

GLOBAL AND REGIONAL ORDER

THE REMAKING OF SOUTH ASIA

Geopolitical Implications of the Covid-19 Pandemic

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While South Asia 1.0 was shaped by the conflict between India and Pakistan, South Asia 2.0 will be shaped by the rivalry between India and China and is likely to see an increasing plurality of new sub-regional initiatives competing with established structures like SAARC.



Chinese investments in the region may give South Asian countries additional political leverage, but its commitments are no free lunch. Especially smaller states might initially see new opportunities, but they will also face challenges in attempting to maintain a balance between the major powers.

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Geopolitical Implications of the Covid-19 Pandemic



South Asian societies have been suffering due to weak public healthcare systems and insufficient economic resilience. The Covid-19 pandemic has also demonstrated the weakness of regional institutions like the South Asia Association for Regional Cooperation (SAARC) in coping with common cross-border challenges. The fight against the pandemic may act as an accelerator in the already ongoing geopolitical restructuring of the region. Inadequate public health systems in most South Asian countries will offer China a perfect entry point in the post-Covid era, with investments in projects like Digital Silk Road or the Health Silk Road.



For smaller countries like Nepal that have experienced interventions by the regional power India, which has been the predominant power in their external relations so far, this might provide new opportunities. However, since South Asia 2.0 will be shaped by Sino-Indian rivalry rather than the India-Pakistan conflict that dominated South Asia 1.0, it also comes with a challenge to the balance-of-power equation. Due to existing political cleavages, the region will likely see an increasing plurality of new sub-regional initiatives. Countries in the region may benefit from this through infrastructure investments, but these might end up primarily improving vertical connectivity with China and India, but not necessarily horizontal cooperation with other countries in the region.

Further information on the topic can be found here:
<https://www.fes.de/referat-asien-und-pazifik>

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1 INTRODUCTION¹

South Asia is among the regions of Asia that have been most severely affected by the Covid-19 pandemic. The lack of public health systems and inadequate economic resilience have brought enormous suffering for South Asian societies. India's gross domestic product (GDP) is forecasted to contract by 7.7 percent in fiscal year 2020–21.² The Covid-19 pandemic has also once again demonstrated the weakness of the South Asia Association for Regional Cooperation (SAARC) when it comes to coping with common cross-border challenges.

But the pandemic also has a geopolitical and systemic dimension which may have long-term repercussions for South Asia as well. The argument is that the fight against the pandemic has opened another chapter in the ongoing rivalry between India and China in South Asia and will accelerate the restructuring of the region already under way. The conventional understanding of the region that developed after decolonisation can be described as »South Asia 1.0«. Politically the region was shaped more by bilateral conflicts between India and its neighbours than by their joint commitment as members of SAARC. At the societal level, the region was, and still is, characterised by cultural syntheses and cross-border linkages in language, religion, and ethnicity. The future vision can be termed »South Asia 2.0«, and will be marked by competition between India and China as well as new forms of sub-regional collaboration. Increasing nationalist tendencies in many countries may weaken some of the traditional cultural cross-border linkages. This also poses a challenge to smaller countries like Nepal, which are finding themselves forced to adapt to the new geopolitical environment.

In order to elaborate this argument, this paper first looks at the historical development of the concept of South Asia. The following sections highlight aspects of South Asia 1.0, drivers of change, new features characterising South Asia 2.0, and some potential new challenges facing countries like Nepal.

2 FROM BHARAT AND HINDOSTAN TO SOUTH ASIA

Generally, regions are socially constructed entities that may be based on geographical, social, or political delimitations. As a distinct conceptual construct, »South Asia« only came into existence after the decolonisation of British India in 1947. Before that, the geographical region of the Indian subcontinent was defined by other categories, notions and concepts.

Historically, this part of the world was referred to as »India« by Greek and Latin authors and as »Hindustan« by Persian scholars.³ The terms derive from the Indus River and denote a whole host of territories. This terminology was adopted on European maps, which referred to the subcontinent as »Hindustan« and/or »India.«⁴ Sanskrit texts from the subcontinent, like the Puranas, use the term »Bharat«. But this refers to a societal order and not a territorial or a political entity. It was only in the 19th and 20th centuries that nationalist writers in India started to link »Bharat« to an ethnic concept and territory.⁵ At the time of independence, various names like »Bharat, India, Al-Hind and Hindustan were in currency to designate the Indian subcontinent.«⁶

The birth of South Asia was mostly driven by external factors rather than internal developments. The concept of South Asia emerged in the context of the Cold War and was closely interlinked with the development of Area Studies at universities in the United States.⁷ In contrast to the overall matrix of strategic deliberations in the United States at the time, there was scarcely any interest in closer regional cooperation in South Asia itself in the 1950s.

After the decolonisation of India, Pakistan, and Sri Lanka in 1947/48, all the countries on the subcontinent saw themselves faced with similar challenges in terms of economic and social development. One of the earliest attempts to deal with these challenges was the »Colombo Plan for Co-operative Economic Development in South and South-East Asia«, which was initiated by the Commonwealth in 1951. India's relations with its neighbours intensified through the Indian Technical and Economic Cooperation (ITEC) programme that was launched in 1964. But these efforts were not to be the seedbed for a concept of regionalism. This even though Prime Minister Jawaharlal Nehru was a strong proponent

¹ The paper addresses events up until the beginning of 2021.

² Vikas Dhoot, GDP likely to contract by 7.7 % this fiscal, says government, *The Hindu*, 8 January 2021 <https://www.thehindu.com/business/Economy/indias-real-gdp-estimated-to-contract-by-77-in-2020-21/article33521311.ece>.

³ Catherine Clémentin-Ojha, »India, that is Bharat...: One Country, Two Names, *South Asia Multidisciplinary Academic Journal (Samaj)*, 10, 2014, <http://journals.openedition.org/samaj/3717> (Accessed on 8 January 2020), p. 1.

⁴ A small sample of maps from the early European period can be found in Joseph E. Schwartzberg, *A Historical Atlas of South Asia*, New York, Oxford: Oxford University Press 1992, pp. 51–52.

⁵ Clémentin-Ojha (2014), p. 4.

⁶ *Ibid.*, p. 2.

⁷ For the historical development see for instance Maureen L.P. Patterson, *Institutional Base for the Study of South Asia in the United States and the Role of the American Institute of Indian Studies*, in: Joseph W. Elder, Edward C. Dimock, Jr., Ainslie T. Embree (eds.), *India's Worlds and U.S. Scholars, 1947–1997*, New Delhi: Manohar, American Institute of Indian Studies 1998, pp. 17–108.

of Asian solidarity. Nevertheless, he did not look upon the neighbouring region as »South Asia«.⁸

3 SOUTH ASIA 1.0: SAARC VS. INDIA-PAKISTAN RELATIONS

The creation of the South Asia Association for Regional Cooperation (SAARC) in December 1985⁹ was the first noteworthy indication that regionalism was something more than a mere proliferation of bilateral relations. The attributes and failures of this South Asia 1.0 have been analysed in great detail elsewhere. The most obvious failure was the lack of political commitment, as reflected by the low number of annual summits. Ongoing bilateral conflicts between India and its neighbours spilled over into the SAARC process, explaining why only 18 annual summits took place in the 31-year period between 1985 and 2015. SAARC summits have always been platforms for informal meetings between heads of states and governments and have produced new bilateral agreements – for instance between India and Pakistan in the 1990s. But the lack of political commitment and capacities hindered progress in regional cooperation. SAARC has started initiatives in various fields, but critical observers have always held that the organisation produces »reports, but no results«. So, in the eyes of the public and academia, South Asia has remained a synonym for the Indian-Pakistani rivalry rather than for SAARC and the idea of regionalism.

Economically, South Asia was shaped by the paradox that it was both among the world's fastest-growing regions, but also the poorest in global comparison. Agreements like the South Asian Free Trade Area (SAFTA) from 2004 were unable to boost economic collaboration. In 2015 South Asia was still the least integrated Asia-Pacific region with an intra-regional trade of only six percent.¹⁰ There have been small economic successes like the SAARC Development Fund (SDF), which finances cross-border projects. But the overall economic impact of SAARC has remained limited.

South Asia also features a transnational societal component. The region has often been characterised as a »civilizational entity«.¹¹ Shared cultural norms and values range from mar-

riage customs to culinary habits and musical traditions. The ubiquity of Hindu traditions has influenced other religious communities and fostered syncretic practices.¹² These have been formed in cultural encounters that have crossed boundaries and territories of state structures wherever they have existed. In the modern setting, »tea, cricket, and Bollywood« are often forwarded as common cultural symbols of South Asia.¹³

Acknowledgement of cultural diversity and plurality has also had a prominent place, for instance, in the manifesto of People's SAARC, a grouping of civil society organisations established in the mid-1990s: »... [o]n the other hand, the unique diversity of our region in all aspects has enriched the common heritage, and we celebrate a sustained history of mutual respect for one another.«¹⁴ Concepts like »Southasia«, proposed by K.M. Dixit, underline the transnational character of the region, which, it has been argued, should be »seen more as a sensibility than a geographical region, with empathy residing as the value at its core.«¹⁵

Although South Asia 1.0 lacked political commitment, the notion and understanding of the region gained strong intellectual backing. The authors of the 37 chapters in the volume »South Asia 2060«¹⁶ would appear to tacitly agree with the assumption that the region and its different forms of regionalism will still be present in 2060. However, the concept of South Asia remains mostly a political and academic vision which has yet to take root in the respective societies of the region.

4 TOWARDS SOUTH ASIA 2.0: DRIVERS OF CHANGE

Various developments in recent years at the global, regional, and national levels have sparked a change in South Asia 1.0. At the global level, this has been China's rise and the implications of BRI for South Asia. At the regional level, it has been the process of severing links that has been going on between India and Pakistan since 2016. At the national level, resurgent nationalism and authoritarianism are indeed strengthening national identities, but at the same time challenging cultural diversity.

⁸ Jawaharlal Nehru, *India's Foreign Policy. Selected Speeches, September 1946 – April 1961*, New Delhi 1961. Neither the table of context nor the index has any reference to the term »South Asia«.

⁹ The founding members of SAARC were Bangladesh, Bhutan, India, the Maldives, Nepal, Pakistan, and Sri Lanka. Afghanistan joined SAARC in 2007. For the historical development of the South Asia Association for Regional Cooperation (SAARC) see Arndt Michael, *India's Foreign Policy and Regional Multilateralism*, London: Palgrave Macmillan 2013.

¹⁰ The World Bank, *The Potential of Intra-regional Trade for South Asia*, <http://www.worldbank.org/en/news/infographic/2016/05/24/the-potential-of-intra-regional-trade-for-south-asia>. Accessed on 25 January 2018; The Asia Foundation, *Intra-Regional Trade in South Asia*, p. 1. <https://asiafoundation.org/resources/pdfs/IndiaRegionalTrade.pdf>. Accessed on 25 January 2018; United Nations Economic and Social Commission for Asia and the Pacific (ESCAP), *Unlocking the Potential of Regional Economic Cooperation and Integration in South Asia. Potential, Challenges and the Way Forward*, 2017, p. 1.

¹¹ Sunil Khilnani, *The Idea of India*, London: Hamish Hamilton, 1997.

¹² Aminah Mohammad-Arif, Introduction. *Imaginations and Constructions of South Asia: An Enchanting Abstraction?* *South Asia Multidisciplinary Academic Journal*, 10 (2014), <http://journals.openedition.org/samaj/3800> (Accessed 18 February 2020), p. 10–11.

¹³ *Ibid.*

¹⁴ Cited in *Ibid.*, p. 10.

¹⁵ Kanak Mani Dixit, *Federalism on the Road: Region and Regionalism*, in Moeed Yusuf, Adil Najam (eds.), *South Asia 2060. Envisioning Regional Futures*, London, New York: Anthem Press 2013, p. 34.

¹⁶ Moeed Yusuf, Adil Najam (eds.), *South Asia 2060. Envisioning Regional Futures*, London, New York: Anthem Press 2013.

4.1 THE GLOBAL DIMENSION: CHINA AND THE IMPACT OF BRI IN SOUTH ASIA

Few other regions have been so affected by the Chinese BRI as South Asia – both positively and negatively. On the positive side, BRI projects are a welcome investment for many South Asian countries. Pakistan, which is one of China's few strategic partners, has received the lion's share of investment so far, with official figures and estimates ranging between 46 and 100 billion US dollars.¹⁷ Chinese infrastructural investment in Sri Lanka is estimated at around 12.1 billion US dollars for the period between 2006 and 2019.¹⁸ During the visit paid by President Xi to Bangladesh in 2016, China pledged 24 billion US dollars in investments for infrastructural and energy projects.

On the other hand, the negative impact of BRI investments, such as rising debt levels, a lack of transparency or unclear outcomes in terms of local employment have been the other side of the coin in South Asia. In Pakistan, lack of transparency surrounding BRI is a source of ongoing controversy between the government and opposition.¹⁹ Sri Lanka was also the first country in the region where China met with criticism after the change of government in the former country in 2015. Thanks to BRI investments, China became Sri Lanka's single largest lender, holding 12 percent of the country's total debt.²⁰ In 2017 the Sri Lankan government had to enter into a treaty with a term of 99 years providing for the port of Hambantota, which had been built with Chinese investment, to be handed over to the Chinese.

From the Chinese perspective, South Asia aptly reflects both the successes and failures of its BRI strategy. On the positive side, the China-Pakistan Economic Corridor (CPEC) is the single largest project of BRI. Moreover, Pakistan's strategic importance has increased, because it is one of the few countries in which China's maritime and land belt connectivity projects converge. On the negative side, India is the most prominent country in Asia that constantly refuses to participate in the BRI. India's main criticism, unique as it were, is that the CPEC runs through Kashmir, which is officially claimed by New Delhi as Indian territory. Moreover, India is also criticising the lack of transparency in the BRI projects and the dangers of rising debt for recipient countries.

BRI investments since 2013 have also shifted the regional geopolitical matrix in favour of China. But it would be misguided to argue that India has lost influence in South Asia only because of BRI. China had already been investing

in the region and had been expanding its ties with India's neighbours long before BRI. Moreover, India's neighbours have a long tradition of playing the ›China card‹ in order to counteract India's influence. So BRI may have accelerated a process that has already existed in South Asia. For the smaller countries, China is seen politically as a more neutral partner compared to India, because there are hardly any major bilateral issues. Economically, China is more attractive than India and BRI has increased its economic attractiveness.²¹

What are the potential implications of BRI for participating countries? Economically, one positive aspect is that infrastructural investments may contribute to better development in the medium to long term. But, on the negative side, the integration of South Asian economies into Chinese value chains will not necessarily lead to spill-over effects encouraging closer collaboration and strengthening intra-regional trade. Politically, Chinese investments and better economic development may lend South Asian countries additional political leverage in their dealings with India. But China's new engagement is no free lunch, tied as it is to rising indebtedness and political commitments.

4.2 THE REGIONAL DIMENSION: THE DE-COUPLING OF INDIA-PAKISTAN RELATION

As already mentioned, the term South Asia is often used as a synonym for the Indian-Pakistani relationship. Although the main issue, i.e. the conflict over Kashmir, lingers on, a further drifting apart rather than rapprochement seems to have become the dominant trend since 2016.

When Indian Prime Minister Modi ascended to power in 2014, he invited all neighbouring countries to attend the inauguration ceremony for his government. Moreover, Modi propagated a ›Neighbourhood First‹ policy, and his surprise visit to Pakistan in December 2015 seemed to herald a new era of bilateral relations. Even after the Pathankot attack in early January 2016, there were signs of cooperation with Pakistan offering its support to India.²²

The rupture in bilateral relations became patently obvious in autumn 2016 in the wake of the Uri attack and India's surgical strikes. India also reacted politically, pulling out of the SAARC summit in Islamabad scheduled for October. Moreover, India used the BRICS (Brazil, Russia, India, China, South Africa) summit in Goa in October 2016 for an outreach of BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation), inviting Afghanistan and the Maldives, which were officially not members of the grouping. This was an obvious attempt to create a ›SAARC minus One‹ format. Since then, the Modi government has devoted more energy to the revitalisation of BIMSTEC rather than to SAARC. Bilateral relations reached a new low after

¹⁷ Andrew Small, *Returning to the Shadows: China, Pakistan, and the Fate of CPEC*. Berlin 2020, GMF Report No. 16, September, p. 8.

¹⁸ Ganeshan Wignaraja, Dinusha Panditaratne, Pabasara Kannangara, Divya Hundlani, *Chinese Investment and the BRI in Sri Lanka*, London: Chatham House Research Paper, March 2020, p. 3.

¹⁹ Small (2020).

²⁰ Dipanjan Roy Chaudhury, *Chinese investments in Sri Lanka compromises Colombo's sovereignty*, *The Economic Times*, 26 December 2019, https://economictimes.indiatimes.com/news/defence/chinese-investments-in-sri-lanka-compromises-colombos-sovereignty/articleshow/72975247.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst (Accessed 28 December 2019).

²¹ Christian Wagner, *The Role of India and China in South Asia*, in: *Strategic Analysis*, Volume 40, Issue 4, July-August 2016, pp. 307–320.

²² Baqir Sajjad Syed, *FO offers cooperation to Delhi over terrorism*, *Dawn*, 3 January 2016, <http://www.dawn.com/news/1230407/fo-offers-cooperation-to-delhi-over-terrorism> (Accessed 3 January 2016).

India's decision to turn the state of Jammu and Kashmir into two Union territories in August 2019. Pakistan withdrew its offers for a dialogue and, together with China, started a diplomatic initiative to put the blame on India.²³

4.3 THE NATIONAL DIMENSION: NATIONALISM VS. DIVERSITY

The idea of cultural diversity has always been challenged by social, economic, and political realities in South Asia. Violent minority conflicts have been a constant feature in the political development of the region since the Second World War. The rise of nationalist ideologies and populist leaders will put mounting pressure on cultural diversity. Indian Prime minister Narendra Modi and Pakistani Prime minister Imran Khan have promised to build a »New (Naya) India« and a »New (Naya) Pakistan«. The election of President Rajapakse in Sri Lanka and the autocratic tendencies of Sheik Hasina in Bangladesh may usher in a new phase for »hybrid« democracies in South Asia, in which cultural diversity and political pluralism may enjoy less acceptance.

5 SOUTH ASIA 2.0: NEW FAULT LINES

South Asia 2.0 will be shaped by new constellations. First, the rivalry between India and China will become more dominant and will overlie traditional bilateral conflicts between India and its neighbours. Second, new sub-regional initiatives and organisations will become more important and be superimposed upon existing structures like SAARC.

5.1 COVID-19 AND THE FUTURE OF CHINA-INDIA RIVALRY IN SOUTH ASIA

The fight against the Covid pandemic has opened another chapter in Sino-Indian rivalry in South Asia.²⁴ China used the pandemic to revitalise its Health Silk Road project, which was devised as far back as 2015. South Asian countries like Bangladesh, the Maldives, Nepal, Pakistan, and Sri Lanka have benefitted from Chinese medical support in the guise of testing kits, personal protective equipment and other medical supplies. Inadequate public health systems in most South Asian countries will offer China a perfect foot in the door in the post-Covid era through investments in health infrastructure.²⁵ In reaction to the pandemic, India has also sent medical supplies and medical teams to all of its SAARC

partners except Pakistan.²⁶ Moreover, the Indian government revitalised SAARC and initiated a Covid-19 Emergency Fund to which all members, except Pakistan, contributed more than 18 million US dollars.²⁷

But India has been hit much harder economically by the pandemic than China. The economic stimulus package instituted by the Indian government was estimated to amount to only about 1.5 percent of its GDP.²⁸ Thus, the gap in national power already existing between India and China will widen as a result of Covid. It is easy to see that this will also affect the geopolitical matrix in South Asia, which will be further tilted against India.

China's growing dominance in the region can also be expected to pose new challenges for South Asian countries in their strategies to balance New Delhi and Beijing. Chinese investments are much greater and affect more parts of state and society. China offers attractive benefits for national elites, for instance with regard to scholarships and higher education. Chinese investment in the public health sector reach large portions of the population. This allows one to predict that China's presence in the respective countries will be more prominent, which will also make it more difficult to balance Chinese power through relations with other countries.

5.2 SUB-REGIONAL COOPERATION, BILATERALISM, TRILATERALISM

South Asia 2.0 will also be characterised by a different set of networks, for instance sub-regional initiatives, new bilateral formats initiated by China and new forms for trilateral cooperation encompassing India and external powers.

SAARC has already promoted the development of sub-regional groupings. The Bangladesh, Bhutan, India, Nepal (BBIN) Initiative has its origins in the SAARC process and aims to make regional cooperation more effective with the creation of sub-regional formats. The main outcome so far is the BBIN Motor Vehicles Agreement (MVA), signed in 2015. The original idea was to have a similar agreement at the SAARC level, but this failed because of differences with Pakistan. In 2017, Bhutan backed out of the agreement and until 2019 the three other countries had still not implemented the agreement, which aims to improve road connectivity and transport corridors.²⁹ Another sub-regional format started

²³ Salman Masood, Maria Abi-Habib, Pakistan Leader Vents Frustration at India: »No Point in Talking to Them«, *The New York Times*, 21 August 2019, <https://www.nytimes.com/2019/08/21/world/asia/india-pakistan-kashmir-imran-khan.html> (Accessed 21 August 2019).

²⁴ Jyoti Malhotra, Covid has brought back Chinese whispers in Sri Lanka, Nepal. Is India listening? <https://theprint.in/opinion/global-print/covid-has-brought-back-chinese-whispers-in-sri-lanka-nepal-is-india-listening/414468/> (Accessed 5 May 2020); Suhasini Haidar, Aid offers from India, China galore, *The Hindu* 14 June 2020, <https://www.thehindu.com/news/national/aid-offers-from-india-china-galore/article31828030.ece> (Accessed 14 June 2020).

²⁵ Deep Pal, Rahul Bhatia, The BRI in Post-Coronavirus South Asia, New Delhi 2020: Carnegie Endowment for International Peace, p. 2.

²⁶ Byron Chong, Pandemic and Geopolitics: China and India's response to COVID-19, Singapore 2020: National University, <http://lkyspp.nus.edu.sg/cag/publications/details/china-india-brief-156#guest> (Accessed 14 April 2020).

²⁷ Kallol Bhattacharjee, Will Modi's COVID-19 fund initiative revive SAARC? *The Hindu*, 20 March 2020, <https://www.thehindu.com/opinion/op-ed/will-modis-covid-19-fund-initiative-revive-saarc/article31111318.ece> (Accessed 20 March 2020).

²⁸ *Financial Times*, India is ill-equipped to live with the virus, 10 June 2020.

²⁹ Bipul Chatterjee, Arnab Ganguly, Time to Implement the BBIN Motor Vehicles Agreement, *The Economic Times*, 12 February 2020, <https://economictimes.indiatimes.com/blogs/et-commentary/time-to-implement-the-bbin-motor-vehicles-agreement/> (Accessed 12 February 2020).

up outside the SAARC process in 2012 involves maritime cooperation between India, Sri Lanka and the Maldives.³⁰

BIMSTEC, which also included ASEAN members like Myanmar and Thailand, receives its strongest political support from the Indian government. From the Indian perspective BIMSTEC underlines India's Act East Policy as formulated by Prime Minister Modi. Another project has been the Bangladesh China India Myanmar (BCIM) corridor, which dates back to pre-BRI times. Initially, the government in New Delhi and Beijing viewed this project as another attempt to improve their regional cooperation. But China put the BCIM under the BRI once the project was officially launched. Because India refused to participate in BRI, BCIM was put on the back-burner. In the wake of the second BRI forum in 2019, China took BCIM off the list of BRI projects.³¹ But prospects of revitalising the corridor have remained dim since the crisis in Sino-Indian relations in the summer of 2020.

These different initiatives may not have produced any noteworthy results by the end of 2020. Nevertheless they may also contribute to a re-shaping of South Asia, in which institutions like SAARC perhaps lose relevance. Sub-regional groupings like BBIN may produce better results and contribute to economic development. But they may also strengthen the sub-regional level at the expense of the wider South Asia perspective.

China and India have also initiated new formats in their relations with South Asia. Following the launch of BRI, China also intensified its links to the region. So far, BRI offers a powerful alternative to regional organisations because it creates more economic gains for participating countries. There have been proposals to upgrade China's observer status in SAARC into full membership. But India and Bhutan can be expected to quash this proposal.

China has also started a series of different tri- and multilateral dialogues with South Asian countries. In 2017, Beijing established a dialogue format with Afghanistan and Pakistan aiming at bringing Afghanistan closer to BRI and discussing common security challenges.³² During the crisis with India over Ladakh/Aksai Chin in summer 2020, Beijing held a joint meeting with Afghanistan, Nepal, and Pakistan to encourage the South Asian countries to »step up cooperation for regional peace and security, and work together to curb the

coronavirus«.³³ In November 2020 China staged a meeting with Pakistan, Bangladesh, Nepal, and Sri Lanka »to build up a »political consensus« in efforts to contain the Covid-19 pandemic and boost economic development.«³⁴

These initiatives underscore that China prefers traditionally bi- or mini-lateral formats over regional institutions. They also indicate that China is willing to intensify the dialogue with like-minded countries in South Asia on its own terms.

India has reacted to China's growing presence in the region. The government in New Delhi has initiated new forms of collaboration with external powers in South Asia, for instance with the United States as well as Japan in Sri Lanka and Afghanistan. This is an interesting departure from India's traditional South Asian policy, which has for many long years been critical of any engagement on the part of external powers in the region.

6 NEW OPPORTUNITIES AND CHALLENGES FOR SMALLER COUNTRIES: THE CASE OF NEPAL

The geopolitical restructuring of South Asia harbours both new opportunities and challenges for the smaller countries in the region. Nepal has the longest history of dealing with giant neighbours to the North and South. As a landlocked country, Nepal has traditionally been dependent on India.

The Friendship Treaty of 1950 as well as special agreements have put curbs on Nepal's foreign policy to the benefit of India. Since the 1960s, governments in Kathmandu have time and again played the »China card« in order to diminish India's influence. In 1988, arms purchases by Nepal from China and controversies over the renewal of the trade and transit treaty strained relations with India. The following economic blockade imposed by India in 1989 paved the way for the democratic transition in Nepal in 1990.

Moreover, Nepal has experienced more interventions by India in its domestic politics than any other country, starting with the Kathmandu agreement in 1951 up to New Delhi's mediating efforts in the civil war between 1996 and 2006. This has led to an ambivalent constellation. On the one hand, the major Nepali parties have established close links with India. On the other hand, there is a controversial debate both between and within the parties on the role of India in Nepal. India's intervention in favour of the Madheshis in 2015 and

³⁰ R. K. Radhakrishnan, India, Sri Lanka, Maldives to sign agreement on maritime cooperation, *The Hindu*, 15 December 2012, <https://www.thehindu.com/news/international/india-sri-lanka-maldives-to-sign-agreement-on-maritime-cooperation/article4203041.ece> (Accessed 15 December 2012).

³¹ Atul Aneja, Bangladesh-China-India-Myanmar (BCIM) Economic Corridor no longer listed under BRI umbrella, *The Hindu*, 28 April 2019, <https://www.thehindu.com/news/international/bangladesh-china-india-myanmar-bcim-economic-corridor-no-longer-listed-under-bri-umbrella/article26971613.ece> (Accessed 28 April 2019).

³² Naveed Siddiqui, Trilateral dialogue: Pakistan, China, Afghanistan agree on »enhancing counterterrorism cooperation«, *Dawn*, 8 September 2019, <https://www.dawn.com/news/1504054> (Accessed 26 November 2020).

³³ Keegan Elmer, China holds meeting with Pakistan, Nepal and Afghanistan as tensions simmer with India, <https://www.scmp.com/news/china/diplomacy/article/3095028/china-holds-meeting-pakistan-nepal-and-afghanistan-tensions> 30 July 2020 (Accessed 26 November 2020).

³⁴ Elizabeth Roche, India, China flex muscle to gain supremacy in post-covid South Asia, <https://www.livemint.com/news/world/india-china-flex-muscle-to-gain-supremacy-in-post-covid-south-asia-1160525695535.html>, 13 November 2020 (Accessed 13 November 2020).

the following blockade of the border stirred again anti-India sentiments in Nepal.

6.1 NEW OPPORTUNITIES

Hence, it was not difficult for China to gain more influence in Nepal. In 2014, China became the largest investor in the Himalayan country for the first time. In 2015, Nepal joined the Belt and Road Initiative (BRI)³⁵ and China stepped up its energy supplies during the border blockade.³⁶ In 2015–16, Nepal received 42 percent of its foreign direct investment (FDI) from China. China's development assistance was 38 million US-Dollar in 2014–15, which was larger than India's 22 million US-Dollar.³⁷ During the visit of Nepal's Prime Minister Oli to Beijing in 2018, both sides agreed on the Trans-Himalayan Multi-Dimensional Transport Network that included cross-border connectivity of railway, road, and transmission lines.³⁸ China also granted Nepal access to several of its dry and seaports. This has reduced Nepal's dependence on land access only through India, though the routes through China are multiple times longer.

China has also intensified its military collaboration with Nepal, traditionally an exclusive sphere of Indian influence. Nepal may well not only be an economic and political theatre in India's and China's rivalry over South Asia, as the conflict also features a cultural component in that both Asian giants are also vying for influence over Nepal's Buddhist heritage.

During the stand-off between Indian and Chinese troops in the summer of 2020, Nepal adopted a new national map, redrawing its national boundaries to the detriment of India. This underlined the new self-confidence of the government in Kathmandu in its dealings with India.

6.2 NEW CHALLENGES

During the period of South Asia 1.0, there was a constant debate over India's status as a hegemon in South Asia. The debate was often based on false premises because India simply lacked the capacities needed to establish any long-term form of hegemony, for instance by providing public goods to the region. This may change in South Asia 2.0, as China has both the capacities and willingness to provide public goods not only in the guise of infrastructural investments like BRI and by setting technical standards but also with related projects like Digital Silk Road (DSR) or the Health Silk Road. Both

India and China are pursuing a sort of vaccine diplomacy in South Asia. But India only has a vaccine, whereas China has both a vaccine and a Health Silk Road initiative. Hence, China's footprint may be much more effective than India's footprint probably ever was. This has created new benefits which are welcomed by the smaller states. At the same time, however, options for balancing strategies may become narrower due to the political and economic losses involved. BRI and related projects are bilateral initiatives which do not necessarily create incentives for regional collaboration. Moreover, China has been establishing its own regional networks with like-minded countries. In such a setting, classical counterbalancing strategies, for instance allying with other powers or regional groupings, may be more difficult to achieve. Balancing China by cosying up to India may lead to bigger losses for respective economies than the other way round, as China offers more opportunities.

7 SOUTH ASIA 2.0: CONNECTIVITY WITHOUT REGIONALISM

The systemic repercussions of the Covid-19 pandemic will also be felt in South Asia. The fight against the pandemic may act as an accelerator in the already ongoing geopolitical restructuring of the region. In the aftermath of the crisis, capacities will be needed for economic reconstruction and an improvement of public health systems. Given that economic imbalances between India and China have widened since the pandemic, it would appear obvious that Beijing's position in South Asia will be strengthened.

South Asia 2.0 will be shaped by the rivalry between India and China rather than by the India-Pakistan equation. Countries in the region may benefit because infrastructural investments will improve connectivity with China, but not necessarily cooperation with neighbouring countries other than China. So future concepts of regionalism may emanate from different sub-regional forums rather than from traditional organisations like SAARC.

³⁵ Atul Aneja, Nepal to join Silk Road Economic Belt through Tibet, *The Hindu*, 3 January 2015, <http://www.thehindu.com/news/international/south-asia/nepal-to-join-silk-road-economic-belt-through-tibet/article6749342.ece> (Accessed 3 January 2015).

³⁶ Now, China offers to supply LPG to Nepal, *The Hindu*, 16 November 2015, <http://www.thehindu.com/news/international/now-china-offers-to-supply-lpg-to-nepal/article7884232.ece> (Accessed 16 November 2015).

³⁷ Rajiv Bhatia, Joost van Deutekom, Lina Lee, Kunal Kulkarni, Chinese investments in Nepal, <https://www.gatewayhouse.in/chinese-investments-nepal-2/> 16 September 2016 (Accessed 17 September 2016).

³⁸ Atul Aneja, Oli's China Visit to focus on Connectivity, *The Hindu*, 30 June 2018, <http://www.thehindu.com/news/international/olis-china-visit-to-focus-on-connectivity/article24212790.ece> (Accessed 30 June 2018); Nicola P. Contessi, China Opens Border Connections to Nepal, <https://yaleglobal.yale.edu/content/china-opens-border-connections-nepal>, 31 January, 2019 (Accessed 1 February 2019).

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