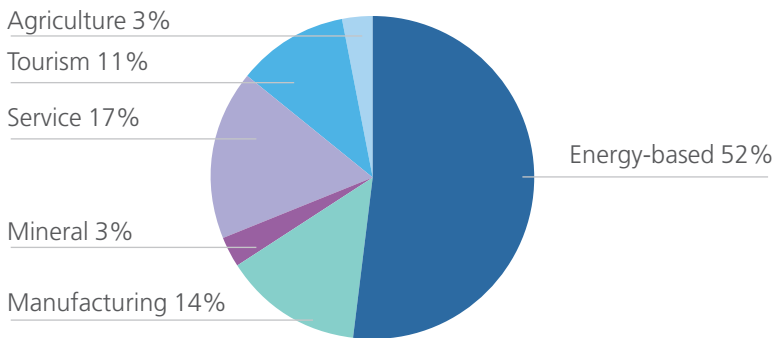
Table 8: Top ten foreign direct investors, country-wise, up to FY 2018-19		
Country	FDI (Rs mn)	Percentage share
China	94,677.13	35.74
India	94,111.04	35.52
UK	13,549.11	5.11
South Korea	12,323.75	4.65
USA	9,063.07	3.42
Singapore	4,517.39	1.71
Mauritius	3,354.70	1.27
Japan	3,076.21	1.16
UAE	2,984.51	1.13
Switzerland	2,920.01	1.10
Other	24,363.54	9.20
Total	264,940.46	100.00

Source: Department of Industries/GoN, Industrial Statistics, 2020.

The figures indicate the level of competition in investment between the countries. Hydropower development dominates investment from both sides, claiming more than half of the entire FDI in the last decade (figure 2). Agriculture, on the other hand, that needs modernization and commercialization attracts only three per cent. The medium and hundreds of small-sized projects range from industries like construction material and organic agro-products to wigs, tooth-crowns and electronic items. In the service sector, investments are not limited to hospitals, educational institutions and software development, interior decoration and design, language and music training institutes. Still, compared to Nepal's neighbors, the FDI inflows in Nepal are substantially low with a 0.01% share of the total FDI in the world while the South Asia region as a whole received over three per cent in 2017 (Wagle, 2019). It is an irony that the two giant economies with similar competitive advantages at the very doorstep of Nepal absorb most of the FDI.

Figure 2: Sector-wise FDI distribution (2009-2018)

Source: Author's calculation using data from various sources (2019).



Water resources and hydropower development

The harnessing of water resources remains a highly contentious issue among countries that share the same river basins. Nepal, India, and China share one of the world's most critical basins – the Ganga river basin. It stretches from the Tibetan plateau and runs 2,500 kilometers across Nepal and India to Bangladesh,

emptying into the Bay of Bengal. The basin encompasses a multitude of glaciers, thousands of tributaries, vast plains, and an extensive, fragile delta. It is the world's most populous river basin with 655 million inhabitants who depend on the water from the Ganges and its tributaries for drinking, agriculture, hydropower generation, navigation, and ecosystem services across more than one million square kilometers (World Bank, 2014).

All the rivers in Nepal are tributaries of Ganga whose contribution is about 45 per cent of the average annual and 70 per cent of the dry-season flow of the Ganga (Dixit and Gyawali, 2010). All the four major river systems of Nepal—Koshi, Narayani, Karnali, and Mahakali—are glacier-fed and originate in Tibet.

As a critical component of the region's geoeconomics, they remain a source of dispute as well as for potential cooperation. Every major bilateral agreement made between Nepal and India on water resource utilization in the past, such as Koshi Project Agreement (1954) and Gandak Irrigation and Power Project Agreement (1959), is perceived in Nepal to be highly unfair in terms of distribution of the benefits. There is a widespread perception that India has cheated Nepal in those treaties and that the country's natural resources have been sold out without getting much in return. Even the Mahakali Treaty (1996), considered to be an equal treaty between the two countries, is not moving forward because of Indian reservations over the use of the term 'equality' (equal share of electricity and water) adopted in the agreement (Nayak, 2012: 142). The bilateral agreements on utilizing transboundary rivers are not free of disputes either, because of the mistrust that prevails between the parties (Upadhyay, 2012). Despite the huge potential for mutually beneficial cooperation from harnessing available water resources for hydropower development, irrigation, water supply, flood control, navigation, and environmental services, distrust, disputes, and dearth of financial resources hamper cooperation.

India's order of priority in water resource management is flood control, irrigation, and generation of power. India conceded that flood control and irrigation have far outweighed power generation in investing in Nepali waters (Pun 2013). Nepal's order of priority is hydropower development, irrigation and flood control, navigation, and sustainable use of water resources. At high dams like the proposed Saptakoshi High Dam, the key Indian interest is water rather than power, and the issues of downstream and upstream riparian benefits have been

contentious as an inevitable part of regional geopolitics. Instead of resolving the issue of up- and downstream riparian benefits jointly among the nations in the Ganges basin, India stands for a bilateral approach. Upadhyay and Gaudel (2017: 22) argue India's aggressive bilateral stand on the Ganga's water intends to secure downstream riparian right from Nepal but wants to strike a different deal on the same with Bangladesh as the middle riparian country.

Some Indian scholars also see the emergence of a new dynamic in the water-related issues in the Sino-Indian conflict. China's stand on the development of water resources in Tibet related to the construction of high dams, reservoirs, and diversion of the flow could leave a huge impact on the rivers that flow across the Himalayas into the subcontinent from the Tibetan plateau (Mohan, 2012: 26).

Political influence and muscle-flexing are often evident in project-financing modalities and foreign direct investment. One case in point here is the reservoir-based 1,200-megawatt Budhigandaki Hydropower Project. The contract was originally awarded to China's Gezhouba Group during a time when Pushpa Kamal Dahal was Nepal's prime minister. His successor Sher Bahadur Deuba scrapped it, citing irregularities in the contract, but then, however, was given to the same company by the new government under Prime Minister KP Sharma Oli. Progress on the project, however, remains negligible. Yet, a China-Nepal joint venture completed the 50-MW Upper Marsyangdi hydroelectric project almost on time and the Chinese could try to capitalize on that success to bag new contracts.

The controversies raging around the GMR, an Indian infrastructure development company, over the construction permit of 900MW Upper Karnali Hydroelectric Project for the last one decade, and the government-owned Sutlej Vidhyut Nigam Limited's Arun III Hydropower project in eastern Nepal as also the strategic shift of India on the Pancheswar project in the Mahakali basin, a border river, are examples of how geopolitics has become a liability in Nepal's water resource management.

Humanitarian and emergency support

Ideally, humanitarian and emergency assistance offered by friendly nations should have ignored geopolitical interests. But, this is generally not the case.

India, since 2003, financed 'small projects' outside of Nepal's budget system on the ground that these funds would be utilized on the welfare of the pensioned ex-servicemen of the Indian Army. The agreement has been extended up to 2023 (Shrestha, 2020). Similarly, China has put all its financial assistance into the BRI basket which has its own conditionalities, processes, and priorities to be complied with by the recipient in the overall interest of the donor.

One grotesque face of geopolitical competition emerged during the humanitarian crisis followed by the devastating earthquake that struck Nepal on April 25, 2015. Within four hours after the quake, India announced Operation Maitri and was quick to mobilize an air force aircraft with 46.5 tons of relief material along with 295 members of the National Disaster Response Force (NDRF). Eighteen helicopters were also sent as a part of the relief operation (Times of India, 2015). China, too, sent a large disaster relief team along with 55 People's Liberation Army soldiers and 186 tons of emergency supplies (Tiezzi, 2015). Both sides tried to present a highly 'humanized' face of their support which was commended within and outside Nepal as a generous gesture. However, as Chand (2017: 541) contends, "In line with disaster diplomacy, humanitarian motivations are only one part of the relief efforts. Both India and China's immediate relief efforts showcase a strong commitment to maintaining strategic advantage in Nepal." Overall, the disaster-and-rescue episode reflects how strategic interests override humanitarian sensibilities turning geopolitics into a strategically competitive game in a buffer state like Nepal.

Conclusion

Its location is bound to keep Nepal at the vortex of geopolitical maneuvering of its powerful neighbors—China and India—as the rivalry between the two is unlikely to end in the foreseeable future. Both will be competing to expand their spheres of influence in the subcontinent. As China grows in economic and military might, it is apprehensive about the role of India, the United States, and some European countries. Especially, China fears that external forces might push to destabilize Tibet at whose doorstep Nepal lies.

One unique feature of Chinese diplomacy is party-based diplomacy, funding 'friendly' (read 'communist') parties in other countries. It started in the early 1970s and has now reached an intensity that is not seen in other countries'

diplomatic practices. Under Xi Jinping's leadership, this tool is emerging as an important part of Chinese diplomacy. The Chinese Communist Party is also organizing 'training and workshops' with increased frequency for leaders and cadres of the Nepal Communist Party (Timalsena, 2020). While India, on the other hand, is seen openly favoring the Tarai-Madhes-based parties over others. Such political 'preferences' of the neighbors put Nepal in a difficult position.

On the other hand, Nepal's own priority is likely to be overshadowed by the mutual interests of the powerful neighbors even if they choose to collaborate. During Prime Minister Modi's China visit, India and China agreed to expand their border trade through the Lipulekh Pass, a far-western border point of Nepal near Kalapani, without consulting Nepal (Economic Times, 2015). Nepal protested but without result. Lately, China has floated the 2+1 concept, implying China and India (2) would form a common strategy to deal with another (1) country in South Asia (Singh, 2020).

Another fallacy that irks Nepal is that the two neighbors have been supportive of Nepal without seeking reciprocity. The trade balance, for instance, is always in their favor. The claim that India is a benevolent host to six million Nepali migrants is misleading. The World Bank (2017) estimated that only 550,000 Nepalis work in India and remit just 1.5 billion USD whereas Indians working in Nepal remit 3.7 billion dollars that amounts to the seventh-largest inflow into India.

The socioeconomic stagnation of the last seven decades reveals that Nepal has failed to benefit from the non-alignment and Panchsheel policies.¹⁰ Nepal has also been forced to insist on neutrality to avoid being used by either side. At the crux is Nepal's inability to set its national and strategic priorities and formulate a robust foreign policy in managing the geopolitical variable. Given Nepal's persistent shortfall of resources, the nation's foreign policy must put economic diplomacy and national development at the center. But, this demands a strong viable and assertive diplomacy to navigate Nepal's course in the days to come.

¹⁰ The Panchsheel (Five Principles of Peaceful Coexistence) was not Nepal's original enunciation. It was incorporated in the preamble to the 'Agreement between Tibet Region of China and India' in 1954.

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Broadening Choices for Nepal through Economic Diplomacy

Madhu Raman Acharya

Expanding economic activities and achieving the goals of development for all has become challenging if not difficult for Nepal. Nepal certainly has tremendous potential to generate such activities within the country, yet it can also reap the benefits such as foreign direct investments and other types of investment that are available at the global market. But all these can only be done when it adopts prudential economic policy and encouraging environment at home and appropriate economic diplomacy at the international level. It appears that both of them somehow are not moving into the right direction. While the discussion on economic diplomacy started since early 1990s but it is yet to take its momentum in way that it can truly fulfill its stated objectives. Likewise, the perpetual political instability in tandem with incoherent policy regimes has not created such conditions. The Covid-19 situation has further deteriorated Nepal's choices for expanding its economic sphere and it may still take more than expected time to recover from the pandemic. Yet, certainly can be done is mobilising the available resources and policy options. One such could be economic diplomacy and this article here looks into the various aspects of it.

Landlocked and dependent upon one single country – India – for sea access, Nepal has yet to diversify its sources for transit. However, this endeavor faces several constraints related to infrastructure, security, and economic attractiveness. Poised to graduate from the LDCs, it is still a lower-middle-income country with per capita gross national income (GNI) of 1,090 USD in 2019. The structural constraints compel Nepal to mobilize external sources of income through economic diplomacy. There is now an increased focus on economic development after the resolution of major political issues through a new constitution in 2015 and relative political stability since the election of a majority government in 2017.

The rationale of economic diplomacy

Making economic diplomacy work will require broader partnerships with the private sector and diaspora to attract more investment as well as to promote its

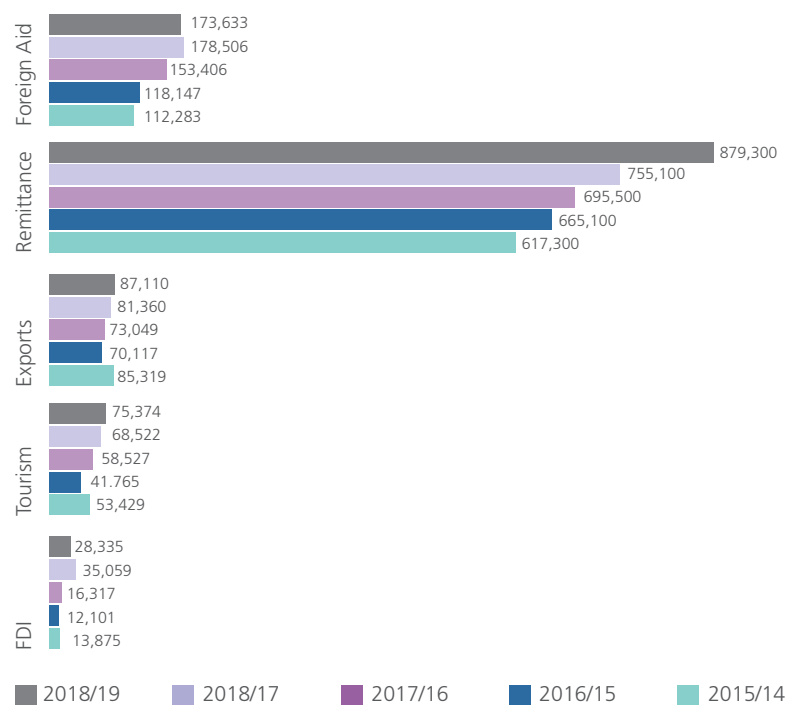
tourism and export potentials. This will need front-loading economic diplomacy in Nepal's regular diplomacy and exploiting its comparative advantages, focusing on sectors where Nepal can advance its benefits from external sources. There is a lot to gain for the country from bilateral, regional, and multilateral economic diplomacy. Furthermore, Nepal also needs to exploit the positive drivers within and around it to make its economic diplomacy work. The state needs to give its diplomats more economic orientation and start results-based performance management and evaluation of its missions abroad.

Economic diplomacy is about furthering the country's economic interests through its diplomacy. It is about pushing the comparative advantages in a country's economy concerning its external sources of income. Nepal has huge comparative advantages in its cheap and easily trainable human resources that can be used for labor-intensive and resource-intensive exportable products and abundant natural resources including water resources, biodiversity, and herbs. There are opportunities for investment also in hydropower projects and exportable industry with the country located between the two markets with the biggest growth potential. Other areas to attract investments are adventure, eco-wilderness and nature tourism, which are likely to remain in high demand in the aftermath of the Covid-19 pandemic.

Nepal's broader economic goals require the orchestration of all instruments at its disposal including its diplomacy. Effective economic diplomacy can contribute to creating jobs for people at home and abroad, and increasing the country's income from external sources such as exports, remittances, investment, and tourism. Economic diplomacy is furthermore imperative to reduce the existing trade gap, tap unused natural resources for economic benefits, make the best use of its chances as a world-famous tourist destination, and attract more foreign direct investments (FDI) in the key sectors including hydropower development and manufacturing. Nepal has substantive external sources of income including export trade, investment, remittances, aid, and tourism (see chart 1). Each of these sectors can be boosted through more proactive economic diplomacy. Most importantly, many of Nepal's strategic goals can be achieved through better economic diplomacy and enhanced interdependence with the neighboring countries.

Chart 1: Flow of income and transfers from external sources (Rs million)

Source: MoF, 2020.



Economic diplomacy is also needed to bring innovation in foreign policy and diplomacy. It helps in meeting resources, promoting Nepal's exports, attracting tourists and investments, and creating a conducive environment for Nepal's business abroad and helps advance political relations.

The current international economic environment is not very conducive to Nepal's economic prospects. The rise of protectionism and inward-looking and restrictive trade policies around the world initiated a backlash on the multilateral moribund trading framework under the World Trade Organization (WTO), economic globalization and the liberal economic order. Global economic growth, which was picking up after the financial crises, has been hit hard by the Covid-19 pandemic compelling the international financial institutions to revise growth prognoses. The pandemic has resulted in job losses and the return of migrant workers. The pandemic may last longer than expected and will need several

adjustments in the economic responses around the world. Given the scale of economic impacts, the post-Covid-19 economic scenario is uncertain.

Concerning the regional arrangements, though South Asia has remained one of the fastest-growing regions of the world, economic integration in the region remains stalled due to political deadlock in the South Asian Association for Regional Cooperation (SAARC). Another cooperation regime, the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), has so far also proved to be slow in implementing agreements to enhance trade, investment, connectivity, and integration. The effort to relaunch the stalled SAARC process through a video conference initiated by Prime Minister Modi of India in 2020 did not go far in the absence of substantive cooperation except for collecting funds to help fight the pandemic.

Most countries of the world, including Nepal's immediate neighbors and other big world powers, have robust economic diplomacy initiatives. They engage their diplomatic machinery abroad to pursue their economic interests, policies and initiatives with huge entrepreneurial zeal and push their interests through facilitation, negotiation, persuasion, and advocacy. The overtures made by Nepal's neighboring countries do matter in economic diplomacy. India, for instance, promotes what it calls "Neighborhood First" and "Act East" policies to promote economic integration, trade flow, investment, and tourism, as well as to consolidate infrastructure and connectivity with its neighboring countries. China's flagship Belt and Road Initiative (BRI) offers similar opportunities through increased Chinese investments, infrastructure and connectivity projects, bilateral trade, and people-to-people exchanges. As a signatory, Nepal has joined the Asian Infrastructure Investment Bank (AIIB) and has yet to ratify the agreement signed with the United States of America in 2017 to implement the 500-million USD Millennium Challenge Corporation (MCC) compact.

Prospects for economic diplomacy

Economic diplomacy can be regarded to have passed through three phases in Nepal: traditional, formative and transformative. In the *traditional phase*, economic interests used to figure in Nepal's dealing with other countries, mainly with Tibet and British India. King Prithvi Narayan Shah had the economic security of the country in his mind when he said that Nepal should be cautious of foreign merchants. Nepal fought wars with Tibet to protect its economic interests and

its traders and over a dispute on the circulation of Nepali currency in Lhasa. Nepal's first diplomatic mission, the *Vakil's* office in Lhasa, had Nepal's economic interests embedded into it. Later, the *Elaichi Kothi* was opened in Patna and the Customs Liaison Office in Calcutta to safeguard and facilitate economic interests. Diplomacy in those days was largely inward-looking, limited just to a few countries.

In the *formative phase* after the 1960s, the country opened up to foreign aid and tourists, signing trade and commerce treaties with India, China, as well as other countries and joined the Bretton Woods Institutions (BWI). In the 1980s, it supported the establishment of the SAARC, intending to gain from economic integration in the region, and housed its secretariat in Kathmandu. Nepal also pushed for niche-based economic interests such as the entry of Nepal's garments into the U.S. market. But, on an overall basis, the focus remained on aid diplomacy, sometimes referred to as 'begging-bowl diplomacy' in the sense that its diplomats were asked to bring in more aid from abroad. Economic interests started to appear in its diplomatic activities, but without much prominence and prioritization.

In what can be described as the *transformative phase*, Nepal adopted "economic diplomacy" as a major initiative after a high-level panel report suggested the term in 1996 (HLTF, 1996). It included promoting Nepal's export and tourism, finding jobs for Nepalis abroad, bringing in more aid and foreign investment under the purview of Nepal's economic diplomacy. That was warranted due to the rise of economic globalization and the prominence of competitive and liberal economic policies around the world. There was also a shift from the focus on aid towards trade, investment, remittances, and tourism. The state started to adopt liberal trade and investment policies and the earnings from these sectors witnessed a steady growth. In 2004, Nepal joined the WTO to benefit from the rule-based multilateral trading system. Economic diplomacy started to become a regular feature in the country's diplomatic activities abroad, with a focus on promotional programs and campaigns. The Government of Nepal now regards economic diplomacy as of crucial significance. Accordingly, funds are allocated to execute programs for the Ministry of Foreign Affairs and the missions abroad.

Despite the transformative focus on economic interests, economic diplomacy faces several challenges and constraints at home and abroad. It is not yet aligned with Nepal's broader economic goals including becoming a middle-income country and the long-standing pursuit of "prosperity".

Nepal's economic diplomacy programs are of repetitive and formal nature, unable to reach out to potential investors, employers, traders, and visitors. The promotional campaigns have been little imaginative and innovative and the state has yet to create a positive brand image for the country and the products it wants to promote abroad. There is a weak follow-up on the commitments made by potential investors during investment summits and conferences that Nepal has occasionally organized. A favorable policy and institutional framework are not communicated abroad well. The appointment of ambassadors is done without due consideration for economic diplomacy since it is still considered a lower-order job of the diplomats. There is, moreover, a coordination lag as many institutions, including those from the private sector, have overlapping mandates in promotional activities. Besides, the lack of clarity on the lead roles and the conflict of turfs and the unclear mandates of promotional agencies poses the challenge of coordination. There is tremendous goodwill towards Nepal in the international community, but various concessions that Nepal is entitled to as an LDC remain underutilized. This explains why Nepal's economic diplomacy has hardly taken off even after over two decades of experience.

Despite these lacunae, positive drivers and opportunities exist as well to advance Nepal's economic diplomacy. The economic rise of India and China and their diplomatic initiatives for economic integration and connectivity offer Nepal a certain room to become a bridge between them and for benefiting from its location between the two giant markets in Asia. The transit agreement with China and the agreement to implement BRI projects together with the proposal for road and rail connectivity offer huge potentials for Nepal to pursue its economic interests.

Though it may bring temporary setbacks in terms of aid and trade, Nepal's graduation from the group of the LDCs and its newfound status as a lower-middle-income country is expected to further unleash its business potential through increased FDI. There is a growing interest of the Nepali diaspora in investing in Nepal and in utilizing their skills, connections, and resources abroad to promote Nepal's economic interests in the respective countries. A favorable policy environment in Nepal for encouraging non-resident Nepalis (NRNs) to do so, including the provision of double citizenship sans the political rights, can bring better dividends from Nepal's diaspora. There is an already enhanced interest of investors from around the world in large industrial, construction, hydropower projects, and export-oriented manufacturing as expressed during

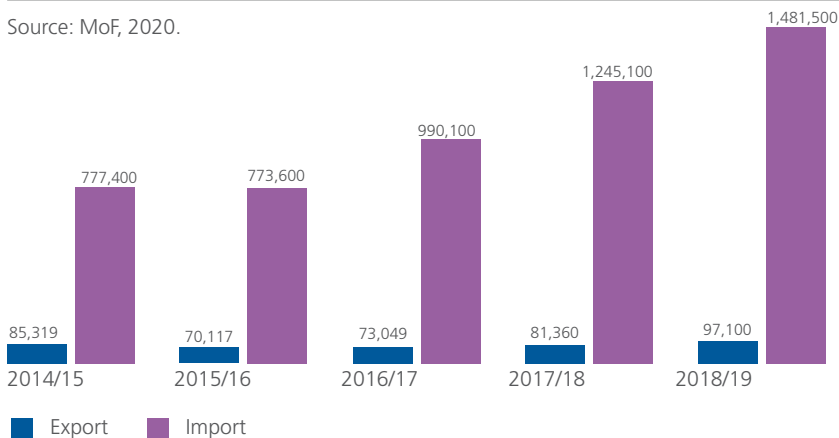
investment summits and conferences. There is, thus, an increased investor confidence level in Nepal, thanks to the improving World Bank ‘doing business’ ranking in recent years due to a more stable policy and political environment. Though the World Bank itself has indicated some lapses in its methodology on updating indicators, Nepal’s ranking jumped from 110th to 94th from the previous year in 2020. The government’s robust institutional setup, including the Nepal Investment Board chaired by the prime minister, one-window policy, and the high-level committee on economic diplomacy chaired by the minister for foreign affairs can make the decisions needed to facilitate economic diplomacy through its missions abroad.

Focus sectors for economic diplomacy

To assess the prospects of Nepal’s economic diplomacy, it will be prudent here to analyse each of the sectors relevant to it, including the ones incorporated in the economic diplomacy initiatives. Overall, Nepal’s foreign trade suffers from a structural weakness in the sense that there is a huge trade imbalance, and the trade deficit is increasing year after year, with the ratio of export to import often exceeding 1:10 (chart 2).

Chart 2: Nepal's foreign trade (Rs million)

Source: MoF, 2020.



Nepal's major exports are limited to a few countries (including India, and the U.S.) and a few products (such as garments, carpets, and pashmina). Two-thirds of the trade volume is with India. Nepal's products are still facing structural, systemic, and non-tariff barriers in several countries. There are also several "supply-side constraints" in trade.

Nepal's Trade Policy 2015 seeks to reduce the trade imbalance through export push and offers various incentives for export promotion, including tax refunds on the purchase of raw materials. It also emphasizes developing supply-side capacity, trade-related infrastructure and productive capacity, and participation in the global value chains. The policy identifies a priority list of exportables including ginger, large cardamom, medicinal herbs, coffee, carpets, tea, footwear, textiles, vegetable seeds, instant noodles, readymade garments, pashmina, iron and steel products, pulses, gold and silver ornaments and precious stones, handicrafts and handmade papers as well as paper products. The policy also identifies exportable services including engineering, hydropower, tourism, information technology (IT) and business process outsourcing (BPO), health services and labor services etc. But, Nepal's exportable products suffer from weak testing and authentication, poor packaging, and labelling qualities.

To complement the trade policy, Nepal has been implementing its third Trade Integration Strategy, 2016 that seeks to address the challenges in trade competitiveness faced by the country's export sector and identifies product and value chain development for the priority export sectors. It has also identified priority products and services.

One main weakness in Nepal's export promotion is the inability to create a brand image to promote the products associated with the country. There is also the problem of quality and competitiveness of the exportables. The Trade and Export Promotion Center (TEPC), a public-private partnership for trade promotion, is yet to expand its outreach and manage promotional programs abroad in an effective manner.

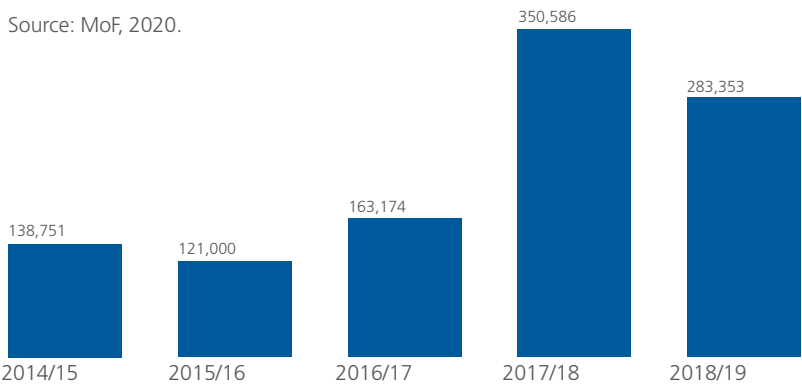
In recent years, Nepal has moved from the traditional domain of donor conferences to organizing investment summits for attracting FDI, inviting foreign investors, and showcasing the available projects and favorable political and economic environment for investment in the country. Nepal has been showcasing profitability, policy stability, safety, and positive factors contributing to attracting the FDI. Positive commitments came in summits held recently.

The Nepal Investment Summit held in March 2017 drew commitments of 13.5 billion USD worth of the FDI, most of which (8.5 billion USD) was from China. But, translation of these commitments in actual investment is minimal due to a lack of persistent follow-up in connecting the potential investors to the implementation process.

Despite the earnest efforts on the part of the government, the FDI inflow to Nepal has thus remained sluggish and short of potentials (see chart 4) due to weak policy continuity and stability in the past. The economic diplomacy initiative has not translated into bringing the adequate FDI to Nepal also due to a disconnect between the work abroad and the agencies back home.

Chart 4: Total amount of FDI (Rs million)

Source: MoF, 2020.

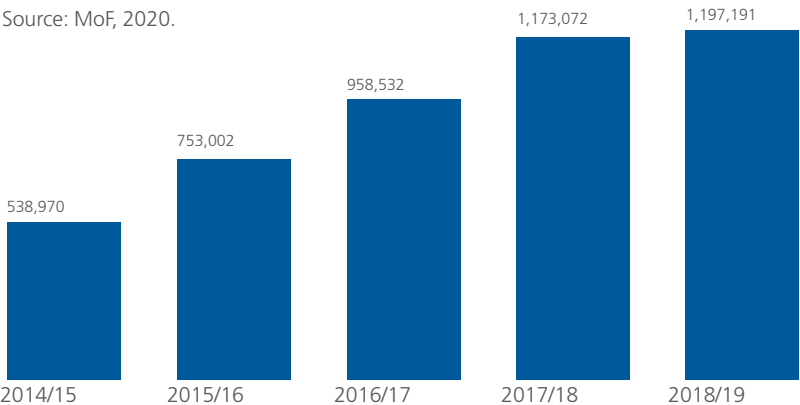


Tourism

Nepal offers unique opportunities in tourism. Attracting tourists has remained a priority of the government and has entered the business psyche since the Visit Nepal Year campaign started in 1998 became successful in showcasing Nepal as a tourist destination abroad. Nepal has since been adding various kind of attractions and incentives for tourists and has been investing substantially in tourism-related infrastructure and in improving services in the hospitality industry. Before the pandemic, there has been a steady growth in tourist arrivals and the income generated from tourism in the last five years, though it is still far below the potentials (see charts 5 and 6).

Chart 5: Number of tourist arrivals in Nepal

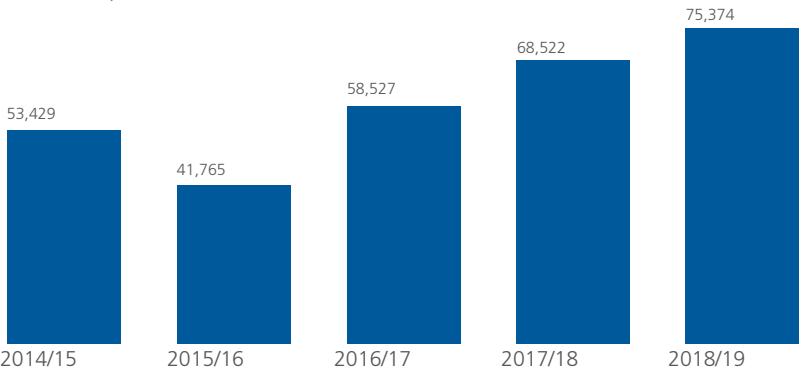
Source: MoF, 2020.



The promotion of tourism hangs in balance due to several reasons. Nepal has not been able to increase its air connectivity to major cities of neighboring countries and direct flights to major European cities. The fleet of the national flag carrier, Nepal Airlines, is not in good shape and in urgent need of an overhaul, which the government has initiated. The ‘Open Sky Policy’ has helped to attract airlines from many countries and the growth of the private sector airlines is a positive sign. The bottlenecks in Nepal’s only international airport in Kathmandu are expected to ease after the two international airports under construction, in Pokhara and Bhairahawa, come into operation.

Chart 6: Earning from tourism (Rs. million)

Source: MoF, 2020.



Nepal has not been able to properly target Chinese tourists though their number has been growing steadily in recent years. Given the increasing number of outbound Chinese tourists, Nepal should aim to develop this potential, focusing on what they want and developing the respective destinations in Nepal.

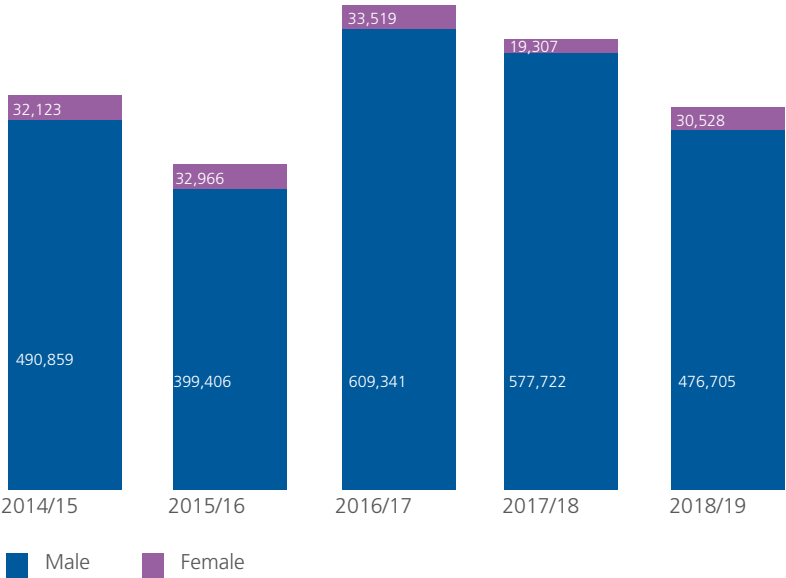
The Visit Nepal 2020 campaign received a setback due to the Covid-19 pandemic. Nepal needs to reorient its tourism promotion focusing on eco-nature, wilderness, and adventure tourism, as also less-crowded quality tourism, which may grow after the pandemic.

Foreign employment and remittances

Each year, about 500,000 persons of the working-age are added to the labor force in Nepal (MoF, 2020) while the government issues nearly the same number of labor permits for people going abroad as migrant workers (chart 7).

Chart 7: Employment permits issued by the government

Source: MoF, 2020.



The remittances sent home by migrant workers abroad have registered steady growth in the past five years, equal to more than a quarter of the gross domestic product (GDP) (table 1).

Table 1: Remittances flowing into Nepal (Rs. billion)					
Particulars	2014/15	2015/16	2016/17	2017/18	2018/19
Remittances (Rs. billion)	617.3	665.1	695.5	755.1	879.3
Growth rate of remittances	13.6	7.7	4.6	8.6	16.5
Ratio of remittances to the GDP	29.0	29.5	26.0	24.8	25.4

Source: MoF, 2020.

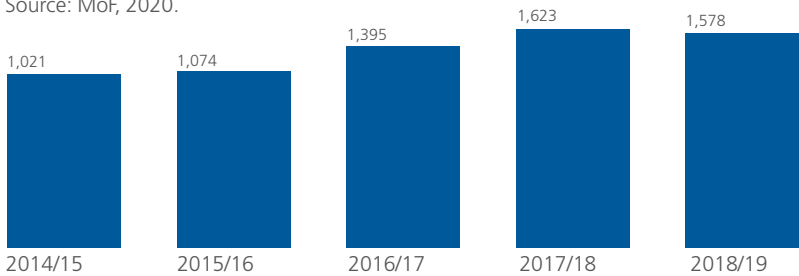
However, most migrant workers are employed in low-paid unskilled jobs in the agriculture, construction, and service sectors in the destination countries. Therefore, the country should strive to move to more skilled, organized job sectors. Nepal should introduce policies focused on returning migrant workers, giving them incentives to divert remittances to productive sectors from the current focus on spending on consumption. Since the high contribution of remittances to the overall GDP comes with a vulnerability to external economic shocks, Nepal needs a contingency plan to reduce dependence upon remittances while maximizing its benefits.

Development cooperation

Although development cooperation has been included in the five priority areas that the government has listed in its economic diplomacy initiative, it is not fully integrated into the functions of the Foreign Ministry and its diplomatic missions. With around over one billion dollars per annum, the volume of incoming official development assistance (ODA) to Nepal has remained stable in the last five years (Chart 8). That includes the ODA from bilateral partner countries and multilateral institutions. But, the actual share of development assistance in the country's total budget is decreasing, owing to a larger increase in the budget size in the corresponding period. As Nepal is expecting to graduate from the LDCs, it will no longer remain a priority of many donors, and actual aid inflow is likely to decrease.

Chart 8: Development assistance in million USD

Source: MoF, 2020.



The aid packages that Nepal has received in the past have remained less controversial though their actual contribution has been debated. In his book, *Nepal's Failed Development*, Devendra Raj Panday (1999) attributed the failure in development to the model of development prescribed in the aid programs. Among other things, foreign aid was instrumental in meeting the saving gaps for development needs and in keeping the priorities right and introducing reforms in the respective sectors, but it has also made the cost of development high, displacing local initiatives and increasing dependence (Acharya, 2019).

The controversy over the ratification of the MCC compact has to do with the geopolitical rivalry and strategic intentions of the big powers in Nepal and remains a test case for Nepal's economic diplomacy. One major issue in development cooperation in Nepal is the disconnect between the diplomatic role of the Ministry of Foreign Affairs and its diplomatic missions and that of the Ministry of Finance, the principal agency for mobilizing aid. As a result, the geopolitical side of aid often becomes complicated and the diplomatic machinery is left with little to do with aid mobilization, which renders economic diplomacy weak in the foreign aid domain.

The way ahead

There are many ways in which Nepal can further strengthen its economic diplomacy and gain from the changing political and economic scenario in the region and beyond. *Alignment with broader economic goals:* First, Nepal has to align its economic diplomacy with the major economic goals of the country, including that of becoming a middle-income country and achieving prosperity. That should involve developing the post-graduation strategy as Nepal comes out of the LDCs

and putting together the strategy and action plan to become an MIC. This is crucial because Nepal will lose many benefits on aid, trade, technology transfer, and access to various funds on account of its status as an LDC. Once that is gone, Nepal should strive to focus on self-reliance as well as competitiveness toward an aggressive investment and export-oriented economy.

Clarifying priorities and sectors for the “transit economy” concept: Occasionally, Nepal’s leaders have pronounced ambitious economic goals from achieving a “double-digit economic growth” to making Nepal a “land-linked” country, serving as a “dynamic bridge” between India and China, and making Nepal a “transit economy” based on “trilateral cooperation” among China, India, and Nepal. But these pronouncements have often come out without clarification as to what they mean and how they would be achieved. Nepal needs to clarify the priorities and sectors including entering the supply and value chains of the Indian and Chinese economies.

Telling a positive story: Nepal also needs to focus on its comparative advantages in key sectors, concentrating its economic diplomacy in the countries with economic significance for Nepal, focusing on countries that are sources of trade, investment, tourist aid, and remittances. Nepal should continue to sell the best side of the story, including its macroeconomic stability, cheap labor, its location between large markets, stable and favorable policy environment etc. to attract more FDI and showcase the products and services in trade and tourism for promotion abroad.

Creating the country’s brand image: An imaginative branding of the country’s image and products requires the art of presenting the country and its products and services in the changing world arena, focusing on its uniqueness, which makes products specific to Nepal, as the country brands are sometimes more important than product brands. Nepal’s neighboring countries have done their branding successfully. For example, Sri Lanka has been able to create a brand image for its tea; Bangladesh has done the same about its apparel industry; India has done the branding of IT and business processing successfully. Nepal’s pashmina and carpets have the potential of reaching a brand status if done well.

Pursuing country-specific strategies: Nepal’s economic diplomacy needs to be tailored to the countries that have some specific economic significance for it. For example, foreign employment figures prominently in Malaysia and the Gulf

countries. India and China can be the top priority for focusing on the potential tourists and investors. The Ministry of Foreign Affairs claims to have prepared country-specific strategies for economic diplomacy (MoFA, 2019); that should be pursued in earnest.

Front-loading economic diplomacy in regular diplomacy: To achieve a transformative shift in economic diplomacy, Nepal also must front-load its economic diplomacy over its conventional regular and political diplomacy. This does not mean replacing the traditional political diplomacy but transforming the traditional political diplomacy toward the fulfilment of the country's economic interests. This will require that Nepali diplomats consider economic diplomacy as their main job, not a sideline business; that can be reinforced with performance contracts with the ambassadors and other diplomats with results-based targets and indicators. That also requires Nepal's ambassadors to come up with economic and business promotion backgrounds. Appointing ambassadors with the zeal of 'economic salesmanship' will be of vital importance for the success of Nepal's economic diplomacy.

Enhancing partnerships: Partnership with the private sector at home and abroad is an important requirement in economic diplomacy. All the beneficiaries and actors in each sector of economic diplomacy, including trade, investment, tourism, and remittance are associated with the private sector. Therefore, they should be in the lead in promotional activities while the government agencies and the missions abroad should understand their role rather as a facilitator. In that regard, partnership with the promotional agencies back home, including the Nepal Tourism Board (NTB), Trade and Export Promotion Center (TEFC), Foreign Employment Board (FEPB), and commodity associations etc. will be of crucial importance.

Engaging diaspora: Nepali diaspora can be of crucial importance for the success of economic diplomacy because of their links, skills, and resources that can be utilized to attract investment, tourists, and find businesses, jobs, and export opportunities for Nepal. In a position brief that it submitted to the government, the Non-Resident Nepali Association (NRNA) expressed its commitment to becoming an active and reliable partner in this effort and was found willing to mobilize its resources and global network to ensure the government's economic diplomacy initiative succeeds. The existing NRNA and other engagements are political and have not been instrumental in utilizing the talents, skills, and

resources of the Nepali diaspora in the economic development of Nepal. A recent government initiative to create a platform called “Brain Gain Center” is a welcome step though it suffers from a lack of programmatic approach and concrete ideas as to where to go and what to focus on.

Focus on programmatic delivery: In recent years, the government has been spending considerable amounts each year on its economic diplomatic initiatives, but the programs often suffer from repetitiveness and lack innovation and imagination. The promotional programs have not reached the target audiences properly. Such programs have not aptly targeted the countries of high economic significance to Nepal. In totality, investment in economic diplomacy concerning the income generated from external sources such as export, FDI, tourism, foreign employment etc. is very small, which could be augmented through a programmatic focus on countries of economic significance to Nepal.

Addressing diplomatic deficit: In recent years, Nepal has been increasing its diplomatic outreach. By the time of writing this paper, Nepal has established diplomatic relations with 168 countries of the world. But, it is underrepresented diplomatically in the sense that it has only 30 embassies, three permanent missions, and six consulates spread in 32 countries. Nepal's diplomatic missions are understaffed as well, many of them without adequate economic training. Thus, the country's diplomacy is operating under a “diplomatic deficit” vis-à-vis that of other countries in the region.

Mobilizing the missions to use all instruments available in economic diplomacy: By way of experience and practices around the world, many instruments of economic diplomacy are now available at Nepal's disposal. Missions can do market research to identify what sells and connect home-based businesses with such opportunities. Diplomats based abroad can facilitate Nepal's private sector and the potential investors, traders, and visitors of the host countries by establishing their contacts with agencies back home, assisting in dispute settlement, and supporting Nepal's private sector and individuals in need of facilitation for doing business abroad.

The missions need to do networking with the diaspora, including individuals and associations, business houses, product associations, tour organizers, think tanks, universities, media houses, and people who have connections with Nepal

so that they can be instrumental in economic diplomacy. The missions can also facilitate organizing campaigns for products and services and for attracting tourists and investors. The embassies can organize events to disseminate policy and legal measures adopted in Nepal through investment seminars, conferences, updated online contents, etc. They may also help in *sharing the success stories* of other investors and experiences of tourists travelling to Nepal through media publicity, including inviting travel tour writers to visit Nepal and write articles in the local media.

The practice of creating country-specific *caucuses* including those of parliamentarians can become instrumental in influential favorable policy and legislation in the host countries. Nepal has such caucuses only in a few capitals. Ambassadors and other diplomats can do the job of *advocating* for Nepal's interests in other countries. One of the conventional methods of economic diplomacy is to facilitate the *exchange of delegations* at official and business levels and encourage them to sign memoranda of understanding and other business deals. The embassies can also help organize country-specific and product-specific trade shows and fairs and facilitate the participation of Nepali business houses in fairs and shows organized by others.

Better use of the honorary consuls/consul generals: One underutilized instrument in Nepal's economic diplomacy is the mobilization of honorary consuls (HCs) and honorary consul generals (HCGs). Nepal has a network of 71 honorary consulates in various cities around the world. At present, their activities are merely focused on visa and consular affairs and representational jobs. In June 2019, the government, for the first time, invited its HCs/HCGs to a conference in Kathmandu to discuss their potential role in promoting Nepal's economic diplomacy. Among other things, the HCs/CGs can play an instrumental role in promoting Nepal's export trade, bringing in more investment and tourists and finding more opportunities for Nepalis in foreign employment.

Performance management: One important area in improving Nepal's economic diplomacy lies in the performance management of its ambassadors and diplomatic missions. Recently, the government has started providing the terms of references to ambassadors specifying the role they are expected to play in economic diplomacy. But, that does not ensure performance. Many countries—for example, Bangladesh and Sri Lanka—have started introducing performance

contracts with their ambassadors abroad. Lately, there have been some efforts in evaluating the performance of the Nepali ambassadors and missions, but it is not sufficient yet. It should include program-based and result-based indicators and a system of performance evaluation.

Streamlining the regime of bilateral and regional agreements: Nepal can also benefit through a more proactive role in economic integration, including in the conclusion and implementation of trade, transport, and investment-related agreements in the SAARC and BIMSTEC. Nepal has to push for the pending finalization of regional agreements on trade in services, investment, transit, and transport. At present, Nepal has signed a free trade agreement (FTA) only with India, but it should consider signing more bilateral FTAs with other countries, including China.

More multilateral economic diplomacy: Pursuing the country's interests in multilateral financial institutions (such as the Bretton Woods Institutions and the WTO) has to become a priority. The state must raise its focus on the rights and development agenda of the landlocked least developing countries (LLDCs), can target a proactive multilateral economic diplomacy in the Group of Seventy-Seven (G77), should promote South-South cooperation among the developing countries, and maximize its benefits on account of its membership in the Asian Infrastructure Investment Bank, by executing connectivity and infrastructure projects, especially to link itself to China. Nepal can also push for opportunities in conference diplomacy to promote tourism and become a regional hub for multilateral institutions.

Home-front reforms: Domestic policy reforms that constitute an important aspect of economic diplomacy have been pushed by many countries, for example, the Philippines, to strengthen their economic diplomacy. This can become important in attracting the FDI and promoting exports. Keeping the house in order is an important priority in economic diplomacy.

A whole-of-government approach: Economic diplomacy is not just the job of the Foreign Ministry and diplomatic missions but demands the active engagement of many ministries and departments of the government and promotional agencies in partnership with the government. It requires better coordination and collaboration, handled as a whole-of-government approach. The mandates of the promotional agencies in that regard have to be made clearer.

Review of economic diplomacy initiative and programs: The government should review and evaluate its economic diplomacy programs to make them more effective. Several reports, including the 2108 high-level panel report on foreign policy, have made good recommendations on economic diplomacy. These should be implemented in earnest. The government can include “economic dialogue” as a feature of the national dialogue on foreign policy it started recently. The proposed Sagarmatha Dialogue in the next round can include economic dialogue after the one on climate change is held. The government should also consider including new sectors in its economic diplomacy, including the strategy for graduation to a middle-income country and its transit diplomacy for ensuring trade, transit, and energy security through an enhanced bilateral, regional, and international framework for the rights of the LLDCs.

Adjusting economic diplomacy initiatives considering the changing environment: Nepal has to adjust its economic diplomatic initiatives with the changing global and regional economic circumstances. Protectionism, the backlash against liberalization, the Covid-19 pandemic, slowdown in foreign employment and remittances etc. call for revising the economic diplomacy strategy, focusing on competitiveness both at home and abroad. For this purpose, Nepal needs to adopt inclusive economic growth which is innovation-based, knowledge-based, and export-led.

Overall, the potential gains from economic diplomacy remain, by and large, underutilized. Nepal can do a lot better in economic diplomacy for which there is an opportunity to achieve the structural transformation through extensive mobilization of external sources of income. There are many opportunities for unlocking Nepal’s economic potentials through economic diplomacy. Integrating its traditional diplomacy with economic diplomacy requires a good combination of proactive economic diplomacy at the bilateral, regional, and international levels.

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The Art of Dancing with the Elephant and the Dragon

Jagadish C. Pokharel

This chapter explores the endurance and survival of a small nation located between two large powerful neighbors. The issues it takes up are not concerned with international relations in a broader meaning, but the acts of giving and taking that a nation engages in to set the relationships. In other words, it is about acts of negotiation and bargaining to maintain good relations. The small country considered is Nepal and the two powerful neighbors are China and India. The chapter examines the issue from Nepal's perspective to explore how the country has been negotiating deals with its neighbors and navigating its course in critical times. A good relationship is an environment that allows both parties to pursue their interests without creating a conflict and using force. The paper analyses historical instances of bilateral negotiations—ranging from wars to normal development projects—and examines how the deals were made and how they fared over time. It also intends to gain a better understanding of the tradable items, how they were traded, what factors constituted success, and what factors sustained the relationships.

The focus of this chapter is thus on the acts and events preceding the resulting relationships between the two countries, assuming that relationships are results of the exchanges between two nations and every major exchange, therefore, defines the relationships that nations maintain. Therefore, the process and the type of giving and taking, and the content of exchange determines the future relationship. Some relationships are long-lasting while others do not. A consensual exchange in such a context becomes more durable than a conflictual one. A good settlement, therefore, is the one that allows and creates an environment for continued negotiations ensuring better relationships. Such settlements can contribute to a trajectory continuously moving to a higher level for better future relationships among the nations.

The suggestion offered for weak nations here is that they should give high priority to building negotiating skills (dancing skills) as much as an occasional demonstration of assertiveness, to allure and influence powerful nations. In that

course, it must be sensitive about the kind of relationships they intend to have with the powerful counterpart for future engagements. It is also shown that using hard power measures comes with high risks for weak or small nations.

Dragon, Rhino, and Elephant are analogous to China, Nepal, and India respectively, and the negotiations and wars, interactions that Nepal is engaged in, are subsumed here as a dance. The analogy serves to challenge and enliven the phrase used by King Prithvi Narayan Shah who regarded Nepal as “a yam between two boulders”.

The three sovereign territories – China, India, and Nepal – together span over 12,504,750 sq. km or 9.81 per cent of the world's total land area and are home to a combined population of 2,792,740,000 people or 36.39 per cent of the world's total population. Among these three, Nepal is the smallest one with a territory of 147,181 sq km (1.14 per cent of the world's land area) and a population of 28,608,000 (1.02 per cent of the world's overall population) (World Bank, 2019). It is sandwiched between India and China.

High mountains on the northern side constrain Nepal's access to China where river gorges and passes allow passage only during certain seasons. All rivers, originating at the Himalayan slopes, flow towards India and the Bay of Bengal. The easier terrain on the south and accessibility explain the close relationship of the people of the south and central hills of Nepal with India.

China, India, and Nepal have coexisted as independent states for centuries with different political systems and development philosophies. They had their share of skirmishes, but without threatening each other's existence. Nepal won several battles with British India, but its last war reduced Nepal to its current size curtailing its ability to play an effective role in the region. Theoretically, it never lost its independence, but it did come under the strong influence of British India. After the Britishers left, independent India inherited its power as well as the historical legacy of relationships with its neighbors, including Nepal.

Nepal has been an active player in the trade and strategic relationships between the two neighbors during the Tibetan independence when local kings still ruled India. During these times, it was able to assert its rights and impose its will, often through military means. However, two important historical events reduced it to a minor actor's position – the Qing Empire's control over Tibet and British Control

over India. Nepal ended up fighting two wars with both of these neighboring powers that proved to be costly tests for the country to realize the futility of using hard power against the two powerful neighbors.

Convention says the outcome of an effort is proportionate to the power at play. How can a minor power, then, influence big powers to ensure a change in its favor? Over the years, Nepal has often succeeded in this and has shown a certain level of independence in its decision-making. How did it do that? What kinds of skills and leverages did it use? What made the big powers change their positions? And, were these successful dances just minor incidences or can Nepal keep dancing without tripping? These are the questions that will be explored in the following sections.

Encounters with the dragon

Before Nepal was united, Kathmandu was known as Nepal or *Nepal Mandala*. Therefore, Nepal consisted of the three city-states of the Kathmandu valley. There were many smaller states or chieftain states, the so-called *baaise* (twenty-two) and *chaubise* (twenty-four) hill-states. Gorkha ruler Prithvi Narayan Shah, who later became the first monarch of the Kingdom of Nepal, annexed most of these small states during his lifetime and his successors integrated the remaining ones. The unification of Kathmandu's Malla city-states was completed in 1769 and the capital was shifted to Kathmandu from Gorkha in the central Himalayas. Then, Nepal emerged on the world's map as a new state.

As early as the beginning of the 5th century, Nepali monks and scholars regularly visited Tibet. Such movements of philosophers, monks, and merchants had built a good relationship between the two countries even before they established formal relations. Malla Princess Bhrikuti, the daughter of King Amsuverama, was married to a king of Tibet in the first half of the 7th century. During King Amsuverama's rule, Kathmandu was rich in art and culture. A devout Buddhist, Bhrikuti took with her artists, craftsmen, and builders who built temples and monuments in Tibet. The princess became so popular that Tibetans considered her a divine reincarnation and named her "Green Tara".

The events that preceded this exchange can only be partly deciphered. It was normal for kings in those days to set up nuptial relationships with other kings for strategic reasons. This was common practice in Europe as well as in Asia to

consolidate power and ensure peaceful relations. As the Tibetan king followed a different faith and had as his first wife a Chinese princess, Bhrikuti, a Buddhist, became his second wife. Religion and other social differences did not come in the way because harmonious and peaceful relations mattered more.

The appointment of Chinese ambassador Wang Huen Che to the court of Nepal in the 7th century (about 640 AD) indicates a very close relationship that existed between Nepal and China. Bhrikuti's entry further strengthened the bond. Her position in the Tibetan palace was instrumental in diversifying and strengthening cultural and religious bonds and spreading Buddhism in Tibet. That she later attained the status of Tara, the shakti in Mahayana Buddhism, shows that during her time, the relationship between Tibet and Nepal was rich and beyond and above simple commerce and trade. That there is no evidence of such royal nuptial link from Tibet shows the Tibetan king was powerful and it was in the interest of Nepal to keep him in good faith.

The move allowed Nepal to influence its powerful neighbor, especially in cultural terms. The acceptance and adoption of some of Nepal's unique symbols by the Tibetans is evidence to support the point. Nepal was prosperous in art and architecture, and craft was regarded highly by the Tibetans, and it was a matter of prestige to replicate some of these cultural bonds. They modeled the original temple of Jokhang in Lhasa after a Nepali monastery design – a square quadrangle with the kwa-pa-dyo shrine (an image of the Buddha sitting in Vajrasana and showing the Bhumisparsha or earth-touching gesture) at the center of the eastern wing facing the entrance. The innermost part of the Jokhang shrine still displays the woodwork of Nepali craftsmanship. From then onward, the fame of Nepali art and architecture spread over to other countries like China and Japan, and this tradition of importing art and cultural symbols from Nepal continued for centuries. In the second half of the 13th century, Nepali architect Araniko went to Tibet and built the White Pagoda which still stands that Tibetans (now Chinese) revere as a holy shrine. Expansion of Nepali art and craftsmanship and the occasional visits by Chinese monks and scholars like Monk Fa Xian (Jin dynasty) and Monk Xuan Zang (Tang Dynasty) show Nepal and Tibet coexisted in a friendly relationship.

The relations and exchanges were not limited to art, architecture, and Buddhism, but were intertwined with political interests as well. There are indications of Tibet

occasionally interfering in Nepal's internal political affairs, supporting one or the other group in its domestic power tussle. In one instance, about 640 AD, Bhrikuti sent the Tibetan army to the Kathmandu valley to reinstate Narendradev, her brother, as the king in Nepal.

Cause of the quarrel

Tibet and Nepal, in the early days, had been good friends and trade partners, but they also fought two wars that ended with negotiated settlements followed by the resumption of trade. The first fight was over adulterated coins Kathmandu supplied to Tibet replacing pure silver coins minted in Kathmandu. When Jaya Prakash Malla of Kathmandu faced an economic crisis, he sent silver coins alloyed with copper. This was taken as a breach of trust by Tibetans and bred animosity between the two kingdoms. Tibet demanded compensation. While this dispute was still ongoing, Prithvi Narayan defeated the Mallas and became the ruler of united Nepal. Prithvi Narayan tried to rectify the situation by reverting to pure coins, but Tibetans had lost their faith and wanted to be compensated, which the Shah king refused. After all, he was not responsible for that adulteration. Two kinds of coins then kept circulating in the Tibetan market. The death of Prithvi Narayan in 1775 left the issue unresolved.

By 1788 when Bahadur Shah, his youngest son, became the regent, rumors became rife that Tibet might attack Nepal and that Tibetans were harassing Nepali merchants. The conflict once again affected the trade between the two countries, including the supply of quality salt from Tibet to Nepal. Some political demands also got added to this list from Tibet, such as the extradition of the 10th Shamarpa Lama and his followers, who had taken refuge in Nepal.

To resolve the dispute, Nepal sent a delegation to Tibet, but what Nepal really wanted was to teach Tibet a lesson. It also was planning to expand the kingdom into Tibetan territories and plunder the rich monasteries. The demands were harsh enough to be rejected and in 1788, an army commanded by Damodar Pande and Bam Shah set out the journey to Tibet. It reached Tashilunpo, about 410 km from Kuti where a fierce battle took place at Shikarjong. The Tibetans lost, and the Lamas requested the Gorkha troops for peace talks.

When the emperor of China heard about the invasion, he sent a large troop of the Chinese army under General Chanchu, who pressured both sides for

settlement. Peace talks at Khiru in 1789 held Tibet responsible for the conflict, and it was forced to pay tribute to Nepal of Rs 50,001 every year as compensation for the return of the territories captured by Nepal. Under the Treaty of Kerung, Nepal agreed to return the territories of Kerung, Kuti, Longa, Jhunga, and Falak it had captured from Tibet.

Tibet, however, did not live up to its obligations, and the Nepali army invaded Tibet again in 1791, under Abhiman Sing via Kerung with a second group under Damodar Pande via Kuti. Pande attacked Digarcha, captured the property of the monastery and arrested the minister of Lhasa, Dhorn Kazi.

The Chinese emperor immediately sent 70,000 soldiers to defend Tibet, demanding the return of the property looted at Digarcha and the handing over of Shamarpa Lama who was still in the asylum in Nepal. As Kathmandu ignored the demands, the Chinese forces marched into Nepal and reached as close as Nuwakot, threatening to take the capital Kathmandu. Resisting the Chinese army was beyond the Nepali capacity although the weather, the terrain, and the fighting zeal of the Gorkhali troops were supporting the defenders' cause. The shortage of supplies, as well as infectious diseases, made it difficult for the Chinese to sustain a long-term military operation. Soon, they were on the lookout for a safe exit.

Nepal's position was not easy either. The army was fighting on different fronts within the country to keep unified Nepal intact. The kingdom of Sikkim had begun incursions onto Nepal's eastern border. In the far-western part, a war was being waged with Garhwal. Within Nepal's borders, the kingdom of Achham, Doti, and Jumla had openly revolted against Gorkha. Resisting the Qing army without outside support was beyond the scope.

In desperation, Nepal turned to British India, which by now had control over most of the subcontinent, asking for 10 howitzer mountain guns. The response came with caution and certain conditions. Captain William Kirkpatrick arrived in Kathmandu with the demand for free access for Britain into the Nepali market and restrictions on certain activities. Nepal rejected the demands. The war with Tibet resumed without British support, resulting in serious losses on both sides, especially during the battle near Betrawati. On September 19, 1792, the Nepali troops launched a major counterattack against the Qing forces at Jitpurphedi.

The ferocity took the Chinese army by surprise. The Nepali troop took advantage of its familiarity with the terrain, and the application of some unconventional tactics demoralized the foe. With torches in hands, tied to the branches of trees, and on the horns of domestic animals, the soldiers advanced during the nighttime, which gave the impression of a large army surging forward. The morale of the enemy was seriously affected. These tactics would have not been enough to drive the Chinese army into retreat, but the Chinese general was also looking for an exit. A message, then, came to the Nepali king for negotiation.

Nepal deputed Kaji Damodar Pande for negotiating peace and the Treaty of Betrawati was signed on October 2, 1792. The terms of the treaty required Nepal to accept Chinese suzerainty, paying tribute to the emperor of China and in return was assured protection by imperial China against any outside aggression. The treaty also allowed Nepali merchants to trade in Tibet. However, Nepal had found itself at the receiving end and it paid dearly for saving the country from a total defeat.

Tibet came under Chinese control while Nepal had retained its autonomy. The weakening of the Qing dynasty during the 19th century, however, led to a de facto disregard of the Treaty of Betrawati. For instance, when the British East India Company invaded Nepal in 1814, the expected support from the Chinese emperor did not materialize. During another Nepal-Tibet war of 1855-56 too, China remained conspicuously absent. The Qing dynasty was not particularly interested in ruling Nepal since its main interest was control over Tibet. After the red revolution (1945-52), China was no longer a monarchy. It was ruled by political party leaders who had emerged from the people's revolt. The new state was free of old culture and priorities and Tibet had become a part of China. The British had left India, and Nepal was eager to re-establish its relations with China.

Learning to live with the dragon

Nepal and China share a long border of 1414 kilometers east to west in the highest zones of the countries. The border zone in the Himalayas occupies special importance administratively, politically, and economically. As the most sparsely populated area of Nepal, the terrain here is rugged and in most part inaccessible, remote, snow-covered, dry and cold. Sagarmatha (Mount Everest), the highest peak in the world, is located right on the border of the two countries.

With a rich reserve of precious stones and minerals, it is also the home for some of the rarest (even mythical) animals and plants. It is speculated that there is a huge reserve of petroleum products and other minerals in some parts of the mountains. Some unique and high-value medicinal plants and biological species such as *yarsagumba* (often called the Himalayan viagra) are found throughout the Himalayas and on the Tibetan plateau. All of this makes Nepal cautious about opening up this area to the outside world. Until as late as 1992, major parts of this region were prohibited to outsiders, especially from the south, but it was open and accessible for centuries from the northern side. Therefore, many of its natural resources were traded with Tibet. It was much later that some of these products also started to be traded with more southern parts of Nepal and India. For the local people on both sides, this area is a common ground for livelihood. Local merchants and common people, for centuries, shepherded their cattle and traded products from both sides across the border. The bordering areas are largely dependent on the Chinese side for their day-to-day work, commodities, and development activities. China has, however, now committed to supporting the development of the 18 districts in the border zone of the north.

As a result of the common activities across the border, conflicts occur from time to time, which are usually resolved at the local level. Only sometimes, they draw the attention of Kathmandu and Beijing like in the case of the Mustang¹ and Khampa² cases. However, both were resolved amicably in the interest of the two countries. The governments claim that they have overcome all geographical difficulties in further consolidating their age-old ties of friendship and cooperation and that despite some occasional border skirmishes, Nepal-China relations have remained cordial over the past 62 years. The dispute over Mt. Everest regarding a map published by the Chinese government in 1954 showing the mountain on its side raised a public uproar in Nepal and a protest from the Nepal government. However, the “Nepal-China Joint Border Committee” settled the issue amicably through an agreement.

¹ The Mustang incident: Two months after the signing of “Nepal China Friendship Treaty” (April 28, 1960), on June 28, the Chinese army opened fire on an unarmed group of Nepali border patrol officers in a demilitarized zone in Mustang, killing one of them and capturing others. As per the Chinese claim, the Nepal police had been mistaken for Tibetan rebels active in Tibet. Nepal took a firm stand, and eventually the Chinese government agreed to pay a 50,000-rupee indemnity and released the detainees.

² Khampa is a Tibetan word for ‘solider’. Khampas had set up camps in Nepal with the objective of capturing Mustang district and make it a guerrilla base to recapture Tibet. The attempt, however, was foiled by Nepal Army.

Both countries have long-standing relations. On August 1, 1955, China became the fifth country to establish diplomatic relations with Nepal; for China, Nepal was the 22nd country. Beijing opened its residential embassy in Kathmandu in July 1960 and Nepal in Beijing in September 1961, abiding by the ideals of the Five Principles of Peaceful Coexistence. Nepal also took a leading role in sponsoring China's admission to the United Nations and other international agencies. In the UN human rights sessions, Nepal has consistently voted in favor of China, which has been deeply appreciated by the northern neighbor.

Growing connections

Nepal signed its first agreement with China in October 1956. Since then, Nepal has been receiving grant assistance including economic and technical cooperation from China. Chinese assistance falls into three categories: grants, interest-free loans, and concessional loans, which support Nepal in areas ranging from infrastructure building, industries, human resources development, health, and education as well as water resources, sports, hydropower projects, and roads. Nepal signed an agreement on China's Belt and Road Initiative on May 12, 2017, to promote cooperation between the two neighbors in the fields of economy, environment, technology, and culture that will provide connectivity in infrastructure and trade, financial integration, and connectivity between the people.

In the wake of the 2015 earthquake that killed over 9,000 people and destroyed over 600,000 buildings and structures in Nepal, China offered substantial support in search, relief, and rescue as well as support for reconstruction in 25 projects worth 3 billion yuans.

Today, China is the second-largest trading partner of Nepal. In 2017/18, the volume of total exports from Nepal to China exceeded US\$ 23 million and that of import from China was above US\$ 1.5 billion. The trade deficit of Nepal with China, however, is increasing fast. Although China has given a zero-tariff entry facility to over 8,000 Nepali products since 2009, Nepal has not been able to use it to bring the trade deficit down. China is now also the largest source of foreign direct investment (FDI) in Nepal with a commitment of \$8.3 billion following the Nepal Investment Summit in Kathmandu in March 2017.

China, moreover, is the second-largest source of foreign tourists to Nepal with 164,694 Chinese tourists visiting the country in 2018. Nepal has waived visa fees for Chinese tourists effective from January 1, 2016, and the Chinese government announced the year 2017 as Nepal Tourism Promotion Year in China. A new road connecting Rasuwagadhi has been opened for trade and travel. There are four other border points designated for bilateral trade. Nepal is also linked by air to Lhasa, Chengdu, Kunming, Guangzhou, and Hong Kong SAR.

Cultural connections are also growing fast with China providing 100 scholarships every year to Nepali students. Cultural and youth exchange programs, friendly visits, exhibitions, cultural, and film shows, food festivals, and sister city relations are promoting the links between the two countries. And, an increased interest in learning Chinese has been sparked in Nepal.

Nepal is also a founding member of the Asian Infrastructure Investment Bank (AIIB), a dialogue partner in the Shanghai Cooperation Organization (SCO) and both countries are members of the Asia Cooperation Dialogue. China, moreover, is an observer in the SAARC.

The elephant in the south

Whereas Amsuverma sent his daughter Bhrikuti to Tibet, he also got his sister Bhoga Devi wedded to king Sur Sen of one Indian kingdom bordering Nepal. The time of Amsuverma, the author of *Shabda Vidya* (a kind of grammar-cum-dictionary) and a treatise in Sanskrit grammar, was widely acclaimed as a golden age for developing the trade and economy of the kingdom as well as maintaining good relations with the states in the neighborhood.

Nepal did not have to deal with the Mughals who ruled large parts of India for nearly 300 years, except for two incursions by the sultans and nawabs in Northern India. In 1349, Shamsuddin Ilyas Shah, the sultan of Bengal, with his eyes on the wealth of the valley, raided Kathmandu, plundering Bhaktapur, and slaughtered a large number of people. In December 1762, Kasim Ali Khan, the nawab of Bengal and Orissa, sent Gurgin Khan with cannons and other superior arms through Makawanpur Gadhi located South of Kathmandu (just above Hetauda), which used to be an important transit route to come to Kathmandu in earlier times. Facing them with their primitive fighting equipment was tough

for a Gorkhali army of about 400 men, commanded by Sardar Nandu Shah. But, a surprise assault at night by the Gorkhalis killed 126 Muslim soldiers with the rest of the army fleeing. This assured the first victory for the defenders against an alien invader. Following this battle, five companies (Shree Nath, Kali Bakhs, Sabuj, Gorakh, and Bajra Bani) were set up to defend Makawanpur.

Facing the elephant

By 1765, most of the Indian subcontinent was under the control of the East India Company which brought Nepal face-to-face with a formidable European powerhouse. Skirmishes at border points invited conflicts between the two countries. The root of the problem was the different ways the British and Nepali sides viewed the concept of border and the positions they took to delineate it. While the primary British interest was the access to the Nepali market and control of the trade with Tibet, in which Kathmandu played a crucial role, the Nepali kings desired to expand their territory to the southwest.

Nepal requested China for support against the British and tried to buy time. China did send its army, but only up to Lhasa indicating that the emperor was not interested in Nepal but only in protecting his rule in Tibet. The second assault on February 1, 1816, led by David Ochterlony brought the British army precariously close to the borders. Nepal had a few options beyond settling for a treaty imposed by the British, which cut Nepal down to two-thirds of its territory, limiting the land to the space between the Mechi river in the east and Mahakali in the west, and a British residency being set up in Kathmandu.

The Anglo-Nepali war changed the British attitude towards Nepal. They found it more beneficial to establish special relationships with Nepal as an independent state rather than making it a colony and returned the territories between Gandaki and Koshi in 1816 and those between Rapti and Mahakali (the *Naya Muluk*) in 1860.

After World War II, the map of the world was changing fast, and South Asia was no exception. New nations were being created and old ones were disappearing. During this period, Nepal's primary interest was to secure its independence vis-à-vis India. Nepal established diplomatic relations with India on June 17, 1947, just two months before the Britishers left, based on the principles of peaceful

coexistence, sovereign equality, and mutual understanding. On July 31, 1950, Nepal and independent India signed the Peace and Friendship Treaty. Until then, the relationships were guided by the treaties with British India dating from 1816 and 1923. The Treaty of 1950 is still in place today and, among other things, allows Nepal free import of warfare materials through India.

Protecting the Achilles heel

Landlockedness has not only reduced Nepal's bargaining leverage with India but has also significantly constrained its growth and scope for expanding trade with other countries. Using India's ports and facilities has been a matter of dispute that demands constant negotiations between the two countries. India has been using this weakness to often impose its will on Nepal, implicitly or directly, to secure its political and economic gains.³ Nepal tries to overcome such pressures by resorting to international conventions and treaties. In the agreement signed in October 1950, India recognized Nepal's right to import and export commodities to third countries through the Indian territory. Another treaty to regulate trade and transit between Nepal and India was also signed in 1960 to expand the exchange of goods, and encourage collaboration. This agreement made Nepal's trade with other countries through India secure and predictable.

For millennia, Nepal's communication with the outside world happened through the south. Though the Malla kings, mountain traders, and rulers had been trading with the neighbours in the north, the lion's share of trade always has been done with the southern neighbor. But, the route in the south, too, was not free of natural and other difficulties such as malaria-prone dense forests and a lack of security. Therefore, breaking this bottleneck and diversifying its trade with other countries became Nepal's predominant fixation in reshaping its foreign policy strategy.

Over 6,000 rivers and rivulets belonging to Nepal's three main watersheds—Karnali, Gandaki, and Koshi—flow through India and then into the Bay of Bengal. In addition to being a source of livelihood and prosperity for millions of people in Nepal and India, they bear the potential to produce more than 80,000 MWs of electricity. But, the benefits largely remain unused in the absence of adequate

³ See also the chapter authored by Dhruba Kumar in this volume.

cooperation between the two countries. Conflicts over past river treaties (Koshi, Gandaki, Karnali, and Mahakali) and projects continue to bedevil the relations between the two neighbors. Since India is the only buyer of water-related products, it holds a major bargaining strength. The nature of investment and engagement in the water sector demands a high level of trust rather than context-driven compulsions, but trust can only be generated through genuine understanding and cooperation.

Managing and sharing these natural resources is fraught with disputes and differences between Nepal and India, and sometimes even Bangladesh. When the population was small and irrigation needs were low, water sharing was not a problem. As India's demand for irrigation increased with its need for the expansion of agriculture, it started tapping waters from Nepal. The Sharada (Mahakali) irrigation project was concluded in 1920 at the request of India. The Koshi project in 1954 and the Gandaki project in 1959 followed—to reserve and divert water for irrigation in both countries. But, the dams were designed to divert a disproportionately high volume of water to India. Nepal lacked the power to influence the terms and conditions of the agreements. Essentially, these three projects have remained epitomes of unequal treaties between the two countries affecting the environment of the present-day negotiations.

Strategies of coupling and decoupling

Nepal has used its location as the main strategic capital to survive, subsist, and progress. For centuries, its strategy has been to balance its relationships with the two neighbors. To maintain good relationships with both, it shares its valuable tangible and intangible resources to leverage its bargaining power. The strategy of maximizing contextual opportunity has worked most of the times to push the interest one step further. Whenever such a move creates a visible tilt on either side, efforts are made for a change to recalibrate the balance and avoid hard power play.

Nepal has used both hard and soft powers to build, hold, and secure its stakes as a nation and as a state. It succeeded better in its aims whenever it used its soft power in culture, art, and information, while it lost more than once in using hard power. Nepal's assertiveness and resolve have made the external forces more cautious about forcibly imposing their will over its freedom to act.

The Kodari-Kathmandu road⁴, the first venture in the Himalayan range to connect Tibet and Nepal and the first opening for China to reach the south of the Himalayas was a delicate move. The strategy of maximizing opportunities was applied again when Nepal struck another agreement with China to link it with Kathmandu and Lumbini through roads and railways and conduct open trade between the two countries. This opportunity emerged when India, unhappy with the recently promulgated Constitution of Nepal, imposed a trade blockade in 2015, stopping all supplies to Nepal, which impacted the lives of people considerably. It was a clever masterstroke, which India has failed to counter effectively so far.

In essence, Nepal's current activities are driven by two objectives in dealing with China and India. With India, it basically wants to maintain its independent status and image, while with China, its activities are driven by the wish for proximity. But, whenever Nepal tries to assert its status, India reacts. In its efforts to unhinge itself from the bonds of the so-called "special relationship", Nepal has relied on international rules and well-accepted universal values, invoking international conventions, though not always successfully. With China, the story is different; it is a rather distant friend emerging from virtual obscurity bound in relations with Nepal, like a "mit" (friends ritualized at a ceremony) where formal rights matter less and they remain more informal.

Creating a manageable, modern, state-to-state relationship is Nepal's main goal that guides its negotiating strategies. Location is a major resource it has, and it is of high strategic value for both neighbors. Nepal can leverage to bargain between India and China, but it is a double-edged sword that can breed intense conflict. With China, emerging as a global power and India's age-old hegemonic ambition, practicing diplomacy in the region and abroad is far from easy or simple. The extreme asymmetry of power that now prevails is likely to grow in the future and every move demands care and sensitivity.

China's strategies appear friendly when dealing with Nepal. Even when the Chinese emperor sent his army to Tibet to counter the Gorkhali army, it was more to protect Tibet than to invade Nepal. It seemed to have played fairly when

⁴ In 1963, China and Nepal also agreed to build the Kodari (Araniko) Highway to connect Nepal with Tibet, virtually closed to the outside world, opening a motorable passage to Tibet from the south.

it reprimanded Tibet in Nepal's favor. Beijing, however, became more aggressive when it attacked Tibet the second time. In approaching Dhunche, its objective was a didactic one: a lesson on restraining occupation. Despite its large army, it decided to settle for an agreement and returned home. Again, in the incidents like Mustang and Everest, there was a degree of willingness to keep Nepal independent rather than occupy or impose its will on the country.

Recently, however, China's interests seem to be more than co-existential; it wants to expand its economic, political, cultural, and social influences across the Indian Ocean region, which puts Nepal in a precarious position. There is a growing interest of Chinese companies to invest in various sectors in Nepal. Over the past five years, China's direct investment in Nepal has increased substantially, particularly in hydropower and cement industries. Chinese companies are also securing licenses to explore minerals and precious stones in Nepal and trade with China has increased multi-fold. The recent declaration by China that all projects in Nepal fall under the overall BRI framework indicates its ambition to grow its influence in the near future. India, on the other side, as another upcoming economic and military power, is unlikely to relinquish its traditional influence over Nepal. The face-off between the two forces, thus, demands a very high level of skill and trust-building on the part of Nepal to continue the legacy of an independent state between the Dragon and the Elephant. Yet, the internal political dynamics, often divided into 'pro' and 'anti' camps rather than ensuring national interests, do not allow Nepal to have a coherent foreign policy that can strike the right balance.

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NATIONAL SECURITY

Aid, Trade and Security

Economic Dependence as Challenge to Nepal's National Security

Dhruba Kumar

Until the early 19th century Nepal was an expansionist and imperial power (Regmi, 1999). Its excursions, however, ended with its defeat in the 1816 Anglo-Nepalese War, which also resulted in a loss of territory. Yet, Nepal maintained friendly relations with the British even after the defeat. The Nepalese leadership, for a long time after that, remained rather oblivious not only to national security but also national development. The situation changed after the dawn of democracy in 1950s. But Nepal had to invite a military mission from Independent India to guard its northern borders with check posts. This, perhaps, could be a glaring instance of insensitivity on national security on the part of the political leadership. Foreign troops on Nepali soil were offered as a token of military aid and it took a long time for the troops to be withdrawn.

Likewise, Nepal's over-dependence on India economically also makes it vulnerable in multiple ways. Often, India uses economic sanctions and even blockades to pursue its interests. India has also weaponized trade and economic aid in its relations with Nepal, as was the case in 1962 resulting in a short-lived blockade, which was lifted in context of India's war with China. In 1969, the demand for withdrawal of the Indian military mission in Nepal coincided with negotiations on a trade and transit treaty, which Nepal wanted independently of the military issue, but India refused. The inherent weakness of Nepalese leadership and the country's vulnerabilities on the economic front had compelled it to remain in the "inner ring" (Caroe, 1960) of the Indian security perimeter.

Nepal's vulnerabilities extend over several levels. The country is small in landmass and population. It is also rather small in economic as well as military terms. Economic factors impinge on any state's geopolitical choices, but geography has also imposed special challenges on Nepal's development aspirations as a landlocked country. Nepal is not situated favorably, unlike, for example, a landlocked country like Switzerland that has open and accessible markets—Germany,

Italy, France, and Austria—on its doorstep. Unfortunately, Nepal is yet to benefit significantly from the economic upsurge in its immediate neighborhood.

Nepal's foreign economic policy is based on foreign aid and foreign trade, which in turn enhance its economic growth and sustainable development. Politics should primarily be concerned about economic development rather than ambitions for power, prestige, and security. The domestic need for development is integral to the pursuit of Nepal's foreign policy sustained by expansion of diplomatic relationships beyond the immediate realm (Kumar, 1996). Security-wise, as a rather small and 'weak' state, the country has to focus on minimizing insecurity than on maximizing security. It is all about survival than strength-projection for a small, landlocked, and developing state, as its security is inherently linked to vulnerability (Ayoob, 1996: 130).

Nepal's structural disadvantages have inhibited its development even in the sphere of trade beyond its immediate neighborhood. Low productivity has also obstructed its efforts to sustain the basic human needs of its population. Despite its transit treaty with India, Nepal has still only limited access to the sea. Denial of transit jeopardizes its trade, to the extent that the country's foreign trade has never thrived even after joining the World Trade Organization (WTO) in 2004.

Against such a background, this chapter argues that economic vulnerability is a crucial security challenge for Nepal. Along with its structural disadvantages, Nepal is flanked by two antagonistic powers that indulge in cooperation and conflict, competition as well as contention. Intense competition between India and China to maintain influence in Nepal can be observed in the political, economic as well as security spheres. India's Nepal policy has for long been an interplay between geoeconomics¹, geopolitics, and security, while China

¹ Geoeconomics is defined as "the use of economic instruments to promote and defend national interests and to produce beneficial geopolitical results, as the effects of other nations' economic actions in a country's geopolitical goals" (Blackwell and Harris, 2016: 9). It suggests how power and security are no longer simply wedded to the physical control of territory by military means, but also to commanding and manipulating the economic binds that are decisive in today's globalized and highly interconnected world. While geostrategy employs military means, geoeconomics uses economic methods in forging diplomatic ties abroad. Geoeconomics, as a foreign policy strategy, refers to the application of economic means such as aid, trade, and investment to cultivate influence relationship to realize strategic objectives. Substantially based on this concept, Luttwak (1990: 17) argued for the first time that "the methods of commerce are displacing military methods – with disposal of capital in lieu of fire power, civilian innovation in lieu of military-technical advancement, and market penetration in lieu of garrison and bases". Although there is no widely shared definition of geoeconomics, the concept has become highly relevant for the conduct of foreign policy and national security strategy.

is arguably emerging as the most prominent practitioner of geoeconomics in the country. In this context, this chapter examines the national security implications of economic dependence of Nepal, a weak and small state, in the region's geopolitical dynamics, and explores key driving forces determining the geoeconomic contention between India and China and their security implications for Nepal.

The fading of hegemon's embrace

Already in 1919 the British Foreign Office acknowledged Nepal's potential influence on India's internal stability and the close interconnectedness of internal policy issues (Mehta, 2001: 333). Observers claim this has not changed today. Mehta was advocating a new security framework to address common threats based on equality and reciprocity, which he also sees in India's interest: "Not only is Nepal economically integrated with India, its security challenges have a direct bearing on India's security" (Ibid.: 343). This perspective remains largely undisputed, as shown by a conceited diplomatic reaction in the form of an editorial published in the Times of India in 2002 in reaction to the American Secretary of State Colin Powell's offer of arms assistance to Nepal to fight terrorism:

"If Pakistan-based cross-border terrorism violates Indian sovereignty, the same sovereignty is no less transgressed when, despite the 1950 treaty with Nepal, Indian sensibility is ignored by Mr. Powell's explicit offer of military aid to the Himalayan Kingdom [sic]. [India refrains from involving itself in the domestic dispute in Nepal], despite Nepal falling within New Delhi's area of 'security interest', is now being brazenly mocked by Washington's overflying of Indian prerogatives [...]. [I]t is a situation that does little credit to India as it undermines its primacy."

Another editorial published in the same newspaper in 2012, on the occasion of the 50th anniversary of India's 1962 war with China, noted: "We fear China, we envy China, we don't want to be China but we want to be as efficient as China... Our greatest challenge is how India learns to live with China".

This is a clear portrayal of the Indian psyche toward its small and big neighbors. In the case of China, India is a weary titan. In Nepal, however, India remains a

hegemon. For the hegemon, exploitation of vulnerabilities may come at a short-term gain but also create mistrust, which in turn may harm its own interests.

India wants to perpetuate its economic and security interests in Nepal. Most of its development assistance is directly linked to strategic interests. From the early 1950s, the Indian aid program in Nepal has continued to be cushioned by its strategic considerations in building roads, airfields, and communication networks (Khadka, 1997: 1047; Khadka, 1991: 151-160). The motivation for Indian aid even today remains influencing and gaining political, economic, and strategic benefits. Meanwhile, the China factor looms large behind Indian aid diplomacy in Nepal. With the commitment to work as a 'development partner' in building strategic sectors like energy, transport, and communication, India has signed several bilateral projects, most of which are still awaiting completion. For instance, a project like the Pancheswor multipurpose hydropower is still waiting for the completion of a Detailed Project Report (DPR) after 25 years, and the same is the case with the postal highway project (*Hulaki Marga*) signed 15 years ago. India is now fifth among development partners of Nepal, with 35 million USD in official development assistance in 2015-16. In the 2016-17, India emerged as the fourth bilateral donor with 47 million USD, and in 2017-18, approximately 58.87 million USD was earmarked as economic assistance to Nepal.

Despite this, in the past India has moved into Nepal with unrelenting zeal to maintain its sphere of influence, notwithstanding the burgeoning challenges to its quest for security. Evidence suggests it has not flinched from applying unscrupulous measures whenever Nepal is in a political turmoil.

The net impact of all this has been a firm Indian grip on Nepal's economy. Trade with India includes not only consumer goods, technical and industrial appliances, and software, but also military hardware on which India has maintained a virtual monopoly. A secret accord, to this end, was signed in 1965. Nepal depends on India for strategic materials like petroleum products and LPG gas. India is the largest trade partner of Nepal: 70 percent of its trade is with India. The "Make in India" policy announced by Narendra Modi in 2014 is *prima facie* an export policy to which Nepal would be a thriving market in the little integrated South Asian economic landscape. India's trade with its neighbors is still around three percent of its total, despite the tremendous potential (Sinha and Sareen, 2020; Banskota, 2012).

SAARC was a project with the potential to tie and integrate the region, but, unfortunately, India appears to have written it off and replaced it with sub-regional groupings like the Bangladesh, Bhutan, India, Nepal (BBIN) Initiative and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC). Yet these groups have not gained much traction. As a civilizational compact with a closely connected sub-continental culture shared by all member states, SAARC has failed to integrate the region in geo-economic terms and remains a “consultative forum” (CPR, 2020: 5). The geo-economic dynamics have driven India’s relations with neighbor(s) including Nepal, with whom it shares an open border and common cultural heritage, moving it away from the logic and scope of development based on natural locational and socio-cultural sameness. The dominance of aggressive economic statecraft would not help India and Nepal strengthen relations.

A strong linkage between trade, aid, security, and diplomacy has been maintained by India (Upadhyay, 1991). Time and again, India has been using coercive measures, which only worsens the situation. The trade and transit treaties signed with Nepal are described as reciprocal, but they are highly favorable to India, compelling Nepal to impose a high tariff wall against imports from third countries. But China is becoming a formidable rival to Indian monopoly, which India bitterly grudges.

The situation further worsened when the long-disputed land in the Kalapani sector was included in the Indian map in 2019. The cartographic aggression prompted a counter-reaction in Nepal.

Nehru’s fierce critic and former foreign minister of Bharatiya Janata Party (BJP) in the Vajpayee government, Jaswant Singh (1999: 54), termed Nehru’s orientation toward Nepal a realist rather than an idealist stance. Thus the Nehruvian stance is still deeply rooted in the psyche of Indian policymakers to which Prime Minister Modi is wedded. This is reflected in his aid and trade policies on which Nepal must tread cautiously. India’s public diplomacy, in essence, serves its self-interest, while delivery on its promises is often lacking.

India has long conceived the subcontinent as its preserve and exclusive security domain (Buzan, 2011). However, this approach clearly belongs to the past. The unsurmountable barrier of the Himalayan range has become surmountable with China forcing New Delhi to accept Beijing’s presence in South Asia. As a

paramount power of South Asia with growing ambitions India is today mired in the region with “little legitimacy, few stable friends and some quite serious enemies” (Buzan, 2011: 17). India has also lost its geographical advantage as a hegemon after the subcontinent’s partition. The creation of Pakistan and the birth of Bangladesh have created more challenges. Even managing relations with Nepal, with which India signed a ‘Peace and Friendship Treaty’ in 1950, is turning into a problem. The treaty, in fact, was a security pact benefiting India despite Nehru’s professions of nonalignment.

The “Neighborhood First” policy, announced as a critical agenda of the BJP foreign policy under Modi in 2014, is India’s response to China’s Belt and Road Initiative (BRI). But India is also the second largest contributor to the Asian Infrastructure Investment Bank (AIIB) established by China, with a funding of 100 billion USD for BRI projects and the Bangladesh-China-India-Myanmar Economic Corridor (BCIM) under the BRI framework. Yet, India is still reluctant on the China-Nepal-India Economic Corridor (CNIEC). The ambiguity of Indian position on BRI is obvious in its opposition to China-Pakistan Economic Corridor (CPEC) traversing the Indian claimed territory of Pakistan occupied Kashmir. Along with South Asia, another bordering state Myanmar is also a constituent part of the BRI with cooperation based on China-Myanmar Economic Corridor (CMEC) in the east. Overall, India’s “Neighborhood First” policy has not had a smooth sailing on the choppy waters of South Asia. A report published by India’s Centre for Policy Research (CPR) noted why this policy requires reorientation, chiefly because of the “several strategic initiatives” taken by China in South Asia “using Covid-19 diplomacy” requiring a commensurate response of India (CPR, 2020: 14). India used its own vaccine diplomacy by supplying vaccines to Nepal. India did so even before China and it certainly has changed the mindset of Nepalese towards India, at least for the time being. Reflecting on certain flaws in India’s Nepal policy, Muni (2015: 405) notes, “there was a congenital flaw in India’s policy being driven by a strong sense of inherent insecurity, bordering on paranoia”. With China’s expanding role in Nepal, Indian paranoia has further multiplied.

Another economic factor that might turn into national concern are public debts. Nepal’s current total government debt amounts to 1,196 billion NR out of which the external debt is 714 billion NR. The debt to GDP ratio is 34.54 percent (Kandel, 2020: 4), whereas remittance contribution to GDP is 29.9 percent (IMF and World Bank, 2020). This leaves the Nepalese economy extremely vulnerable to external shocks, especially in regard to developments in Gulf countries. Debt

servicing could also become problematic as development efforts falter. This could also happen in context of external trade, as was the case before when Nepalese traders were expelled from Tibet in the early 1950s after China took control. Trade and commercial interactions with the northern neighbor virtually dried up, compelling the direction of trade to tilt toward India as stipulated in the treaties and understandings reached after 1950.

Trade diversification has since become a challenge due to Nepal's geopolitical constraints and its land-lockedness. Nepal's economic dependence on trade with India has continued and even grown as it has yet to restructure its trade relations to increase the nation's autonomy. Dependence on India could further increase Nepal's security sensitivities. Mounting dependency further limits the country's flexibility and resilience.

Nepal, in fact, has not been able to show to India that Nepal matters as much to India as India matters to Nepal. This reflects a shortcoming in Nepal's foreign policy. One outstanding characteristic of Nepal-India relations is the sharing of an open border with a close trade and transit regime. The overall impact of informal trade through the open border is yet to be assessed. However, India's ignorance of Nepalese interests could lead to Nepal looking for an escape route from the hegemonic embrace, both to enhance its security and reduce economic dependence. In the long run, India can only preserve its influence in Nepal by winning trust, not through coercive measures.

Pathways to escape the hegemon

China's engagement in Nepal first began with a modest 60 million Indian Rupees of economic aid in 1956. In 1962 an agreement to build the Arniko Highway followed, which in turn was completed in 1967. Along with further consolidation of the bilateral relations, China has set its priority on economic cooperation in trade, aid, and investment. Economic engagement is gradually expanding with increasingly frequent diplomatic contacts. One can find China involved in infrastructure development to military assistance. In recent years, there is also a rising engagement in cultural, educational exchanges, and tourism.

Nepal's decision to sign a transit treaty with China has further reinforced economic ties. In fact, the conclusion of the trade and transit treaty in 2016 and the issuance of a 15-point joint statement on 23 March 2016 have both dealt comprehensively

with the future state of cooperation, strengthening mutual ties. Nepal and China also agreed to open 13 border passes to increase cross-border connectivity. However, the nearest Chinese seaport is 4,000 km from Nepal, while the distance to Kolkata, the nearest Indian seaport, is just 1,000 km. Still, this decision secures an alternative, but using Chinese harbors for trade as well as the Belt and Road projects in Nepal are yet to gain momentum (Khadka, 2020).

Trade is still a weak link in Nepal-China relations, with transactions limited to 12 percent of Nepal's total trade, even though China is the second largest trading partner of Nepal. What certainly has changed is geopolitical dynamics. This began with Nepal's signing of transport transit treaty with China, as mentioned earlier, and Nepal's decision to join the Belt and Road Initiative (BRI). The news of China's plan to build a trans-Himalayan railway network extending to Nepal's southern border from Tibet created an uproar in the Indian parliament over its security implications, as is evident from the 16 November 2017 parliamentary debate in New Delhi. India reacted with a decision to build a railway link all the way to Kathmandu. The fear of China's competition has become a reality for India. China's increased economic engagement in Nepal through various means would change India's geo-economic influence in the country, which will improve Nepal's bargaining position. The optical fiber link between Kerung and Rasuwa established in 2016 was a vivid example of how to lessen Nepal's dependence on India. Yet Chinese initiatives are also not free lunches and expanding connectivity with Beijing is far from being "a substitute for economic relations with India" (Sharma, 2019: 52). This situation can hardly be changed by nationalistic rhetoric. China, too, has not smoothened border trade.

Yet aid and investment from China are gradually increasing along with its soft power as manifested through China Study Centers, Confucius Institutes, and tourism. President Xi Jinping's 2019 visit to Nepal provided further dynamic in bilateral relations. Leaders from the two countries signed 20 agreements to boost connectivity, trade, economic assistance, and security relations. China and Nepal also agreed to upgrade ties to strategic partnership. Among many deals signed and pledges for financial assistance, the most important one concerns construction of a 70-kilometer railway, as mentioned earlier, connecting Nepal's capital of Kathmandu with Kerung in southwestern Tibet. This also includes building a road tunnel to shorten the distance between Kathmandu and the Chinese border (Joint Communiqué, 2019) Nepal took three years to propose,

with Chinese assistance, its projects under the BRI agreement. However, none of the projects truly follow the BRI framework (Kafle, 2020).

The BRI has, in fact, become one of the mega-geo-economic projects of China, seeking to tie East, South, Central Asia, the Middle East and Europe. Certainly, China will intensify efforts to shape its periphery to achieve the BRI's goals. It is an instrument embedded in party constitution that has become a signature foreign policy project of President Xi. The Trans-Himalayan Multidimensional Connectivity Network announced in 2018 would undertake BRI projects in Nepal.

The geo-economic thrust of China would provide genuine opportunities if Nepal can make proper use of it for economic development through connectivity and infrastructure building. Prior to the rise of Xi as the General Secretary of the Chinese Communist Party (CCP) in 2012 and as President the following year, China was apparently not inclined to boost its relations with Nepal. Chinese leaders from Mao Zedong to Zhu Rongji had equivocally advised Nepal to maintain “close but correct” relations with India (Kumar, 2004: 322). However, that perception has changed. The intensity of China's foreign policy pursuits in South Asia as a region of its strategic interest could be observed in the flurry of high-level Chinese visits to consolidate either “party-to-party” relations or to improve relations at the government(s) and at the people's level. Nepal, Bangladesh, and Sri Lanka received multiple Chinese Communist Party delegates in 2019. The ruling Nepal Communist Party (NCP) and the Chinese Communist Party (CCP) had jointly organized training sessions on “Xi Jinping Thought” to further strengthen party relations, which were eventually formalized by signing a six-point agreement in the presence of NCP party president and Prime Minister KP Oli.

Military relations are another crucial area in which India has traditionally maintained control, but here as well the tides are rapidly turning. The Nepal visit of the Army Chief of General Staff of the People's liberation Army (PLA), General Chen Bingde, in March 2011, and a subsequent military aid package of 17 million USD, as well as the signing of further cooperation agreements between the Nepalese and Chinese armies, all indicate change (Adhikari, 2012: 201). The foundation of such cooperation was built in 1988 with the signing of an understanding that followed intensive interactions. Along with providing Nepal Army personnel the chance to attend courses in the Chinese Military Academy, China has also been supplying non-lethal military equipment to Nepal

and resolutely backed the country when military supplies to curb the Maoist insurgency were stopped by India and the US after King Gyanendra seized power in 2005 to curb. For China, forging military-to-military ties, which are often considered more reliable and durable compared to political or civilian connections, has become a priority in South Asia. Relations with Nepal gained further momentum after 2008, when Defense Minister Ram Bahadur Thapa signed a 2.6 million USD military assistance package with China. The cooperation between the two countries covers a whole array of projects ranging from military training, joint military exercises, humanitarian assistance and logistic support, disaster management, to peacekeeping. Nepal's request to help build a Defense University got positive response from China. In recent years, there have been more interactions both at political and military levels, which also affects Nepal's traditional military ties with India.

Nepal, today, has found an alternative source of infrastructure investment within the framework of the BRI. The proposed nine projects under it are mostly concerned with opening of planned Strategic Road Networks (MoPIT, 2016). It is hoped that these projects not only benefit mountain economies, but also increase cross-border interactions. Once complete, these infrastructure projects will be of dual use, serving military and civilian purposes, which certainly will have profound implications on regional geopolitics. Besides this, Nepal has expanded ties in telecommunication and closed deals with the Chinese ZTE and Huawei through the government-owned Nepal Telecom. There are a number of other projects that are underway: a new international airport in Pokhara, the Asian Development Bank (ADB)-funded contract for the Gautam Buddha airport in Bhairahawa, the Western Seti Hydropower project, Arun-Kimathanka Hydropower project, cement factories, and a highland food park. More precisely, the List of Instruments Signed and Exchanged between Nepal and China in October 2019 comprehensively prioritizes bilateral undertakings incorporating the task of infrastructure development and security cooperation. Of the 20 agreements signed, the Agreement between the Governments of Nepal and the PRC on the Boundary Management System, the Treaty between Nepal and the PRC on Mutual Legal Assistance in Criminal Matters, the MoU on Cooperation between the Supreme People's Procurator of the PRC and Office of the Attorney General of Nepal, the MoU between the Ministry of Physical Infrastructure and Transport of Nepal and the Ministry of Transport of the PRC on Feasibility Study of China-Nepal Cross-Border Railway Project, as well as the Exchange of Letter for Border Security Equipment and Office Equipment are the most notable

instruments exchanged between the two governments (MoFA, 2019). These future projects still await implementation. Their successful operationalization would open the scope for expanding trade, transit, and investment.

As China wants to preserve its commercial and economic interests through investment, the link between aid, trade, and security would converge and be protected by politics. With increasing interactions and engagements at different levels, the Nepalese people will start understanding the true nature of relationship with China. Nepal's acquiescence to China's BRI implies its decision to forge closer relationship, which should not be primarily personal nor take place at party level. Here Nepal needs to keep in mind that state-to-state relationship has to be strengthened and such relationship should not be affected by a change in government.

Though closer relations with China give Nepal options, the state of deep dependency on India will not change swiftly. Nepal's stance, however, is neither of defiance nor defection from its relationship with India, but an adaptation to new regional realities. Given this, India, too, has limited choices and it certainly is also not in a position to take an extreme approach. It can no more overlook the need for genuine reciprocity. The southern neighbor has insisted for long that Nepal should be cautious in dealing with China, when Delhi itself was indulging in establishing close trade relations with China. As Sino-Indian relations deteriorate, New Delhi sees closer relations between Kathmandu and Beijing as a by-product of anti-Indian sentiment. The Indian response to Nepal's deepening ties with China is, therefore, likely to be negative. However, Delhi is barely in a position to prevent Nepal from moving away from the 1950 treaty.

Conclusion

Nepal's security needs to evolve and be strengthened by maximizing and diversifying collaboration in the economic sector. It should be kept in mind that our neighborhood is our greatest asset and economic collaboration with both neighbors could benefit all parties. In fact, the competitive interests of the two contending powers, India and China, could be an opportunity for Nepal to attract investment and improve its infrastructure. But Nepal has to be acutely aware of the existential threat dependency can bring. Therefore, it has to choose a pragmatic way to escape this trap. Nepal's economic vulnerability and weak state structure can worsen its internal security challenges. Terrorism remains an

enduring threat to Nepal's internal security and societal cleavages thus need to be addressed within the broader framework of the constitution. Institutionalizing democratic process is another long-term agenda and for that various political factions will have to be mainstreamed.

Likewise, the post-pandemic world will be different, even though the Sino-American tussle on trade and competition is likely to persist. After the signing of the Millennium Challenge Corporation (MCC) and after making Nepal a partner in the Indo-Pacific Strategy, the US has raised a critical dimension of conflict with China across the Himalayas. China is concerned about the Pentagon's plan to build a NATO-like geostrategic alliance with the Indo-Pacific region emerging as "the epicenter of great power competition with China" (Shi, 2020; Li, 2020). Closer home, China has warned India not to indulge in competition in Eastern Ladakh. Growing tension has sensitized Chinese preoccupation on Tibet.² Against the bristling Chinese presence and the Quadrilateral Security Dialogue (Quad) between the United States, India, Japan, and Australia assuming a military shape, Nepal may not be immune to its fallout. The security sensitivity of traditionally unguarded Nepal's northern border with China has yet to be managed³ despite its strategic location. Thus it should be clearly understood that Nepal has become rather crowded in light of the geopolitical rivalry of major powers. Coping with the new breed of geo-economic challenges calls for diplomatic acumen to discretely manage the country's relations with these powers whose interest and involvement are integral to Nepal's development aspirations. Incisive and timely moves in dealing deal with challenges are the prerequisites of hardheaded strategic diplomacy. Nonalignment as a holy grail of foreign policy will not be enough to secure Nepal's place in the new strategic calculus.

² At a meeting held on "Tibet Task" Chinese President Xi Jinping has ordered to "solidify border defenses and ensure frontier security" for enduring peace and stability by preserving national security while making renewed efforts for infrastructure building with 146 billion USD investments (China Daily, 29 August 2020). The tension with China that could escalate into military conflagration has made India consider improving relations with Nepal that had chilled over the cartographic aggression over the disputed territory in the Kalapani sector in far western Nepal (Kathmandu Post, 8 September 2020).

³ Sensitive on the security of Tibet, when a visiting high level military delegation from China proposed to set up a friendship structure at the northern border for meetings and consultations with army personnel from across the border at a cost of 80 million NR, the Nepalese counterpart declined the offer, informing the delegation that border security was not a military responsibility (Adhikari, 2012: 203).

As a small state, Nepal does not have the luxury of completely relying on national means of power. It also cannot rely on its ambitious neighbors for obvious reasons. How then should Nepal's foreign policy and international relations move ahead? Policy decisions must be made institutionally, and not be based on personal preferences. For the first time in the past 60 years, national economic growth rate has reportedly plummeted in the fiscal year 2019/20. The situation could further deteriorate with no end in sight to the pandemic and political instability. Neither is there any sign of the revival of the deeply-troubled economy. Rebuilding the economy remains a priority. The consumption-based import regime could undermine Nepal's relational strength causing structural anomaly in dealings with other states. The inflow of FDI to gain an eight percent growth for a decade looks impossible in face of the corona crunch. Besides loans and grants, investments can boost development and for which neighbors can be invited. However, keeping the economic dimensions of external relations free from the lure of perks, privileges, personal favor, and power will be the challenge so far as protecting our national interests are concerned.

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Nepal's National Security in the Digital Age

Geja Sharma Wagle

With the advent of the 21st century, revolution in information and communication technology and digitization of human activities have created an open and transparent, yet also a complex and dynamic society. The global wave of liberal democracy in the post-Cold War context and rapid development of mass media, information technology, and social media marked a gradual transformation toward a democratic, liberal, and transparent society. But, digitization is also making the world more complicated and unpredictable than ever before with profound consequences for the freedom, security, and privacy of human beings.

National security in the digital age thus is becoming a contested notion in the realm of political science since the 'digital' comes with challenges and opportunities. Its positive dimensions are related to industry and mass production, technological infrastructure, mass information and technology, development of mass media, and social media and openness of society. On the other hand, several potential threats to national security can be observed like the competition between countries to control technology, cybersecurity and metadata security, the authoritarian tendency of governments to misuse citizens' data, WikiLeaks attacks on confidential documents and information, non-state actors' access to confidential documents, and the spread of fake news.

This global digital transformation will naturally also impact Nepal. This paper takes up the issue of national security in the digital age in the global and Nepali contexts, identifying the challenges emerging and exploring the opportunities before offering suggestions on the national security of Nepal in the unfolding global context.

Evolution of national security

Security is a contested concept without a universally accepted definition. It is also a rather recent and underdeveloped notion. Security scholars like David A.

Baldwin, E.H. Carr, Hans Morgenthau, and Barry Buzan argue the concept of national security is one of the most ambiguous, sensitive, and value-laden terms in social science (Buzan, 1991). Still, it is an important idea due to its relation to national interests, territorial integrity, sovereignty, and independence of a nation, as well as the security of its people.

The traditional view of national security makes the state its reference point as the primary provider of security. Scholars of the realist school of thought believe that when the state is secure, its people are secure (Bajpai, 2002). Independence and territorial integrity are the most important elements for a nation and these two values must be protected at any cost. This realist school was dominant during the war-ridden first half of the 20th century since it advocates a state- and military-centric approach emphasizing territorial integrity, sovereignty, military power, and protection of regime (Owen, 2010).

Following the end of World War II, the concept of national security underwent a significant change. David Baldwin (1995) identifies two crucial elements for this change: the decline of military power in international politics and the need to re-examine national security in the changing context in broader terms with a focus on people. With the end of the Cold War and the advent of liberal democracy in the last decade of the 20th century, the realm of national security further broadened to become rights- and citizens-friendly security (Booth, 2007).

The Human Development Report of 1994 prepared by Mahbub Ul Haq significantly contributed to transforming the concept of national security from a narrow state- and military-centric concept to a broader citizen- and rights-centric one: human security. It suggested redefining national security in two ways: from the earlier exclusive stress on territorial security to a wider focus on peoples' security, and from security through armament to security through sustainable human development (UNDP, 1994). It synthesized the threats to human security under seven broad categories – economic, food, health, environmental, personal, community, and political security.

National security in the digital age

After the fundamental changes in the concept of national security, the advent of information and communication technology marks another turning point. The liberal school of thought of security studies that prevailed in the post-1990

period focused on both traditional and non-traditional security in line with the liberal and broader principles of security (Morgan, 2013). The democratic peace theory substantiated the liberal school by arguing that a democratic system ensures a peaceful resolution of conflicts and wars.

The growing access to the worldwide web and the evolution of social media (Twitter, Facebook, YouTube, Instagram, TikTok etc) has ensured access to information at an unprecedented level in the public domain across the world regardless of caste, creed, race, gender, and political ideology. But, digitized society also implies an unprecedented level of online mobbing and hate speech, encroachment of privacy rights, and cybercrimes. The digital world is also highly volatile, fragile, and polarized and, therefore, it is difficult to foresee the future of nationalism and national security in the rapidly changing digital era.

Considering the IT revolution and the evolving digitized society, security scholars have conceived the term – digital nationalism – with a special reference to China and opine that the new variant of nationalism will advocate, institutionalize, and strengthen authoritarian and autocratic regimes. The digitized society and social media also challenge the primacy of the state through the greater involvement of non-state actors. Joseph S. Nye (2011) in his book *The Future of Power* argues that non-traditional and non-state actors have become increasingly powerful and influential in the technologically empowered digital world, diminishing the role of traditional state actors, creating vulnerability to liberty, security, and privacy.

Against this background, right-wing nationalism, ultra-nationalism, digital nationalism, jingoism, and xenophobia are, consequently, on the rise today. The Covid-19 pandemic has further escalated the rate of digitalisation making the world even more complicated and putting data and information of the states and people at risk. As a result, the evolving illiberal and populist political context has raised several questions about nationalism, liberalism, pluralism, and national security enabling politicians to spread their populist views and promote populist agendas (Udupa, 2019).

Impending challenges to Nepal

National independence, territorial integrity, people's sovereignty, and national security are important priorities for a sovereign, independent and landlocked country like Nepal. Today, despite traditional security concerns related to

location, Nepal also faces new security challenges in the context of the global wave of information technology, digitization, right-wing populism, digital- and ultra-nationalism that often find a platform on social media. If, on the one hand, Nepal needs to take much-needed advantage from information technology as well as a liberal society and democracy for its national interest and prosperity, on the other, it must also ensure territorial integrity and people's security. Essentially, the newly emerging and non-traditional security threats are more challenging than traditional ones.

The triangle of geopolitical rivalry

Given Nepal's geostrategic sensitivity and importance, the U.S. and Nepal's neighbors India and China have been giving increasing priority to the country in their foreign policies and strategies, which also results in growing financial assistance (Karki, 2015).

They seek to expand defense relationships with Nepal with a focus on humanitarian assistance and disaster relief (HA/DR), peacekeeping operations, defense professionalization, ground force capacity, and counterterrorism. Senior-level visits were made to Nepal by the United States Indo-Pacific Command (USINDOPACOM) Commander and Deputy Assistant Secretary of Defense for South and Southeast Asia to further advance defense relationships (U.S. DoD, 2019). The much-debated Millennium Challenge Corporation (MCC) compact was also signed between Nepal and the U.S. government in September 2017 to provide a \$500 million grant for Nepal's infrastructure development (U.S. Embassy in Nepal, 2018).

In 2017, Nepal signed the Belt and Road Initiatives (BRI) for infrastructure development and connectivity. Like the U.S., China has also promulgated policies and strategies focused on the Asia-Pacific region. Considering the growing American interests and influence, it announced a comprehensive security policy, focusing particularly on the Asia-Pacific region for the first time in January 2017.

At the same time, India still claims Nepal as a part of its primary sphere of influence. India's concerns are not limited to strategic defense and security affairs but stretch into political, diplomatic, economic, social, religious, and cultural arenas, too. Prime Minister Narendra Modi, who visited Nepal four times so far

has been stating, time and again, that he will deepen and widen the special and unique relations with Nepal.

Given the strategic, defence, and security interests of the three countries in a triangle of an undeclared strategic rivalry, it is evident that if that rivalry intensifies in the future, it may undermine Nepal's national interests and national security. Nepal, therefore, must analyse the emerging global power dynamics and strategies more carefully and objectively than ever before (Wagle, 2020).

Prominent international relations thinker and Nobel laureate Henry Kissinger (2011) has opined that India and China are the centers of gravity in the emerging multipolar world order, with significant implications in global politics. Likewise, another noted scholar of geopolitics, Robert D. Kaplan (2012), has highlighted the strategic and geopolitical gravity of Asia and its implications for Nepal.

Cyber insecurity

Considering the trends surfacing in security and information technology, cybersecurity, cyber conflict/war, data security, technology-based war, and cyber terrorism appear as new challenges to national security. Cybersecurity is highly likely to be one of the main challenges of the 21st century. Since the security of data related to national security and national secrecy is highly vulnerable, it should be the utmost priority of every nation. Even the U.S.' National Security Strategy points out that cybersecurity is one of the biggest challenges of national security for the country. Governments, security agencies, and policymakers, therefore, have been raising these issues to ensure national and human security (Devi, 2018).

Since the digital regime does not consider national borders and there is a free flow of information across the world without restriction, information and cyber warfare might be a central means in conflicts between powerful countries like the U.S., China, Russia, the U.K., and India. In addition, powerful countries are likely to use their technological advantage over less developed countries to access information related to strategic interests, which might impact the national security and strategic affairs of these countries. Information, thus, becomes as important as modern and sophisticated weapons in the age of technology-based modern warfare (Jarmon, 2014). One example of cyber insecurity and cyber warfare is the debate and blame game that took place between the U.S.

and Russia during the 2016 presidential election. Likewise, WikiLeaks has been disclosing confidential and classified documents of the U.S. government, most of which are related to national security.

Controlling public opinion by introducing sophisticated censorship mechanisms is becoming more frequent also in advanced democracies, let alone in China. Essentially, China, Russia, Turkey, and Hungary have been building or contemplating domestic networks to control contact with the outside world and suppress dissident contents. Nowadays, this has been an increasingly common practice. Recent years have also seen the emergence of a softer form of digital nationalism: the proliferation of so-called data localization or data protectionism laws for control by the state. Authoritarian governments have long sought to rule over the internet where China is a pioneer, showing other autocrats how and why the internet should be effectively controlled (Kapur, 2019).

The states' tendency to be non-transparent and control the free flow of data has now unleashed a new wave of national legislations on cybersecurity, surveillance, content filtering, data localization, and taxation, creating new controversies. Borderless cyberspace emerged from the revolution of information technology, but today, many governments no longer believe in global solutions to fight cyber terrorism, cross-border cybercrime, or digital dominance. Fake news and hate speech can destroy the very fabric of societies. Effective oversight and monitoring mechanisms for governments to control fake news and hate speech are hard to design and implement.

In September 2018, Facebook announced that there had been a major security breach. Foreign hackers had infiltrated the social network gaining access to around 50 million personal accounts. That incident reflects the deplorable state of cybersecurity of a superpower like the U.S. (Facebook, 2018). In March 2018, the data consulting firm Cambridge Analytica was exposed to its extra-judicial dealings with the Trump campaign, and the company has harvested more than 50 million Facebook profiles without consent and legal justification. Some security scholars argue that the move was not just illegal, but it also affected the results of the U.S. election significantly. According to a 2016 survey, 73 percent of Americans believe that cyber terrorism is a major threat to the U.S. and its citizens (Craig and Brandon, 2018).

In Nepal, cybersecurity has drawn significant attention in the national discourse lately and there are two aspects to such discourse. The first aspect is related to national data security, and the second is enhancing capacity for that. This is needed primarily because incidents of cybercrime including pilferage of confidential data are increasing in the country.

In 2000, the government promulgated an Information and Technology Policy which is neither relevant nor sufficient to address these issues. Likewise, the government also promulgated the Electronic Transactions Act, 2008, and the Civil Code, 2017, to ensure cybersecurity. However, a comprehensive and integrated policy framework is needed for that.

Digital control on the pretext of national security

The information and technology spheres have become critical areas of contestation between the proponents of liberal and illiberal democracy. The tides of right-wing populism and digital- and ultra-nationalism are rising simultaneously as major emerging challenges in the third decade of the 21st century. In this age of digital interdependence, governments, in particular authoritarian and totalitarian ones, will try to wield exclusive control over metadata and other information while democratic governments may follow them. While the government has both the right and responsibility of ensuring the privacy and security of its citizens' data, at the same time, there is a risk of the state suppressing peoples' rights.

Data is the highway to digital dictatorship for authoritarian, pro-authoritarian, and populist regimes and governments might heavily misuse and abuse big data of their citizens in violation of privacy and data security. Harari (2018) illuminates the scope for digital dictatorship in his book *21 Lessons for the 21st Century*. He argues that:

"This will not be a return to the days of Hitler and Stalin. Digital dictatorships will be as different from Nazi Germany as Nazi Germany was different from the *ancient regime* of France. We cannot predict what will be the motivations and powers of digital dictatorships in 2084, but it is very unlikely that they will just copy Hitler and Stalin. Those gearing themselves up to refight the battles of the 1930s might be caught off their guard by an attack from a totally different direction".

Freedom House has concluded that populist and right-wing governments and propaganda over new and social media have brought serious implications for the nascent democracies around the world. Promoting hate speech and fake news against liberal principles and values leaves the public sphere vulnerable with 'a cohort of countries moving toward digital authoritarianism by embracing the Chinese model of extensive censorship and automated surveillance systems' (Shahbaz, 2018).

Media, information, and data control are the main weapons of authoritarian, totalitarian, communist, and surveillance regimes in suppressing and controlling information to maintain their authority. Those regimes argue that this control is in the best interests of the nation and its people. By applying these methods, authoritarian communist countries like China, Cuba, North Korea, and Vietnam exert a high degree of control over people's fundamental rights, public opinion, media, social media, data, and information on the pretext of national interest. They are often backed by draconian laws curtailing basic democratic rights and press freedom. As mentioned earlier, attempts can be observed in controlling mainstream and independent media by blaming them for spreading fake news and hate speech. This is increasingly becoming true for many countries, both developed and so-called underdeveloped, in the world.

In the context of mass surveillance through data interception and collection, artificial intelligence-powered surveillance will be a very dangerous weapon that is already applied in some surveillance states. Authoritarian powers and rising illiberal regimes understand the power of data and technology and they have already skilfully manipulated information, data, and social media to defame democracy and spread fake news and hate speech. These developments demonstrate that data will be the most valuable commodity in the days to come.

The speedily spreading global wave of digital nationalism, illiberal democracy, and social media has a direct impact on Nepal as well. Promulgation of several controversial acts to control freedom of expression and press freedom will have consequences for civil liberties. Furthermore, nationalism, political stability, and prosperity are getting importance in recent political discourses and have been used in a populist fashion.

Likewise, the successive governments in recent years has also submitted a couple of contentious bills in the parliament, which are against the fundamental

principles of democracy and the preamble of the constitution, to establish its monopoly over information and data on the pretext of national security, secrecy, and national interest. Misuse and abuse of data and information in the name of nationalism, national security, and national interests in the future are likely to continue.

Limited opportunities

The digital revolution removed traditional barriers in distribution and access to information around the globe. The development of new information technology has improved the ability to communicate and share information, enhancing freedom of expression and democratic participation. The revolution of information technology, digitized society, and social media, therefore, have significantly contributed to democratizing and liberalizing societies. At the same time, these tools have also been used in a contrary fashion and exhibited its Janus-faced nature of transparency and secrecy, liberty and security. The digitized and liberal society brings everything into the public domain ensuring access to everyone, while governments, security agencies, and policymakers argue that this poses a danger for national security and national interests.

A digitized society can contribute to creating a citizen-friendly and rights-friendly national security environment. However, there are and will be some confidential and secret information and data about national security and national interests in the digitized society as well. A digitized and liberal society does not jeopardize national security and national interests. It contributes to making a democratic, transparent, accountable, and rights-friendly state by respecting peoples' rights. The state cannot and should not hide everything in the name of confidentiality and secrecy, disregarding accountability and transparency, the core elements of a democratic and liberal society.

A digitized society ensures the sovereignty of information that empowers people to make their own political, social, and economic decisions without coercion or hidden manipulation by making information available in the public domain. Digital nationalism will make a positive contribution to our understanding of nationalism and national security by educating and empowering people at large. Technological innovation is largely taking place beyond the purview of the state, and states require resilient cyberspace. However, the state should not have a monopoly over data. Essentially, democratization, digitization, and

transparency are not problems for national security. They are the solution without any ifs and buts.

There is thus a dire need to make the state in Nepal more democratic, liberal, and accountable. The government has to build a more citizen-friendly and rights-friendly security environment. Professional and independent media, civil society, and social media have been contributing positively to making the state, government, and security agencies accountable to the people. Nepali people have both rights of privacy and transparency in the digital age. Digitization is not an end of privacy and the empire of anarchy. The government cannot and should not violate human rights and the right to privacy of the citizens under any pretext. According to article 17 of the International Covenant on Civil and Political Rights (ICCPR), “No one shall be subjected to arbitrary or unlawful interference with his or her privacy, family, home or correspondence, nor to unlawful attacks on his honor and reputation, and everyone has the right to the protection of the law against such interference or attacks” (UN, 1976).

Incomplete national security policy

Despite the urgency, Nepal did not have a comprehensive, integrated, and appropriate national security policy until 2016. Nepal had been facing many internal and external, traditional and non-traditional security threats in the absence of an appropriate policy. The government and certain political parties do not hesitate to beat the drum of ultra-nationalism, national independence, sovereignty, and national security time and again in the public. But, even after 1990, governments, political parties, and policymakers made no substantive efforts to promulgate a robust national security policy to safeguard the national interest and security of its people.

After the promulgation of the constitution in 2015, the government promulgated the first written and integrated national security policy in the history of Nepal in 2016 (MoD, 2016). In principle, it was a positive step, but the provisions were abstract and incomplete in many respects and fell short in addressing emerging security threats. The government did not consult relevant stakeholders including political parties and experts in the field in the drafting process. As a result, the product was dominated by the government and security agencies.

A new policy should be redefined in line with the changed political and security contexts for four reasons. First, Nepal is in a process of transforming itself into a federal republican state from a feudal and unitary kingdom, and the security threats for these systems are fundamentally different. Second, the new constitution has defined human security as a guiding principle of national security, according to which the role of the state is not only limited to defending its territory, but also involves ensuring freedom, human rights, peace, and security to its citizens. Third, the internal and external threats to Nepal have become more complicated and challenging. Therefore, the emerging threats and strategies to address these need to be outlined clearly. Fourth, a new security policy should take new technology-based security threats like cyber insecurity into consideration and address those issues, comprehensively and appropriately.

However, yet again, a new national security policy promulgated in March 2019 failed to consult concerned stakeholders (Ghimire 2019). The new policy did identify foreign interference, the open border with India, blockade, border encroachment, transnational crime, terrorism, and superpower rivalry as serious external threats to Nepal. However, it remained focused heavily on traditional security threats and did not address new ones.

The government has not even made the new security policy public, terming it 'confidential' and 'secret'. But, a security policy is not a secret and confidential document and should be made public like other policies of the government sooner than later. Even the earlier security policy of 2016 was made public by the then government and is still available in the public domain. Unlike communist countries such as China, North Korea and Cuba, democratic countries make their national security policy public. Anybody can find the national security strategies of countries like the U.S. and the U.K. in the public domain. Transparency and accountability to ensure the participation of people in policy and law-making process are fundamental practices of democratic governance. Keeping laws confidential runs contrary to this democratic principle and the spirit of the constitution.

Conclusion

The analysis and review here raise several security threats and opportunities. The government needs to draft, promulgate, and implement policies, acts, and regulations to address these threats of the digital age. Likewise, the government also needs to enhance the digital governance system to ensure the freedom,

privacy, and security of the people. In that context, the government should draft and promulgate policies and acts about national security based on national consensus, following comprehensive consultations with the major stakeholders including the political parties. The policies and acts must be consistent with the fundamental principles of civil liberties, democratic system, and national as well as human security. Otherwise, it will endanger the liberties, rights, and privacy of the Nepali people on the pretext of secrecy. It is not always an easy task, nevertheless, governments need to ensure a balance between liberty, security, and privacy in their national security policy.

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DANCING WITH TIGER AND DRAGON

Intensifying India-China Rivalry and its Implications for Nepal

Nihar R. Nayak

International structures vary from one period to another depending on the prevailing geopolitical set-ups. During the world war period Britain was still the dominant power. But the mantle shifted swiftly to the US afterwards. This initial phase of the unipolar structure did not continue for long with the emergence of the former USSR as a rival to the US. The post-war period, also known as the 'Cold War' phase, witnessed the rivalry between two clear blocks – one led by the US and the other by the former USSR – at the global level. This phase also experienced intense efforts from the two superpowers to expand their respective support base by encouraging rapid alliance building. However, many African and Asian countries preferred to remain non-aligned. Again, this phase came to an end with the disintegration of the former USSR in 1991 and the US once again became the sole superpower.

Two decades after the end of the 'Cold War', the unipolar world order was challenged with the emergence of China as a major global power in the Asia-Pacific region, altering the regional balance of power. In 2011, the US adopted the "Pivot to Asia" policy to fill up the power vacuum created by Chinese unilateral aggressive behavior toward smaller countries in the Asia-Pacific region. In November 2011, in an essay for Foreign Policy, then U.S. Secretary of State Hillary Clinton outlined the U.S. "pivot" to Asia. Clinton's call for "increased investment – diplomatic, economic, strategic, and otherwise – in the Asia-Pacific region" was seen as a move to counter China's growing clout (CFR, n.d.). By the end of that year, President Obama had announced a series of agreements on economic and military cooperation with trans-Pacific countries.

China as a revisionist power¹ has been attempting to set up a new world order and change the existing global norms by challenging the US-led western

¹ The concept of revisionist power dominated international politics discourse in the post-Cold War period when China directly and indirectly attempted to set up a new world order by challenging the existing US dominated world order. The debate gained momentum during the Obama Administration period. For further reading, see <https://www.e-ir.info/2010/10/07/usa-status-quo-or-revisionist-power/>.

dominated world order. However, the growing strategic partnership between the US and India to maintain a balance of power in the Asia-Pacific region may bring a different momentum. However, as the overall global balance of power politics shifts to Asia, three regions (Indo-Pacific West, the Himalayas, and the Indian Ocean region), three countries (the US, China, and India), and three issues (climate change, control of the global supply chains, and humanitarian intervention in world politics) will dominate international politics in the future. The three regions have already witnessed intense competition between these three powers during the post-globalization period. While the US has been trying to maintain power balance in the Indo-Pacific region ever since adopting the policy of Asia pivot, it has been forced to diversify its engagement in the Himalayan and the Indian Ocean regions, with increasing focus on power balance. This is due to Chinese expansionist designs and aggression in these areas against India since May 2020.

Prior to May 2020, the US was unsure about India's policy toward China, the Quadrilateral Security Dialogue (Quad), and the Indo-Pacific. First, until then, India had over 90 billion USD in bilateral trade with China, hugely in China's favor. Over 50 Chinese companies invested in India, for a total of 5 billion USD in the FDI. Both Huawei and ZTE were shortlisted for 5G projects and many Chinese companies had an active role in 'Make in India' start-up projects. Second, India and China have institutionalized multiple dialogue mechanisms to resolve the border disputes since the 1990s. Third, India has been a reluctant partner of the Quad. It has been the only one country in this group to categorically deny any military role for the Quad (Mishra, 2019). Fourth, although India had improved its engagements in the Indo-Pacific region by improvising its Look-East Policy to Act East Policy, its approach to the Indo-Pacific Strategy has been mostly tentative. It adopted a hedging policy to maintain equal distance from the three big powers – US, China, and Russia – with the following objectives:

1. It wanted to maintain strategic autonomy by not completely accepting the principles and concepts of the Indo-Pacific Strategy enunciated by the US;
2. It wanted to send a message to Russia that it is not interested in having any hard alliance with the US or any other major power; and
3. It did not want to provoke China (Mishra and Das, 2019).

Fifth, although India has been opposing the Belt and Road Initiative (BRI), it is one of the major partners of the China-led Asian Infrastructure Bank (AIIB). Moreover, India is also an active member of the Shanghai Cooperation Organization (SCO). Lastly, despite pushing the bilateral relationship to a strategic level and despite having common socio-political values, the US and India have differences over trade, human rights, US relationship with South Asian countries, and over climate change-related issues.

India's hedging policy with other major powers in general and China in particular baffled not only the US but also India's neighbors. India's approach had two major implications. First, despite aspiring to be a global power, its policy and approach were like those of a secondary state (Keohane, 1969)² in the international structure. But structurally and diplomatically, India is not a secondary state. It has phenomenal strength in terms of both hard and soft power to influence global and regional politics. Second, because of India's secondary state approach, other smaller neighbors of India gave more importance to China and the US in comparison to India in their foreign policy. At the same time, they tried to forge a balance between China and India at the regional level.

Nepal bears a special relevance here. It has been trying to benefit from the tripartite competition in the Himalayan region between China, India, and the US. Given its geostrategic location, Nepal has been in the global powers' attention since the Cold War. While Nepal occupies a special position in the neighborhood policy of India and China due to its geographical proximity, the US policy toward Nepal is guided by its approach toward China and India. Nepal strongly figured in the US containment policy during the Cold War. In the post-Cold War period Nepal again gained importance for the US to counter the Maoist rebels as a part of the global war against terrorism. The superpower returned to the Himalayan region by including Nepal in its Indo-Pacific Strategy to counter the

² During the Cold War period, some realist theorists divided states into four categories as per their influence in the global politics. Robert O. Keohane, in a review essay in 1969, had put India, UK, Japan, China, France, and Germany in the "secondary state" category, which he defined as "a state whose leaders consider that alone it can exercise some impact, although never in itself decisive, on that system". In the post-Cold War period, international relations theorists have listed India in the major power category along with China given its impact in global politics (Darren J. Lim and Rohan Mukherjee, 2019). In a multipolar system, a major power is a state that impacts global politics substantially and other powers take its position on the global issues seriously. These states have the capacity to disturb the global balance of power by extending issue-based support to other major powers if required.

BRI, which Nepal had joined in May 2017. Four months after that agreement, the US signed the Millennium Challenge Cooperation (MCC) agreement with Nepal worth 500 million USD. While Nepal was already in a dilemma about how to reconcile between India's neighborhood policy and the BRI, the US offer further complicated the matter. Instead of taking advantage of the triangular competition, Nepal is mired in the big power rivalry. As a small state, it cannot influence, alter or impact the new system in Asia on its own or in a group (Keohane, 1969).

India-China relations

Until May 2020, there was a steady improvement in India-China relations despite the border disputes and competition at the strategic and commercial levels. Since 1993, the two countries have set up more than 30 bilateral dialogue mechanisms at various levels, covering political, economic, consular as well as regional and global issues. As mentioned earlier, China has been the largest trading partner (95.54 billion USD) and investor (4.747 billion USD) in India. More than 100 Chinese companies have established offices/operations in India. At the same time, many Indian companies have also set up Chinese operations to service the Indian and multi-national corporation clientele in China.

That relationship witnessed an upward surge during the informal summit in Wuhan in 2018 and Mamallapuram in 2019. Moreover, following the establishment of the Special Representatives (SR) on the India-China Boundary Question in 2003, 21 rounds of talks were held till September 2019. Given their robust bilateral institutional mechanisms, the two countries could successfully resolve the 72-day border standoff on the Doklam plateau in 2017 without seeking any support from other countries (MEA, 2019).

Despite such confidence-building measures, the two countries are nowhere close to a solution on the border disputes. India has not joined the Chinese-led BRI project as it feels that "no country can accept a project that ignores core concerns on territorial integrity" and one that has been labeled a debt-trap by several leaders across the world.³ China retaliated by opposing India's bid to be

³ Available at https://economictimes.indiatimes.com/news/politics-and-nation/india-wont-join-bri-its-concept-wont-apply-to-us-jaishankar/articleshow/71441347.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst (4 October, 2019).

a member of the Nuclear Suppliers Group (NSG) in July 2018 and again vetoed India's initiative to declare Masood Azhar a global terrorist at the United Nations Security Council (Scroll.in, 2019; Economic Times, 2019). In the post-Galwan period, India in turn has imposed a string of restrictions and bans on Chinese companies and investments.

Galwan conundrum

The China-India border dispute is one of the oldest in the Himalayan region dating back to the 1950s when China occupied Tibet, which was long considered a geographical and cultural buffer between India and China. This geopolitical change in the Himalayan region dragged India into a border dispute with China, which was not a signatory to the McMahon Line as per the 1914 Shimla Convention between British India and Tibet. While the Republic of India inherited British India and accepted the McMahon Line as the legal border, the same was rejected by China stating that Tibet was never independent. This resulted in frequent crossing and transgression of the Line of Actual Control (LAC) by the People's Liberation Army (PLA) into the Indian side. The other factor that weighs heavily on the Chinese mind is the presence of the Dalai Lama and the Tibetan government-in-exile in India. The growing strategic cooperation between India and the US since the late 2000s and the construction of border infrastructure by India are also major concerns for China.

While the entire world has been reeling under the COVID-19 crisis since the start of 2020, South Asia witnessed a spike in border disputes. Although some of these disputes existed before the COVID period, the Chinese claims of territories in India and Bhutan as well as Nepal's claim over three disputed territories that India has traditionally claimed have introduced a new dimension to the security discourse in the subcontinent. In an incident that resulted in heavy casualties on the Indian side, around 20 Indian Army personnel were killed in a surprise attack by the PLA after they crossed the LAC into the Indian side in the Galwan valley on June 15.

Transgressions by the PLA in the Ladakh region were talking place in May 2020, which came as a surprise to India, as the PLA violated the existing bilaterally agreed border patrolling protocols. The PLA prevented border infrastructure projects in the Ladakh sector by crossing the LAC and unilaterally changed the status quo in the region. The situation in the area further deteriorated after around 250 Chinese and Indian soldiers engaged in a violent face-off on May 5

and 6. The incident in Pangong Tso was followed by a similar incident in North Sikkim on May 9. The two sides agreed to deescalate the tension after holding talks at the Major General level as per the existing bilateral mechanism. In the first Major General level talks on June 6 both agreed to disengage from their actual positions.

However, the Chinese side did not implement the June 6 decision and continued their presence in the Galwan Valley, which is a strategically important point to neutralize Indian dominance in the region. In a surprise attack by the PLA, 20 Indian Army personnel, including a colonel, were killed in the Galwan Valley in eastern Ladakh on the night of June 15. Meanwhile, China has been silent on the casualties suffered by the PLA in that incident.

Following the standoff in eastern Ladakh, official sources claimed that the two sides had deployed additional troops along the LAC, the de-facto Sino-India border, in North Sikkim, Himachal Pradesh, Uttarakhand, and Arunachal Pradesh. After the standoff in early June, the Indian military leadership decided that Indian troops would adopt a firmer approach in dealing with the aggressive posturing by the Chinese troops in disputed areas of Pangong Tso, Galwan Valley, Demchok, and Daulat Beg Oldie.

Despite eight rounds of Major General level talks held between June 6 and November 6, 2020, and a round of telephonic conversation at the National Security Advisor (NSA) level in July, tensions in border areas continue and both sides have deployed tens of thousands of security forces. The Indian side has been asking for the restoration of status quo ante and immediate withdrawal of thousands of Chinese troops from the area that India considers its side of the LAC.

Chinese pressure tactics

Despite the diplomatic and military level talks since May 2020 and a five-point agreement at the Foreign Minister level in Moscow in September, China is unwilling to withdraw its troops from the LAC.

Other than military aggressions, China has also used India's smaller neighbors to put pressure on India not to alter the status quo in the Ladakh region. The *Global Times* on June 18 warned that "India could face military pressure from China,

Pakistan, or even Nepal if tension along the border [India-China] continues to escalate”. These Chinese tactics to build pressure against countries with which it has territorial disputes are well known. It tries to put pressure on Indian leaders during negotiations while being fully aware that the elected Indian government would be under pressure at home from media on the border issues.

While India wants China to completely disengage from Pangong Tso and Depsang plains besides reducing its troop’s strength at the LAC where China has amassed tanks, artilleries, radars, and jammers, China seems unwilling to compromise. It has taken a rigid position mainly due to three emerging situations. First, it wants to send a message to India to distance itself from the US led Indo-Pacific Strategy. Second, it feels India’s border infrastructure development in the Ladakh region could be a threat to the China-Pakistan Economic Corridor (CPEC) project. Third, there is a Chinese perception that deepening bilateral relationship between India and the US could be used against it. In that case, escalation and de-escalation of India-China border dispute would be determined more by future global and regional politics rather than being settled by existing bilateral mechanisms.

As both sides are engaged in massive military deployment since June 2020, the smaller Himalayan neighbors in the region are in a dilemma over how to respond or which side to take in case the conflict escalates. Earlier, during the 1962 war between China and India, both the Himalayan countries – Nepal and Bhutan — had remained neutral. During the Doklam standoff, Nepal asked both India and China to resolve the conflict amicably. During the Galwan standoff, insisting that it had always stood for regional and world peace, Nepal expressed its confidence that India and China would resolve their mutual differences in the spirit of good neighborliness through peaceful means in favor of bilateral, regional and world peace and stability (Financial Express, 2020).

Nepal and the growing Indian-Chinese rivalry

Given the growing interests of the major powers in the Himalayan region and its intrinsic linkages with the Indian Ocean, it is pertinent to understand Nepal’s responses and approaches to achieve its economic, security, and foreign policy objectives.

Unlike other countries, Nepal's external policy is determined more by peripheral developments and less by internal issues. Prof. Lok Raj Baral (2020) observes that as a small landlocked country Nepal's low maneuverability is a determining factor in its foreign policy. However, there are also instances of small countries taking advantage of big power rivalry. For instance, despite its geographical proximity to two emerging powers in Asia, Sri Lanka and the Maldives have shown certain maneuverability. Both are strategically important to India and China, given their locations and access to sea-lanes.

In the post-World War period, international relations have been driven by the politics of the big powers, mainly the five permanent members of the United Nations (UN), reflecting their hegemony. No small country has the luxury of ever acting in this way, because for them "diplomacy [not a demonstration of power] is the tool of statecraft" (Fox, 2006: 40). In the past, small countries like Cuba and Taiwan took advantage of the competition between big powers, but very few small countries have the ability to maneuver or influence world politics.

In the post-Cold War period, small states have gained more international visibility and felt increasingly secure because of the UN and other multilateral organizations playing an active international role to defuse crises. However, some small states, which had played key roles during the Cold War, have lost some of their influence as well. Nepal is one such country. Although it did not play a critical role internationally, at the Himalayan sub-regional level, it had managed to leverage its own interests by engaging both India and China – sometimes playing one against the other. At the same time, it also kept open its option of engaging with western powers, especially the US. The US reciprocated by starting to monitor India-China relations from Nepal (Hey, 2003: 1).

Foreign policy priority

Nepal's foreign policy priority has been to preserve and protect its territorial integrity (Muni, 1973). During the Panchayat era, any threat to the monarchy was considered a threat to the sovereignty of the country and vice-versa. Thus, the survival of the monarchy became synonymous with state security. As a result, Nepal's foreign policy was designed to protect its territorial integrity by maintaining a balance between India and China, adherence to the UN principles and joining regional organizations, establishing relations with extra-regional

powers to reduce dependence on the two large countries, and international recognition (Baral, 1986).

Articulating Nepal's foreign policy priorities in view of its geographic reality, King Prithvi Narayan Shah said Nepal was like a yam between two boulders and should maintain an equal relationship with China (then Tibet) and India. Prof. S.D. Muni (1973) has observed that foreign policy objectives of small states like Nepal are motivated by security (territorial integrity and military), stability (political and economic), and status concerns, but these motivations may not be enough to understand Nepal's foreign policy. Certain structural factors also need to be examined. The structural factors may be constant (e.g., geography, history, socio-cultural ties with its larger neighbor) or variable (e.g., nationalism and political system) (Muni, 1973). To achieve its foreign policy objectives Nepal often adopted the tactics of i) taking advantage of the differences and clash of interests between India and China; ii) reducing dependence on two neighbors by diversifying its foreign relations; iii) and mobilization of the international contacts for building counter-pressures (Muni, 1977).

Given its strategic location, Nepal figured prominently in world politics during the Cold War. It lost its importance, to some extent, with the China-US rapprochement in 1972 and then again with the end of the Cold War. But it has always figured prominently in the power politics of the Himalayan region. Since the mid-1990s, Nepal has gained some importance because of the strategic developments following the start of the Maoist movement (in 1996), the emergence of China and India as Asian economic powers, and the US's global campaign against terror starting 2001. But the growing presence of the US is now altering the geo-political dynamics of the region.

Traditionally, India, which considered South Asia as its natural sphere of influence, has not been comfortable with the idea of sharing its influence with extra-regional powers. Given the changing relationship between the US and India from 2000 onward, the US has, to an extent, endorsed India's policy toward Nepal. However, the two countries differ significantly in their perspectives toward Nepal. For example, the US was opposed to India's move to engage the Maoists in 2005. On the other hand, China was suspicious of the US presence in Nepal because of its apprehensions that extra-regional powers in Nepal might instigate anti-China movements spearheaded by Tibetan refugees in Nepal.

New foreign policy of Nepal

After 57 years of political struggle for multiparty democracy and a people's constitution, including 10 years of a Maoist insurgency, Nepal adopted its first democratic constitution in September 2015. The process formally ended the institution of monarchy, the Maoist conflict, and the prolonged debate over the new constitution, all of which had stalled economic growth and infrastructure development.

A strong government in Kathmandu led by the Nepal Communist Party (NCP) and a popular constitution raised people's expectations. There was a realization in the ruling party that old style of foreign policy might not address developmental aspirations of the people and foreign policy should thus be updated in line with the new provisions of the 2015 constitution (MoFA, n.d.). After assuming power in April 2018, Prime Minister K. P. Sharma Oli indicated the need to adopt a more independent and norms-based foreign policy.

The Oli government formed a task-force to provide suggestions and prepare a new foreign policy suitable to the changed context. In an interview on October 8, then-Foreign Minister Pradeep Gyawali stated: "The government is in the final stage of drafting a new foreign policy of the country that will transform Nepal's geographic position between two giant countries [India and China] as an opportunity for economic development" (Bhattarai and Saindra, 2020), hinting at the scope of transforming Nepal into a transit country between India and China by developing trans-Himalayan connectivity and trade corridor.

To remove the past perception of Nepal as an investment-unfriendly country, top business houses and government of Nepal organized an infrastructure conclave (2017) and an investment summit (2019) in Kathmandu. Many foreign companies and leaders participated in these mega events, which in turn drew large-scale commitments. China alone committed to invest \$8.3 billion USD in Nepal in 2017 (Rijal, 2020). In February 2020, Nepal also organized a tourism investment summit.

Despite these signs of progress, Nepal remains economically poor and dependent on its neighbors and other countries for aid and growth. It suffers from bad internal highways. Given the small size of its market, investors often look for

India's support. For example, in the hydro sector, non-Indian companies seek assurance/guarantee from India for future purchase of electricity produced in Nepal.⁴ Many Nepalese products face sharp competition from Indian and Chinese companies even as Nepal looks for an integrated market economy with its neighbors, or to act as a bridge between them in order to increase FDI inflow and achieve rapid economic growth. Nepal has proposed intensified trilateral cooperation between Nepal, India, and China⁵ and aspires to regain its previous status as a transit economy between Tibet and India by reviving old silk routes and connecting with China's flagship BRI project.

Nepal's quest to regain its pre-1904 status as a vibrant bridge between India and Tibet was fuelled when China agreed to extend the Tibet railway up to Kyirong and the Bihar border of India under the One Belt, One Road Initiative. The relationship between Nepal and China reached new heights when Nepal and China signed 10 Memorandums of Understanding (MoUs) in May 2016, including a new transit treaty and a feasibility study to extend the Tibet railway to Kathmandu. In return, Nepal acknowledged the BRI. Three further agreements were signed on a feasibility study on exploration of oil and gas resources, the exchange of ideas, and construction of the cross-border railways and railway network in Nepal.

While Nepal was excited about its newly found role in the region, the closure of Tatopani trading point by China in the post-2015 earthquake period, the COVID-19 crisis and India-China border disputes have raised questions over Nepal's vision of becoming a vibrant bridge between India and China. India may want to build connectivity through "collaborative and consultative process" and not through a unilateral approach as under the BRI.⁶ The so-called tri-lateral cooperation between China-Nepal-India proposed by former Nepalese prime minister Puspa Kamal Dahal for economic and strategic cooperation in the region remains a non-starter, the discussion confined to Track-II level.

⁴ The Norwegian government wanted India's commitment to purchase power while PM Prachanda requested for Norwegian investment in the hydro sector in March 2009. For details, see "India key to Nepali hydropower ambition, PM says", Reuters, Mar 31, 2009. In another context, the Energy Ministry of Nepal talked to the Indian Power Ministry over the latter's December 2016 guidelines on cross-border power trade which prohibit private and third country hydropower developers in Nepal from exporting electricity to India with a one-time approval.

⁵ For Nepalese perspective about trilateral cooperation, see Koirala, 2010: 237.

⁶ Speech by Foreign Secretary of India at Raisina Dialogue in New Delhi, March 2, 2016.

Given the unfolding competition between China and India, the new government in Kathmandu was expected to use its bargaining power by drawing investments from both neighbors. Instead, during its two and a half years in office the NCP government has failed to attract investment and initiate any major development project on connectivity, hydro, and other infrastructure. Guided by party ideology and public pressure to reduce dependency on India and diversify foreign investment options, the new government in Kathmandu first maintained a distance from New Delhi and then got comfortable with China due to ideological factors. Nepal and China concluded several MoUs and agreements on economic cooperation and transit trade investment during PM Oli's Beijing visits. However, the much-hyped nine development projects under the BRI have not made much progress. Rather, under Chinese pressure, Nepal could lose the 500 million USD development assistance under the MCC program.

China factor and India-Nepal relations

Of late, Nepal-India relations have been strained due to increased Chinese influence in Nepal's internal affairs. Such influences are sometimes used against India. For example, other than intra-party disputes in the NCP, there were news reports claiming that Chinese influenced some top Nepali leaders of the NCP and put pressure on PM Oli to issue a new map of Nepal including three areas of Lipulekh, Limpiyadra, and Kalapani. Earlier, NCP leaders like Bamdev Gautam, Jhalanath Khanal and Pushpa Kamal Dahal (alias Prachanda) had discussed the Kalapani issue with the northern neighbor, with whom they are ideologically close.⁷ Nepalese political leaders are very insensitive and can go to any extent to get mileage in domestic politics, and China and other powers will definitely take advantage of this.

China's interest in India-Nepal bilateral territorial disputes surfaced first on November 20, 2008, when the then Home Minister of Nepal Bamdev Gautam made a statement after his meeting with a Chinese military delegation led by Major General Ei Hujeng in Kathmandu. He said the Kalapani border dispute could be resolved through a trilateral understating among Nepal, India, and China.

⁷ *Nepal ko naya naksa jari karya party nirnay: Bamdev Gautam*, <https://www.himalkhabar.com/news/114243>. Also see "'Jealous' Bamdev Gautam seeks credit for new map", *onlinekhabar* (English), 20 May 2020. For details see <https://english.onlinekhabar.com/jealous-bamdev-gautam-seeks-credit-for-new-map.html>. Also see Jhalanath Khanal's interview to Rishi Dhamala in *Reporternepal.com* on 5 July 2020.

It would be pertinent to note that Kalapani is not exactly in the tri-junction area. It is roughly four km away from the Nepal-China border. The Chinese delegation had taken interest in this issue and agreed to a trilateral dialogue, probably because: a) from the Chinese point of view, Kalapani is strategically important as the presence of Indian forces there poses a direct challenge to Chinese military installations, including the airport in the Burang county; b) the strategic relevance of the Kailash-Mansarovar road; and c) marked improvement in strategic infrastructure in that border sector compared to 1962.

In addition, as discussed earlier, Nepal claimed that a new map issued by India in November 2019 showing Kalapani, Lympiadhura, and Lipulekh as Indian territory, was an encroachment on Nepali sovereignty. It was therefore logical to expect Nepal to issue a new map in November 2019 itself. However, its initial response was limited to a press statement mentioning that [only] Kalapani was a disputed territory, and called upon India to hold foreign secretary-level meeting on the disputed territories. The issue then was raised again around the time India-China border tensions started building up in May 2020. Interestingly, this was also the time internal political conflict in the Nepal Communist Party was brewing up.

Third, Nepal government justified the constitutional amendment to change the map. It reasoned that as Nepali territory is part of the National Emblem, the new map needed to be incorporated in Schedule 3 of the Constitution. As per the amendment, the new map (showing Kalapani, Lipulekh, and Limpiadhura) became a part of the Constitution.

It is interesting to note at this point that the other 'disputed' area – Susta – has not been included in the new map. Officially, both countries have acknowledged two disputed boundary issues, Kalapani and Susta, since March 23, 2002. It was agreed, in principle, in July 2014 that these disputed territories would be resolved separately through dialogue at the foreign secretary level.

Logically, if the map was revised to accommodate areas as per Nepali claims, then Susta should have been part of the new map as well. However, the Nepal government chose to issue a new map with the disputed areas discussed above, which are either closer or directly sharing borders with China. It may sound otherwise, but can it then be said that since Susta is not strategically important for China, it was not included in the new map?

Fourth, the construction of the Kailash-Mansarovar road began in 2008 and was scheduled for completion in 2013. Construction got delayed due to tough terrains, especially in the portion between Nazang to Bundi village. The Border Road Organization (BRO) completed the 80 km stretch connecting Ghatiabgarh and Lipulekh on April 17, 2020. Nepal had prior information about the road. Although PM Oli denied it, Foreign Minister Pradeep Gyawali has gone on record saying that he was aware of it. For India, why Nepal did not object to that particular “road construction” diplomatically while the construction was going on in a phase-wise manner for the past 12 years, remains a puzzle, particularly as the eventual objection came at a time India-China border tension was building up.

Last but not the least, while the arguments made in the previous paragraphs link China indirectly with the Nepali decision to issue the new map, some statements from the Chinese side also indicate China’s new-found interest in the India-Nepal border dispute. For example, the *Global Times* said on June 18, 2020: “India could face military pressure from China, Pakistan *or even Nepal* (italics added for emphasis) if tension along the border [India-China] continues to escalate”.

China’s border trade agreement with India on Lipulekh in May 2015 and its exhortations to resolve the India-Nepal border disputes amicably, however, contradict Chinese allusion that the area is disputed.

Conclusion

The Cold War-time notion of smaller countries extracting maximum benefit from rivalry between two major powers worked partially in the case of Nepal. King Mahendra took advantage of the India-China conflicts in the early 1960s. With the rapprochement between China and the US in 1972 and again between China and India after prime minister Rajiv Gandhi’s official visit to Beijing in 1988, the capacity of Nepal to maneuver decreased drastically. Direct contacts and political level communications between India and China did not give much space to smaller neighbors such as Nepal to create misunderstanding on broader geostrategic front. Nepal has hardly been a bridging point between China and India in shaping their bilateral relations. India-China bilateral trade has reached over 90 billion USD without using the trans-Himalayan connectivity networks. Nepal was unsuccessful in its attempt to project itself as an unavoidable and effective economic bridge between India and China despite several attempts by its leaders.

Given the successful multi-dimensional bilateral relationships between India and Nepal, India feels its current bilateral arrangements with Nepal are more than sufficient to cater to future tri-lateral cooperation, if the scope and nature of cooperation are defined to take care of the common concerns. On the other hand, the much-needed infrastructure development for any kind of future multilateral cooperation has been missing between Nepal and China. For a successful multilateral arrangement, balanced facilities must become available on all three sides. Therefore, the following issues need to be discussed and agreed upon before operationalizing the tri-lateral cooperation:

1. Nepal and India already have facilities but more infrastructures like open borders and trading routes are needed between Nepal and China.
2. Another issue is liberal access to each other's borders with people-to-people contacts like Nepal has with India.
3. For successful tri-lateral trade, Nepal should have mechanisms, laws, and regulations in place to check the origin of the goods and illegal trading via Nepali territory.
4. Opening of new diplomatic offices, for instance an Indian consulate in Lhasa, to facilitate land trade across the Himalayas.
5. An institutional mechanism to deal with common challenges like the fragile Himalayan ecology, natural disasters, and terrorism.

The Himalayan region is going to witness intense competition between the US, China, and India. In such a scenario, the possibilities of an early solution to border disputes between India and China look meager. Both countries will try to focus more on improving their border infrastructure in the Himalayan region. From India's point of view, the Himalayas will continue to remain the first line of defense against Chinese aggression in the north. At the same time, India will try to continue to project itself as a dominant power signaling to both the US and China not to cross the red line and challenge its sphere of influence in South Asia.

It will also be a litmus test for Kathmandu to show it can strike a balance between the country's domestic aspirations and the neighbors' sensitivities. Neither China nor India can fully realize the development aspirations of Nepal on its own. While its southern neighbor offers transit facilities and an easy market for Nepal's trading activity, its northern neighbor can extend technological and financial support.

In such a scenario, Nepal could consider the following options:

1. The conventional approach of remaining neutral and keeping an equal distance between China and India which implies joining neither side but taking advantage of the economic growth in China and India.
2. The 1960's 'China card' strategy of Nepal will not be effective against India in the current global scenario because first, India has a better control of the southern Himalayan region due to the strategic infrastructures it has built in comparison to the 1960s and second, unlike the 1960's, there is a marked improvement in India-US relations. The two countries have agreed to advance the security and economic interests of all countries with a legitimate stake in the Indo-Pacific region (Laskar, 2020). Third, in the post-globalization period, India has emerged as a major economic hub in Asia. Therefore, India might not be too worried about Chinese engagements in Nepal. At the same time, India wants to strengthen its relationship with Nepal and discuss its security concerns. Nepal may prefer to negotiate with India more effectively in multilateral forums like South Asian Association for Regional Cooperation (SAARC), the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC), and the Bangladesh, Bhutan, India, Nepal Initiative (BBIN).
3. There has been no substantial progress in the BRI projects, or parliamentary approval of the MCC grant, or in the dialogue with India on border disputes, largely due to the competition between big powers. This has impacted development projects in Nepal. In order to fulfill the developmental aspirations of its people, Nepal must focus more on its internal capacity building by seeking economic and technological support from multilateral institutions and countries comfortable with both India and China.

These options are certainly not risk-free. The growing interests of big powers in the Himalayan region and their intense lobbying for their individual connectivity and infrastructure projects could continue to impact political stability in Nepal.

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China and Nepal

Potentials and Challenges for Partnership and Cooperation

Lila Nyaichyai

The rise of China has attracted the world's attention and with this China-Nepal relations are also increasingly becoming a subject of interest. While the geostrategic realities of Nepal will not change in the foreseeable future, its geostrategic calculations might, determining the engagements between Nepal and China. For Nepal, its relationship with neighboring states will remain of critical importance. However, fruitful and sustainable neighborly relations require the understanding of Nepal's genuine needs (Mihaly, 2002). Despite Nepal's enduring poverty and backwardness, it cherishes its sovereign status and independence, regardless of the many ups and downs the country has gone throughout its history. This chapter explains Nepal - China relations within the changing context. It will also delve into some of the historical facts and figures in that regard.

A brief history of Nepal–China relations

Today, Nepal-China relations are thriving. From the Nepalese side, the basic objective is achieving economic development and raising living standards, and this could be beneficial for the Chinese economy as well. The relations between China and Nepal go back a long way. The early relation was established through cultural visits of Buddhist monks. Later, in last decades of the 18th century, British colonizers failed in their efforts to open a trade route to Tibet through Nepal, as they were not allowed to enter Nepal. They, then, utilized the exiled King Rana Bahadur Shah and the conflict of interest among the *bharadars* (equivalent to Ministers) of the royal palace, using them to defeat Nepal in the war of the 1814-16 (Rose, 1971). That defeat pushed Nepal into isolation in international affairs for a whole century. At the same time China was facing considerable political turmoil and, as a consequence, Nepal-China relations remained uncertain and unstable till 1949. Still, China remained important in Nepal's reckoning. Tibet, as a source of gold and pure silver, too, remained close. Apart from minting coins for Tibet, Kathmandu was also a center for trade between Tibet and India.

In the course of time, the limited horizon of Nepal-China relations gradually expanded. China sought support for its role in Tibet, and Nepal wanted China's support to resist India's 'special relations'. The first common understanding between Nepal and China was established on five principles: mutual respect, non-aggression, non-interference, equality, and peaceful coexistence. On 1 August 1955 a joint communique was signed by Sardar Gunjaman Singh and Yuan Zhong Xian in Kathmandu (Manandhar, 2001).

In the following years relations further deepened. On 11 March 1960, Prime Minister of Nepal, Bisweshor Prasad Koirala, along with Ganesh Man Singh, Surya Nath Upadhyaya, and Foreign Secretary Nara Pratap Thapa were received by Chinese Premier Zhou EnLai as a mark of goodwill and solidarity with the Asian and African countries. In response, Koirala expressed his desire to understand China's development. There were talks on development assistance during the visit and a consensus on border demarcation (Peking Review, 1960). So, the initial phase of diplomatic relation focused on gaining well-defined border demarcation from Nepalese government.

In addition to the border issue, Koirala came up with development projects for Chinese funding. Koirala, who preferred engagements with India rather than China, told Zhou Enlai that he was immensely impressed by the Chinese spirit of friendship (Mihaly, 2002). Between the 1960s and the 1980s, Nepal received economic assistance from China for road construction – Araniko Highway (104km), Prithvi Highway (174 km), Pokhara-Baglung Road (64 km) – and for setting up industries – Bhaktapur Brick Factory, Hetauda Cotton Textile Mills and others (Shrestha, 2015). This was seen by some observers as politically motivated move aimed towards winning Nepalese support for China (Copper, 2016).

China's long-term interest in Nepal also lay in helping build an independent economic foundation, because without the prosperity of Nepal, good relationships might have been difficult to sustain. When Nepal is self-sustained economically, the dependence on India might lessen as well. A Nepali veteran who met Mao Tse-tung as a messenger of King Mahendra recalled Mao's opinion that until Nepal achieved economic independence, political independence would always be at risk. More than half a century has passed since but industrialization and economic development still remain long shots.

China is offering its economic assistance and more engagements have followed between Nepal and China. In 2020, Nepal imported from China 14 per cent of its overall imports (Nepal, Trade and Export Promotion Center, 2020), compared to 9.6 per cent in 2009 (Nyaichyai, 2019b). High-level political visits as well as visits of other non-governmental representatives increased over the course of three different political systems in Nepal – absolute monarchy (1955-1989), constitutional monarchy (1990-2005), and republican government since 2006 (Nyaichyai, 2019b). Engagements have also developed beyond high level political visits centered on people's interests like trade fairs, agricultural exhibitions, artists' exchanges and so on. As engagements have grown, so have the confidence levels of both Nepal and China.

Since opening up in the 1980s, Chinese economic policy has fundamentally changed, essentially under the planned initiative of Chinese leadership Deng Xiaoping. During the Cold War between the US and the USSR, China focused on the 'Third World'. Premier Zhao Ziyang's report presented to the 6th National People's Congress on 15 May 1984 stated clearly that China's 'special stress' was on geographically closed countries, particularly those that had good-neighborly relations with China. He argued that friendship with developing countries was being 'tested' and China wanted to 'cooperate with the developing countries to establish a new economic order' (Zhao, 1984: 12-13). This message is being delivered by President Xi today as well. Since the 1980s, 'cooperation' has become the key concept for China, and is now evolving into 'cooperative investment' in a number of countries as China is extending its international reach.

'Harmony, security, and prosperity' remain the goals for China in extending its relations with neighboring countries. After Xi Jinping took over leadership, China's eyes are now set on a new type of global development, to which it wants the Asian countries to respond proactively (Hu, 2015). Chinese Foreign Minister Wang Yi (2019) stated in the *People's Daily* that China considers all developing countries 'partners in development' and 'natural allies' in international affairs. Many South Asian countries such as Nepal are willing to be such partners (Dahal, 2019).

Determinants of Nepal-China relations

Nepal government has set goals for achieving prosperity and development. For development, Nepal requires investments. China is the largest source of foreign

direct investment for Nepal (MOFA, 2019). During the 2015 earthquake, China offered help for rescue and later for post-earthquake rebuilding. In the same year, 2015, Indian blockade hit Nepal and China offered Nepal international transit through its soil. Nepal and China agreed on transit and transport for international trade.

Nepal-China relations are also based on bilateral needs. The first of them is centered on security. The location of Nepal, adjacent to Tibet and India, remains a prime concern for China. In the broader international arena, China stands firmly with developing countries. However, many Nepalese feel that Nepal needs China more than China needs Nepal. After the amalgamation of Sikkim with India, for instance, Nepal became sensitive about its independence and was looking for other power centers that could help its balancing with India.

However, Nepalese scholars have remarked that Nepal is not China's priority, as China's real priority is India (Pandey, 2012). In analyzing the importance of Nepal for China, India appears to remain a critical factor. In the context of the Belt and Road Initiative, for instance, Nepal knows China can access the huge Indian markets through Nepal and wants to invest in a railroad connecting Nepal and China. However, this is not going to happen until India agrees (KC and Bhattarai, 2018; Sharma, 2018). India thus remains a critical player in the growth of Nepal-China engagements.

What China wants

The 19th and 20th centuries were turbulent times in China. After its defeat in the Opium War in the 1840s, the Chinese people suffered from colonial oppression of the West and Japan. The revolution led by Mao Tse-tung was inspired by Marxist ideology on the one hand, and, on the other, by a will for national rejuvenation (Jacques, 2019). October 1, 1949, the day of the establishment of Peoples' Republic of China, marked a triumph of China's epic struggle against all odds, but the world's powerful nations such as the US stood against China. The US suspected China wanted to expand into Vietnam and to help North Vietnam establish communism (Herring, 1991). Although Britain was in favor of acknowledging Peoples' Republic of China, the US was not (Scott, 2007). The recognition of the People's Republic remained a major global issue in the 1950s and it was not until 1955 that China could be a member of the United Nations.

China first sought support from small and developing countries, which were in her favor. Later the newly independent Asian and African countries united their voice during the Bandung conference in April 1955. The Bandung conference also became a milestone in bringing Nepal and China closer (Upadhyaya, 2012: 74).

The late 1950s were also a crucial time in China's internal affairs. China 'internalized' Tibet by using military force. The Western and Indian influence in Tibet was deep at that time (Dharmadasani, 1976). Hence, the Chinese action in Tibet was not accepted by India at first, however a later agreement on 29 April 1954 established consensus between India and China that Tibet is China's integral part. In this context, Upadhyaya (2012: 73) cites sources on how India asked Nepal to cooperate and accept China's decision on Tibet as well. Nepal, however, was absent during the UN voting on the status of Tibet.

Tibet, obviously, remains China's core interest. Later on, Nepal did agree on 'One China' policy, for which China was grateful. The memoir of Chinese ambassador Li (2016) mentions that the Nepalese government paid serious attention to Chinese concerns over Dalai Lama's scheduled visit to Nepal in 1990, appreciating that even after the regime change that year, Nepal's friendship with China remained steady.

A bittersweet relationship

Nepal-India relationship is an important element in Nepal's relations with other countries, particularly with China. After Britain started its colonization of South Asia, it grew in strength. Some historical events had damaged the confidence of Nepal. For instance, after Nepal lost the war with Britain and signed the Sugauli treaty in 1816 Nepal gave up a large portion of its fertile land from which the government used to collect lucrative revenues (Stiller, 1990: 60). The loss of those parts deeply affected Nepalese psyche, which is still evident in some behaviors as the Nepalese started feeling inferior to this day (Pokharel, 2017).

The Rana rulers were more inclined towards Britain. Every Rana prime minister sought support and official recognition of the British government, which appeared to qualify Nepalese sovereignty (Stiller, 1990: 123). The shadow of British India's influence over Nepalese internal affairs persisted even in the Nepal-India Peace and

Friendship Treaty signed in 1950. British legacy thus continued, but in a different way. During the Rana days, Nepal was self-sufficient in food, while nowadays the country heavily relies on India for its everyday needs, education, and other goods and services. It is this over-dependence on India (Kumar, 2011) that explains the southern neighbor's overwhelming presence in Nepal.

India has played a key role in every political change in Nepal. The first generations of Nepalese leaders and rulers were educated in Indian societies and universities. For example, Nepalese political leaders like BP Koirala, Push Lal Shrestha, Manamohan Adhikari and others were politically educated in India. They either lived or stayed in political asylums in India. Thus Indian influence on Nepalese political leaders is a familiar issue.

Another factor in Nepal-India relations is the so-called 'special relationship'. Dharmadasani (1976) states that India's core interest in Nepal is its special geographical position and China considers the security needs of India in Nepal. After Tibet's takeover, China regarded Nepal as a buffer state. At the same time, for Nepal, India appeared to be behaving like a big brother. Upadhyaya (2012) notes that China had sought permission from India to establish diplomatic relations with Nepal in 1955. However, Nepal's proposal on becoming a 'Zone of Peace' was quashed by India and the southern neighbor objected to Nepal buying arms and ammunition from third countries. The proposal on open boarder regulation was also rejected from the Indian side and, recently, Nepal's proposal on the encroachment of land near Lipulekh went unheeded. In this way, bitter relationship with India makes Nepal seek sweeter relationship with China, its only other neighbor.

Economic development: Nepal's dream

From the 1950s onwards, the Nepalese economy has been largely dependent and bound to the Indian economy. India is the largest trading partner of Nepal, accounting for 65 percent of its exports (Nepal, Trade and Export Promotion Center, 2020). From 1990, Nepal's economy diversified and China is today its second largest trading partner, while Nepal plans to further explore the scope for trade with China. In this context, Hatlebakk (2017) identifies poor road connectivity as a major hindrance in Nepal's economic development and suggests improvement of highways and rail connections with both neighbors. In addition to road connections, surplus generation of electricity

for export (Adhikari, 2020), setting up transmission lines, building East-West Highway and North-South Highways are the other major needs to be addressed for Nepal's economic development.

China, from the beginning, has been engaged in building development infrastructure in Nepal. The highways connecting Nepal and Tibet were built in the sixties. Some industries were also established and bridges built. However, bad governance, political instability, and Indian intervention ruined all of this, including the industries gifted by China.

Affinity in ideology

Communism and capitalism are the guiding ideologies of political power in Nepal. Its major political parties were set up in India during the late 1940s. Shakya (2019) holds that Nepalese communists were influenced by Indian communists, not the Chinese. However, Hindi language helped the communists learn and debate the revolutionary tales of China and discuss Mao Tse-tung's writings. But the Sino-Soviet rift also polarized the communists in Nepal. Quite a few of them were first drawn toward the revolutionary movement in China led by Mao Tse-tung.

With the general election of 2017, where Nepal Communist Party (NCP) won a two-thirds majority, China felt it might now be easier to work with the new regime in Nepal. It is assumed that China advised the Communist Party of Nepal (United Marxist and Leninist) and Communist Party of Nepal (Maoist) to jointly contest polls. Otherwise, domestic politics in Nepal was unstable with hung parliaments a frequent feature.

Welcoming Xi Jinping's thought on 'Socialism with Chinese Characteristics for a New Era' the Nepal Communist Party (NCP) struck understanding with the Chinese Communist Party on 24 September 2019 before the visit of President Xi to Nepal. During the 19th General Assembly of the Communist Party of China, Nepali communist leaders confirmed that such ideological discussions and exchanges should be continuously organized in China and Nepal, and the new understanding was just an addition to such programs (Kaphle, 2019). The Nepali Congress did express its reservation on the issue (Giri, 2019). However, Nepalese president Bidya Devi Bhandari also praised Xi's thought and the Chinese characteristics of socialism in clear words during the welcome reception for President Xi.

China's Belt and Road Initiative: A fresh platform for engagement

Basically a project of connectivity through land, sea, and air, the Belt and Road Initiative (BRI) aims to connect Asia with Europe, based on 'win-win' cooperation where host countries are expected to join. As a signatory to BRI, which it joined on 12 May 2017, Nepal will benefit from the trans-Himalayan corridor that includes a railroad connection between Nepal and Tibet, which in turn will open new avenues for economic growth and social exchanges. However, the pace has been slow so far. In recent high-level visits between Nepal and China, the core agenda was finalizing projects under BRI in Nepal, and an agreement was reached on nine projects.

Connectivity through BRI

Road: Cross-border road connectivity is a sensitive BRI project as 20 percent of total Nepal-China trade transit happens through roads. For Nepal, it is an opportunity to open a new international transit route, and for China it will help develop the Tibet market and boost tourism. The 362 km-long Biratnagar-Khandbari-Kimathanka section has already been opened. BRI may include projects to connect Hile to Kathmandu, where a trade check-post will link it to Sigatse and Lhasa 300 kms away (Shakya and Ghimire, 2019). The progress on road agenda refutes suspicions that China would not be interested in cross-border connectivity due to its security concerns over Tibet (Acharya, 2019; Pyakurel, 2019).

Air: Direct flights connecting Kathmandu to Lhasa, Kunming, Chengdu, Hong Kong, and Beijing are in operation. Sichuan Airlines, Southern China Airline, Eastern China Airline, and Himalaya Airline operate direct flights. Presently, China operates 56 flights to Nepal. As Nepalese airlines do not run any service in the route, on 26 July 2019, there was an understanding on bilateral air connectivity between the two countries with 98 flights scheduled per week: 77 from Tribhuvan International Airport, and 21 from Gautam Buddha International Airport and Pokhara Regional International Airport.

Internet: After four months of Indian blockade in 2015, Nepal-China agreement on cross-border bandwidth project under the cooperation of Nepal Telecom and China Telecom came into operation on 12 January 2018. Previously, Nepal only had internet connection through India.

Transmission lines: The export of hydroelectricity to neighboring countries is an important issue in Nepal's development agenda. However, Nepal's infrastructure in this regard is still weak. Nepal Electricity Authority (NEA) and the State Grid Corporation of China (SGCC) have agreed on purchasing electricity power from Nepal, and the Ratamate-Galchhi-Rasuwigahi-Kerung 400 KV transmission line is to be built under government-to-government cooperation.

BRI impact on Nepal-China relationships

Nepal-China engagement is thus focused on establishing multidimensional connectivity to both countries' benefit. For China, BRI is a way of accessing all South Asian countries (Lin, 2018) and a platform designed to generate multidimensional engagements among the countries with China at its center. The projects on road infrastructure, energy generation, energy transmission, and enhancing tourism will bring partner countries together.

From yesterday's little-known neighbors and well-wishing friends, Nepal and China are now becoming close partners as more and more Chinese investors arrive in Nepal. China asked these Chinese entrepreneurs to 'go abroad' for business and work. Nepal is today a next-door destination where they have invested in agriculture, hydropower, brick industry and restaurants (Nyaichyai, 2019a). There are even Chinese shipping companies working in Nepal. Nepalese trading companies are also present in China. The progress on engagements has brought the Nepalese and Chinese business communities together. The Nepal visits of the Chinese delegates for economy and trade purposes were reported as following (Nyaichyai, 2019b).

Table 1: Visits of Chinese delegates for commercial purposes

International Trade Fair Promotion	Business exchange and cooperation promotion	Cooperation in supervising trademarks and other business related problems
2	3	1
1	2	1
1		1

Source: <http://np2.mofcom.gov.cn/article/bilateralvisits/>.

The BRI agenda will lead to political understanding and support in Nepal-China relations. Work is underway on various development infrastructures such as

the Nautalle Darbar reconstruction, Darbar High School rebuilding project, Rasuwagadhi-Syaphrubesi road upgrade project and the Pokhara Regional International Airport. The all-round engagement with BRI, which covers trade, finance, policy coordination, connectivity, and people-to-people relations, is likely to widen cooperation and enhance relations. However, closer ties with China also pose challenges for Nepal, especially with regard to rebuilding trust in Nepal-India relations. India is not too pleased with the growing Nepal-China engagement and the pressure of India as well as the US and other western countries on Nepal to distance itself from China could further grow. How intelligently and smartly the government in Kathmandu faces this challenge and navigates its course in an increasingly uncertain ocean of the new century will be decisive for the country's future.

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Nepal-India Relations

A Story of Democracy, Dignity, and Dependence

Indra Adhikari

History and geography are instrumental in setting and shaping bilateral relations between Nepal and India. With the Himalayas on the northern side, Nepal is surrounded on all other sides by the five provinces of India, namely, Uttarakhand, Uttar Pradesh, Bihar, West Bengal, and Sikkim. Similar landscape and topography as well as an open border between the two neighboring countries sharing a common civilization, culture, and religions have made the bilateral relations 'special'. Against such a background, this paper deals with the history of systemic interdependence between Nepal and India that brought cooperation at various levels but also generated controversies raising the issue of dignity for the smaller sovereign country.

Continuity and change in relations

Never a colony, Nepal was recognized as an independent country by the Nepal-British Treaty in 1923 (Adhikari, 2018: 161). Long before India became independent from the British colonial rule in 1947, the Ranas had ruled Nepal for more than a century in coordination with the British as a "strategy for survival" (Rose, 1971). When India became independent, the first prime minister of modern India, Jawaharlal Nehru, put pressure on the Ranas to heed the voice of the people, democratize the government, and become accountable. The Ranas, who had so far ruled the country by "peremptory commands" (Shah, 1975: 8), drafted a constitution in 1948 and reformed the system owing to the advice of India (Bhasin, 2005: 36). However, a part of the oligarchy remained intact. Yet Indian leaders of that time had also started reformation in Nepal in association with Nepali leaders (*ibid.*: 68). Because of the revolutionary change in Tibet, the situation again radically shifted. After the Chinese occupation of Tibet, Nepal signed a treaty of peace and friendship with India in 1950 that recognized it as a sovereign country (Baral and Pyakurel, 2015: 140), for the first time compromising on its independence in terms of development, defense, foreign policy, and diplomacy.

Meanwhile, groups of Nepalese in India started forming political parties to overcome the Rana rule. However, they also participated in the independence movement in India against the British Raj, joining hands with Indian political leaders, since they believed that liberating India would be a precursor to democracy in Nepal (Koirala, 1960: 35). After India became independent, the king and Nepali Congress joined hands to overthrow the Rana regime, which increased the pressure, internally and externally. King Tribhuvan had left the palace and flew to Delhi with the help of the Indian Embassy while the Nepali Congress party launched an armed political struggle in the country. In this struggle, Nehru played the role of a moderator in concluding the Tripartite Agreement (Koirala, 1960), which paved the way to the establishment of parliamentary democracy and the restoration of the monarchy in Nepal in 1950.

According to the spirit of the Tripartite Agreement, the king remained at the apex of state authority that led the coalition government. However, no government formed in the following years (until 1958) could take major political and administrative decisions. In contrast, Nepali leaders like the prime minister, cabinet members and even the king looked for the opinion of Delhi about solving political issues, deepened the level of intervention of Delhi in the country's internal affairs. Many of the decisions regarding reforms in administration, security, planning, finances, as well as professional and commercial institutions in the modernization of the state were made in consultation and with the assistance of India (Koirala, 1951: 187-373). In this way, Nepal remained fully dependent on India for technical assistance, since the country lacked professionally trained expertise at home. With the transformation of the state just slowly proceeding, the rule by peremptory commands prevailed, in a country where only two percent of the population was literate (Koirala, 1960: 87).

The role of Nehru so far had remained one of a cautious moderator of change, but soon he assumed a more assertive role and also took a more appreciative stance on Nepal's efforts in extending its relations with other foreign powers (Koirala, 1951: 187-373). In a letter to Matrika Prasad Koirala, the prime minister of Nepal, Nehru wrote, "I need not tell you that you can always claim from us such advice and help as we are in a position to give. Our interest in the development and progress of Nepal is great both because we want Nepal to march ahead and because this affects India in many ways" (ibid.: 197).

Growing irritations

Since the political forces in Nepal had no alternatives, India took its influence in the neighboring country for granted. The love-hate relationship established since the signing of the Sugauli Treaty between the East India Company and Nepal following the Anglo-Nepali War in 1816 remained in place.

King Rajendra Bikram Shah, reigning from 1816 to 1842, and Bhimsen Thapa, as a mukhtiyar (equivalent to prime minister) between 1806 and 1837, had already opposed the British domination and sought to close the British Residency in Kathmandu but did not succeed in their efforts. Later, Jang Bahadur Rana, who had emerged as the new ruler from the Kot massacre, established an oligarchy in 1846 with British support, the autocratic Rana regime, which continued till 1950 (Pyakurel, 2020). Other nobilities such as Thapas, Basnyats, Shahs, and Ranas got sidelined from power or were displaced from Kathmandu and remained in opposition to the Rana ruling elite and the British. Later, the Rana rulers were also discontented with the approach adopted by modern India, from where Nepali political parties had started an armed political struggle against the regime. They thought it as a breach of the security provided in the 1950 treaty that stated, "It is mutually agreed that each of the high contracting parties shall not encourage political activities inimical to the security and integrity of the other, nor shall they allow their territories to be used for purposes inimical to the safety of, or propaganda against the other" (Bhasin, 2005: 89).

When the constitution finally was promulgated (Nepal Interim Government Act 1951), reforms were initiated to ensure fundamental human rights and democratic freedoms of the people. All of this was hardly acceptable for the traditional elite. The Nepali Congress (NC) was also suspicious of the initiative taken by Nehru in concluding the Tripartite Agreement in Delhi since the accord was largely designed and drafted by Delhi while consulting both parties. The drafting process was non-transparent; the parties never sat together to discuss the immediate power-sharing and a future political roadmap, nor was the document signed by them. Eventually, it restored the role of the traditional king and undermined the role of the major change agents: the Nepali Congress and Communist Party of Nepal (CPN). The Nepali Congress participated in the government set up under the premiership of a Rana, Mohan Shamsher. The CPN,

however, disapproved of the accord calling it a “betrayal” and boycotted the following process. Even Dr K.I. Singh, the leader of the Mukti Sena¹, immediately rejected the provisions. The Nepali Congress had accepted the provisions because it neither saw favorable conditions nor the capability to fight three opponents – the king, the Ranas, and India – at the same time’ (Koirala, 1960: 76-77).

The prime ministers who had worked under King Tribhuvan and King Mahendra have had their own experiences of dealing with Nehru and his *modus operandi*. His reminders and remonstrations on defense and foreign policy-related issues reflected the motive to control rather than help in Nepal’s genuine concerns. The provision for a “security report from the Ministry of External Affairs” to any applicant for a Nepali visa in India conveyed the message that Nepal lay in India’s “inner line”². India often suspected foreigners as “agents” and believed they were pouring in money (Bhasin, 2005: 329). The whole situation was very unfavorable for Nepal and its efforts to develop relations with the outside world on its own without India’s approval.

At the same time, it was quite common for political leaders in Nepal to support India when they were in the government and turn to anti-Indian rhetorics when they were in the opposition. Even BP Koirala, a good friend of Nehru and former freedom fighter for India, was critical of Nehru’s role. But, it took until the mid-fifties for Nepali leaders to realize the cost of over-dependence on India.

The Delhi Accord itself remained a “myth” (Koirala, 1951: XIV), because it did not provide the desired objectives in Nepali politics, its form and content. The political forces in Nepal remained divided, which helped the king to emerge as an absolute authority and become the principal figure of the country’s politics. It seemed like the constitution had been granted as a ‘royal gift’ to the people rather than being drafted through the Constituent Assembly as per the Delhi Accord (Baral, 2000). However, the parties ultimately accepted the king’s decision to go for a general election (Gupta, 1993; Baral, 1977).

¹ Mukti Sena (Liberation Army) was the armed wing affiliated with the Nepali Congress party that took part in an armed uprising against the Rana rule in Nepal. Mukti Sena was later integrated into the Nepal Police.

² Report to Foreign Minister of Nepal from Nepali Ambassador to India, Mahendra Bikram Shah, 9 August 1954.

The rise of the independent foreign policy

After the electoral victory in the polls of April 1959, Prime Minister BP Koirala established new diplomatic relations with 16 countries including “Pakistan and Israel despite the objection of King Mahendra” (Koirala, 1998: 255), ending the diplomatic isolation adopted by the Ranas. Koirala’s move ushered the country in an era of ‘diplomatic diversification’. This also marked the beginning of Nepal’s independent foreign policy, which created new frictions with India.

Prime Minister Koirala’s address to the 15th session of the United Nations (UN) General Assembly reflected Nepal’s assertion of an independent foreign policy. It expressed Nepal’s position on the role of small states in the UN and its commitment to non-alignment. Among the issues stressed by Nepal were equality of the states, a proposal for UN reform, recognition of countries in the Middle East, the independence of colonized countries, economic assistance through the UN, and diversification of funds from the ‘war race’ to economic development, as well as disarmament (Lohani and Thapa, 1996: 14-22; Koirala, 1998: V). Nepal’s voice for building a just, peaceful, prosperous, participatory, and democratic world was generally appreciated.

BP Koirala’s initiatives on the international front and his high recognition inside and outside of the country is said to have generated a clash with then King Mahendra and even with Nehru for several reasons (Koirala, 1960: 107 and 126-27). First, Koirala had been assertive about Nepal being a sovereign independent state. Second, he had visited Israel, which was not yet recognized by India. Third, Nepal exchanged state visits with China and strengthened bilateral relations at a time when India-China relations were frigid. In addition, his statement with a journalist in Delhi on Nepal’s policy of neutrality on the India-China dispute was hardly pleasant to the Indian ears (Bhasin 2005: 408). Fourth, Nepal’s support for a Chinese seat in the UN was also hardly appreciated. Fifth, Koirala rejected Nehru’s claim that an attack on Nepal would be taken as an attack on India (ibid.: 402) and also cut short the interference of uninvited Indian officials in Nepal’s cabinet meetings (Koirala, 1998: 230-31).

What followed is history and familiar to most observers of Nepali politics: King Mahendra launched a coup d’état, suspended the constitution, dissolved the

parliament and arrested Koirala and his colleagues in 1960. Nehru's response remained ambivalent although he did call it a "setback in democracy".

However, the independent foreign policy framework set by BP Koirala continued during the following 30 years of the Panchayat era. Nepal developed diplomatic relations with about 70 countries and contributed to the formation of a regional forum – the South Asian Association for Regional Cooperation (SAARC). Diplomatic relations with India did not deteriorate and India increased its aid and assistance by 270 times during the first decade of the Panchayat in the 1960s despite growing anti-Indian sentiments (Devkota, 2020; Bhasin, 2005: 282). With this, India became the largest investor and development partner of Nepal. The Nepali Congress continued its struggle, both armed and through peaceful means, while the rest of the opposition forces including the communists remained mostly underground. BP Koirala remained in jail for eight years in Nepal and afterwards lived in exile in India till 1976 (Acharya, 1994: 282).

Cooperation and confrontation

Nepal and India have been cooperating, officially and unofficially, at multiple levels and this has been continuing to date. Yet, the momentum might have slowed down due to globalization, and additional factors in recent years. However, some problems also create the situation of confrontation. One may witness such factors arising mostly out of the political arena. For example, after the long-pending dream of drafting a new constitution materialized in 2015, India, which had been instrumental in bringing about political changes since 1950, only took "notice" and urged Nepal to resolve the differences with the Madhesi population in the southern Tarai through dialogue. Central demands like naturalized citizenship based on matrimonial relationship and proportional representation based on the population had not been included in the new constitution, which gave rise to violent clashes. India imposed – or at least tolerated – an undeclared blockade on Nepal for two months under the pretext of the agitation in the border areas. The blockade created serious obstacles in supplying necessary materials and medical supplies at a time when the people had already suffered from the crisis caused by the earthquake.

The involvement of India in micro-management in the internal political affairs of Nepal had been criticized for a long. However, the situation is drastically

changing in recent years. For example, neither the efforts of eminent Indian politician Karan Singh at the peak hours of the people's movement in 2006 as a special envoy of PM Manmohan Singh (MEA, 2006) to restore the two-pillar system (constitutional monarchy and multiparty democracy) in Nepal nor Subrahmanyam Jaishankar's visit as the special envoy of PM Narendra Modi just a few days before the constitution's promulgation to convey India's disappointment about the negligence of their concerns in the constitutions was heeded by Nepali political leaders. After the blockade, KP Sharma Oli undertook efforts to diversify trade and transit dependency on India via China, and the general elections voted for the Nepal Communist Party-Unified Marxist-Leninist (CPN-UML) in 2017.

Conclusion

India as the "largest democracy" in the world and an immediate neighbor of Nepal with "special relations" could have helped it in more than one way in establishing and institutionalizing democracy in the country. But, the people in Nepal feel that they have been let down on multiple occasions including the Tripartite Agreement on Gurkha Soldiers (1947), the Peace and Friendship Treaty (1950), Koshi Agreement (1954) and Gandak River Agreement (1959).

One persistent problem on the Nepali side has been its poor negotiation skills and experience, compared to the British-trained base of the Indian bureaucracy. Nepal has, moreover, neither a stable foreign policy framework nor does it have a consistent stance in terms of dealing with India. In contrast, it often appears to have been divided. Given this state of affairs, there is a need to have broader consultation and discussion on foreign policy matters with relevant stakeholders to develop. Every major bilateral project and treaty between Nepal and India becomes controversial, and the leaders of political parties play the power game kowtowing to the dictates of external forces.³ Scholars even hold the view that Indian development projects have not benefited Nepal much and that India does not in Nepal without furthering its political interest.⁴

³ Deepak Gyawali, a former minister for water resources, coined the term to indicate how political leaders of Nepal surrender their national interest to India for their political gain. The term is now commonly used in Nepal.

⁴ Also see the article of Dhruva Kumar.

Foreign policy is regarded as an extension of domestic politics and, therefore, begins at home (Haass, 2013). Nepal's India policy and the countries' relations are a telling example of this. May it be the Rana rulers or the political parties of today's republic, they all sought support from the southern neighbor for mobilization of resources and issues of day-to-day governance once they rose to power. Of course, both countries need to protect their genuine interests, but for both Nepal and India, it might be a time to reconsider and identify their interests anew. For Nepali political forces, it is also a time to come together and start discussing foreign policy beyond day-to-day politics and party lines. A more stable, bipartisan stance on foreign policy toward India most certainly would be beneficial for the country.

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FOREIGN POLICY OPTIONS FOR SMALL STATES

How Small is a Small State?

The Promises and Predicaments of Nepal

Anand Aditya

The world is so big, And I am so small.

I do not like it, At all, at all.

-President Woodrow Wilson

The powerful are not only blind, they see things that are not there.

-Stephen Vizinezey

Say poor, say landlocked, say small, and it takes little else to name the country. Poverty, the central leitmotif behind many state plans, research projects, and policy studies on Nepal, has become the hallmark of defining citizenship over the years. "Yet, certainly would be interesting to know is how can a country, like Nepal—so small, so poor, and so medieval—have been able to maintain its diversity yet could adopt democracy as a system of governance?" Nikita Khrushchev was heard asking decades ago in 1960. Another observer was found throwing a poser no less piquant at the UN General Assembly. "Can the Nepalese Kingdom survive without India?" (Singh, 1997). The Kiplingesque flavor of flowery tropes such as *Shangri-La* may flatter Nepalese sentiments for a moment, but it cannot hide the amazing unawareness about Nepal at home and abroad.¹ Part of the problem is plain ignorance, like that of Muhammad Ali Jinnah, the late Quaid-e-Azam of Pakistan, who, aware of Nepal's independent existence, was candid enough to concede that he had no idea where it was in Asia. In other instances Nepal's status has been expressed in hegemonic verbiage, ignoring historical facts, placing it under British Indian rule. This consistent misrepresentation weights heavy on the Nepalese identity and the country's image abroad.

¹ One example for this can be found in *The Hutchinson Pocket Dictionary of 20th Century-World History* (1993) on page 260, where it names 1923 as the year of *Independence achieved from Britain*, a clear misrepresentation of facts. Another example can be found in Samuel P. Huntington's (1996) *The Clash of Civilizations and the Remaking of World Order* in map 1.1.

Among the figures of speech that have grown around Nepal contributing to its traditional stereotype, the oldest, and probably the most overused in geopolitical contexts, is the familiar *Yam and Boulder* metaphor, which also captures the two critical political constraints of the country's geography – its smallness and its vulnerable position. The image of yam is a symbol of the Nepali self-doubt and a consequence of the size anxiety that has been dogging their psyche throughout the nation's history, holding their self-confidence hostage. Therefore, the paper explores the implications of the country's size and strategic location for its potential growth. How small is Nepal?

The arguments proffered have been organized around relevant examples. The analysis complements case studies. The paper looks into various dimensions of 'smallness' of states. Thereby, it will refrain from a reductionist resort to culture, class, capital, or caste-ethnic logic. If there is any such logic, it is that Nepal needs to be analyzed in the context of its own environment and situation. As far as the problem of small states is concerned, that theme has continued to engage scholarly attention in diverse ways.

Small is not necessarily small

The problems regarding the definition of 'smallness' are far from simple. A cursory look at literature suggests that most analyses have been unable to split the hair that separates the small from other seemingly big states. Another feature of traditional small state analysis is its obsession with 'survival' focusing on questions of national security. Growth and prosperity by and large remain either under-stressed or under-assessed.

In international relations small states were for a long time considered anomalies. One reason for this might be the experience of Western nation states growing out of a context of smaller entities that were often in conflict with each other. The growth of small states after 1990, however, underscored that small states are here to stay. Instead of being curbed under the dominance of imperial powers, they have tended to grow in number and, instead of focusing on mere survival many have grown not only in size (area, population, and economy) but also in their overall military power. World Bank (1995) data in the mid-90s showed that among the top 50 wealthiest countries (in terms of per capita), 34 are small or even micro-states. And, by any definition of smallness, all states among the top 19 are small except six (Australia, Canada, Japan, the US, France, and Germany).

It is clear that physical size, whether measured in terms of area, population, economic output, or military power, alone does not determine the scope of influence a state can wield. Great Britain, just over twice the territory of Nepal, once commanded an area 7,759 times larger – or a quarter of the globe. Kuwait, one-sixth of Nepal in physical size, is one of the world's major oil-producing states. Small size did not prevent Oscar Areas Sanchez, President of Costa Rica, from trying to promote a peace settlement in Central America. In fact, Costa Rica's poor soil and sparse natural resources did not keep it from overtaking many states in growth. Nor did the smallness of Sri Lanka prevent J. R Jayaverdene from claiming international recognition of his role in the Japanese Peace Treaty Conference of San Francisco in 1951. Plagued by poverty and illiteracy, Sweden was one of the most backward countries in Europe until a century ago. Today, the Scandinavian country is in the top spot on many development indicators. Taiwan, a state of 24 million, lends billions of dollars a year to Europe, the US, and China. And, if size really determined outcome, India, with 15 per cent of the world's population, would not end up with 1.5 per cent of the global income. In certain ways, it is left behind even by the tiny Maldives, which has only tuna fish and tourism to sustain its economy. Yet, it is free of hunger, boasts a high employment rate, 94 per cent literacy, and an astounding economic growth of over 9 per cent for over a decade and a half. In a cursory review of the features of small states *The Economist* (1998) compared the advantages of size, stressing that small might be beautiful.

A closer view, however, shows that certain small states hold quite unique characteristics, for instance in their specialization in certain roles and their propensity to form alliances or carry out research (see table 1).

Table 1: Uniqueness of some small states

San Marina is the oldest republic (301 AD)
Ireland has one of the oldest parliaments (930 AD)
Monaco has the highest population density
Luxembourg is the fourth largest steel producer
Liechtenstein has the highest GDP per capita in EU
Hongkong and Singapore are among the best scoring in science exams

Table 2: Role specialization

Norm Entrepreneurship (Environment, Int. Peace & Security, Global Welfare) – Nordic Countries
Public (Network) Diplomacy – SIDS
Citizen Security – OECS
Total Defense – Nordic Group
Climate Negotiations – AOSIS
Reforming Security Council Procedures – S5
Haga Cooperation (2009) on Social Crises – Nordic Group
Common Solidarity Clause (2011) on Mutual Help for Non-Warlike threats & Emergencies – Nordic Group
International Crisis Management – Finland
Management of people's life in the course of Volcanic Events – Ireland
Society functions comfortably at temperatures down to -50° C – Finland

Table 3: Small state alliances

AOSIS: Alliance of Small Island State
SIDS: Small Island Developing States
OECS: Organization of Eastern Caribbean States
GUAM: Gorgia, Ukraine, Azerbaijan, Moldova
S5: Small Five (Costa Rica, Jordan, Liechtenstein, Singapore, Switzerland)
FINDS: Finland, Iceland, Norway, Denmark, Sweden
CSSS: Centre of Small State Studies, Reykjavik

Small states also tend to rank among the leaders in the Global Innovation Index. The only large country among the top ten was the US (Karnik, 2018: 94).

In comparison to large states, small states might even have an advantage on focused policy efforts. Referring to the often-overlooked paradox of hyper-connectivity, Alvin and Heidi Toffler (2006) argue that most powerful nations remain tied down by high levels of external commitments, linkages, and ensuing interdependence essential to sustain their advanced economies. Meanwhile,

small states are often in a position to deploy whatever resources they have more freely. Given the diversity of small states, it is challenging to pin down their essential characteristics. However, an attempt will be made to scrutinize small state behavior and enumerate some features regularly attributed to small states in the low-growth category. In this regard, James N. Rosenau (1981), in trying to resolve what he regards as the 'Small State Paradox' (Why do small states survive?), frames three issues: dependency, defiance and transformation. In doing so, Rosenau treats size as a continuum rather than a dichotomy to allow a more nuanced assessment and presents four types of state's adaptation: acquiescent, preservative, promotive, and intransigent.

Robert Keohane (1982), for his part, offers four strategies – diversification, domestic adjustment, invisibility, and manipulation – small states can apply to retain flexibility as their diplomatic asset for success given their sensitivity and vulnerability.

1. Small states usually depend on very few export commodities and a small number of trade areas (commodity/market concentration).
2. The level of diversification of production structure is lower in small states. Due to their meager resources and small size of internal market, product diversification (production concentration) remains weak. Consistent, long-term efforts to diversify production structures are often lacking, which makes it difficult to exploit the economies of scale, raising per unit costs of production, intra-structural development per capita, training of specialized manpower, and development of endogenous technology (Briguglio, 2008).
3. Small states are likely to be more outward-oriented. Except for its century-long isolation, Nepal has been the same, particularly with respect to its two neighbors. However, this is a feature that arises more from its own dependence on the supply of commodities and values than as a source of strength.
4. Small states are more likely to depend on foreign trade with much focus on imports, which only increases their dependence on the outside world.
5. Small states are poorly industrialized.
6. Small states have a poor ability to withstand external pressures on their economy.
7. Personalization characterizes the decision-making process of most executive and public offices of small states. The heavy personalization of state policies and public issues in Nepal even at the planning levels is an old problem.

8. The actions of small states are usually of limited consequence to other members of the international system.

Most, if not all, of these eight features are closely connected. To appreciate their role in shaping state function, we can get a fuller picture of the problems at hand by examining how these factors influence individual small states. The following four propositions should help do that:

- The smaller the size of a state, the smaller its span of command – both political and administrative – the less multisided and heterogeneous political competition, the lower the number of organized interests and the smaller the scope for political and social pluralism.
- The smaller the system (governance mechanism), the lower the costs of citizen participation.
- The smaller a state's scale, the more symmetrical and direct citizen-leader communication.
- The smaller the population of a state, the larger the government's share in employment (government dominance or ubiquity) (Clarke and Payne, 1987: 12).

Looking at still another level of large and small state interaction and conflict, following hypothetical observations can be offered.

- The larger the share of a major power in a small state's foreign trade, the greater its economic dependence, and the larger the external influence on its domestic decisions.
- In general, the government's share of total enterprise is inversely related to the size of the state (Ibid.: 43).
- The transit costs for landlocked countries are comparatively higher than for coastal countries, particularly for the developing ones whose low revenue and productivity, weak institutions and heavy dependence on export of limited products together bring a balance of payment deficit.²

² The UN Economic Commission for Africa (ECA) confirmed this point in the early 1960s. A report by NCTAD Expert Group in the early 1970s noted that the mean cost of sea access hovered around 5-10 per cent of the value of LLS imports and exports. Countries situated farther than 100 km from the sea grow 0.6 per cent slower annually than those located within 100 km of the sea; shipping good over 1 km of land is equivalent to shipping over 7 km of sea; and the median LLS pays for transportation up to 50 per cent more than the median coastal state. (Upretry, 2006: 16-7).

- The greater the economic dependence of a small state on a larger state, the smaller its bargaining power, and the greater economic threats from the larger states on the former's sovereignty and independence.
- The bargaining power of a small state can increase if two great powers are in a situation to compete for overt commitment to such a state.
- The smaller the number of states involved in an agenda or conflict the greater the vulnerability of the small state.
- The greater the internal vulnerability of a small state, the greater is its external vulnerability. The dramatic momentum that the political crisis took in Nepal immediately after the 1989 impasse is one telling example.
- Political tenures in small states (in most cases) are longer than elsewhere (Ibid.: 16).
- Small states are usually more adaptive than innovative (Ibid.: 18).
- Smaller the state, the more vulnerable it is to demographic change (Ibid.: 36).
- Small state size encourages continuity in tradition and conservatism (Ibid.: 35).
- Small-state conservatism encourages resource diversification rather than monoculture (Ibid.: 38).
- Foreign assistance per head increases and terms of aid improve as the country size declines. But small country effect is often visible, which can be equated with the Acquired Immunity Deficiency Syndrome (AIDS) that foreign aid and dependency often bring (Archer et al., 2018: 245).
- Of the 112 countries in the United Nations Development Program (UNDP) (1998) Economic Vulnerability Index, highly underdeveloped small states are most vulnerable, followed by small-island developing states. Small developed states are more resilient than large, developed states (Archer et al., 2018: 52, 58).
- The greater the regime compatibility of a small state with its larger neighbor, the less the probability of conflict.
- In physical terms, the closer the geographical proximity between a large and a small state, the greater the scope for conflict. Most large-small state conflicts happen between neighboring states.
- The larger and more acute the perceived role deprivation of a large neighbor, the greater the scope for conflict escalation. Relations between Nepal and India after 1950 took a steady downward trend.

- The greater the difference in relative risk-bearing capabilities between a large and a small state, the larger the propensity of the small state to risk-avoiding behavior.
- In general, the smaller the population of a state, the larger the impact of a large-scale conflict and protracted war to damage it in proportional terms, but conversely, the less effective will be the threat of retaliatory measures in deterring its use of weapons of mass destruction or aggressive state behavior.
- Proportionality does not hold between the size of a small state and its need for diplomatic representation (Clarke and Payne, 1987: 70).
- Proportionally, large military forces can become internally counter-productive for small states (Ibid.: 72).
- Smaller states are in general more sensitive to changes in international and regional security orders because power deficit leaves them without much leverage to influence the transformation.
- Small states' resilience is a function of their ability to manage internal security, that is, their ability to integrate into the international system and benefit from the larger market and system at various levels and internal integration (Archer et al., 2018).
- An agreement between two or more great power always takes precedence over an agreement between a great power and a weak state.
- The larger the membership size of a regional organization, the greater the security of a small state (Clarke and Payne, 1987: 67).

Small states in the changing global context

This keyhole view of small states may leave one with an impression that smallness is a severe constraint on growth. While this cannot be denied, a silver lining is the radical transformation of regional and global scene. In this era of hyper-globalization, growth is giving way to development, military security to human security, majoritarianism to plural order, the very idea of smallness is becoming less significant, and technological development is bringing many changes. A whole array of concepts and paradigms are being jettisoned, giving way to new idioms, icons, imagery, and nomenclatures. Power has become more diffuse, more decentralized. Even the ability of a superpower such as the US to employ its power to single-handedly shape the rest of the world has markedly declined. Peter Drucker (2010: 65-8) claims that there will be no more 'superpowers' and

predicts new power centers to emerge in society (military, education, and big science). Political issues (constitutional, moral, and aesthetic) are now replacing economically centered issues and in international politics, bipartisanship, pragmatism, and dependency are giving way to interdependency.

As the economy switches from processing raw materials to processing information, the size of operations required to handle tasks is tumbling. Alvin and Heidi Toffler (2006) observe a decreasing correlation between economic input and output. All this change has far-reaching consequences not only for small states, but larger ones as well.

A closer look suggests the situation of small states is not bleak and that smallness is largely a matter of context. Likewise, the small state can be strong militarily but their economic and security may not be enhanced by aligning with powerful neighbors. One way out of the security dilemma may be alignment with the next-door large neighbor. That is the road some states have taken and that is what Nepal did in the early fifties. Alignment, however, is no panacea. The Nepalese found that in 1989 – when there was an economic blockade by India. The Kuwaitis learnt the lesson two years later. Neither could be blamed for triggering the crises. These two cases suggest the alignment approach to a small state's security is imperfect. Thus, even if some fundamental questions about small states remain unaltered, the growing need to look for alternative approaches and solutions in today's fast-changing scenario can hardly be ignored.

Nepal may be deemed relatively small compared to its large neighbors. But a state's influencing capacity is changing rapidly and smaller states, too, are having big impact in world politics, economy, and security. A closer look at these cases suggests the real root of a small state's vulnerability and insecurity are less physical, such as size and power, and more psychological, rooted in relational myths and political contrivances engineered by its larger neighbors to serve their interests. Security then becomes excuse for manipulation or aggressive intervention in the affairs of small neighbors.

Determinants of growth

If physical size does not necessarily assure security, influence, and growth, which is what the discussion so far suggests, where do the natural endowments of a state figure? And how do small states, particularly those handicapped in natural

assets, cope? There is evidence of some smaller and poorly endowed states doing quite well. For example, only about 0-5 percent of Iceland's land is cultivated, and it has no railways. No more than 5 percent of Zimbabwe's land is farmed. With 16 percent of its land arable *vis-à-vis* Nepal's 17 percent, Japan produces one-third of the world's total output of nutmeg, and without the advantages of some of the natural resources Nepal can boast of. It has built so much out of so little in such a short time. Despite the business scandals that Hilton R Root dubs 'Korean Paradox', a number of small countries in East Asia have grown quicker than developing countries without tarnishing their reputation for conducive business environment (Root, 1996: 163-8). With one-eightieth of Nepal's population, the Maldives every year hosts as many tourists as Nepal. One of the poorest and least developed countries in the world, Botswana today is the fastest growing economy in Africa. Hundred and fifty years ago, Sweden could hardly feed itself and suffered from occasional famines. Three-fourths of Norway is still unsuitable for cultivation and habitation. Two-fifths land of Holland, whose insurgents had acquired the title *les gueux beggars* from their Spanish rulers, lies below the sea level; the land there is largely a polder region drained by windmills.

The impact of size and location together may be enormous. But as often it is less due to the physical disadvantage and more due to the mindset. Location, in fact, has tended to magnify Nepal's size pessimism into a sort of *coastline fetish*. Smallness may certainly constrain the organizational and administrative capacity for effective delivery and in crisis situations. It can even worsen a state's dependence on external advice, information or security. But the limits of a county's economic growth are seldom physical factors such as size and resources than the capability of its ruling regime and leaders. Microstate Singapore's meteoric economic rise through resiliency-building has been dubbed "Singapore Paradox" by Briguglia (2004: 24-5). Contrary to common impression, moreover, the poverty of backward nations has little to do with either their colonial history, or lack of capital or even skilled workers, says Mancur Wilson (1982), who feels the principal factor in economic development is a stable government that provides law and order, protects private property, and enforces contracts. Indeed, one need not go beyond the region to see that neither colonial history, nor large population, nor even coastline guarantees a nation's growth. Bangladesh is a classic example. It has surpassed the growths of all other South Asian states despite many constraints. That size itself does not constrain growth is amply

demonstrated by Sri Lanka, which outpaces almost all larger South Asian states on most parameters of growth, despite decades of ethnic turbulence.

Other things being equal, larger the size of a country, the greater its scope for economic growth, political influence, power projection, resource generation, and defense. But yawning gaps are often seen between the enunciation of policies and their implementation in a soft state like Nepal. If a serious effort were made to modify the negative impact of physical constraints, aggressive strategic measures could certainly be profitably used to change the scene.

The poverty paradox

Nestled in the central part of the great Himalayan range, Nepal is endowed with natural and cultural resources and an unparalleled biodiversity. Its hydro potential of 83 gigawatt equals the total hydropower produced in the whole of the North Atlantic in the 1980s (a concentration 13 times higher than world average). Less than one percent of this fabulous reserve has been tapped. Similarly, the central Himalayan watershed has huge potential for renewable energy production. The country may not have many mines and minerals, but Nepal's nature-based tourism can easily compensate for that. It can also be a sustainable mode of area development.

But a closer look into the country reveals four paradoxes. There is the historic paradox of the survival of Nepal as a state between two great powers. Some believe the British saw little in its formidable heights and bare-bone poverty in their strategic calculus. However, the other two-thirds of the Himalayan range – from Kashmir to Kumaon in the west and the Assam Hiamalayas in the east – were not spared conquest. In a strategic sense, these parts were surely no more important than the Nepalese parts, the shortest corridor to the Gangetic heartland and the belly of Tibet. It was, in fact, its strategic locus that kept the British trying, for a full century, to open the shortest route to China via Kathmandu, Kuti, and Kerong. It was only when that effort failed that they shifted attention to the east to open a route through Chumbi Valley under the Younghusband mission.

The second paradox is the prolonged survival of the only Hindu state in the world. At a time the wave of secular federalization erased hundreds of Hindu princedoms from the map of India, Hinduism coexisted in Nepal in

a rare synthesis with Buddhism, whose flame kept flickering here when it got almost extinguished in the subcontinent. Despite its remarkable ethnic diversity, the social history of the land remains unscarred by ugly episodes of large-scale communal and civil violence witnessed in other parts of the world. The last internal battle we fought was more than 200 years ago. At 0.0004, the death-to-population ratio in the decade-long Maoist insurgency was rather modest compared to 49 similarly warring states (Aditya, 2008). In fact, Nepal is one of the least conflict-prone states in one of the most violence-prone regions in the world, even if a substantial part of the country's population remains militarized.

Besides this social paradox there is also a political one: the survival of a kind of rule and ideology that may look to a future historian like constitutional anachronism between two great republican systems. It was here that Marxism shook hands with monarchy in the mid-nineties and where a communist government rules with an electoral mandate. All of these enigmas – historical, social, and political – however pale before the economic paradox of Nepal's poverty.

How is one to relate the artistic heritage, the physical prowess, and the martial valor of the land, to its bare-bone poverty? And, how is one to explain the various reports coming out on Nepal's poverty?

Thus, 70 years after the end of the autocratic Rana rule, after 10 five-year plans and nearly three decades of democratic practice, as well as billions of dollars in foreign funding, the country is still one of the poorest in the world. What has gone wrong and why?

Key findings and future prospects

This paper's observations imply a change of perspective in a few regards. The first concerns Nepal as a landlocked state with a critical bearing on its prospects for growth.

- No empirical evidence exists between the size of state and its economic growth. Bigger in this sense is not always better.
- Land-lockedness appears to work as a constraint on states' growth but is not a critical constraint. The UNCLOS has, however, benefitted the insular states in inverse proportion to their size by adding the immense sea space

and enormous resource base of the new Exclusive Economic Zone (EEZ), now lost for the landlocked states (Before the UNCLOS Convention, the 200 miles of EEZ existed as a part of common global heritage).

- Human capital is essential for a country's economic growth and development but not sufficient. More vital is public will.
- In terms of location, Nepal is a frontier state between South and East Asia rather than a single-region state.
- Contrary to the claim that Nepal's Tarai is an extension of the Gangetic plains, the logic of geography says a large part of the Gangetic plains is a geological extension of Nepali foothills, formed by the rivers flowing down from the Nepali Himalayas.
- In terms of a number of physical parameters and indices of growth such as area, energy consumption, military power, size of economy, and per capita productivity, Nepal does rank as a small state. However, with its strategic location, its potential resource base and national character, considerable scope exists for growth.
- The fundamental clue to the nation's poverty lies neither in its size and location, nor in its physical and natural resources, or even in lack of foreign aid and technology, but in the poverty of thinking, which can ultimately be traced to the dependency syndrome.

The conclusion is that small size combined with land-lockedness may increase the dependence of small states, but this constraint is neither absolute nor irreversible. Strategies can be developed to offset dependence by focusing on improvement of human capital and using the strategy backwardness brings – selecting the most advanced and efficient techniques tried and tested in developed nations. The parameters of growth, it is true, do not fluctuate fast and take time to move upward, but it is equally true that the positive attributes of our national culture and strategic resources and assets are not going to dry up fast.

In a physical sense, size certainly gave Nepal no flying start. A nation's geography is hardly amenable to change and history cannot be borrowed and reinvented. But whoever said one's neighborhood cannot change has missed the lessons of history.

All of this also means that the options and opportunities of this nation have not all vanished, and that obstacles to its growth are not insuperable. Historically, states similar in size and location have often developed differently just as states

different in these same features have tended to develop similarly. Compared to many other countries, Nepal may look small, but is not too small to house a medium-sized population. It is landlocked, but its location also has strategic potential. Most of its terrain is rugged and difficult to tame, but the Himalayas at the same time boast some of the highest points on earth, giving the country part of its identity. What it lacks in terms of territorial depth, it makes up in topography. The location today look precarious, but this same location between two emerging large markets can prove to be a blessing tomorrow. It may not be exactly “a beggar sitting on a golden throne,” as the proverb goes for Bolivia and, even in terms of GNP, it indeed is poor. But some of its physical endowments – historical, religious, and cultural heritage, martial tradition, natural beauty, and hydro potential – would be the envy of many.

Even in regard to human capital Nepal holds a few advantages. Bista (1991:159) identifies hard-work, endurance, and group-self as characteristics of ethnic communities in Nepal. Thus, even if the social capital of Fukuyama's (1996) high-trust societies may take time to take shape here, in terms of psychological and cultural traits, there is sufficient ground to harness people's latent potential and to engineer economic development, of course provided adequate social and economic investments. The hill-plain conflict, however, needs to be analyzed properly, as it ultimately decides what course development will take.

“International goodwill for Nepal,” notes Yadu Nath Khanal (1988), “is considerable.” The city of Kathmandu is already acquiring the image of a conference capital and observers have implied that it could play an important role in case of further South Asian integration. It can be the best place to launch a peaceful political and diplomatic offensive within the South Asian framework. There is scope for opening a South Asian Association for Regional Cooperation (SAARC) Free Economic Zone in Nepal targeting SAARC exports to China just as there is potential for the development of a growth corridor with China to access South Asian ports to Tibet. Nepal's entry as an active partner in the Growth Quadrangle could result in more opportunities. The country, moreover, inherits a cultural heritage as the home of Sita and the birthplace of Buddhism, which embraces half the global religious geography.

One historic trauma that keeps the Nepali mind troubled is the war with Britain in 1814-16 that cut the nation down to less than half of its former size. But if a balance is to be kept in appraising the impact of such upheavals, the losses

incurred must be judged comparatively. The trauma that the Austro-Hungarian Empire suffered at the beginning of this very century and even later were of far greater proportions, when the Nazis shrunk it to one-eighth of its former size, followed by Nazi annexation and preoccupation. Consider also that Finland had to wage a hard struggle for its independence, which it achieved only after eight long centuries of foreign domination.

Next to size pessimism, we have also a marked tendency to blow up the isolation logic. Japan was closed for over two centuries from 1641 to 1853. But this failed to prevent its rise. Such was also the case of Paraguay between 1814 and 1840 and that of Thailand. Thanks to the policy of the Chakkri Kings and the concern of both Britain and France that the other one should not control the Chau Phya Valley, the country became open to western traders after the Anglo-Thai Bowering Treaty of 1856. The isolation of US for large part of 19th century is a more familiar story. Periodic isolation by itself therefore need not become a permanent bottleneck to a nation's growth.

As for the buffer status imposed on Nepal under Nehru's perimeter doctrine, it was driven by the fear that Indian security was especially vulnerable in the Nepal Himalayas, just as for Stalin Russia was especially vulnerable near the Gulf of Finland. According to this theory, the Tarai of Nepal offered minimal distance for a swift strike from the north, and as the Hindu heartland could not be moved, the perimeter of security had to move up northward. The location of the chicken's neck at Siliguri, situated as a chokepoint in the northeast, offering corridor of access to five countries – Bangladesh, Bhutan, China, India, and Nepal – further fueled and fed that fear. But ours is an age of missiles and cyberspace when the Himalayan barrier has already been punctuated at two points: Kodari and Karakoram. The buffer theory is nothing but a leftover of the British colonial rule in India and seems to have long outlived its *raison d'être*. A more positive role for Nepal matching its unique location would be to promote it as a transit country between East and South Asia.

At a time even the apparent infertility of deserts appears deceptive (witness Israel's metamorphosis over the last half-century or the American plan to render its western desert into the world's largest solar powerhouse), there is hardly a reason to despair. Nepal may have been too small, too poor, and too vulnerable to demand or win the liberty to determine its own future, as Brown (2002) put

it. But this does not mean it is destined to remain so, or that its growth will continue to be elusive. Growing out of its centuries-old chrysalis, it is a society with a glorious past, a hospitable present and a bountiful future, waiting for its true potential to be realized. It must be some such feeling that pushed Landon (1993) more than nine decades ago to note: "Nepal stands... on the threshold of a new life. Her future calls her in one direction, and one only. Inevitably she will become of greater importance..." and to announce: "the great days of Nepal are before her, not behind'.

Yes, isolation has taken its toll, occasionally, a heavy one in terms of growth and development, and any such question of whether people are willing to accept such a cost is of relevance not only to Nepal but all 'small' nations. Nepal faced that question at the start of the 19th century, a choice between sovereignty and subjugation, and responded by choosing the former because it cherished freedom. It was a hard choice, epitomized in the country's incessant struggle to avoid becoming both a pawn and a protégé of large powers. But it takes more strength to maintain freedom than to endure the weight of tyranny. The cost of the country's untrammelled freedom was heavy indeed. With freedom followed more than a century of mass privation in place of growth that colonization could have brought. Yet the Nepalese have survived. Many others who tried were less fortunate.

With the tenth cycle of political movement in Nepal already on its way to closure, continued dithering over problems of social peace, political stability, ethnic equity, and economic growth could be costly, even catastrophic. Too many flip-flops in foreign policy and national planning hurt growth equally. Tackling these six issues will constitute key challenges to Nepal's political economy in the next quarter century. Notwithstanding certain Cassandra-like predictions made from time to time on the ultimate destiny of this nation and its icons and heritage, its ability to survive may be safely predicated on the basis of its geo-salience and its physical asset. But its ability to prosper and flower into a true nation-state can be predicated only on the robust development of its human capital.

When the concept of Nepal as a nation-state was taking shape, the idea that such a small mountainous country squeezed between two Leviathans might endure — for two and a half centuries — ran against lessons of history. It is due to the unfailing spirit, clear vision, unstinting valor, and political craftsmanship of pioneer statesmen and commanders who gave not only their toil and blood but

often also their life to the cause. The challenges that lie ahead, however, are going to be fundamentally different. They are likely to be as much ethical as ethological, as much ideational as institutional, and as much professional as political. All this, however, demands a fundamental change in our national style and habits.

For far too long, the people of Nepal have remained pawns of history. For far too long, they have been reading what others have written for history. And for far too long, they have been following the agenda set by others. It is now time for them to wake up to the new challenge and begin writing their own history and set their own agenda, but for this, a new sociology of nationalism and internationalism is essential. The idolatry of size at the same time has to be abandoned. People's fixation on land-lockedness must be exorcised and the idea that neither size nor land-lockedness can bar growth must be sedulously nurtured.

Chronology: Landlocked States

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| 1921 | Barcelona, Declaration and Statute on Freedom of Transit, the first international legal instrument on the transit rights of landlocked countries, defines transit as “movement of persons and goods from one sovereign state to another”, recognizes the freedom of sovereign governments to make transit arrangements within their territories, provides for freedom of transit for commercial goods across national boundaries, and prohibits governments from demanding payments for transit, except for operation expenses, but allows transit states to prevent entry into their territories of persons and goods for reasons of security during national emergency and in time of war. Inherent weaknesses of the convention were behind its limited ratification by 50 states. Nepal ratifies it in 1966. |
| 1958 | Geneva Convention on the High Seas. |
| 1960 | India and Nepal sign the Trade and Transit Treaty. |
| 1965 | New York Convention on the transit trade of the Landlocked States seeks to universalize the transit rights; following the independence of a number of landlocked countries, especially in Africa, it recognizes the ‘special status’ of the landlocked states, provides for ‘equal treatment’ in access to the sea of the vessel of landlocked and coastal states. However, the ‘ <i>reciprocity</i> ’ incorporated as a condition for LLS to operationalize the provision of transit with the help of the transit states prevents unrestricted implementation of the transit rights and is ratified by only 43 states. As an original signatory, Nepal ratifies it on 6 June 1967. China and India have yet to sign up. It has an Arbitration Commission (Art. 16). Some countries (Bolivia, for instance) have sought the ICJ help to establish jurisdiction on access to the sea, but that still remains to be decided. |
| 1976 | Transit agreement between Bangladesh and Nepal allows Mongla and Chittagong ports for Nepal’s transit traffic. |
| 1978 | Trade and Transit Treaty between India and Nepal separated. |
| 1983 | Nov New Delhi Commonwealth Heads of Government Conference places the Grenada invasion by US (the world’s first military confrontation in the modern era between a small state and a superpower) on its agenda (over half the member states of the organization could be considered small). In its Goa Declaration on International Security expresses deep concern about the vulnerability of small states and establishes a group of Commonwealth experts mandated to prepare a study on their special needs. |

- 1983 10 The UN Convention on the Law of the Sea (UNCLOS) regarded as the most
Dec important international instrument on the rights of the LLS and the most
comprehensive document on the theme that concluded in Jamaica after
more than 14 years of negotiations with Nepal's active participation comes
into force on 16 November 1994.

(Art. 69) specifies rights of LLC in each maritime zone. Territorial Sea—sea territory across 12 nm from the Baseline toward the sea on which coastal states have sovereign rights including control of water, the land beneath it, and the airspace above it where LLC have rights of innocent passage but without harming security of the Coastal State Exclusive Economic Zone (EEZ)—200 nm zone seaward from the Baseline where Coastal state have exclusive rights to exploit natural and economic resources, conduct economic activities, marine science research, and environmental protection. LLC and other states have freedom of navigation and overflight there.

Subject to bilateral and regional arrangements LLC have the right to participate on an equitable basis in exploitation of an appropriate part of the living resources of the EEZ. High Sea – Zone beyond EEZ where coastal states and LLC have similar rights – identifies the land beneath the sea beyond the territorial sea until the beginning of the Deep Sea Bed as the Continental Shelf where coastal states have the rights to exploit economically including mining, laying cables, and exploitation of seabed resources. LLC can benefit from the economic opportunities in the exploitation of the continental shelf, seabed, and ocean floor and have equal rights as those of the coastal states on the High Seas and the Deep Sea Bed, designated as the common heritage of mankind where they can enjoy unrestricted air navigation, overflight rights, along with passage of their vessels and transit cargo, as also in the exploitation of the resources – living and non-living seabed minerals, transfer of marine ecology, and research.

Art. 125 establishes the right to access to and from the sea of LLC by all means of transport, accords them several rights including 'freedom of transit' removing the need for reciprocity.

Art. 127 allows LLC the right to move traffic-in transit without any customs duties and surcharges other than service charges.

Art. 131 provides LLC the rights of equal treatment enjoyed by vessels of coastal states. Disputes on transit rights can be submitted to the International Tribunal for the Law of the Sea established under the convention, to the ICJ or any other arbitration body agreed between the parties concerned.

- 1991 Post-blockade, status quo restored between India and Nepal who conclude new bilateral treaties of trade and transit (renewed in 1999, 2006, and 2013) in which both agree to provide transit to each other through their territory, not mandatory in international conventions, removing the need for 'reciprocity' in bilateral transit mechanisms.
- A Protocol to the Treaty of Transit allows 15 routes through Indian territory for transit to Nepal. India also provides 2 rail-routes through Radhikapur-Birol and Rohanpur-Sinhabad, and land road-route through Phulbari-Bangabandh for Nepal's transit to Bangladesh. India and Nepal agree upon 22 entry-exit points along their border for bilateral trade.
- 1997 India agrees to allow Kakarbhitta-Phulbari-Bagabandha transit route. Used for trade between Bangladesh and Nepal, across 52-km stretch in India called the 'Chicken's Neck', it is not yet ready for transit to the sea in the absence of an adequate infrastructure.
- 1997 15 Oct UNGA Resolution 'Agenda for Development' acknowledges the urgency of taking action at national, bilateral, regional, and international levels to address the special development needs of the LLDCs, calls for particular attention to the issues of their transit problems including improvement of transit countries, reaffirms the right of access of LLC to and from the sea and freedom of transit through the territory of transit states by all means of transport in accordance with international law, and calls on both the LLDCs and their transit neighbors to implement collaborative efforts in improving transit infrastructure through agreements.
- 2003 Aug 1st ministerial conference on LLDCs of LLDCs, transit countries, and developed countries adopts the Almaty Declaration and the Almaty Program of Action to galvanize international cooperation on transit transport between the landlocked, transit, and developed partner countries, recognizes the 'special needs' of the LLDCs under a framework of 'transit transport cooperation', providing an overarching goals partnership for developing efficient transit transport system.

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| 2013 | Dec | Trade Facilitation Agreement adopted in Bali bears provisions for improving transit to and from LLC, expediting movement of goods, and sets out measures for cooperation between customs and other authorities on trade facilitation including technical assistance and capacity building. |
| 2014 | 3-5
Nov | The Vienna Program of Action for LLDC for the Decade 2014-24 becomes an important milestone in development of the LLDC agenda through strengthened partnership targeting reduction of the travel time of LLDC's transit cargo to 300 km per 24 hours, setting the development agenda of the LLDCs for the next decade. In the 2 nd conference on LLDC a new declaration and 10-year program of action is adopted to accelerate sustainable development of 32 LLDCs, identifying 6 priority areas – transit policy, infrastructure development (transport, energy, information, communication), trade facilitation, regional integration and cooperation, structural economic transformation, and means of implementation – in a holistic approach in order to transform the LLDCs into land-linked countries and their connectivity to global value chains. |
| 2015 | Jun | Bangladesh, Bhutan, India, and Nepal (BBIN) sign sub-regional Motor Vehicles Agreement to allow their personal, passenger, and cargo vehicles to pass through their territories sans permit to integrate movement of goods and people and the transit mechanism. |
| 2016 | Mar | After the blockade at the Indo-Nepal border, China and Nepal sign a transit treaty allowing Nepal access to China's sea ports and fuel-rich republics of Central Asia. |
| 2017 | Jun | The first rail run from Vishakhapatnam to Birgunj with transit cargo designed for Nepal, but commercial viability remains a problem. |
| 2018 | Sep | Officials of China and Nepal reach a protocol to the transit treaty agreeing on 4 sea ports—Tianjin, Shenzhen, Lianyungang, Zhanjing – and 3 land ports – Lanzhou, Lhasa, Xigatse as also on allowing 6 crossing points on China-Nepal border – Humla, Korala, Rasuwagarhi, Kodari, Kimathanka, Olangchungola – for transit. |

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Navigating Renewed Geopolitical Rivalries

Mongolia's Third Neighbor Policy

Mendee Jargalsaikhan

In January 2020, politicians of the ruling Nepal Communist Party (NCP) clashed over a 500 million USD grant from the U.S. Millennium Challenge Corporation (MCC) to fund an electricity transmission project and much-needed road construction in Nepal (Bhattarai, 2020). It is a controversy that still awaits resolution. The major arguments are based on the claim that the acceptance of the grant would draw Nepal into the U.S. Free and Open Indo-Pacific Strategy (FOIP) to contain China.¹ For Nepal, China has become a primary source of foreign direct investments (FDI) to improve its infrastructure. China is also seen as important to balance its economic dependence on its other neighbor, India, and secure access to goods – a lesson learned the hard way during the blockade of the Indian border after the devastating earthquakes in 2015 (Pokharel, 2015). While in Nepal the main controversy over foreign policy orientation seems to be about the U.S. involvement, in Mongolia the main concern is to ‘keep a healthy distance’ from its neighbors. Mongolian politicians and public are divided over the country’s membership of the Shanghai Cooperation Organization (SCO), a regional organization, in which Mongolia became a hesitant observer in 2005. The rationale for this hesitance was the desire not to come under the control of the Sino-Russian-led regional security organization, which is perceived as a threat to Mongolia’s democracy, potentially impacting its relations with the United States.

This does not mean Mongolians do not recognize the importance of Chinese money, market, and labor. In fact, like Nepal, Mongolia wants to benefit from China’s Belt and Road Initiative (BRI) to improve its infrastructure and overcome the challenges both countries share as among the most isolated economies in the world: one on the top of the Himalaya, and the other in the heartland of Inner Asia, and surrounded by two giant neighbors respectively. Both countries share borders with the rising global power China as well as expansionist regional

¹ The controversy was fueled by remarks by David J. Ranz, Acting Deputy Assistant Secretary for South Asia at the U.S. Department of State, during a visit to Nepal in May 2019, when he described the MCC as a crucial part of the U.S. Indo-Pacific Strategy (Nepal, 2019).

powers: Nepal with India and Mongolia with Russia. India and Russia – traditional geostrategic competitors of China – are now wary of China marginalizing their influence in their small, peripheral neighbors. Against this background, New Delhi and Moscow try to dissuade Nepal and Mongolia from getting Chinese assistance in building railways, hydropower stations, petroleum pipelines and refineries, and from engaging in a more active security and defense cooperation. Like Nepal, Mongolia wants to benefit from all major rivalries, but it does not want to be caught in the middle or be forced to make dangerous choices.

Against such a background, this chapter examines Mongolia's third neighbor policy, which, in a nutshell, aims to increase its international profile and connections beyond the immediate neighborhood (China and Russia), and offers lessons from its 30 years of implementation. To do so, the paper will, first, share some insights on how renewed geopolitical rivalries are changing the external setting for Mongolia; second, discuss the third neighbor policy along its main dimensions (political, security, economic, and cultural); and third, propose policy recommendations.

Renewed geopolitical rivalries

Like other small states, Mongolia is facing a rather complicated future with the geopolitical competition intensifying between great powers. Any great power rivalry can create opportunities for small states. If the cards are played wisely, the courted state can profit from the competition (e.g. through aid, investment and trade support), but it can also cause rifts among the domestic political and economic elites over resources, privileges, and external connections. The 'divide and rule' strategy has been successfully applied for millennia as a strategy of domination – in most cases, not to the advantage of the landlocked and underdeveloped small states longing for economic and social development.

In the days to come, Mongolia could be caught in three geopolitical power struggles.

The systemic ideological rivalry: Democracy vs authoritarianism

The first is the Cold War-style competition between Western democracies (OECD members) and the big autocracies of the East (China and Russia). Due

to Mongolia's competitive elections and its democratic institutions protecting human rights, especially political and religious freedoms, the country is considered a likeminded ally by the United States and other developed democracies vis-à-vis authoritarianism. This has also led to the U.S. using Mongolia as a signaling post and even putting pressure on Mongolian officials to engage in democracy-promotion not only in its two neighbors, but also in some of its important partners in the wider neighborhood (North Korea, Kazakhstan, and Laos). However, this puts Mongolian diplomacy in a delicate position in dealing with its neighbors with their enormous political and economic leverage. The promotion of Mongolia's fragile democracy in this geopolitical competition can become counterproductive and potentially hazardous for the country.

The struggle over global hegemony: China vs the U.S.

The second 'battleground' is the growing geopolitical and geoeconomic competition between China and the United States. Both countries have recently claimed Mongolia as an important partner in their competing visions: the U.S. Free and Open Indo-Pacific (FOIP) Strategy and China's Belt and Road Initiative (BRI). In 2019, the U.S. Defense Department's Indo-Pacific Strategy, a key strategic document, identified China as a revisionist power, while at the same time recognizing Mongolia as one of the reliable, capable, and natural U.S. partners in the region, along with Singapore, Taiwan, and New Zealand (U.S. Department of Defense, 2019). The U.S. Department's *A Free and Open Indo-Pacific Report* again highlights Mongolia as a like-minded partner, to which the U.S. plans to provide more developmental assistance, including a \$350 million grant in the context of the MCC to improve urban water supply systems (U.S. Department of State, 2019a). In July 2019, amid the trade negotiations between the U.S. and China, President Donald Trump suddenly welcomed Mongolian President Khaltmaagiin Battulga to the White House to express "the U.S. interests in helping Mongolia, which is heavily dependent on China" (U.S. White House, 2019). A month later, the newly appointed U.S. Secretary of Defense Mark Esper visited Mongolia on his first trip after assuming office to promote the Pentagon's recently unveiled FOIP strategy.

On the other hand, in 2015, China announced Mongolia as a priority country for the realization of the China-Mongolia-Russia Economic Corridor (CMRC), one of the six economic corridors of the BRI (Judge and Jargalsaikhan, 2019). China

endorsed Mongolia's accession to its major regional initiatives (e.g. Boao Forum and Asian Infrastructure Investment Bank (AIIB)), increased its development assistance, established the currency swap, and proposed a free trade agreement. Despite Mongolia's reluctance to close integration, Beijing has not given up on its hopes that Mongolia will be a member of the SCO, permit Chinese banks to operate there, and welcome participation of Chinese state-owned enterprises in major mining projects.

In the Sino-American geopolitical competition, Mongolia will try to avoid taking sides on security matters, while at the same time hoping to profit from the respective global and regional initiatives and development assistance. However, if geopolitical competition intensifies, there will be less and less room to maneuver for small states like Mongolia, especially those dependent on China.

Neighborhood watch: Russia vs China

The third element here is the traditional geopolitical competition between China and Russia. Despite the current amicable partnership between Moscow and Beijing, the power structure in the Sino-Russian periphery is far from a stable equilibrium, which not only concerns Mongolia but also Kazakhstan, Kyrgyzstan, and Tajikistan.

Since 2019, Russian policy towards Mongolia has become very assertive, especially in areas like security, energy, infrastructure (railroad), and mining (e.g. uranium). In September 2019 Russian President Vladimir Putin attended the 80th anniversary and largest-ever celebration of the Khalkhyn Gol Battle – where the Soviet-Mongolian military stopped Japan's expansion to the North – and together with Mongolian President Battulga declared a comprehensive permanent strategic partnership with Mongolia (TASS, 2019). That partnership basically preserves the traditional Russian interests, which, among other things, includes Mongolia's adherence to the Russian 1,520 mm railway gauge instead of the Chinese 1,435 mm standard.

Just two months later, Mongolian Prime Minister Khurelsukh Ukhnaa was also welcomed in a long overdue visit to the Kremlin, when Putin endorsed the construction of a natural gas pipeline from Russia to China through Mongolia (President's Office of Russian Federation, 2019). Further, Moscow encourages

Mongolian political leaders to collaborate closely with the Russian-led Eurasian Economic Union and Collective Security Treaty Organization, and use the Russian Far Eastern railways and ports to export coal to East Asian markets and India. Clearly, Moscow has set out to secure its geopolitical interests in Mongolia, especially since the country is still led by a pro-Russian generation of leaders.

Despite being situated in the Russian sphere of influence, Mongolia has been trying to stay out of the Sino-Russian geopolitical rivalry. For example, Mongolia tried to officially declare permanent neutrality at the United Nations, which, however, resulted in an intense political controversy at home. A different approach was taken when the country proposed a trilateral summit with China and Russia. Beijing's reaction was positive, but it proposed using the SCO as a platform. As a result, from 2014, the Chinese, Russian, and Mongolian presidents have held a trilateral summit on the sidelines of the annual SCO summit (Bittner, 2016). However, Mongolia is still reluctant to become a member of the SCO, despite the continued advances of its neighbors. The question regularly triggers domestic debates between those against joining the so-called "authoritarian club" and thus falling into Sino-Russian control, and the proponents who point to the potential economic benefits and increased regional collaboration of doing so. This setting has shaped Mongolia's foreign policy options for decades, pushing it to pursue policies for closer ties with other great powers beyond the region or so-called 'third neighbors.'

Mongolia's third neighbor policy framework

Origins and evolution

The 'Third Neighbor' phrase was coined by then U.S. State Secretary James Baker during his visit to Mongolia in August 1990. According to the Ministry of Foreign Affairs (MOFA) archival documents, Baker suggested that Mongolia could have good neighborly relations with three powerful states, including the United States, repeatedly clarifying that the U.S. had no intentions of influencing Mongolia's relations with its neighbors or filling the power-vacuum left after the Soviet military withdrawal and the Soviet Union's eventual collapse (MOFA, 1990). Even though the catchy 'Third Neighbor' quickly gained popularity in Mongolia, it was not defined in its national security and foreign policy documents for two decades. Mongolian politicians, policymakers, scholars, even their

foreign counterparts, including, Chinese and Russians, argued against the inclusion of the third neighbor cohort wondering about the exact meaning of the “Third Neighbors”, and questioning the very existence of such a policy.

Finally, in 2010, when Mongolia revised its National Security Concept and Foreign Policy Concept (both dated back to 1994), the phrase “Third Neighbor” was officially included. The National Security Concept states that “[Mongolia] will develop bilateral and multilateral relations and cooperation with developed democracies in political, economic, culture and humanitarian spheres within the ‘third neighbor’ policy framework” (Parliament of Mongolia, 2010: Article 3.1.1.5). The Foreign Policy Concept, one year later, identified the United States, Japan, the European Union, India, South Korea, and Turkey as countries with whom Mongolia would develop close partnership and cooperation (Parliament of Mongolia, 2011: Article 14.2).

In retrospect, the third neighbor policy has evolved in two phases. In the first phase (1990-2010), it was used as an attractive foreign policy initiative to reach out to the United States, Japan, Germany, and other members of the OECD to develop bilateral and multilateral relations and seek humanitarian and developmental assistance as well as FDIs. In the second phase (since 2011), Mongolia has clarified areas of cooperation, clearly excluding security and defense, as well as explicitly articulating the intent of not singling out any specific country but perceiving the third neighbors as a group of states.

Enabling conditions

Some conditions have been instrumental in the development of Mongolia's third neighbor policy. The first was a geopolitical opening for Mongolia in the 1980s and 90s. Beijing's strict insistence on the complete withdrawal of the Soviet military from Mongolia as precondition for normalization of the Sino-Soviet relations in the mid-1980s and the inevitable retrenchment of resources from Kremlin's geopolitical endeavors in the 1990s created a breathing space for Mongolia's foreign policy.² The U.S.-led global promotion of democracy

² China demanded removal of the so-called “three obstacles” to improve the Sino-Soviet relations in the 1980s. These obstacles included the Soviet army's withdrawal along the Sino-Soviet borders and from Mongolia, ceasing of the Soviet's support for Vietnamese occupation in Cambodia, as well as the end of the Soviet occupation of Afghanistan (Garver, 1989).

and market economy as well as China's desire to reduce Kremlin's influence in Mongolia were further factors in the liberation from Russian hegemony. At the same time, in the 1990s, Chinese and Russian leaders were trying to get closer to the U.S. and its allies to overcome their economic challenges. Crucially, Russia officially cleared the way for establishment of Mongolia's relations with the U.S. during Soviet Foreign Minister's Eduard Shevardnadze visit in January 1986 (Yondon, 2016).³

The second condition is Mongolia's constant prioritization of its relations with China and Russia and its explicit commitment to neutrality. Since 1990, Mongolia has been prioritizing the relations with its neighbors over all other bilateral relations, as is reflected in all of its major national security as well as foreign policy documents and action plans. The principle of neutrality was even enshrined in the 1992 Constitution (i.e., restrictions regarding foreign military bases on the country's territory) and bilateral treaties (e.g., annulled mutual defense articles in treaties with Russia) (Constitution of Mongolia, 1992). Moreover, Mongolia's government has remained silent on even the most controversial (internal) policy issues of its neighbors (e.g., religion and nationality in China or Russia's takeover of Crimea). During this period, Mongolia also became a "single-state nuclear weapon-free zone" that has been ratified by the permanent members of the United Nations (Enkhsaikhan, 2000).

The last condition is that the United States, Japan, Germany, and South Korea – countries included in Mongolia's third neighbor category – have avoided causing major geopolitical tensions between Mongolia and Russia/ China. The primary focus of their relations with Mongolia was political, economic, and cultural and Mongolia has not been a priority country in their overall security and foreign policy objectives. Even though some officials or administrators, particularly in the United States, sometimes try to invoke Mongolia in their address on the country's neighbors, Mongolian diplomats are quick to assuage their counterparts in Moscow and Beijing immediately.

³ Author's interview of Ts. Gombosuren, Foreign Minister in 1988-1996, on December 15, 2015.

Assessing the third neighbor policy

Political dimension

Mongolia's three significant achievements in the political sphere have enabled it get political support from third neighbors when needed. For one, Mongolia gained recognition and support from the United States, which it had been trying to acquire since 1911. However, their efforts to establish bilateral relations failed during the Kennedy and Nixon administrations due to objections from Chiang Kai-shek (on the U.S. side) and the Soviet Union (on the Mongolian side) (Mendee, 2019: 55-62). Finally, after Mongolian political leaders committed to refraining from reversing the democratic transition, the U.S. provided humanitarian assistance, especially during the economic hardship of the transition phase in the 1990s, supported Mongolia's membership of international financial institutions, and encouraged its allies to assist the country as well. In 2019, the two countries also declared a strategic partnership, focusing on political component rather than on economic or security partnership (U.S. Department of State, 2019b).

Second, Mongolia broadened its third neighborhood approach, deepening its political ties with Japan, India, Germany, South Korea, as well as Turkey. Japan in the 1990s became the biggest donor country and led international assistance to overcome Mongolia's economic hardships. A strategic partnership was established with both Japan (in 2010) and India (in 2015) (Ministry of Foreign Affairs of Japan, 2014; Ministry of External Affairs of India, 2019). Mongolia is further seeking strategic partnership endorsements from Germany, South Korea, and Turkey, all of which have comprehensive partnership statements. However, while Germany and Turkey are concerned about Russian reaction, South Korea is concerned over China's response.

Finally, with the support of its third neighbors, Mongolia increased its political connections with the international and regional platforms. Ties were established with the European Union in 1989 and, finally, a comprehensive partnership and cooperation agreement was concluded in 2017. Since 2018 the EU mission has been present in Ulaanbaatar. Mongolia also succeeded in obtaining the long-awaited membership of the Organization for Security and Co-operation in Europe (OSCE) in 2012, which has also been observing its parliamentary and presidential elections since 2013. In 2000 Mongolia became a member of

the Community of Democracies, an intergovernmental coalition of states, and hosted its ministerial conference in 2013. In 2008, Mongolia, moreover, joined the Asia-Europe Meeting, a political dialogue forum between leaders in Europe and Asia, and hosted the 7th summit in 2016.

Mongolia has been perceived by the United States and its allies as a like-minded, democratic country with respect for human rights and concerns over China's military development. Above all, Mongolia has established functional political connections with the capitals of these countries through resident embassies, regular bilateral exchanges (high-level visits and consultative meetings), and representatives at international organizations (UN, OSCE). In retrospect, Mongolia has also used its political connections with the U.S. to address issues with its neighbors in a few instances. For example, Secretary Baker conveyed Mongolia's request to Soviet/Russian leaders to continue fuel export during the cold winters of 1990-91. On another occasion, the U.S. State Department contacted its Chinese counterpart when Beijing closed the railroads to Mongolia as a sanction for the Dalai Lama's visit in 2002.

Security dimension

Mongolia's third neighbors have been reluctant to develop security and defense cooperation with Mongolia due to the geopolitical sensitivity of its immediate neighbors. This is especially true for the U.S., even though Mongolia has tried to develop closer ties with it in defense and security. However, a U.S. security guarantee for Mongolia is out of question for Washington. The United States is primarily interested in using Mongolia as a post to observe the Sino-Russian geopolitical dynamics and, increasingly, to send a message to the immediate neighborhood.⁴ Despite requests to develop closer security ties with the U.S. and

⁴ The key justification for establishing bilateral relations for the Kennedy, Nixon, even Bush Sr. administrations was to observe the geopolitical dynamics between the Soviet Union and China. In August 1990, State Secretary Baker used Mongolia to signal the U.S. victory of the Cold War – as Mongolia had been considered the hidden backyard of the Soviet Union (Mendee, 2019: 55-62, 102-106). Defense Secretary Chuck Hagel's sudden visit immediately after Russia's takeover of Crimea in 2014 and Defense Secretary Mark Esper's visit following the release of the Pentagon's Indo-Pacific strategy in 2019 could be interpreted in a similar vein as a signal to Mongolia's neighbors. Also, Mongolia is used as a signaling post politically. For example, in 1995, First Lady Hillary Clinton denounced human rights abuses in China. Later, President George Bush in 2005, State Secretaries Madeline Albright in 1998, Hillary Clinton in 2012, and John Kerry in 2016 praised Mongolian democracy as an exemplary model for authoritarian states, which certainly implies its neighbors.

its allies in Asia and Europe, Washington was reluctant to invite Mongolia into the NATO Partnership for Peace program and to extend security assistance beyond the International Military Training and Education (IMET) program, which was limited to language training, specialized courses, and seminars (Mendee, 2013).

Germany, Japan, and South Korea took a similar approach by restricting security and defense cooperation to limited military training slots, seminars, and ceremonial exchanges in the 1990s. This attitude changed after Mongolia in 2003 began to deploy its military to coalition operations in Iraq, Kosovo, and Afghanistan. Within seven years, over 5,000 military personnel of the Mongolian Armed Forces had served in Iraq and Afghanistan. The military deployments were perceived positively in Washington. The U.S. State and Defense Departments increased their funding to develop peacekeeping capacity, including professional military training assistance, bilateral and multilateral exercises, provision of equipment, and establishment of a regional training center (Mendee, 2019: 141-43). As a result, Mongolia is now regarded as a reliable troop contributor for U.S.-led operations outside its immediate neighborhood. Further, Mongolia's deployments with Poland in Iraq and Belgium, Luxembourg, and Germany in Afghanistan paved the way for conclusion of the Individual Partnership and Cooperation Program between the Mongolian military and NATO in 2012, which recognizes the country as one of its partners across the globe (NATO, 2017).

Even though this cooperation has exclusively focused on peacekeeping, Beijing suspects it of being part of the U.S. encirclement strategy, while Moscow interprets as an expansion of NATO. From the beginning, Russia had pressured Mongolia to end its troop contribution to Iraq and even stopped deployment to Lebanon a few days before the scheduled departure supported by France (Mendee, 2019: 139). Cautious about a potential Chinese reaction, Japan and South Korea limit their defense cooperation to peacekeeping and defense educational exchanges. Even though Mongolia's security and defense relations with the U.S. and its allies appear to be broad intensive, all countries are aware of the geopolitical sensitivity of Mongolia's neighbors. Therefore, they openly focus on peacekeeping, disaster-relief, and defense diplomacy.

Economic dimension

One major long-term objective of Mongolia in reaching out to the capitalist economies in the early 1990s was attracting foreign direct investments (FDI)

as well as gaining access to new markets and technology. But, for the OCED countries, Mongolia was little known and economically not very attractive, due to its isolation from the main global markets and supply chains, its underdeveloped infrastructure, harsh climate, and lack of skilled labor. Despite these challenges, Mongolian politicians continuously stressed the importance of securing large-scale investments from third neighbors to diversify and reduce dependence on Chinese investments, to gain access to new technologies, and develop stronger connections.

Over the past three decades, Mongolia has made some achievements, but still faces a number of challenges. First, Mongolia joined the Bretton Woods Institutions (International Monetary Fund, World Bank, International Financial Corporation) as well as some regional banks like the Asian Development Bank (in 1994) and the European Bank for Reconstruction and Development (in 2006). Thereby, the country was able to secure access to funds, expertise, and networks for its initial transition to a market economy in the 1990s and later to attract FDI. Second, it was able to conclude some key investment agreements like a long-term one with the mining giant Rio Tinto in 2009. The British-Australian Multinational Corporation is developing the world's second largest copper-gold deposit, the Oyu Tolgoi mine (Oyu Tolgoi, 2018). This project brings multiple stakeholders like western governments (U.S., Canada, Australia, and UK), international financial institutions, private investors, construction companies, and suppliers to the mining ground in the Gobi Desert in the country's South. Third, Mongolia succeeded in establishing the first-ever free trade agreement (Economic Partnership Agreement) with Japan in 2015 (Ministry of Foreign Affairs of Japan, 2016). This makes Japan the only G7, G20, and OCED member to respond positively to Mongolia's requests for market access, even though successive governments in Mongolia have been lobbying for similar deals with the U.S., South Korea, and several EU members over the past two decades.

Besides these achievements, Mongolia has experienced some major challenges. For example, the plans to develop the largest coking coal deposit, the Tavan Tolgoi mine, failed due to domestic rivalry as well as competing interests of international investors from the immediate neighborhood and the third neighbors (Radchenko, 2018). Another challenge is posed by the renewed geopolitical and geoeconomic interests of Russia and its political interventions connected to foreign aid and investment projects. For instance, in 2005, Russia stopped the Mongolian government's decision to use \$185 million of U.S.

developmental aid in context of the MCC (Wachman, 2010) and in 2009, again, pressured the Mongolian government to revoke the Canadian Khan Resource's mining license to develop a uranium mine that the Soviets had abandoned in the 1990s (Bulag, 2010).

Another major challenge that has discouraged investment from third neighbors (esp. Japan and Germany) is the widespread corruption and political/legal instability, the result of intense competition among the Mongolian political-business factions and the rise of populist politics. For example, the sudden rise of German business interests in Mongolia during the commodity boom in 2010-2012 waned quickly after potential investors discovered the uncertainty of Mongolian politics and potential troubles resulting from geopolitical constellations.

Cultural dimension

For centuries, Mongolia has been committed to maintaining its distinct cultural identity vis-à-vis its neighbors. China in particular has been perceived as a threat for the survival of Mongolian culture. The adoption of Tibetan Buddhism during the 15th and 16th centuries can be interpreted as an important factor in regard to cultural homogeneity, adding to the distinctive feature of Mongolian nomadic culture. Following its independence in 1911, Mongolians have sought ways to increase their cultural ties with Western Europe. But the Soviet Union interfered and in the following 70 years Mongolia built very close cultural ties with its northern neighbor, completely disconnecting its cultural ties with China. The collapse of the Soviet Union created a new space for the development of cultural ties with third neighbors, but also brought challenges, since Mongolia had to resist China's inevitable push for hegemony.

In retrospect, cultural ties with third neighbors contributed to creating a new identity as well as new connections and networks. Thanks to educational exchanges (mostly, scholarships, study tours, seminars), the Western culture, including the English language, has become popular since the 1990s. For the mid- and senior-level executive in administration, graduate degrees in the OCED countries are regarded sought for career development.⁵ As opportunities to

⁵ Many public servants have been educated in the OECD countries. Some sectors – like the military – have benefitted greatly by educational and training opportunities in the USA, Germany, Turkey, and more recently in Japan, Australia, and South Korea. The Australian government provided graduate-level educational opportunities for key ministries, including Foreign Affairs, Finance, and Justice. Over two decades, these

study, visit, and live in the OCED countries rose, Mongolians took advantage and even begun to settle there. According to latest reports, over 180,000 Mongolians live abroad, including 50,000 in South Korea, 40,000 in North America, and 35,000 in Europe (News.mn, 2020).⁶ These are connections that contribute to continuing and intensifying cultural ties.

Over the past three decades, some unique connections have thus been established with the third neighbors. For example, from 2002 Mongolian wrestlers have dominated the prestigious Japanese sumo tournaments, which have contributed to building important networks between the two countries, ranging from politics to tourism (Wegner, 2016; Lkhaajav, 2017). Meanwhile, South Korea became the most attractive destination for Mongolians in international travel, labor migration (both legal and illegal), and education (the third biggest group of foreign students) (Campi, 2012; Lee Jae Young, 2016). In turn, Mongolia became an attractive tourist destination for South Korean tourists (with daily direct flights) and Korean cultural exports (fashion, songs, movies, and cuisine) became popular in Mongolia. Building on the connections with East Germany in the context of the socialist brotherhood there are now a considerable number of German-speaking Mongolians. Further, the cultural connection with Germany has been continued through flight connections, educational exchanges, and small but sustained German engagement (Federal Foreign Office of Germany, 2020). Mongolia's cultural ties with India have also deepened since the 1990s. Mongolian pilgrimage to Buddhist holy sites has increased and over 500 Mongolian monks study in Buddhist schools in India, while the religious cooperation (construction of temples, high-level exchanges, including frequent Dalai Lama's visits) has been expanded (Ministry of External Affairs of India, 2018). At the same time, Mongolia's connection with Turkey and other Muslim nations has intensified significantly as well, particularly through the Mongolian Kazakh ethnic province and communities as well as over 40,000-strong Mongolian Kazakh diaspora in Kazakhstan.

Overall, Mongolia succeeded in building strong cultural ties and connections with the third neighbor countries, which had an impact on the country's own identity, and increased its international profile. Despite increasing connections

programs helped in professional development of public servants and contributing to bilateral relations (Mendee, 2012).

⁶ The Ministry of Foreign Affairs of Mongolia claims that about 130,000-140,000 Mongolians live abroad.

with its southern neighbor and several initiatives to extend Chinese soft power (visa-free travel, preferential access into medical facilities, scholarships, government-sponsored exchanges, educational institutes and schools), awareness is still limited among the Mongolians and attitudes remain largely unchanged. The Soviet-educated generations are playing an important role in keeping the cultural ties with Russia alive, but the younger generations (Y and Z) show little interest in Russian culture. In general, Mongolia is thus seen as culturally moving toward the third neighbors. In the short-run, the COVID-19 pandemic, the economic downturn, and rising anti-Asian immigrant attitude in the Anglo-Saxon countries and Europe might impact Mongolia's cultural ties with these new third neighbors. As a consequence, it might also increase Mongolia's connections to Japan, South Korea, and Taiwan, like-minded states sharing Mongolia's concern over the Chinese push. Nevertheless, in the long run, Mongolians, both the old and younger generations, continue to hold positive views of the third neighbors. As a result, the cultural ties will most likely deepen with the third neighbors, while Mongolians will be cautious toward the Sinocentric cultural expansion.

Conclusion

The Mongolian case might offer some lessons for Nepal in particular, and landlocked small states in general. Against the background of the striking similarities of the situations of the two countries, it is worth noting that a few distinctive elements of the third neighbor policy have been keys to Mongolia's success in maneuvering its delicate geopolitical situation. Mongolia has successfully developed strong cultural ties with the developed democracies and carefully strengthened its political and military ties through peacekeeping collaboration. Its proximity to the Chinese market and abundant mineral resources have attracted many western investors.

There may also be some shared interests that Nepal and Mongolia could pursue together, possibly in cooperation with other small states facing similar challenges. First, like Mongolia, Nepal appears to be at risk of being caught in multiple layers of geopolitical conflicts which include: 1) systemic rivalry between the West (U.S./allies) and the East (China and Russia); 2) the great power rivalry between U.S. and China; and 3) the rivalry between the regional powerhouses India and China. To avoid getting caught in these multiple power struggles, Mongolia's explicit endorsement of neutrality in security matters, refusal to join any military

alliance or host foreign military as well as its commitment to non-interference in domestic matters, have played a key role in keeping its neighbors' suspicions at bay. Since both Nepal and Mongolia rely heavily on markets, infrastructure, and funds of their powerful neighbors, they are extremely vulnerable. Therefore, both have to be very careful in regard to the U.S. FOIP alliance, to dial down security concerns from China.

Second, as geopolitical competition increases, great powers will offer attractive deals to small states, which will most certainly intensify competition among the political and economic factions and interest groups in the respective countries' elites. Mega projects – railroads, pipelines, refineries, power plants, mines, even roads – come with attractive business opportunities – starting with feasibility studies, construction, to operations and maintenance – and provide opportunities for political benefits. Therefore, any mega project is at risk of being politicized or of failing due to conflicting interests between domestic and external forces. This is a bigger challenge for electoral democracies like Mongolia and Nepal, where politicians operate in electoral cycles, which are usually shorter than those of large infrastructure projects. Mongolia has seen a fair share of these cases in the recent past. For example, the location of the country's fifth power plant was changed five to six times, the location for a new refinery three times, and for an industrial complex with a smelter factory twice. Even the construction of railroad extensions has been debated for two decades – without an inch of railroad built. As the political landscape changes, many politicians came under criminal investigations, but none of these projects have moved forward, hampering development. For both Mongolia and Nepal, an important step toward economic development would, therefore, be to de-politicize major infrastructure projects and strengthen the rule of law.

Third, Nepal and Mongolia should consider collaborating more closely at the international level, especially in the context of the United Nations, to advocate policies supporting the landlocked developing countries (LLDCs). To intensify cooperation with other LLDCs, Mongolia set up the International Thinktank for LLDCs in Ulaanbaatar in 2009 with the United Nations Developmental Program. This platform could be used by Nepal and Mongolia along with other Asian landlocked countries like Bhutan and Laos to exchange and reflect on their development strategies in the emerging geopolitical context. There is ample potential for peer-to-peer learning programs between Asian, Eurasian, and European landlocked countries as well as countries that deal with similar

geopolitical challenges. In this regard, more developed European landlocked states (Austria, Czech Republic, Slovakia, Hungary, Poland, Moldova, Armenia) could share their challenges to improve their connectivity with the Asian landlocked countries like Mongolia and Nepal.

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Crumbling Hegemonic Order in Central Asia

Foreign Policy Practices in Times of Growing Complexity

Nargiza Muratalieva

Central Asia, located between the sprawling expanse of the Russian Federation and rising People's Republic of China (PRC), is a complex amalgam of post-Soviet states, each with its own distinct linguistic characteristics and political system. Geographic proximity, common history, and cultural similarities as well as inherited water and energy infrastructure and economic ties define and determine the interdependence of these countries. Politically, the Central Asian countries also show some similarities in their political systems, which have set course toward democratization and transparent elections with strong presidential power, but still also show the prevalence of patronage-client relations. But three revolutions in Kyrgyzstan in a span of 15 years are evidence that institutional mechanisms for the transparent and fair transit of power are poorly functioning in the newly independent republics.

Pursuing foreign policies independent of the hegemonic claim of Russia and in face of the degraded economies inherited from the Soviet Union present two key challenges. Speaking of the general geopolitical dynamics, the countries of Central Asia have firm relations with Russia and China due to locational and historical factors, despite their declared multi-vector policies. Shared history as well as the legacy of widespread use of Russian language consolidates Russia's influence in the region. In addition, Russia has been building rigid institutional ties with the countries of the region, engaging them in the Eurasian Economic Union (EAEU) – Kazakhstan and Kyrgyzstan as members, and Uzbekistan as a de facto observer – and a Collective Security Treaty Organization – Kazakhstan, Kyrgyzstan, and Tajikistan. On the other hand, China has actively cooperated with the Central Asian states since the 1990s, taking the lead in trade turnover and becoming the main investor and creditor for some countries, especially after the launch of the “One Belt, One Road” initiative. Thus, in the 2000s there existed an unspoken division in the region, with China leading in the economic sphere and Russia in the security matters, but recently China has

started to engage more actively. China is betting on Tajikistan in terms of the formation of a regional security system, promoting since 2017 the Quadrilateral Cooperation and Coordination Mechanism (QCCM), with China, Pakistan, Tajikistan and Afghanistan as members. The secretaries of the Security Councils of these countries hold regular meetings to discuss Afghan issues. Beijing also sees Tajikistan as an important partner in the context of its Afghan strategy.

Against this background this paper will look at the foreign policy strategies adopted by Central Asian states. However, in view of the steady but gradual economic and institutional decline of Russia and deep contradictions in the EAEU, not too many successful cases of foreign policy can be identified in Central Asian states. There are a number of factors that hinder coherent and more strategic approaches in the region. One limiting factor is lack of regional integration. There is internal as well as external competition among the five Central Asian states, making it easier for foreign powers to exert influence. Unresolved water, energy, and border issues exacerbate regional rivalries. The absence of coordination and coordinating mechanisms also work against Central Asia. There is no synchronization of foreign policies and little participation in international organizations that would help integrate regional strategies.

Against this background, this paper will focus on instances of well-thought-out foreign policy and strategic approaches of the countries in the region to pursue their national interests in the context of growing geopolitical complexity. First, the general conditions and geopolitical dynamics in the region will be addressed in detail. Later, five approaches will be discussed in more detail.

Central Asia: In search of identity

The problem of geographically defining Central Asia has been discussed since the last third of the 19th century in both Russian and foreign literature. This is mainly related to foreign involvement and the rivalry between competing powers for influence in the region, as well as to Central Asia's growing importance in terms of resources and transport infrastructure in military and economic areas. The division into certain regional entities is, in general, contingent on the subjective needs of the individual countries or groups of countries in spatial positioning on the regional or global scale.

Since the start of the 20th century, the history of the countries constituting contemporary Central Asia suggests diverse identification and interpretation. Before the advent of the Turkic tribes in Central Asia, the region between the Amu Darya and Syr Darya was named “Turan” by the Eastern Iranians. The name Turkestan supplanted Turan, although the former covers a much larger region geographically. Turkestan, translated as “the country of Turks” and included the territory of the following territories: Uzbekistan, Turkmenistan, Tajikistan, Kyrgyzstan, Kazakhstan, Xinjiang Uyghur Autonomous Region of China, Turkic speaking regions of Southern Siberia, as well as the north of Afghanistan and Iran (Mushketov, 1888: 26). The term is hardly justifiable from an ethnographic view, considering the difference between Persianized Tajiks and Turkic peoples. In the middle of 1920s, the term Turkestan went out of use and the term “Middle Asia” took its place.

The name Middle Asia has been known in Russian geographic literature for quite a while. The designation “Middle Asia and Kazakhstan”, historically formed in Russian language in the Soviet tradition, was used in the Union of Soviet Socialist Republics (USSR) between the 1930s and the beginning of the 1990s. A number of Union republics (Kyrgyz, Tajik, Turkmen, and Uzbek) were considered parts of the “Middle Asian economic district”, while Kazakhstan constituted a separate economic district by itself. The term “Middle Asia” is ambiguous and was interpreted differently in different sources. Thus, the concepts of “Central Asia” and “Middle Asia” do not have clear-cut boundaries.

In 1843 geographer Alexander von Humboldt distinguished Central Asia as a separate world region for the first time, to include the territories on the south of Altay Mountains all the way down to the Northern Himalayas (Humboldt, 1884: 610). Russian geographers saw Central Asia as a natural region stretching to the east of Pamir. For instance, Przhevalsky draws Central Asia’s borders along the Himalayas, Pamir, Western Tian-Shan on the west, and Greater Khingan along with China’s border ridges on the east. As for the Western interpretation of the concept “Central Asia”, one needs to note the “classic vision” suggested by R. Frye (1983: 13). He considered the region of Central Asia as the “border” cultural zone between the main settled provinces of Russia, China, India, and Semitic Middle East, sharing a number of specific system-creating traits, one of which is Islam. These cross-cutting traits include special forms of irrigation, trade, and commercial activity as the populations’ survival methods. This vision of the region was dominant until the collapse of the Soviet Union.

In 1991, at the summit of the heads of the Central Asian states, the president of Kazakhstan, Nursultan Nazarbaev, suggested switching from the Soviet term “Middle Asia and Kazakhstan” to the phrase “Central Asia” to cover all post-Soviet states of the region. At the same time, a considerable number of researchers of various schools tended to consider Central Asia to involve not only the territories of Middle Asia and Kazakhstan, but also parts of India, Afghanistan, Pakistan, Iran, Mongolia, Russia, specifically the Altay province. As the territories of Kyrgyzstan, Uzbekistan, Turkmenistan, Tajikistan, and Kazakhstan do not properly fit the physico-geographic meaning of the concept “Central Asia”, some scholars offer to introduce a new term “Central Eurasia” to more adequately reflect the geographic and civilizational identity of the region (Suyunbaev, 2011).

However, despite the diverse attempts made to define and delimit the region, the term “Central Asia” is firmly rooted among the populace not only in the region, but also beyond its borders. Thus, the history of international relations dictates continued use of “Central Asia” for the five post-Soviet states located in the Asiatic part of the former Soviet Union.

Making new friends: Uzbekistan and South Korea

One big problem in the region is the dependence of the countries on external players such as Russia, and in recent years, China. Sovereignty in decision-making demands diversifying foreign policy and economic relations. How this is being accomplished is demonstrated by the recently-developed close ties between South Korea and Uzbekistan.

South Korea's engagement in the region is still quite new and limited in influence compared to other countries'. However, the absence of geopolitical ambitions on the part of Seoul does not arouse suspicions or negative reactions that Russia, China, or the West engender. At the same time, its export-oriented industrialization and export-based growth model have made Korea a potential development model for Central Asia, and its involvement in the region has contributed to the diversification of foreign policy ties, export routes, and sources of investment.

South Korea does not have an articulated strategy in the region, though its adoption of the “New Northern Policy”, which encompasses the countries

of Central Asia, offers a potential starting point for a new stage of Korean engagement in the region (Shin, 2018). Its growing interest in Central Asia since 2017 may also serve to expand and intensify trade and cooperation. There is an ongoing discussion about creating a free trade zone between South Korea and the countries of the EAEU, something that might stimulate substantial trade with Kazakhstan and Kyrgyzstan, which are members of the Union. The Shanghai Cooperation Organization (SCO), with its stance on denuclearization in the Korean Peninsula, is also a potentially interesting platform for Seoul.

For broader engagement in the region, Uzbekistan's relation with South Korea might act as a model. Uzbekistan is Seoul's main trade partner in the region, accounting for almost 50 per cent of the commerce between South Korea and Central Asia and attracting Korean investments worth 7 billion USD (UzTAG, 2017). The trade turnover between the two countries increased by 27 per cent in 2019, totaling to some 2.7 billion USD, the highest figure in the past five years (Kun.uz, 2020a). The trade turnover of South Korea with Kyrgyzstan, in comparison, is less than 100 million USD, with the parties discussing efforts to create more joint ventures to ameliorate this. The high degree of economic cooperation between Uzbekistan and South Korea has resulted in a facilitated visa regime and bilateral agreements on labor migration. Each country has also awarded the most favored nation status to the other.

South Korea supplies Uzbekistan with automobile parts, machinery, and chemical products, with Uzbekistan mainly exporting textiles and cotton to Korea. The parties intend to increase trade turnover to 5 billion USD a year in 2023, among other things by strengthening the capacities of the Uzbek-Korean trading houses in Seoul. The Uzbek side is also interested in a preferential trade agreement or an agreement establishing a free trade zone between the two countries. It is also eager to benefit from Korean experience in a range of endeavors, including production of electric vehicles, implementation of IT startups, formation of special and venture funds, and management of technology parks and innovation centers. There are also plans to study feasibility of using textile "technoparks" in Uzbekistan to produce protective medical masks and clothing.

The countries signed 60 investment agreements worth more than 10 billion USD during Uzbek President Shavkat Miromonovich Mirziyoyev's visit to Seoul in November 2017. Korean companies are actively developing silicon and tungsten ore deposits in the country and are building mining and processing centers,

including the “Sautbay” complex, which is the largest in the Commonwealth of Independent States (CIS). Uzbekistan also created Ustyurt Gas Chemical Complex, home to several advanced petrochemical plants, in cooperation with South Korea.

More than 70 representative offices of Korean companies are currently accredited to operate in Uzbekistan, with 440 enterprises funded by Korean investments working in almost every sector of the economy. The countries have agreed on loans worth of 500 million USD from the Korean Fund for Economic Cooperation and Development in the period between 2018-2020. It will fund the creation of an Uzbek-Korean textile “technopark,” a highly specialized medical center, and a House of Korean Culture in Uzbekistan.

Uzbekistan has also proposed a strategy for integrating the “New Northern Policy” of South Korea with China’s “Belt and Road initiative” and with the efforts of the EU to better connect Europe and Asia. According to Uzbekistan, this will help create transport and logistic routes between Central Asia and the markets of Europe and those of Northeast, Southeast, and South Asia. From Uzbekistan’s perspective, interfacing with Russia, China, and Korea has the potential to bring access to distant markets and seaports.

Korean experts frequently cite their successful cooperation with Tashkent as an example of the best practices and have suggested intensifying cooperation with other countries of the region in accordance with the “Uzbek model.”

BRI: The case of Kazakhstan's "Nurly Zhol"

Xi Jinping visited Kazakhstan shortly after he assumed office as Chinese president in March 2013, as a part of his first tour of Central Asia. He spoke at Nazarbayev University in September of the same year, proposing a completely new initiative, the “One Belt One Road” (OBOR) project, which is today known as the Belt and Road Initiative (BRI) (Jinping, 2013). Observers were taken off guard by the announcement, though Kazakhstan and China had enjoyed close collaboration long before the launch of BRI. The Central Asian country had managed to reverse a negative trend in its relations with China, reorienting a partnership that had been based almost entirely on raw materials and in which the main items of bilateral trade were oil, gas, and mineral exports.

Kazakh-Chinese interaction got a new impetus in accordance with the tasks that were set in the context of the OBOR. Kazakhstan developed the “Nurly Zhol” State Program for Infrastructure Development in 2014, a program initiated to match the projects and ambitions of China’s Belt and Road (Syorezhkin, 2016). Another key policy document informing economic relations between the two countries is the Kazakh-Chinese Cooperative Investment Program, which involves the transfer of production capacities from China to Kazakhstan. The two countries initially agreed on 51 projects totaling some 26.2 billion USD (Zakon.kz, 2016). No other Central Asian nation has conceptualized its relations with the “Celestial Empire” in such a strategic way. The resulting cooperation encompasses a huge number of projects, with numerous industrial facilities being envisaged or currently under construction. Kazakhstan is also building and modernizing hydraulic structures with the assistance of China. The largest economic development programs in the country all involve Beijing in some way.

Cooperation between the PRC and Kazakhstan has not been without problems though. For example, corruption scandals colored the Astana LRT project (Businessfm.kz, 2019). The project for the construction of a light rail transport amounted to 1.5 billion USD, partly financed with a loan from China. Some years after construction started, corruption schemes were revealed: project costs were overestimated and the payback questioned. As a result, the construction was not completed and a number of officials are under criminal investigations. In 2020, Nur-Sultan issued a diplomatic note in protest against an article on the Chinese website www.sohu.com, entitled “Why Kazakhstan wants to return to China” (Tengrinews.kz, 2020). However, overall, the “Nurly Zhol” project is considered a success and by the time its first phase ended, it had become a model for other countries in the region and a showcase for how to organize and plan cooperation with the PRC.

Adjusting terms of engagement: Anti-Chinese rallies in Kyrgyzstan

As in other parts of the world, Sinophobia is prevalent in the Central Asian region, especially among parts of the populations that see threats and risks in the cooperation and identify with marginalized and oppressed groups in China. In Kyrgyzstan several kinds of anti-Chinese sentiment can be identified. There are a number of historical reasons like the Soviet propaganda that depicted China as an aggressor during its confrontation in the 1960s, something that still colors

the perception of China (Xinren, 2019). Endogenous reasons can be identified as well, including the corruption of the political establishment in Kyrgyzstan and the absence of transparency in agreements reached between Bishkek and Beijing. And finally, economic factors also drive Sinophobia. Unfavorable conditions like rising unemployment and economic crisis as well as low quality of the rapidly spreading plagiarized electronic devices from China contribute to the country's bad reputation. Mass media in Kyrgyzstan are also driving Sinophobia, spurred by external influences, and are actively fueling a discourse on the "Chinese threat".

Kyrgyzstan, an economically weak country with a population of six million, feels threatened by the growth of the Chinese population and its increasing economic and political power. While China has actively promoted mask diplomacy and provided humanitarian aid to the region, the coronavirus has done nothing to mitigate anti-Chinese sentiments among the Central Asian populations, with some experts and media outlets pickling up the term "Wuhan-virus". These and other factors feed Sinophobia, which in some instances seem grounded in real problems, while in other instances appear to be little more than a tool for outside forces to manipulate public perception for political interests.

Sinophobia is also often being instrumentalized in Kyrgyz domestic politics. However, Kyrgyz authorities have also employed it as leverage in negotiations with the Chinese, as a mechanism for launching auctions or easing the conditions for paying off debts. Opposition leaders and parts of the population mobilize anti-Chinese sentiments to win more favorable conditions or social benefits. Opposition elements have also learned to skillfully manipulate Sinophobia to mobilize protesters to criticize and put pressure on the government. This has already led to an increased need for security measures for projects that involve Chinese capital, which may lead to a revision of the approach to reducing concessional lending and direct investment.

While anti-Chinese sentiments are regularly employed to reach political goals, all protest actions and rallies have usually an additional element driving them. Serving as a release for pent up social grievances and demands, they bring pressing issues to the attention of the authorities, with the potential of escalating into social unrest. They can also significantly destabilize social and economic conditions or lead to political crises if they are ignored and left unmitigated.

However, sometimes such sentiments and protests can also benefit national interest in unexpected ways. There is a prevailing view in Central Asia that Chinese investors and businessmen favor Chinese labor in their hiring practices, but the Australian Dirk van der Kley (2020), while conducting field research in Kyrgyzstan and Tajikistan, identified a different dynamic. He observed that Chinese investors adopt more localized hiring practices due to local and government pressure as well as the increasing costs of Chinese labor:

“In Kyrgyzstan, pressure usually takes the form of protests and blockades at the project site. Every major Chinese investment in Kyrgyzstan has been subject to protests that can turn violent [...]. Civil society groups, particularly unions, have been at the center of many of the protests against Chinese projects in Kyrgyzstan. They are organized and mobilized well. These protests sometimes are a part of political battles between regional Kyrgyz elites, but they build on very real distrust and anger at Chinese-owned and other foreign-owned projects in the country. Regardless of the drivers of the protest, the reality remains that constant protests at a site do seem to have a mobilizing effect on Chinese company hiring practices” (ibid.).

Van der Kley points out how these factors led to a massive restructuring of the labor force in the largest Chinese investment in Kyrgyzstan, the Zhongda Oil Refinery:

“The project was dogged by protests over the lack of opportunities for locals. In 2013, as construction was nearing completion, the split was 30 percent locals, 70 percent Chinese. The company has actively tried to change this. In 2014 the company sent 100 Kyrgyz to China Northwestern University for a year of training. These trainees now work at the Zhongda Refinery. The investor is working toward 90 percent local employment. As of March 2016, 67 percent of workers were Kyrgyz citizens” (ibid.).

As a result of mounting pressure, over 60 percent of the workforce in many major Chinese undertakings are today local, with the proportion reaching as high as 80 percent in some cases.

There are also potential negative consequences of such protests. Obviously, anti-China rallies do not necessarily provide a good example of how to resolve domestic issues on the international stage. Protests in the Naryn region of

Kyrgyzstan, for example, derailed the agreement with a Chinese company to build the At-Bashi Special Economic Zone, a trade and logistics center valued at 280 million USD (K-News, 2020). Kyrgyzstan suffered more in the collapse of the deal than China, losing an investment critical to the Central Asian republic. However, the case shows that there are ways and means to change the terms of Chinese investments and increase potential local gains.

Staying half-committed: The case of Uzbekistan and the EAEU

For years, Russia, in connection with the political establishment of Uzbekistan, has been attempting to draw the country into its sphere of influence. However, during the reign of Islam Karimov, Tashkent distinguished itself with its desire to remain aloof of both Russia and China, and even the Western world (EU and USA). The Uzbek leader was principled and steadfast in this regard, leaving the Collective Security Treaty Organization (CSTO), for example, and blocking some initiatives in the SCO. Discussion of Uzbekistan's membership in the EAEU made little sense to politicians and experts given such a foreign policy. For the Russian Federation, however, it had always been vital to keep Uzbekistan, the most populous Central Asian country, in its sphere of influence, especially when it came to economic matters and issues of national security.

Many experts noted a certain thaw in foreign policy with the change of power in Uzbekistan, particularly regarding the EAEU, with Tashkent announcing its willingness to consider accession after the transition to the Shavkat Mirziyoyev regime. Uzbekistan initially declared its readiness for full membership, though this was later scaled back to the more modest ambition of securing an "observer" status (Podrobno.uz, 2019; Forbes.uz, 2020).

This provided numerous benefits to Uzbekistan while also limiting its economic obligations to the Union. A particular advantage was its ability to reach an agreement with Rosatom, the Russian State Atomic Energy Corporation, on financing a nuclear plant near lake Tuzkan in the Jizzakh region of Uzbekistan. Construction is set to begin in 2022. Shavkat Mirziyoyev, the President of Uzbekistan, approved nuclear power development as a key strategy for 2019-2029, with ambitions to build and operate a 2.4-gigawatt nuclear power plant. Some experts consider, quite reasonably, that Uzbekistan's decision to become an "observer" in the EAEU was conditioned on Russia's agreement to build a

nuclear power plant, an ambition that officially was justified with economic and environmental reasons, but that also included political motives and was regarded as a matter of influence and prestige (CAAN, 2020).

Large energy projects can provide geopolitical benefits as the agreements between suppliers and buyers can span 30 to 40 years, strengthening bilateral ties. Providing nuclear cooperation to Uzbekistan in exchange for its accession to the EAEU may help solidify Russia's position in Uzbekistan. For Uzbekistan, on the other hand, such a project will not only make it self-sufficient in energy and strengthen energy security, but also allow it to exert influence on energy matters across Central Asia. By reducing dependence on natural gas, which accounts for 70 per cent of electricity production in the country, the project will also increase capacities for export, including to neighboring countries (CAAN, 2018).

The agreements on nuclear power plant construction in Uzbekistan also indirectly affect long-standing water and energy conflicts between Uzbekistan and its neighbors Tajikistan and Kyrgyzstan. Tashkent strongly opposed the construction of hydroelectric power plants in these two upstream countries in the Karimov era, due to potential problems with equitable regulation and distribution of water resources and possible environmental impacts. Meanwhile, problems with attracting investors have greatly delayed the construction of the Kambarata and the Rogun hydropower plants in Kyrgyzstan and Tajikistan (Uznews.uz, 2017; Yaran Consulting, 2018). The likelihood of successful implementation is even more questionable in the context of the pandemic and the global economic crisis. Against this background, Kyrgyzstan, Tajikistan, and Kazakhstan are likely to be even more concerned about the environmental impact of a nuclear power plant in Uzbekistan.

It is important to note that observer status at the EAEU does not involve significant obligations and the status can be held over an extended period of time. Tashkent can attend the meetings of the Supreme Council and the Eurasian Intergovernmental Council in accordance with the established procedures, when it is invited. It also has the right to familiarize itself with copies of the EAEU acts on issues of interest, though certain documents, including the confidential papers and those for official use, are restricted (Kun.uz, 2020b). Therefore, Tashkent will benefit from a substantial commitment on the part of Russia without limiting its own political and economic sovereignty. The decision to become an observer as opposed to a full-fledged member will also allow it to continue its active cooperation with European and American partners.

Tashkent's "half measures" and its effort to cultivate warmer relations with the Russian Federation, have resulted in an additional benefit: the production of ventilators, which have become highly sought-after in the context of the accelerating COVID-19 pandemic and the sharp increase in infections throughout the region. Mirziyoyev prudently issued a decree "On the creation of an innovative technopark in the Yashnabad district of Tashkent city" in 2017, exempting its residents from an expansive list of taxes. The project was launched with Russian assistance, particularly from the company Hirana+, and resulted in the production of vital medical equipment within Uzbekistan. There are also plans to scale up production to 500 ventilators and 500 anesthetic and respiratory devices a year, together with expectations to export these products to Tajikistan, Kyrgyzstan, Turkmenistan, and Afghanistan (Sputniknews Uzbekistan, 2020).

Taken as a whole, such agreements may strengthen Uzbekistan's influence throughout the Central Asian region. With the change of government in Uzbekistan, several conclusions can be drawn. First, the political regime and foreign policy can undergo significant changes with a successful transition of power. Secondly, focus on reforms and transparency contributes to efficiency and viability of Uzbek foreign policy initiatives.

Attracting international events: Mixed experience

Large-scale public relations projects – as endeavors to project a certain image – have always been popular in Central Asia. The intent behind these undertakings is usually a mix of political prestige, drawing attention to the host country, stimulating tourism, and attracting additional investment, whether it is in infrastructure or in the real sector of the economy.

However, in some instances like the Kazakh hosting of the EXPO-2017, the reactions were rather critical. Activists and civil society organizations severely criticized Astana for spending 5 billion USD on the event, which was dedicated to the theme "Future Energy". James Palmer, deputy editor at Foreign Policy, noted in his article "Kazakhstan Spent Five Billion on a Death Star and It Doesn't Even Shoot Lasers" that there were few visitors – Kazakhstanis apparently outnumbered tourists at the EXPO by a ratio of 9:1 – despite the immense sums spent on organizing the exhibit. The article questioning the need for the EXPO provoked considerable irritation in the Kazakh capital (Murzakulova, 2017).

Kyrgyzstan was more successful with the World Nomad Games, a much less costly endeavor, in promoting its image. Numerous countries responded positively and with interest in the games held on three separate occasions – in 2016, 2017, and 2018 – in the city of Cholpan-Ata near Lake Issyk-Kul, the flow of tourists and investments increased in their wake. The ratio of Kyrgyzstanis to tourists was more favorable (6:4 in 2018) and the Kyrgyz authorities spent far less (roughly 4.4 million USD), attracting considerable funding by sponsors (roughly 2.4 million USD) (Ibid.; Ulitina, 2018).

One lesson from these examples might be that image events – often disparagingly termed “glamor projects” – should correspond with the spirit and values of host country and be relevant in terms of time and theme. It is possible to stage these events with fewer resources but with more impact in terms of tourism and investment.

Conclusion

The analysis shows that issues of foreign and domestic policy are intertwined and interdependent. Political stability and predictability in the countries of the region determine the inflow of investments. The development of interregional economic ties and promotion of regional cooperation mechanisms can strengthen an effective foreign policy and reduce dependence on main regional powers, Russia and China in case of Central Asia. There are several lessons to be learned from the independent history of the Central Asian countries as well.

First, countries have realized the importance of diversity and the need to have a policy, to borrow Kazakhstan’s phrasing, with “multiple vectors.” Ignoring diversity has exposed regional vulnerabilities, especially against the backdrop of Russia’s confrontation with the West. The growing tensions between the U.S. and China have underlined this weakness in the region’s policymaking. China, for example, has strengthened its position in Kazakhstan to the extent that its ambassador now feels free to comment on the internal political situation in the country, pointing out mistakes made by the Ministry of Health and counting the number of those who have died from Covid-19.

Second, countries have realized the importance of cooperation and coordinated action. If the process of globalization continues to slow, they can find solutions to their problems in regionalization, which is rooted in the need to strengthen regional ties. This resonates in Central Asia even though interregional trade is still stagnant.

Third, in some cases, a policy of “half measures” may fetch investment and satisfy national interests. Being involved but maintaining a certain distance from the activities of organizations like the EAEU can serve as a bargaining chip on investment and financing.

Fourth, carefully considered cooperation with strong geopolitical players in a unique project can effectively anchor cooperation in the long term and provide strategic focus to a bilateral relationship.

Fifth, in exceptional cases, internal political disturbances and protests can impact and alter foreign policy agreements, sometimes in positive ways. It is nevertheless worth remembering that there is a fine line between political machinations and the risk of losing control over mass unrest.

The analysis of good foreign policy practices and strategies in the Central Asian region may contribute to stimulate additional approaches in international relations. In particular, the theory of international relations could benefit from further research and development of a concept of “small state” foreign policy, the essence of which may include several conditions:

- Search for a balance to diversify foreign policy and foreign economic relations, with emphasis on cooperation with countries that do not pursue certain geopolitical goals and do not participate in the confrontation between global powers.
- Careful participation in geopolitical projects proposed by big players, taking into account the national interests of the country. For this, there is a need to develop clear national interests, not of an abstract, but of a concrete and more practical nature.
- Maintenance and financing of domestic national “think tanks”, which could serve as a compass in the increasingly complicated and aggravated international relations.
- International relations scholars could propose a set of mechanisms in foreign policy to achieve such goals, among which there may be a policy of “half-measures”, domestic political technologies in the form of protests, as well as adequate attention to foreign policy events.

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