

# **The Great Game in Nepal: A Himalayan State's Search for Higher Ground**

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## **Summary**

*Nestled in the Great Himalayas and long disconnected from global markets, Nepal has received promising connectivity offers by the United States, India and China. If the communist rulers in Kathmandu do not let their ideological preferences get the better of their economic judgements, Nepal could easily take advantage of all viable offers to promote its connectivity with its neighbourhood and the rest of the world.*

## **Introduction**

Whether 'in the sweet spot' or caught like 'a yam between two boulders', the landlocked secular republic of Nepal is being courted with promising connectivity projects from China, the United States (US) and India, which could significantly affect its political and economic future.

Of the competing connectivity projects on the table, one is the multimodal trans-Himalayan transport network with China under Beijing's Belt and Road Initiative (BRI), and the other is the US Millennium Challenge Corporation project (MCC), which offers highway and electricity infrastructure as part of the US Indo-Pacific Strategy (IPS). India has also inaugurated a 69-kilometre long cross-border petroleum pipeline under its 'Neighbourhood First' policy, and is expediting pending bilateral projects such as highways, waterways and rail linkages.

All of these infrastructure projects strike at the geopolitical heart surrounding connectivity construction in Nepal — an underdeveloped country sandwiched between the Himalayan mountain range to the north and the Indo-Gangetic Plain to the south, which once formed a central trading point on the ancient Silk Road. In the 21<sup>st</sup> century, Nepal stands as a critical transit point for trade and security between the two Asian giants, which (before the onset of COVID-19) were projected to become the world's largest economies by 2050, and encompass 35 per cent of global gross domestic product.<sup>1</sup>

Nepal has traditionally relied on ports like Kolkata in West Bengal for third country trade. However, China is wielding its engineering prowess to leapfrog the harsh topography of the mountains to turn Nepal from a 'landlocked' nation into a 'land-linked' one. In recent years, China-Nepal relations have strengthened under China's 'capital-to-capital diplomacy', which

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<sup>1</sup> Sujeev Shakya, *Unleashing the Vajra: Nepal's Journey Between India and China* (New Delhi: Penguin Random House India, 2019), pp. 243 and 269.

has involved a heavy focus on industry promotion and infrastructural investment – both of which are core elements of the BRI.<sup>2</sup>

The BRI serves the geopolitical and geo-economic interests of a rising China that has set for itself expansive goals in the arena of connectivity. China's expansion into South Asia, which India has long viewed as its own backyard, has New Delhi worried – a worry that is compounded by recent border disputes, such as those involving jurisdiction over Kalapani on Nepal's western border; India's inauguration of a link road through Lipulekh (a trijunction between India, China and Nepal); and the India-China standoff in Galwan Valley.

Significantly, three out of China's five BRI corridors – the Chinese Pakistan Economic Corridor (CPEC) to the West, the Trans-Himalayan Economic Corridor in the North; and the China-Myanmar Economic Corridor towards its East – veer along India's continental frontier. These projects, which promise to transform China's neighbouring influence, have sharpened New Delhi's concerns. China's growing regional influence was witnessed most recently during Beijing's quadrilateral foreign ministers-level meeting with Pakistan, Afghanistan and Nepal in July 2020, where China proposed strengthening four-way ties between the countries, extending the CPEC into Afghanistan and advancing the Trans-Himalayan Multi-Dimensional Connectivity Network.<sup>3</sup>

The intervention of China's ambassador to Nepal two months earlier, in April 2020, to save the Nepal Communist Party (NCP) from collapse, also signals China's growing interest in the Himalayas and its increasing clout in the politics of the smaller states. As China's influence in Nepal increases, China may enlist its support to impress its territorial claims on Ladakh in future.<sup>4</sup>

Meanwhile, Nepal – by no means a small country, with a population of over 29 million – is hoping to extract concessions from the India-China rivalry to graduate to a middle-income economy by around 2030. Having long been reliant on international aid, Nepal seeks to upend its image of dependency to integrate more confidently into the world economy. Participation in regional partnerships, like the IPS and the Bangladesh, Bhutan, India, Nepal Initiative (BBIN), could therefore introduce opportunities for the Himalayan state to accelerate its development through connectivity and infrastructure.

However, some Maoist and Leftist factions in the NCP oppose American-led initiatives, due to ingrained suspicions of the US, and have shown greater ideological attraction to China's political and development model.<sup>5</sup> They also have always rallied against India's 'hegemonic' and 'expansionist' designs. Their concerns are that the MCC could drag Nepal into a military alliance against China and subordinate Nepal's sovereignty to US foreign policy interests. Amid the COVID-19 crisis, the idea has also been floated of closing India and Nepal's open

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<sup>2</sup> Mallika Shakya, as quoted by Arun Budhathoki, "[China's Engagement With Nepal's Ruling Party Troubles India](#)", *The Diplomat*, 14 July 2020.

<sup>3</sup> Ananth Krishnan, "[China chairs meet with Afghan, Pak, Nepal Foreign Ministers](#)", *The Hindu*, 27 July 2020.

<sup>4</sup> C Raja Mohan, "[China now has the military power to alter territorial status quo](#)", *Indian Express*, 9 June 2020.

<sup>5</sup> Kamal Dev Bhattarai, "[Is Nepal's ruling party embracing Jinpingism?](#)", *The Annapurna Express*, 23 September 2019.

border, a suggestion which is likely to have drawn the attention of some within certain government circles.<sup>6</sup>

Instead of tying its economic destiny to one power, Nepal has the option of pursuing all viable partnerships in the region to meet its development goals. Rather than relying on ideological criteria, Nepal could focus on commercial and environmental metrics in choosing projects and partners. A balanced policy towards India and China is especially important, given the instability wrought by the COVID-19 pandemic and the complex interconnections politics, security and infrastructure are assuming. Nepal's flexibility in managing the India-China rivalry, and ability to capitalise on its economic geography, could advance Nepal's growth while also safeguarding stability in the Himalayas, a region likely to become subject to enhanced geopolitical competition.

## China and Nepal's Evolving Relationship

The past decade has been momentous for Nepal-China relations. On 1 February 2020, the Protocol for the Implementation of the Agreement on Transport and Transportation came into effect, linking Nepal to Beijing's four seaports in Tianjin, Shenzhen, Lianyungang and Zhanjiang and three dry ports in Lanzhou, Lhasa and Xigatse.<sup>7</sup> Analysts have argued that this will change two things: first, it will ease Nepal's access to markets in Central and East Asia; and second, it will ease Nepal off of its largest trading partner, India.

The protocol's implementation comes after a series of high-level agreements during Chinese President Xi Jinping's historic visit to Nepal on 12 and 13 October 2019. The two sides signed 20 deals in trade, infrastructure and security. A feasibility study of the China-Nepal railway was announced, and Xi also pledged US\$500 million (SG\$703 million) in development assistance, which conspicuously matched the amount of aid granted by the US under the MCC agreement.<sup>8</sup>

Nepal is eager to reap the benefits of China's world upending growth, especially after observing the progress made by its Himalayan neighbour, Tibet. Nepal welcomed China's BRI in 2013, but waited four years before signing onto the mega-regional infrastructure agreement. This delay was largely due to caution concerning financing and a preference for aid and grants over loans.<sup>9</sup> Such caution may also have been motivated by additional factors, such as a fear of alienating India; the pro-India leanings of the then-ruling Nepali Congress; or fear of incurring high levels of debt, given narratives of 'debt-trap diplomacy' in the region.

The ideology of Nepal's ruling elite has also recently undergone a sea change, which spurred a parallel paradigm shift regarding Nepal's foreign policy. In 2017, Nepal's two communist parties — the Communist Party of Nepal (Unified Marxist–Leninist) [CPN-UML] and CPN

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<sup>6</sup> Biswas Baral, "[New Nepali geopolitics taking shape](#)", *The Annapurna Express*, 18 April 2020.

<sup>7</sup> Anil Giri, "[China allows Nepal access to its ports, ending Indian monopoly](#)", *The Kathmandu Post*, 8 September 2018.

<sup>8</sup> Hari Bansh Jha, "[Xi Jinping's visit to Nepal: A diplomatic victory for China?](#)", Observer Research Foundation, 23 October 2019.

<sup>9</sup> Kamal Dev Bhattarai, "[Nepal's Delicate Dance with China on BRI](#)", *South Asian Voices*, 3 May 2019.

(Maoist Centre) – merged to win a landslide election victory and a majority in Parliament, thus forming Nepal’s first stable government in years. K P Sharma Oli, elected prime minister on an anti-Indian nationalist platform following India’s 2015 economic blockade (which wrought considerable havoc on Nepal’s economy), vowed to reduce trade dependency on India and increase business with China.<sup>10</sup>

To this end, Nepal’s deputy prime minister and finance minister led a high-level delegation to the first One Belt One Road Conference in May 2017, where participating countries exchanged views on synergising national development, improving connectivity and enhancing cultural connection.<sup>11</sup> At the conference, Nepal signed onto the BRI; and later during the Second Belt and Road Forum for International Cooperation in April 2019, the protocol for the Nepal-China economic corridor.

The China-Nepal railway is one of the corridor’s central components. Though expensive and nearly tripling the distance to Indian ports, the railway provides Nepal with major prospective commercial benefits. For example, it would open the Chinese market to Nepal’s exports, lower shipping times and costs, link Nepal to China’s oil refineries and boost tourism.<sup>12</sup> Before the outbreak of COVID-19, economic forecasts predicted Chinese tourism to Nepal would expand dramatically with the Nepal-China railway’s extension to Lumbini and Pokhara Valley – Lumbini, being the birthplace of the Buddha, and Pokhara Valley, Nepal’s most highly trafficked tourist destination.

In January 2019, under Chinese desire to expedite, nine from a proposed list of 35 projects were prioritised; these included three road projects, two hydro-electricity projects and one cross-border transmission line. A memorandum of understanding was also signed during Xi’s visit in October 2019 on a technical institute named after Madan Bhandari, a former Nepali communist leader – underlining the ‘soft’ dimensions of connectivity.<sup>13</sup>

Xi’s visit thus underscores the importance Beijing places on Nepal and the Himalayas amid an intensifying global rivalry with the US and regional competition with India. During the 13<sup>th</sup> round of diplomatic consultations between Nepal and China on 12 August 2020, China’s Vice Foreign Minister Luo Zhaohui emphasised implementing the outcomes of Xi’s 2019 visit as well as working together to build the One Belt One Road Initiative.<sup>14</sup>

## India and Nepal – A Complicated Relationship

India’s 2015 unofficial economic blockade is frequently cited as the main reason why India-Nepal relations plummeted and China-Nepal relations gained steam. The Indian blockade —

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<sup>10</sup> Bhadra Sharma and Kai Shultz, [“Xi Jinping Comes to Nepal Bearing Investments, and India is Watching”](#), *The New York Times*, 12 October 2019.

<sup>11</sup> Balmukunda Regmi, [“China’s BRI and Nepal”](#), *The Rising Nepal*, publication date unknown.

<sup>12</sup> Megha Gupta, [“Should India be concerned about Nepal China transit protocol”](#), Observer Research Foundation, 29 January 2020. Also see Nicola P Contessi, [“China Opens Border Connections to Nepal”](#), *YaleGlobal Online*.

<sup>13</sup> Anil Giri, [“Nepal trims projects under BRI from 35 to 9 at Chinese call”](#), *The Kathmandu Post*, 18 January 2019.

<sup>14</sup> [“China, Nepal should support each other’s core interests, says Chinese official”](#), *The Economic Times*, 12 August 2020.

which cut off critical food, medicine and petroleum supplies while Nepal was still grappling with the aftermath of the April 2015 earthquakes — incurred heavy resentment against New Delhi's tendency to strong-arm its way into Kathmandu's affairs.

Problems first emerged when the Madhesi of Nepal's Terai plains protested their lack of representation in Nepal's newly promulgated 2015 constitution. The Madhesi share ancestral roots with communities in the neighbouring Indian states of Bihar and Uttar Pradesh, and represent India and Nepal's special *roti-beti* (bread-daughter) relationship, emblemising the close cultural and marital ties shared by communities who pass unencumbered across the countries' porous border.

Protests escalated when Madhesi activists blocked India-Nepal border crossings. India's backing of the Madhesi, who share Indian ethnic origins, have muddied its relations with Nepal, raising vexing questions for the Himalayan state concerning federalism and sovereignty. Other controversial constitutional provisions regarding naturalisation have also heightened tensions, whereby Nepali men are favoured over women when conferring citizenship due to perceptions of Indian "demographic aggression" from labourers crossing over the border.<sup>15</sup>

India eventually lifted the blockade when Madhesi demands for representation in the Constitution were met, and after it had realised its strategy had been self-damaging.<sup>16</sup> Where the Indian blockade under Rajiv Gandhi in 1989 had worked to India's advantage – triggering an anti-government backlash against the feudalist Rana government and galvanising pro-democracy and liberalisation movements – the 2015 blockade resulted in just the opposite, opening the doors to China in a big way.

At its independence in 1947, New Delhi inherited the legacy of the British Raj as the protector of the Kingdom in Nepal, codified in the 1816 Treaty of Sugauli. India largely continued with that framework in the 1950 Treaty of Peace and Friendship. Nepali rulers, who felt threatened by the Chinese communist control of Tibet in 1950, turned to protection from Delhi. The protectorate framework had seemed to work well for the monarchy in Kathmandu and the imperial Raj in Calcutta. But it inevitably came under pressure as mass politics emerged and the nation's identity and international personality matured in the second half of the century. Different political formations in Kathmandu mobilised resentments against the unequal relationship with Delhi at various points; but Delhi could not get down to an overhaul of the relationship.

Independent India continued with the British policy of providing financial subsidies to Nepal; in the new era, it took the form of development assistance. India's economic aid helped develop Nepal's infrastructure, and Delhi also gave national treatment to Nepali citizens for employment. Kathmandu continued with the tradition of letting India recruit Nepalis into its Army, while India and Nepal maintained an open border.

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<sup>15</sup> Prashant Jha, "[Understanding Nepal's own 'love jihad' and the fear of Indians](#)", *Hindustan Times*, 29 June 2015.

<sup>16</sup> Shakya, op cit.

India and Nepal's mutual interdependence, however, has encountered political opposition in recent decades. Until not long ago, China has been content with a 'hands-off' approach, apparently reconciled to Indian primacy. But its proximity and economic support to Nepal always made China an important factor. Kathmandu was quite sensitive to China's security concerns, especially in relation to Tibet. As China began to rise as an economic power, its commercial footprint in Nepal began to see a steady rise in the 21<sup>st</sup> century. And as India-Nepal problems began to acquire a sharper edge, China became an increasingly attractive partner. The surge in Nepali nationalism and the political quest for improving its autonomy from India has complicated Delhi's policy challenges vis-a-vis Kathmandu.

Oli, for example, made waves in May 2020 when he endorsed the constitutional amendment modifying Nepal's map to include certain disputed, Indian-claimed territories. When the Co-Chair of the NCP, Pushpa Kamal Dahal, allied with other party members to force Oli's resignation, Oli shifted the blame for the ouster on India. Finally, not long after Indian Prime Minister Narendra Modi laid the foundation stone for the new Ram temple, Oli also controversially stated Ram was born in southern Nepal. Oli's politics have thus been viewed to oscillate between pragmatism and toughness on India to shore up domestic political support, while also demonstrating his continued usefulness to China.<sup>17</sup>

## The Economic Outlook

Despite the fanfare surrounding Nepal's presumed tilt towards Beijing and enthusiasm for China's BRI, it is necessary to see the surrounding geopolitics. Nepal has just two neighbours – India to the south and China to the north. Maintaining good relations with both is a sensible proposition. Equally understandable is the fact that Nepal, one of the world's least developed countries, should take advantage of all external support to advance its economic modernisation.

Within this broad framework, though, there has been an evolution. Nepal was tied closely to the British Raj, acting as an extension of the world's superpower from the early 19<sup>th</sup> to the mid 20<sup>th</sup> century. Strong ethnic links and their economic geography reinforced this connection. Once a strong China emerged to the north in the middle of the 20<sup>th</sup> century, and Nepal saw independent India as distinct, Kathmandu's geopolitical navigation between the north and south began to change.

Until well into the 21<sup>st</sup> century, Nepal saw no need to alter its natural orientation to the south, since its Terai plains are the most economically productive and merge seamlessly into the Indo-Gangetic plains. Unsurprisingly, most of Nepal's trade flows were to the south, and its international exports and imports were through the nearest port, Kolkata. China's dramatic economic rise (marked by its capacity to bring investments and undertake massive projects) and India's unwise attempt to turn the natural economic geography into political leverage (as seen in the blockade of 2015) significantly increased Kathmandu's incentives for diversification.

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<sup>17</sup> Shishir Gupta, [“Cornered by rivals, PM Oli is back with a ‘ludicrous’ claim on Ram’s birthplace”](#), *Hindustan Times*, 9 August 2020.

China, in turn, had an opportunity to present itself as a benign and productive economic partner. The emergence of a strong government of the Communists, ideologically hostile to India, provided an enabling environment. Since 2015, China has become Nepal's second largest trading partner and largest source of foreign direct investment (FDI). With major sectors of infrastructure and hydropower, China is also providing technical assistance and support to Nepal in such key areas as coordination for trade and business, the upgrading of economic zones and financial integration.<sup>18</sup>

Nepal is in turn reciprocating by supporting China on a range of issues, such as Beijing's sovereignty over Hong Kong; prioritising Chinese railway models<sup>19</sup>; and increasing coordination between the Chinese security agency and Nepali police. Nepal put its preferences in this great power rivalry on sharp display when it eschewed participation in the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) counter-terrorism exercises in 2018 in favour of drills with China that same month. One reason postulated for why Nepal favoured China over India is the reservation that BIMSTEC is an Indian-driven anti-Chinese military alliance.<sup>20</sup>

## Competing Economic Diplomacies

New Delhi realises that the battle for influence in Nepal must be waged through pocketbooks, that is, enhancing connectivity and delivery. This challenge has been made more difficult due to the financial resource constraints it faces compared to China. This is one reason why India has hit the pedal on its economic diplomacy, as it tries to undo the damage done to the bilateral relationship during the blockade.

Though India's FDI to Nepal decreased from US\$350 million (S\$495 million) in 2014-15 to US\$118 million (S\$25.5 million) in 2015-2016, India's financial aid to Nepal nevertheless increased by 73 per cent between 2017-2019.<sup>21</sup> Over the past decade, Delhi has also stepped up its railway diplomacy. In 2009, India announced US\$10.88 billion (S\$15.3 billion) in assistance for railway expansion at five places along the border.<sup>22</sup> India's External Affairs Minister (EAM) Subrahmanyam Jaishankar has also recently contributed to spurring pending connectivity "languishing and incurring massive time and cost overruns."<sup>23</sup>

In August 2019, the EAM visited Kathmandu to participate in the Nepal-India Joint Commission to chart out a "comprehensive economic partnership";<sup>24</sup> this included an exchange of views on the review of the 1950 Nepal-India Peace and Friendship Treaty; treaties and agreements related to trade, transit and rail services as well as the upgrade of

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<sup>18</sup> Madhavji Shreshta, "[Nepal's Posture over BRI](#)", *The Rising Nepal*, publication date unknown.

<sup>19</sup> Arun Budhathoki, "[China and India Are Fighting Over Nepal's Railways](#)", *Foreign Policy*, 25 October 2019.

<sup>20</sup> Constantino Xavier, "[Interpreting the India-Nepal Border Dispute](#)", Brookings Institute, 11 June 2020.

<sup>21</sup> Hari Bansh Jha, "[Chinese Investments in Nepal in the Context of BRI](#)", *Vivekananda International Foundation*, 11 October 2019.

<sup>22</sup> Tariq Rashid Wani and Virendra Chawre, "India, China and Nepal Relations: An Analysis", *International Journal of Humanities and Social Sciecne Research*, Vol. 3, No. 2, February 2017.

<sup>23</sup> Jaideep Mazumdar, "[Fast-Track Projects & Counter China: Jaishankar's Formula to Fix India-Nepal Ties](#)", *Swarajya*, 13 September 2019.

<sup>24</sup> Anil Giri, "[As Nepal, India eye renewed ties, some irritants continue to persist](#)", *The Kathmandu Post*, 2 June 2020.

infrastructure and logistics facilities on the border.<sup>25</sup> Jaishankar approved ₹233 crore (S\$43.2 million) for infrastructure, including ₹ 80.71 (S\$14.9 million) for postal roads in the Terai, and advanced the Arun-3 hydropower project, which will provide up to 900 megawatts of electricity.<sup>26</sup>

America's MCC project offers complementary benefits. The MCC is a five-year grant programme established by the US Congress in 2004 as a bilateral foreign aid agency. The Nepal Congress applied for the grant in 2012, and Nepal's Finance Minister signed the agreement in 2017. MCC compacts (of which there are 37 in 29 countries, as of 2019) must meet at least 10 of 20 eligibility criteria in areas such as democracy, business conduciveness and transparency.<sup>27</sup> According to the Nepal Treaty Act, the agreement must also be ratified by parliament, as certain provisions prevail over Nepali laws.

The MCC is the largest grant Nepal has ever received, for which Kathmandu is also chipping in US\$130 (S\$176.9 million) for priority projects. The MCC's includes a 300-kilometre high-voltage power line, a cross-border transmission line to India and a road maintenance project of 300 kilometres along the East-West Highway.<sup>28</sup> However, the MCC, like the IPS, has come under attack for fear it would antagonise China or jeopardise the trans-Himalayan railway. The MCC was expected to pass parliament without hassle, and implementation was scheduled for June 2020. Controversy then erupted after a US State Department official declared the MCC to be a part of the IPS.<sup>29</sup> Due to failure to ratify, MCC aid has stopped since October 2019. As June 2020 ended, the US urged the Nepal government to take "tangible, near-term steps to ensure the continued viability of the program."<sup>30</sup>

## Why Ideology Matters

China's infrastructural expansion into Nepal has also been accompanied by ideological interlinkages. Communist ideology thus also plays a role in Nepal's decision-making regarding whether it will participate in connectivity projects. Some Maoist generally believe the US is "anti-communist", which, as an imperialist power, would inevitably seek to take advantage of Nepal's status as a peripheral country.<sup>31</sup> Many NCP leaders and cadres have also received anti-capitalist educations, and participate in training programmes in China to learn from Xi-style politics and development.<sup>32</sup>

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<sup>25</sup> ["Nepal, India discuss bilateral issues"](#), *The Voice of Madhesh*, 22 August 2019.

<sup>26</sup> "India provides Rs 233 crore financial aid to Nepal for infrastructure projects", *The Economic Times*, publication date unknown.

<sup>27</sup> Binod Ghimire, ["Why the MCC compact courted controversy in Nepal"](#), *The Kathmandu Post*, 9 January 2020.

<sup>28</sup> Millennium Challenge Corporation [official website](#).

<sup>29</sup> The MCC also appears in the 2019 report on the [US Indo-Pacific Strategy](#), published by the Department of Defense.

<sup>30</sup> ["Tangible steps necessary to ensure continued viability of MCC: US Embassy"](#), *Khabarhub*, 2 September 2020.

<sup>31</sup> Rumela Sen, ["Nepal's Shift Rightward After the Revolution"](#), East Asia Forum, 26 January 2019.

<sup>32</sup> Kripendra Amatya, ["Can Nepal's Communist Party Survive Closer Ties with the US?"](#), *The Diplomat*, 25 February 2020.



As an example of such close ideological interlinkages, Kathmandu hosted a two-day symposium in 2019 titled 'Xi Jinping's Thoughts on Socialism with Chinese Characteristics', which was attended by Prime Minister Oli and other top brass of Nepal's ruling party. The doctrine outlines China's ambitions for the 21<sup>st</sup> century – eradicating poverty, building a world-class military, opening markets and transforming China into a world power – a doctrine first taught in China and now exported to outside countries.<sup>33</sup>

The export of 'Xi Jinping Thought' is in keeping with Beijing's efforts to nurture an intelligentsia sympathetic to China's model of economics and governance.<sup>34</sup> China has over time increased its cultural and ideological presence in Nepal by setting up Confucius Institutes, dispatching hundreds of Mandarin teachers, bringing Nepalese scholars to China and boosting tourism.

The interplay between ideology and connectivity is manifesting most explicitly around the debate concerning US intent behind the IPS. The Chinese Foreign Ministry released a statement in September 2019, after a discussion with the NCP Co-chair Dahal, stating "Nepal ... disagrees with the so-called Indo-Pacific strategy, and opposes any attempt to contain or thwart China's development."<sup>35</sup> Dahal, once 'Prachanda' of the Maoist insurgency – who decried "American imperialism" and called for the "dirty Yankee" to "go home"<sup>36</sup> – has struck several anti-American stances during his time in office, some of which PM Oli has had to walk back. Over the past year, their feuds have broken out into the open, requiring China's ambassador to Nepal in April 2020 to intervene. Allegedly, China played a major role in uniting the NCP; the move thus showcases China's long-term investment in the NCP's "controlled" stability.<sup>37</sup>

This logic has also been extended to the MCC, an economic component of the IPS. The MCC debate is divided into three camps — the first opposed, the second seeking clarification and the third arguing for ratification, for fear of what such a failure could portend for Nepal-US relations.<sup>38</sup> Oli, the opposition Nepal Congress and Foreign Minister Pradeep Kumar Gyawali are in favour of ratifying. However, the former House speaker, Krishna Bahadur Mahara, initially delayed the process; later, dissident factions led by Dahal rose up around the MCC in opposition to Oli.<sup>39</sup> The NCP's inability to pass the agreement reflects a brewing power struggle. A special task force to mitigate differences has proposed ratifying with amendments; however, as the compact has been approved by the US Senate, this will not be possible.

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<sup>33</sup> Anup Khaple, "[A Blueprint for Consolidating Power: China exports Xi Jinping Thought to Nepal](#)", *The Kathmandu Post*, 25 September 2019.

<sup>34</sup> Binod Ghimire, "Xi arrives, heralding the rise of an influential geopolitical actor in Nepal", *The Kathmandu Post*, 13 October 2019.

<sup>35</sup> Kamal Dev Bhattarai, "[Amid China-US Rivalry, India Maintains Low Profile in Nepal](#)", *The Diplomat*, 3 October 2019.

<sup>36</sup> Bruce Vaughn, [CSS Report for Congress](#) (Nepal: Background and US Relations), Foreign Affairs, Defense, and Trade Division, 2 February 2006.

<sup>37</sup> Arun Budhathoki, op cit.

<sup>38</sup> Tika R Pradhan, "[Divisions in the ruling party over the MCC put Oli government in a bind](#)", *The Kathmandu Post*, 23 February 2020.

<sup>39</sup> Kunda Dixit, "[Hammer Vs Sickle](#)", *Nepali Times*, 18 June 2020.

## Conclusion

India will always remain an important partner for Nepal, since the two share a natural geography. For Nepal, Kolkata will also always be closer port than Shanghai. Although India will not be able to deliver large investments like China, it can make better use of its geographic advantages. An India that can overcome political differences with Nepal and enhance its economic connectivity has the potential to shape Nepal's economic evolution. India's share in Nepal's total trade is 61.2 per cent; at present, it also accounts for almost 100 per cent of Nepal's oil.<sup>40</sup> Though the pipelines opened through the BRI will eventually lessen Nepal's energy dependency, the inauguration of the India-Nepal pipeline from Motihari to Amlekhgunj will reinforce this energy dependence. Second, given the importance of the Madhesi in Nepal's political makeup, addressing their needs ensures a continued inter-state dialogue, such as in maximising agricultural productivity in the bordering Terai plains.

In the 20<sup>th</sup> century, introspective socialisms stymied South Asian inter-state connectivity and cooperation. As assertive nationalisms and the logic of power balancing returns, Nepal's crucible will be to maximise growth through connectivity while also not over-aligning with either side. In the 1960s, Nepal played the 'China card' against India. Nepal's geography foretells it will similarly want to hold onto the 'India card' for the future. Given its democratic moorings, the door will always remain open to India following a change in government, unless Nepali federalism also witnesses a setback. Correspondingly, as China's influence over Nepal deepens, it may cease to be seen by Nepalis as the same distant, equanimous partner.

Too much geopolitical competition and bandwagoning could throw a cold blanket on Nepal's growth story. However, as the world slides into a 'Cold-War'-like mentality, a dynamic multilateralisation of issue-based partnerships is also taking place. A window is thus opening through the MCC and Indo Pacific to integrate with the world. Nepal should thus capitalise on its influx of connectivity offers while also taking the lead as a stabilising force; it must 'land-link' across the mountains and toward the sea in in the fullest sense of the term, through all viable partnerships, to preserve prosperity even as zero sum great power politics rears its head.

A smart ruling elite can navigate the upcoming risks and opportunities. Indeed, for Nepal to achieve its development goals for 2030, it will have to attract infrastructural investment at a rate higher than what it is attracting now.<sup>41</sup> The MCC and IPS offer Nepal lucrative routes for collaboration. In a positive direction, Prime Minister Oli attended the meeting the World Economic Forum in Davos in January in 2019 to entice international investment.<sup>42</sup> Defence Minister Gyawali also participated in the Fourth Indian Ocean Conference in September 2019, where he shared Nepal's goals of linking the mountains with the Indian Ocean.<sup>43</sup> As

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<sup>40</sup> Alakh Ranjan, "Neighbourhood First: India's Policy Towards Nepal", Vivikenanda International Foundation, 1 October 2019.

<sup>41</sup> Shakya, op cit., pp. 346.

<sup>42</sup> Kamal Dev Bhattarai, op cit.

<sup>43</sup> ["Foreign Minister stresses preserving ecological balance in Himalayas to address climate change"](#), *The Himalayan*, 4 September 2019.

Nepal's connectivity to 'East South Asia' improves through the BBIN, it will also want to act as a nexus for trade and emergent trade zones, particularly in Northeast India, where Nepal shares cultural affinities.<sup>44</sup>

Staunch ideological support to China, comparatively, could have the unwanted effect of aggravating security concerns and drawing an iron curtain down on the region. Politics need not entail economic partitions. Nepal should thus focus on development, delivery of public goods and restoring its legacy on the Great Silk Road to bridge two civilisations and economic systems. Mountains lie on fault lines; the question for Nepal will be whether it can bridge the chasm of reshuffling supply chains among like-minded countries, or if it will be torn asunder by geopolitical rifts. As strategic multilateralism increases in the 21<sup>st</sup> century, the pragmatic 'middle path' must prevail over the tilt to extremes.

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<sup>44</sup> Shakya, op cit., pp. 262.