

Indo-Nepal Dynamics vis-à-vis China

Wini Fred Gurung and Yogesh Joshi

Summary

The increasing Sino-Nepal ties accompanied by domestic and historical factors have affected the age-old Indo-Nepal relationship. With India's position already weakened in South Asia, losing Nepal to China will be a massive setback for its 'neighbourhood first' policy.

Introduction

In October 2019, Nepal and China entered a new phase in their bilateral relationship. President Xi Jinping became the first sitting Chinese leader to pay a state visit to the Himalayan Kingdom after a hiatus of 23 years.¹ Consolidating the growing Sino-Nepal cooperation, Xi and Nepal's Prime Minister K P Sharma Oli signed a total of 20 agreements spanning sectors such as health, infrastructure and tourism. Additionally, Xi pledged an assistance of US\$500 million (S\$708 million) for the next two years to assist the Nepalese economy. Also, steadfast in his commitment to helping Nepal transform from a landlocked to a 'land-linked country,' Xi announced the start of a feasibility study for the landmark transboundary Himalayan railway connecting Nepal and China.

India, Nepal's closest neighbour, closely followed Xi's visit. As Nepal seeks an alternative to counterbalance its dependence on New Delhi, China is tightening its grip on Nepal. This transformation in the Sino-Nepal relationship has huge implications for India's position not only in Nepal, but also for Sino-Indian rivalry in South Asian geopolitics.

Changing Contours of Indo-Nepal relations

India and Nepal share a deep-rooted relationship based on cultural, historical and economic ties. A colonial protectorate under the Treaty of Sugauli (1816) till 1923, Nepal continued its association with independent India by signing the 1950 Treaty of Peace and Cooperation. While the treaty gave India a decisive say on Nepalese politics, provisions like free movement across borders and the permit to work and stay in each other's countries increased economic opportunities for an underdeveloped Nepal. According to the 2011 census, 3.9 million Nepalis resided in India whereas four million Indians lived in Nepal.² Sandwiched between India and China, Nepal's geographical isolation and lack of proper connectivity render it highly dependent on India for trade and commerce, thus limiting its engagement with the rest of the world. At present, India remains its largest trading partner; total bilateral trade between the two South Asian neighbours stands at US\$8.2 billion

¹ Harsh V Pant, 'China-Nepal ties are deepening. What can India do?', *DailyO*, 17 October 2019. <https://www.dailyo.in/politics/china-nepal-relations-xi-jinping-tibet-hong-kong-protests/story/1/32094.html>

² 'Population Enumeration Data (Final Population)', *Ministry of Home Affairs, India*, 2011. http://censusindia.gov.in/2011census/population_enumeration.html

(US\$11.6 billion).³ India accounts for 30 per cent of the total foreign direct investment (FDI) into Nepal, making it one of the primary investors in the country.⁴ However, despite such historical and economic engagement, the relationship has plummeted in the last decade due to growing friction between the two countries. India's efforts to keep Nepal under its sphere of influence are often perceived by the latter as both colonising and patronising. A number of factors explain the recent downward spiral in the Indo-Nepalese relationship.

First, Nepal has continuously accused India of meddling in its domestic affairs. India was supportive of Nepal's transition from a monarchy to a democratic republic. Apprehensive of the growing Maoist insurgency in its body-politic, New Delhi has continuously undermined the rise of communist parties in Nepal. Therefore, there has not been significant progress in the Indo-Nepal relationship under the present Nepalese government headed by the Communist leader Oli.

Secondly, ethnic tensions within Nepal have also contributed to the worsening of the bilateral relationship. Under the new democratic regime in Nepal, the Madhesi of the Terai areas feel highly discriminated. When Nepal adopted a new constitution in 2015, the Madhesi resented it for its failure to provide adequate economic and political representation to the community. They have also been demanding more provincial autonomy, leading to the creation of a separate Madhes state. Major protests were organised by Madhesi groups in 2015, leading to a trade blockade at the Indo-Nepal border. Already reeling under the destruction caused by a massive earthquake, the consequences for the Nepalese economy were severe. The trade blockade led to a severe deficiency in essential items such as medicines, petroleum products and food. Given India's hostility towards the Communist government in Nepal and its closeness with the Madhesi, Kathmandu perceived both the protests and the ensuing blockade as India's gimmick. The 2015 episode brought back memories of 1989 when India retaliated against Sino-Nepalese military cooperation through a similar trade blockade.

Thirdly, resource conflicts, especially water sharing, are also an issue of contention between India and Nepal. The two riparian states negotiated several bilateral water-sharing treaties like the Sarada Treaty and the Mahakali Treaty. However, Nepal alleges these treaties of being discriminatory and disproportionately favouring India. The agreements remain in deadlock. India has ignored Nepal's frequent pleas to revise them adding to the prevailing distrust between the two countries.

Lastly, territorial disputes have resurfaced as a significant irritant in the Indo-Nepal relationship. India's revised political map showing the disputed area of Kalapani under its territory created massive uproar and protests in Nepal. Twitter hashtag #Backoffindia became a trend on social media accusing India of disrespecting Nepal's territorial integrity. Kathmandu's diplomatic demarche to New Delhi calling for a settlement has not yet been responded to by the latter.

³ 'About Trade and Commerce', *Embassy of India*. <https://www.indembkathmandu.gov.in/page/about-trade-and-commerce/>.

⁴ 'India-Nepal Relations', *Ministry of External Affairs*, September 2019. https://mea.gov.in/Portal/ForeignRelation/India-Nepal_Bilateral_Brief_September_2019.pdf.

Enter the Dragon

Though China and Nepal formally established their diplomatic relations in 1955, the relationship picked up pace only after the 2015 earthquake in Nepal. Beijing's post-disaster diplomacy helped cement the Sino-Nepal relationship. China not only provided assistance of US\$663 million (S\$937.7 million) for the post-earthquake reconstruction process, it also helped Nepal to overcome the trade blockade imposed by India.⁵ Since then, China's investments in Nepal have skyrocketed, making it the largest source of Foreign Direct Investment in Nepal. China has provided Nepal with US\$288 million (S\$407.3 million) to build Pokhara International Airport and US\$102 million (S\$144.3 million) for the Trishuli 3 hydropower project.⁶ China is also Nepal's second-largest trading partner, with total bilateral trade at US\$1.56 billion (S\$2.21 billion) in FY 2017/2018.⁷ After India, it is the second-largest source of tourists in Nepal with about two million Chinese visiting the country every year since 2017.⁸

Nepal has unhesitatingly climbed onto the Chinese bandwagon. Much to New Delhi's annoyance, Nepal signed China's ambitious Belt and Road Initiative (BRI) in 2017. The BRI has opened new avenues for bilateral cooperation between the two countries, the most significant being the Trans-Himalayan Railway Network signed in 2016. The Qinghai-Tibetan Railway will extend to Nepal's border in Kerung, facilitating cross-border economic cooperation.⁹

Nepal has also committed to the 'One China' policy under which it regards Tibet and Taiwan as China's territories. Under China's behest, Nepal has adopted extremely stringent policies against all kinds of anti-China activities by its Tibetan population. Chinese security forces are guiding Nepalese police in surveilling and muting all anti-China sentiments on Nepali soil. Chinese penetration of Nepali security forces is hugely discomforting for India. Nepalese military, which has traditionally maintained a very close relationship with the Indian military establishment, is also increasingly looking towards Beijing for security assistance. It skipped the first joint military exercise hosted by India in September 2018 under the ambitious Bay of Bengal Initiative for Multi-Sectoral and Economic Cooperation while participating in a military drill with China in the same month.¹⁰ In the clash between India and China, Nepal aims to maintain strict neutrality as was evident by its behaviour during the 2017 Doklam crisis.

⁵ 'China pledged the largest foreign aid to Nepal', *The Kathmandu Post*, 24 August 2015.

<https://kathmandupost.com/valley/2015/08/24/china-pledged-largest-foreign-aid-to-nepal>.

⁶ 'The construction of Trishuli 3 B Hydropower project6 Begins', *New Spotline Online*, 10 February 2019.

<https://www.spotlightnepal.com/2019/02/10/construction-trishuli-3-b-hydropower-project-begins/>.

⁷ 'Nepal - Market Overview', *Export.gov*, 8 January 2019. <https://www.export.gov/apex/article?id=Nepal-Market-Overview>

⁸ Naseer A Ganai, 'China's Growing Influence In Nepal Vs India's Soft Power', *The Outlook*, 14 February 2019.

<https://www.outlookindia.com/blog/story/india-news-chinas-growing-influence-in-nepal-vs-indias-soft-power/4039>.

⁹ 'Full steam ahead for Nepal-China railway project through Himalayas', *efe*, 13 Jun 2019. <https://www.efe.com/efe/english/life/full-steam-ahead-for-nepal-china-railway-project-through-himalayas/50000263-3999604>.

¹⁰ Nirmala Ganapathy, 'Nepal skips drill with India but joins one with China', *The Strait Times*, 20 September 2018. <https://www.straittimes.com/asia/nepal-skips-drills-with-india-but-joins-one-with-china>.

Nepal's closeness to China is a marriage of convenience as it strives to distance itself from India's influence. Likewise, China sees this as an opportunity to contain India by increasing its strategic influence in Nepal and the South Asian region.

How will the Sino-Nepal Relations affect India?

Nepal's tilt towards China is a result of its unpleasant historical experiences vis-à-vis New Delhi and is also an effort to reduce its overdependence on India. Today, Nepal's foreign policy is actively pursuing closer strategic integration with Beijing while India is losing its centrality in Nepal's foreign and domestic politics.

Beijing has now upended India as Nepal's primary economic partner. In 2018, China replaced India's National Hydroelectric Power Corporation over a contract to build Nepal's biggest hydropower plant.¹¹ In contrast, India's FDI commitments have also staggered in the last few years from US\$350 million (\$\$495 million) in 2014-15 to US\$18 million (\$\$25.5 million) in 2015-16.¹² China's economic dominance, at present, is unparalleled. India lacks resources to compete with China's aid and investment in Nepal. If India lacks in resources to outcompete China, its over-reliance on soft power diplomacy to maintain ties with Nepal has also become outdated. Chinese cultural diplomacy has piggybacked on its economic assistance, and Nepal is currently witnessing a cultural transformation. Mandarin has been made compulsory in many private schools. Events like orchestral concerts and courses on traditional Chinese medicine are organised frequently to promote Chinese culture. As a setback for India, Nepal has reduced screen space for Bollywood movies and has cancelled hosting several of its award ceremonies.

China's increasing influence in Nepal will also have security implications for India. The BRI projects have hemmed in India from all directions. If on India's western border, the China-Pakistan Economic Corridor has now entered its second phase, the culmination of the China-Myanmar Economic Corridor on the eastern seaboard will allow Beijing's entry into the Bay of Bengal.¹³ The Trans Himalayan Economic Corridor will further erode India's influence in Nepal: the two sides accepted a rail link connecting Kathmandu and the Tibetan town of Gyirong in October 2019. These projects have given China access through the Himalayan mountains, which creates a barrier between India and China. As China speeds its infrastructure ambitions, India's territorial sovereignty is likely to be threatened. Though Nepal's outreach to China was to offset its overdependence on New Delhi, its relationship with China is also highly asymmetrical. Nepal's dependence has merely shifted from one rising power to another. In recent years, the trade deficit between China and Nepal has widened substantively. As of 2019, the deficit amounted to US\$2.7 billion (\$\$3.8

¹¹ Hari Bansh Jha, 'Nepal Distancing itself from India', *ORF*, 14 October 2019. <https://www.orfonline.org/expert-speak/nepal-distancing-itself-from-india-56612/>.

¹² 'Investing in Nepal: A Handbook for Indian Investors 2018/19', *Nepal-India Chamber of Commerce and Industry*, 13 December 2018. <https://www.indembkathmandu.gov.in/docs/1547216794A%20hand%20Book%20for%20Indian%20Investors%202018-19.pdf>.

¹³ Brahma Chellaney, 'Why the Nepali communist challenge to India is deadly', *DailyO*, 9 November 2018. <https://www.dailyo.in/politics/nepal-communist-china-bimstec-khadga-prasad-oli-narendra-modi-xi-jinping-maoist/story/1/26573.html>.

billion), which is in favour of China.¹⁴ Nepal is also reeling under Chinese debts. Many Nepalese realise the fact that such an asymmetrical relationship would only reduce Nepal's autonomy. Engaging with China has its own drawbacks. Of what may seem like 'goodwill' at present could potentially be harmful in due course. Many countries like Djibouti and Sri Lanka have become victims of China's 'debt-trap diplomacy' wherein they have had to compromise with their sovereignty. Therefore, constructive engagement with Beijing would require a more pragmatic approach than has been displayed by Kathmandu so far.

The Way Forward

With China's ascendance in the Nepali economy and polity, India must realise that its erstwhile centrality in the foreign and security policy of the Himalayan kingdom stands compromised. Therefore, India must reorient its foreign policy and be proactive in its engagements with Nepal.

Territorial disputes and conflicts over water resources are the biggest irritants in the Indo-Nepal relationship. However, both countries can avail the existing institutional mechanisms to resolve such outstanding disputes. While the India-Nepal Joint Technical Level Boundary Committee was established in 1981 to address border problems, the India-Nepal Joint Commission on Water Resources, established in 2000, supervises the sharing of water resources between the two countries.¹⁵ New Delhi must resuscitate these institutional procedures and give them a prominent role in future negotiations. The leadership of the two countries have started on a positive note through the joint inauguration of the Jogbani-Biratnagar border check post in January 2020.¹⁶

Secondly, India must respect Nepal's sovereignty. Nepal takes pride in being the only South Asian nation which was not a British colony. India's overbearing influence in domestic politics has often proved detrimental to its interests as this polarises Nepali politics and stokes the Nepali ego. China has very astutely stayed away from intervening in Nepal's domestic matters. India can take some lessons from the Chinese playbook.

Lastly, bolstering India's "Neighbourhood First" policy will effectively rejuvenate its bilateral relationship with Nepal. In recent developments, India provided Nepal with US\$13 million (S\$18.4 million) to facilitate the post-earthquake reconstruction process in 2018.¹⁷ Furthermore, it sponsored the construction of the Motihari-Amlekhgunj petroleum line extending from Bihar to Amlekhgunj. The pipeline, which became functional in 2019,

¹⁴ 'Nepal's trade deficit hits staggering Rs. 1. 321 trillion', *The Rising Nepal*, 9 August 2019. <http://therisingnepal.org.np/news/33719>.

¹⁵ 'First meeting of Nepal-India boundary group begins', *Business Standard*, 17 September 2014. https://www.business-standard.com/article/news-ians/first-meeting-of-nepal-india-boundary-group-begins-114091700947_1.html.

¹⁶ 'PM Narendra Modi, Nepal PM KP Sharma Oli to jointly inaugurate Jogbani-Biratnagar check post today', *India Today*, 21 January 2020. <https://www.indiatoday.in/india/story/pm-narendra-modi-nepal-kp-sharma-oli-jogbani-biratnagar-check-post-inauguration-1638673-2020-01-21>.

¹⁷ 'India provides Rs 233 crore financial aid to Nepal for infrastructure projects', *The Economic Times*, 21 August 2019. https://economictimes.indiatimes.com/news/politics-and-nation/india-provides-rs-233-crore-financial-aid-to-nepal-for-infrastructure-projects/articleshow/70774519.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst.

enables Nepal to procure fuel at a lower cost.¹⁸ Exploring such areas of cooperation will revive Indo-Nepal ties and help India maintain its outreach to Nepal.

Historical, cultural and economic linkages form the bedrock of the multifaceted Indo-Nepal relationship. It is, therefore, essential that they keep up with the changing geopolitics and diversify cooperation to promote the interests of both nations.

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Ms Wini Fred Gurung is a Research Intern at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). She can be contacted at wini@nus.edu.sg. Dr Yogesh Joshi is a Research Fellow at the same institute. He can be contacted at isasyj@nus.edu.sg. The authors bear full responsibility for the facts cited and opinions expressed in this paper.

¹⁸ Dipanjan Roy Chaudhary, 'India, Nepal PMs launch cross-border oil pipeline; linking Motihari with Amlekhgunj', *Economic Times*, 11 September 2019. https://economictimes.indiatimes.com/industry/energy/oil-gas/narendra-modi-k-p-sharma-oli-jointly-inaugurate-motihari-amlekhganj-petroleum-product-pipeline/articleshow/71061712.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=ppst.