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Nepal, India and China: A Trilateral Equation

Nepal's new Prime Minister K P Oli made his first foreign visit to India from 6 to 8 April 2018 after his party, the Communist Party of Nepal (Unified Marxist-Leninist) [CPM-(UML)], won a watershed national election in December 2017. This was closely followed by the visit of Nepal's Foreign Minister Pradip Gyawali to China from 16 to 21 April 2018 and India's Prime Minister Narendra Modi's visit to Nepal from 11 to 12 May 2018. These visits are notable as they come amidst a growing consensus among analysts that Nepal would tilt towards China as a strategic partner after the 'pro-Chinese' CPM-UML's victory, and, consequently, lead to a chill in Indo-Nepalese ties. This paper seeks to contextualise the visits against the larger picture of factors which underpin the India-China-Nepal triangular relationship.

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Introduction

In keeping with tradition, Nepal's newly-elected Prime Minister, K P Oli, travelled to New Delhi in India from 6 to 8 April 2018 for his first foreign visit, after securing a strong victory

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in the critical national elections of 2017.² The joint statement released after the visit highlighted three areas of discussion – agricultural cooperation, expanding railway linkages (specifically to construct a railway line between the cities of Raxaul in India and Kathmandu in Nepal) and increasing connectivity through inland waterways.³ The visit is notable as the ruling Communist Party of Nepal (Unified Marxist-Leninist) [CPN-UML] is widely seen to be favouring geostrategic proximity to China over India. Oli was also the head of state in 2015 when an alleged ‘unofficial blockade’ by the Indian government severely affected Nepal’s economy, which depends on India for essential goods such as fuel. Prior to the visit, Oli explicitly stated that he would not sign any agreement with India which would ‘go against the national interest’⁴ of Nepal. This can reasonably be interpreted as a discreet assurance to China. The visit itself did not include any discussion of Sino-Nepalese ties.

Oli’s trip was quickly followed by the visit of Nepal’s Foreign Minister, Pradip Gyawali, to China from 16 to 21 April 2018, at the invitation of the Chinese Foreign Minister, Wang Yi. Notably, Wang extended the invitation to Gyawali immediately after Oli’s India visit,⁵ underscoring China’s attention to the trilateral equation. During the visit, Gyawali stated that the two sides had agreed to begin the groundwork on a possible trans-border railway line as part of the Belt and Road Initiative (BRI). The Chinese side also proposed an India-Nepal-China economic corridor and opined that it was a ‘logical desire’⁶ for Nepal to draw benefits from both sides, and that this desire should be supported by India and China. Taken together, these political overtures seem to reflect Oli’s stated aim of a ‘balanced and non-aligned’⁷ foreign policy.

² For an analysis of the importance of the 2017 election, see Wagle, Ankush Ajay, ISAS Brief No. 533: ‘Nepal’s Elections 2017: A Watershed in Nepalese Political History’. Institute of South Asian Studies. 13 December 2017. https://www.isas.nus.edu.sg/wp-content/uploads/media/isas_papers/ISAS%20Briefs%20No.%20533%20-%20Nepals%20Elections%202017.pdf. Accessed on 12 April 2018.

³ Joint Statement during the State Visit of Prime Minister of Nepal to India. Ministry of External Affairs, Government of India. 7 April 2018. <https://mea.gov.in/bilateral-documents.htm?dtl/29791/Joint+Statement+during+the+State+Visit+of+Prime+Minister+of+Nepal+to+India+April+07+2018>. Accessed on 11 April 2018.

⁴ ‘Nepal Prime Minister Oli says he would not sign any deal against national pride during India visit’, *The New Indian Express*, 3 April 2018. <http://www.newindianexpress.com/world/2018/apr/03/nepal-prime-minister-oli-says-he-would-not-sign-any-deal-against-national-pride-during-india-visit-1796531.html>. Accessed on 13 April 2018.

⁵ Giri, Anil. ‘Foreign Minister Gyawali set to visit China on April 16’, *The Kathmandu Post*, 12 April 2018. <http://kathmandupost.ekantipur.com/news/2018-04-12/foreign-minister-gyawali-set-to-visit-china-on-april-16.html>. Accessed on 21 May 2018.

⁶ ‘China says Nepal a natural area of cooperation with India’, *Reuters*. 18 April 2018. <https://www.reuters.com/article/us-china-nepal/china-says-nepal-a-natural-area-for-cooperation-with-india-idUSKBN1HP0NY>. Accessed on 18 April 2018.

⁷ Giri, Anil. op cit.

The visits by Gyawali and Oli were, in turn, followed by the visit by India's Prime Minister, Narendra Modi, to Nepal from 11 to 12 May 2018. This was Modi's third visit to Nepal since coming into power in 2014. It marks what Rakesh Sood, India's former Ambassador to Nepal, described as a 'new beginning'⁸ in India's Nepal strategy (Modi's first visit in 2014 was notable as it came after an almost two-decade gap in Indian prime ministerial visits to Nepal). The most recent visit was marked by 'religious overtones',⁹ with Modi visiting several temples and announcing ₹1 billion (\$20 million) in support for the development of the city of Janakpur (a holy site for Hindus). A bus service between Janakpur and Ayodhya was also unveiled, as part of the larger picture of a 'Ramayan' circuit for religious tourism to promote cross-border ties.

The flurry of bilateral diplomatic visits have placed a renewed focus on the factors which underpin India-China-Nepal ties. Two such intertwined factors are the BRI and economic interdependence between the three sides.

The BRI and Economic Interdependence: Extrapolations for the India-China-Nepal Relationship

The BRI is China's ambitious signature infrastructure project which seeks to connect over 60 countries from Asia to Europe through land and sea routes. Nepal initially signed up for the project in mid-2017 when the country was under the rule of the Communist Party of Nepal (Maoist Centre) [CPN -MC)], which is also a member of the current ruling coalition. However, the administration was replaced by the 'pro-Indian' National Congress Party just a few months later, which backtracked on the commitment and withdrew plans for a planned dam under the project.

With the CPN-(UML) and CPN-(MC) now back in power, it would appear that progress on the BRI in Nepal would pick up pace. Indeed, in January this year, a team of Chinese experts

⁸ Sood, Rakesh. 'A new beginning with Nepal', *The Hindu*. 11 April 2018. <http://www.thehindu.com/todays-paper/tp-opinion/a-new-beginning-with-nepal/article23497734.ece>. Accessed on 17 April 2018.

⁹ Adhikari, Deepak. 'India's Modi uses cultural ties to mend ties with Nepal', *Aljazeera*. 13 May 2018. <https://www.aljazeera.com/indepth/features/india-modi-cultural-ties-mend-ties-nepal-180513122933686.html>. Accessed on 14 May 2018.

from China's Ministry of Commerce conducted surveys of an 18-kilometre stretch of the Galchhi-Trishuli-Rasuwadhi highway (from Syabrubesi to Rasuwadhi), to analyse its improvement. This 82-kilometre highway, which is currently the only trade route between Nepal and China, will be the foundation for Nepal's participation in the BRI. China ultimately envisions a rail line between Kathmandu and Kerung in north-eastern Nepal. This will connect Nepal's capital to the Chinese border (at the Tibet Autonomous Region [TAR]), from where it can be further linked to the proposed BRI network. Another proposed rail line is from Kathmandu to Pokhara (in Nepal's centrally-located fourth province, which shares a border with the TAR) and then to Lumbini (in the fifth province, the southern part of which borders India).

These developments are certain to discomfort India at the very least, not only because of its staunch opposition to the BRI, but also from a national security aspect. Lumbini lies in the Rupandehi district which shares a border with India. S Jaishankar, India's former Foreign Secretary had remarked at the inaugural Raisina Dialogue (without specifically mentioning the BRI) that connectivity initiatives in Asia could be construed by some countries as an 'exercise in hardwiring that influences choices'.¹⁰ The Indian side would most certainly perceive a Chinese-built railway to Lumbini as an example of such an exercise. Furthermore, the Doklam plateau standoff with China last year has sharpened India's focus on its sensitive border regions and underscored the importance of Nepal in this aspect. The aforementioned inland connectivity through water channels that was discussed during Modi's visit could arguably be perceived as India hedging against a closer Sino-Nepalese relationship despite Oli maintaining a 'neutral' outlook when questioned on the BRI.¹¹

While the BRI could well be a determining factor in analysing the trilateral relationship between India, China and Nepal, it can be considered a sub-set of a more critical factor, namely, economic interdependence between the sides. Here, Nepal and India share a far longer and closer relationship. For example, India is currently both Nepal's largest import and export partner. In 2015, over 60 per cent of Nepal's exports went to India and, similarly,

¹⁰ Speech by Foreign Secretary at Raisina Dialogue in New Delhi (2 March 2016), Ministry of External Affairs, Government of India. 2 March 2016. http://mea.gov.in/Speeches-Statements.htm?dtl/26433/Speech_by_Foreign_Secretary_at_Raisina_Dialogue_in_New_Delhi_March_2_2015 Accessed on 16 April 2018.

¹¹ 'Nepal takes neutral stance over BRI', *The Economic Times*. 7 April 2018. <https://economictimes.indiatimes.com/news/politics-and-nation/nepal-takes-neutral-stance-over-chinas-bri/articleshow/63655364.cms>. Accessed on 19 April 2018.

over 60 per cent of Nepal's imports were from India.¹² More importantly, the trade balance is overwhelmingly in favour of India, with over US\$4 billion (S\$5.25 billion) exported to Nepal, as compared to just US\$419 million (S\$524.8 million) imported from Nepal to India in 2015.¹³ The people of Nepal also widely use Indian money for transactions, illustrated by the fact that Nepal's banks still hold vast sums of India's erstwhile ₹1,000 and ₹500 notes, which were removed from circulation after the demonetisation in 2016.

China, on the other hand, features low on the list of Nepal's trading partners. However, China has been cognisant of this fact and the BRI-related infrastructure projects could well act as a catalyst to catch up with India. For example, the aforementioned railway lines could work in China's favour as some geographical factors make rail transit a 'more viable'¹⁴ option for some cargo, which is currently routed through Indian ports. These efforts have been compounded by Nepal's antagonism towards India following the 2015 blockade and its debilitating effect on Nepal's economy, which 'opened the door'¹⁵ for China to court Nepal. In terms of foreign direct investment too, China has overtaken India in recent years and is now the largest investing country in Nepal. At the Nepal Investment Summit in 2017, Chinese companies promised investments of almost US\$8.3 billion (S\$10.89 billion) whereas the Indian commitment was drastically lower at US\$317 million (S\$415.7 million).¹⁶ Nepal's economic growth could well be the defining factor which guides its foreign policy towards China, given China's economic might and proclivity to exerting this might in South Asia.

India and Nepal: Tied Together

While the lure of investment and trade might appear to predict a Nepalese tilt towards China, matters are not as straightforward as they might seem. On the trade front, in a sardonic twist,

¹² World Integrated Trade Solution, Trade Summary for Nepal, <https://wits.worldbank.org/CountrySnapshot/en/NPL>. Accessed on 16 April 2018.

¹³ Ibid.

¹⁴ 'India at risk of losing Nepal transit trade to China', *The Hindu Business Line*, 16 July 2017. <https://www.thehindubusinessline.com/news/india-at-risk-of-losing-nepal-transit-trade-to-china/article9770990.ece>. Accessed on 16 April 2018.

¹⁵ Baral, Biswas, 'India's Blockade has Opened the Door for China in Nepal', *The Wire*, 2 March 2016. <https://thewire.in/diplomacy/indias-blockade-has-opened-the-door-for-china-in-nepal>. Accessed on 16 April 2018.

¹⁶ Giri, Anil, 'Chinese firms to invest 8.3 billion in Nepal', *The Hindustan Times*, 4 March 2017. <https://www.hindustantimes.com/world-news/chinese-firms-to-invest-8-3-billion-in-nepal/story-gKW9cDBsW1jHIOoBV DtcFM.html>. Accessed on 16 April 2018.

China enjoys a massive trade surplus with India, far more valuable than any trade with Nepal. Given the volume of the bilateral trade (over US\$80 billion [S\$104.8 billion] in 2017) and the size and potential of India's market, it is likely that China would exercise caution in its relationship with Nepal, lest it affects its trade with India.

More importantly, Nepal's reliance on India is of a highly critical nature. Trade figures notwithstanding, India's 'open border' with Nepal, signed into force through the Indo-Nepalese Treaty of Friendship and Peace in 1950, offers much more mobility than the Sino-Nepalese border. This open border allows for the free movement of goods, services and people. It is essential for Nepal's survival as it facilitates much cross-border assistance in critical sectors such as education, infrastructure, employment, healthcare, tourism and culture.¹⁷ According to India's Ministry of External Affairs, close to six million Nepalese work and reside in India and over 30,000 Gorkha soldiers serve in the Indian army.¹⁸ India also provides extensive support to Nepal in terms of hydropower generation and electricity provision with a total of about 350-370 MW (million watts) of power being transmitted as of November 2017.¹⁹ Thus, in effect, if India were to abandon the open border with Nepal, it would calamitously disrupt Nepal's economy, as evidenced by the 2015 blockade. This could effectively act as India's trump card in the trilateral relationship as Nepal cannot risk jeopardising the open border with India at any cost.

Moreover, while Nepal has reacted favourably towards the BRI, this does not preclude inherent complications in an undertaking of its magnitude. For example, with regard to connectivity, the entire 1,414 kilometre border between Nepal and China lies across the Himalayas, a most inhospitable and precarious region. The implications of a border in such a region were starkly evident when the devastating 2015 earthquake closed almost all the access points between the two sides. Another notable point is the concerns regarding the BRI projects from the perspective of Nepal's economy and the subsequent implications. For instance, China's seemingly limitless economic and infrastructure aid, as proposed through the BRI, brings to mind the proverbial observation of there being 'no free lunch'. Nepal, on account of its weak economy, faces a situation similar to that of Sri Lanka, which accepted

¹⁷ Kumar, Rajeev. 'India Nepal Open Border: Springboard for Opportunities'. *International Studies*. 2016. DOI: 10.1177/0020881716654406. Accessed on 2 May 2018.

¹⁸ 'India-Nepal relations', Ministry of External Affairs, Government of India, November 2017. https://www.mea.gov.in/Portal/ForeignRelation/8_Nepal_November_2017.pdf. Accessed on 2 May 2018.

¹⁹ Ibid.

Chinese aid for developments but was then unable to repay it, leading to China being given control of its installations. Misgivings about Chinese-backed projects in Nepal and the dangers of a ‘debt trap’ have already begun to surface within the country.²⁰ Although such fears are unlikely to deter the Nepalese government from accepting China’s offerings, the long-term implications of handing over the ownership or lease of key establishments to China, in the case of its inability to pay debts (as the Sri Lankan government did with the Hambantota port), would be a serious cause for concern for both Nepal (domestically) and India (externally) in the future.

In addition to the factors mentioned above, there are other nuances of the relationship which should be taken into account. Firstly, while economics and commerce are key drivers of the relationship, there are deeper factors affecting the India-Nepal relationship. Nepal has deep sociological and historical connections to India and its people and is a Hindu-majority state (which certainly factored heavily in Modi’s religious outreach during his visit). The two nations marked seven decades of diplomatic relations last year. From a sociological perspective, the Madhesi people in Nepal’s southern Terai province are mostly of Indian heritage and make up a significant portion of the country’s population. Although the relations between India and the Madhesis have been fraught at times,²¹ the overarching linkages and geographical proximity between the two sides would ensure that India-Nepal relations remain closely intertwined.

Conclusion

In a mathematical analogy, the Nepal-India-China equation appears to be one with three correlated constants, namely, the three countries. While the BRI projects and the economic interdependence of the three sides can be construed as two variables affecting interplay between the constants, Nepal and India are essentially bound together in the mix. The two visits of the Nepalese administration to India and China as well as the Indian visit to Nepal

²⁰ Chowdhury, Debasish Roy, ‘Driven by India into China’s Arms, is Nepal the new Sri Lanka?’, *South China Morning Post*, 25 February 2018. <http://www.scmp.com/week-asia/geopolitics/article/2134532/driven-india-chinas-arms-nepal-new-sri-lanka>. Accessed on 16 April 2018.

²¹ Nihar Nayak. (2011). The Madhesi Movement in Nepal: Implications for India, *Strategic Analysis*, 35:4, 640-660, DOI: 10.1080/09700161.2011.576099. Accessed on 9 May 2018.

reveal that, despite the supposedly ‘pro-Chinese’ leanings of the current government, there appears to be more of a ‘recalibration’ towards a more centrist approach as of now. Oli is set to visit China later this year and it has been speculated that China’s President, Xi Jinping, will visit Nepal as well. These visits could reveal what the future would hold for the trilateral relationship.

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