

Nepal in the First Half of 2022: Balancing Act in Geopolitics

Sujeev Shakya

Summary

The first half of 2022 for Nepal has been important from the perspective of how the country needs to balance its act as far as geopolitics is concerned. The relationship with the United States has been rescued. Its relationship with India continues to be problematic and there were continued efforts to mend it through high-level visits. China, though isolated by the pandemic, has become more aggressive and visible in Nepal. However, Nepal needs to move beyond these large countries and look at its relationship with the 180 countries that Nepalis reside in.

Introduction

From the Nepali geopolitical perspective, the first five months of 2022 have been highly eventful. While the Nepal government itself was struggling to keep a fragile coalition going, there were several events that kept the government busy. There was the ratification of the United States (US) government's Millennium Challenge Corporation (MCC) that was a litmus test in the 75-year relationship between the US and Nepal. Prime Minister Sher Bahadur Deuba visited India when the bilateral relationship was at a low ebb after Nepal ratified a new map that irked New Delhi. Indian Prime Minister Narendra Modi decided to ride a chopper to cross the border into Nepal, clearly indicating India's displeasure with Nepal using a Chinese contractor to build the Bhairawa Airport. Nepal also voted, along with many other nations, against the Russian invasion of Ukraine, but this is the opposite of how its neighbours had voted. The Chinese seem to be losing ground in Nepal with the Communist parties going through multiple splits and the visit of the Chinese Foreign Minister Wang Yi remaining largely ceremonial. Further, the economic crisis in Sri Lanka has put the scanner on Nepal as well. In the Indian media's quest to show China as the evil reason for the Sri Lankan crisis, Nepal is being lumped with Sri Lanka, which is completely wrong. This paper provides a perspective on the underlying issues across these elements.

Ratification of the MCC in the Parliament

The MCC is an independent bilateral foreign aid agency that was approved by the US Congress in 2004. In 2017, the MCC signed a US\$500 million (S\$687 million) Compact with the Government of Nepal. The main aim of the Compact was to help increase investments in Nepal, accelerate sustainable economic growth and reduce poverty by maintaining road quality by increasing the availability and reliability of electricity in Nepal's electricity grid, and facilitating cross-border electricity between Nepal and India.

However, the MCC agreement was stuck in the Nepali House of Representatives for four years after it reached the parliament. The main objections to the Compact include its

precedence over Nepal's constitution; the need for its parliamentary approval; a project under it impeding a proposed Nepal-China railway line; its auditing by American rather than Nepali auditors; and it being a part of the Indo-Pacific Strategy (IPS). Despite strong opposition from various members of society, the Compact was ratified on 27 February 2022, by a majority in the House of Representatives. While approving the Compact, the House of Representatives passed a 12-point explanatory declaration saying Nepal will not join any US military alliance; Nepal's constitution is above the Compact and other agreements related to the Compact; all MCC-Nepal activities and funds will be audited by the Auditor General; and the intellectual property will be owned by Nepal.

Nepal has also been impacted by the ongoing US-China conflict. While most American diplomats stressed that there is no link between the MCC and the IPS, then Acting Deputy Assistant Secretary for South Asia, David J Ranz and then Assistant Deputy Secretary of State, Alice Wells, saying that the MCC was an integral part of the IPS stirred up the controversy. Commentators felt that "the MCC being a part of the IPS is problematic for Nepal as the bulk of its political class sees the US strategy as an anti-China project."¹

The signing of the Compact has provided confidence to international investors and companies which were eagerly anticipating the Parliament's decision. Many other pending foreign assistance programs through the US Agency for International Development have moved ahead in the wake of the MCC's ratification. The ratification will, as a whole, recalibrate Nepal's relations with the US.

However, on the other side of things, China has been concerned and suspicious over the Compact in Nepal since the very beginning as they view the IPS as a strategy to curb China's economic growth and rising global influence. With the existing conflicts added to the rising dispute between China and the US in the face of Russia's attacks on Ukraine, Nepal has become a geo-political hotspot. "In Beijing's view, [the] US is encouraging Indians to make mischief, helping encircle China by using "soft spots" like Nepal. As China-US geopolitical competition intensified, so have China's stakes in Nepal."² While the MCC has been ratified, it has created a political divide in the country, which might have a big impact around the time of the country's election. To influence and sway votes, the opposing parties could use the MCC as an agenda to provoke citizens of the country arguing that parties that voted in favour of the Compact are traitors and are "selling their country".³

Nepal and India

Another important event in the first half of the year was Deuba's visit to New Delhi to meet Modi which revived the Nepal-India bilateral relations after the Kalapani-Lipulekh dispute. During the visit in early April 2022, both leaders jointly flagged off the Kurta-Jaynagar passenger train service. Delegations on both sides announced four agreements, including Nepal's official joining of the international solar alliance; Indian technical assistance for

¹ "Nepal's Fierce MCC Debate: How did a grant from the United States turn into a years-long political battle in Kathmandu?", Biswas Baral, *The Diplomat*, 8 February 2022, <https://thediplomat.com/2022/02/nepals-fierce-mcc-debate/>.

² Ibid.

³ Ibid.

Nepal's railway sector; cooperation in the field of petroleum sector; and the exchange of expertise between Nepal Oil Corporation and Indian Oil Corporation. In addition, Deuba and Modi inaugurated the Solu Corridor 132 KV Power Transmission Line to increase Nepal's ability to export surplus electricity to India. Nepal's increasing capacity to export electricity to the other South Asian countries in the aftermath of the implementation of the MCC and assistance from India has provided possible benefits from the existing untapped potential to generate electricity in Nepal.

Deuba also visited the Bhartiya Janata Party's headquarters in New Delhi, which drew ire in Nepal. His hobnobbing with Uttar Pradesh Chief Minister Yogi Adityanath (also a Hindu monk) and the visit to a Hindu temple in Varanasi were seen more as an election gimmick and a way to appease the right-wing ruling party in India. However, Deuba was not able to raise the issue of the fate of the 1950 treaty, bring about discussions around the recommendations of the Eminent Persons Group (EPG) that was formed between the two countries, and the token gesture of taking back less than a million dollars of demonetised Indian currency bills with Nepal's central bank.

In July 2018, the eight-member EPG, consisting of four members each from Nepal and India, finalised a report with recommendations to redefine the bilateral ties between India and Nepal. Two suggestions in the report included replacing the 1950 Treaty of Peace and Friendship and regulating the open Nepal-India border. Not only has India not received the report due to Prime Minister Modi's busy schedule, but the Indian Foreign Secretary also recently called the EPG members "independent experts" and denied their official status.

Moreover, while some headway has been made in the energy trade between the two countries, there are inevitable hiccups due to India halting electricity exports to Nepal in late March 2022. While with much fanfare there was an agreement to use an Indian Unified Payments Interface platform to facilitate payments between Nepal and India, not much has been done to put it to effect. Discussion on many of the air routes remain pending too. India's unwillingness to review simple issues like doing away with an Indian security check at the Kathmandu airport before boarding Indian carriers speaks volumes of the relationship between the two nations. Many Nepalis serve in the Indian Army and die each year due to skirmishes on Indian borders. Therefore, the perception of Nepal as a threat to the overall Indian security system needs to be addressed.

In May 2022, Modi visited Lumbini, birthplace of the Buddha, on Buddha Day. He travelled in a helicopter, inaugurating the Kushinagar airport across the Nepal border in India. The fact that he chose not to fly into the newly built Bhairawa International Airport spoke volumes of how everything is viewed through a China lens. The new airport was built with financing from the Asian Development Bank (ADB) and the Organization of the Petroleum Exporting Countries (OPEC) and by a Chinese contractor. Of the total project cost, ADB provided US\$58.50 million (S\$80.3 million) [US\$42.75 million (S\$58.7 million) in loans and US\$15.75 million (S\$21.6 million) in grants] and the OPEC Fund for International Development provided a US\$15 million (S\$20.6 million) loan. The Indian media went overboard by calling this a China financed airport, very much like the Sri Lankan port of Hambantota. During Prime Minister Modi's visit, Nepal and India signed six agreements. As per one agreement, the two countries have agreed to establish Lumbini in Nepal and

Kushinagar in India as sister cities. Similarly, according to another agreement, plans have been set to develop the Arun-4 hydroelectricity project in Nepal's Sankhuwasabha district. However, none of these are of much relevance as they ignore various important issues.

In addition to government-level bilateral relations, a major way that India-Nepal relations are shaped is through the Indian media's portrayal of Nepal. The Indian media has been spending a lot of energy trying to make baseless claims about China and Chinese debt being the villain in Sri Lanka's economic crisis, thus drawing parallels with Nepal. In Nepal, these efforts to spread misinformation by Indian media agencies loyal to the current administration is seen as an Indian government effort. However, this negative portrayal of Nepal is not new. A decade ago, the news on Nepal was about its linkages to Pakistan's Inter-Services Intelligence operations and now it is linked to Chinese investment, debt and influence. This has created a deep sense of division between the two countries. However, the recent appointment of former Ambassador of India to Nepal, Vinay Kwatra, as Foreign Secretary and an economist as the Ambassador of Nepal to India, provides an opportunity to rework and recalibrate the relationship between the two countries.

China's Increased Visibility

In May 2018, Beijing pushed the Communist Party of Nepal (Unified Marxist–Leninist) [CPN-UML] and the Communist Party of Nepal (Maoist Centre) to merge and form a new party — the Nepal Communist Party (NCP). China initiated the move to bring together the two communist parties of Nepal to strengthen communism in the Himalayan country from early 2017. However, many factors, including deep ideological differences, personality clashes between the communists and hunger for power and pelf, led to the unravelling of the NCP within 31 months of its formation. In 2021, the CPN-UML split into two after senior party figure and former chair Madhav Kumar Nepal filed an application to register a new party with the Election Commission. With the CPN-UML also splitting, the Chinese efforts to strengthen communism in Nepal and, thereby, exert greater influence in the country have been dealt a huge blow.

China's role during the discussions on the MCC has been overt. The Chinese have been unafraid of making statements that show that they were irked by the Nepali parliament's passage of the MCC grant. The Chinese foreign ministry spokesperson accused Washington of adopting "coercive diplomacy" to urge Nepal to adopt the MCC. During a press briefing in Beijing, the tone of Chinese Foreign Ministry spokesperson Hua Chunying was undiplomatic, "How could an ultimatum send a 'gift'? How could people accept such a 'gift'? Is it a 'gift or Pandora's box?' Is it afraid that just as the old Nepali saying goes, it looks delicious, but it's actually a meat tough to chew."⁴ This direct meddling has heavily impacted the image of the Chinese government, which has always presented itself as a neutral political player.

In early 2022, Nepali demonstrators protested against China's increasing meddling in Nepal's political and economic sectors and encroaching Nepal's land in different northern districts. Their placards had slogans such as 'Down with China Government', 'Stop Chinese

⁴ "MCC through, with a Chinese shadow", *The Kathmandu Post*, 28 February 2022, <https://kathmandupost.com/columns/2022/02/28/mcc-through-with-a-chinese-shadow>.

Intervention’, ‘Stop Border Encroachment’ and ‘Ensure Safe Passage to Nepali Students Studying in China’. According to reports, China has been creating obstructions at the Rasuwagadhi-Kerung and Tatopani border points. Perhaps, this was the first time that anti-China demonstrations took place.

Beyond India and China

Looking beyond Nepal’s relations with its immediate neighbours, Dhaka recently proposed power trade with Kathmandu. On the one hand, Bangladesh produces surplus energy during the winter when Nepal faces an energy shortage due to the low water levels in the rivers. On the other hand, Nepal produces surplus energy during summer and monsoon when Bangladesh’s demand for energy increases. Thus, Bangladesh has been in talks with Nepal on buying power from Nepal from May to December and selling its electricity to Nepal from December to February. Additionally, Bangladesh has shown interest in developing hydropower projects in Nepal. During the secretary-level Joint Steering Committee meeting in September last year, Nepal and Bangladesh agreed to develop a dedicated transmission line between the two countries by bringing India on board.

Nepal also shares bilateral relations with 176 countries with only 25 resident embassies. Beyond India, China, the United States, the United Kingdom and a few European countries, work on these relations has mostly been about either bilateral aid or through multilateral agencies. With non-resident embassies, it is just that they come to present their credentials to the president and then come for farewell calls – between those three to four years, there is hardly any interaction. With Nepalis living in more than 180 countries, embassies in these countries function as a layer of government for people to handle. Economic diplomacy is non-existent and Nepali ambassadors complain about being more like guest house managers, as party workers, politicians and extended families of government staff make the ambassadorial residence their home during visits and the embassy’s vehicle becomes a vehicular service. There are no major functions held due to a paucity of budget that needs to be saved to take care of the unexpected guests who expect excellent wine and dine during their stay. The good news, however, is that there are many bright young Nepalis exposed to the world who are joining the foreign service. It is hoped that they will bring about the much-needed transformation in terms of looking at what comprises diplomacy, the connection with the economy and leveraging the position between China and India.

There is also an emergence of the ‘Global Nepali’ who may have citizenship in another country but is bound by the identity of the Nepali language, culture, music and arts. This Nepali is an ambassador of goodwill for Nepal.

While Nepal’s geopolitics will be eventful, in the long run, it is about the country being able to tread the balance between its neighbours and the global powers and build on its great foundations of people-to-people relationships.

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Mr Sujeev Shakya is the Founder Chair of the Nepal Economic Forum and a Non-Resident Senior Fellow at the Institute of South Asian Studies (ISAS), an autonomous research institute at the National University of Singapore (NUS). He can be contacted at sujeev.shakya@beed.com.np. The author bears full responsibility for the facts cited and opinions expressed in this paper.