



NEPAL'S FOREIGN POLICY IN A CHANGING WORLD

Editors

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Nepal's Foreign Policy in a Changing World

December 2022

Edited by Pramod Jaiswal and Amit Ranjan

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Introduction

Pramod Jaiswal

Summary

Nepal has undergone tremendous changes since it became republic in 2008. With the promulgation of the new Constitution drafted by the elected people's representatives in 2015, Nepal has diversified its foreign relations by engaging with nations beyond India and China. This volume, through nine chapters by Nepalese scholars and practitioners of foreign policy, brings together a diverse understanding of the multiple nuances in Nepal's foreign policy in the changing geopolitical context.

For a country engrossed in domestic turmoil and political struggle for more than 60 years since the 1960s, the promulgation of a new Constitution in 2015 was perceived as a light at the end of the tunnel.

From war to peace, from autocracy to democracy, from an exclusionary and centralised state to a more inclusive federal form of governance, Nepal has struggled through difficult political transitions over the last two decades (specifically between 1996 and 2016). It was not until 2015 that Nepal finally set out on a journey of peace and development. For a country engrossed in domestic turmoil and political struggle for more than 60 years since the 1960s, the promulgation of a new Constitution in 2015 was perceived as a light at the end of the tunnel. Today, Nepal stands at the 108th position among 194 countries in the Global Stability Index.¹ As the probability of stability grew, so did Nepal's foreign policy engagement, leading to increased attention from the international arena.

Since Nepal enacted the new Constitution in 2015, several high-level visits from the major powers in the region have taken place. In 2014, Narendra Modi became the first Indian prime minister to visit Nepal after 17 years while Xi Jinping became the first Chinese president to visit Nepal in two decades in 2019. As Nepal seeks stability, the country also aims to diversify its foreign relations by engaging with nations beyond India and China, and development partners like the

¹ "Political Stability, 2020 – Country Rankings", The Global Economy, https://www.theglobaleconomy.com/rankings/wb_political_stability/.

United States (US), the United Kingdom and Japan. Nepalese Prime Minister K P Sharma Oli's visits to Qatar in 2018 and Vietnam and Cambodia in 2019, for instance, clearly indicate Nepal's attempt to foster its ties with the extended neighbourhood.

Apart from prospects of relative stability, the current geopolitical scenario also directs the major powers' attention towards Nepal. As the global powers seek to exert influence in the South Asian region, Nepal – a peripheral neighbour of India and China – has not remained immune to their influence. This has become more explicit as the engagement of the global powers with Nepal is actively explored in the economically promising yet geostrategically competitive infrastructural projects such as China's Belt and Road Initiative (BRI) and the US Millennium Challenge Corporation (MCC). Balancing the BRI and the MCC has become a matter of contention, leading to an internal polarisation within Nepal's political debates. Hence, the escalation of the Sino-India rivalry and the emergence of the Quadrilateral Security Dialogue (Quad) establish the fact that Nepal can no longer afford to remain a buffer state but should strive to become a vibrant bridge with a larger role to play.

To this end, the chapters in this edited volume bring together a diverse understanding of the multiple nuances in Nepal's foreign policy and its evolving role in the changing geopolitical context. Once limited in its geopolitical scope, the land-locked state is now being courted by various parties for their strategic interests, including the competing connectivity projects of the major powers – the US, India and China. As these three competing powers realise Nepal's increasingly important geostrategic role in the region, its position in the entire global order has also undergone a change. The chapters attempt to provide answers to some of the most pertinent questions on the direction of Nepal's foreign policy, the rationale for the country to diversify its relations beyond its immediate neighbourhood and the possible benefits to Kathmandu through its engagement in regional and multilateral forums.

As these three competing powers realise Nepal's increasingly important geostrategic role in the region, its position in the entire global order has also undergone a change.

It also highlights Nepal's ties with the great powers and its economic worldview.

This publication aims to assess Nepal's engagement with the world in recent times and to look at Nepal's attempts to understand changes in the contemporary global power structure. The study involves Nepalese scholars and practitioners of foreign policy and it lays out a comprehensive framework that focuses on Nepal's engagement with its important neighbours, India and China as well as with Southeast Asia; its involvement at the United Nations (UN); and its contribution to UN peacekeeping and other regional and multilateral organisations. It also highlights Nepal's ties with the great powers and its economic worldview.

This publication consists of 10 chapters.

The first chapter, 'Worldviews Shaping Nepal's Foreign Policy', authored by Shambhu Ram Simkhada, discusses the evolution of Nepal's foreign policy behaviour throughout the different periods and analyses the internal and external influences on the country's foreign policy.

The next chapter by Meena Vaidya Malla on 'Nepal and India: Reflections on Special Relations' captures perspectives on issues pertaining to India-Nepal relations with a focus on the recent border disputes that have challenged the special nature of the bilateral relationship. She also provides reasons to reflect on their 'special relations'.

In the third chapter titled 'Changing Contours of Nepal-China Relations', I throw light on the great power competition between China, India and the US in Nepal in the coming days.

Similarly, the fourth chapter, 'Nepal and the Major Powers', by Sanjeev Humagain and Sumitra Karki, reflects on the gaps between Nepal's economic and political relationships with the other major powers.

The fifth chapter, 'Nepal's Relations with the ASEAN Member States', by Khaga Nath Adhikari, captures the relations between Nepal and the individual member states of the Association of Southeast Asian

Nations (ASEAN). He also suggests possibilities of cooperation in institutional relationships between Nepal and ASEAN.

Next, Bibek Chand focuses on ‘Nepal and Regionalism: Convergence of Geo-economic and Normative Interest’ in the sixth chapter. He raises the important discussion on Nepal’s commitment to regionalism. He notes that the convergence of Nepal’s geo-economic and normative commitments offer it opportunities to overcome limits tied to its status as a small power.

Following this, the chapter on ‘Level up the Foreign Policy Pace or Rust in Peace: Nepal’s Contribution to UN Peacekeeping’, authored by Antara Singh, deliberates on Nepal’s position in the UN peacekeeping and takes a critical stance on Nepal’s competence in the peacekeeping domain.

The eighth chapter, ‘Nepal’s Landlocked and Least Developed Country Status’, by Gyan Chandra Acharya, deliberates extensively the impact of Nepal’s landlocked situation and least developed status on its trade and economy.

The penultimate chapter, ‘Ratification of the MCC Nepal Compact: Domestic Political Implications’ by Wini Fred Gurung and Amit Ranjan examines the events leading to the ratification of the MCC by the Nepal parliament in February 2022. At the same time, it addresses the difficult question of its ramifications on the country’s politics as well as on the upcoming elections.

At the same time, it addresses the difficult question of its ramifications on the country’s politics as well as on the upcoming elections.

Deepak Prakash Bhatt and Sunaina Karki contributed the final chapter on ‘Navigating Nepal’s Economic Diplomacy and Worldview’, which dissects issues of foreign aid, economic diplomacy, remittance, connectivity and development projects in the country.

As the chapters in the volume coalesce, the cumulative picture that emerges will prove to be an instrumental guide for practitioners, scholars and Nepal observers on pertinent issues pertaining to Nepal’s foreign policy.

Worldviews Shaping Nepal's Foreign Policy

Shambhu Ram Simkhada

Summary

Since its unification in 1768, Nepal has preserved its sovereignty by pursuing a foreign policy of strict to selective isolation and active internationalism. However, historically, the domestic politics-foreign policy balance sheet is not so rosy. From a long Hindu monarchy to the secular federal democratic republic, Nepal is now undergoing a dramatic internal transition. The neighbouring region and the world are also experiencing significant changes. With the global political, economic and strategic epicentre shifting to the Indo-Pacific and the Trans-Himalayas, Nepal's search for a creative new balance amongst internal transition and foreign policy considerations as well as active internationalism and regional focus to best serve its national interest is testing the political-diplomatic skills of Nepal's republican rulers.

These two aspects of foreign policy make continuity-change and domestic politics-foreign policy interfaces significant and complex.

In any state policymaking, an irreducible core – sovereignty, territorial integrity and political independence – is defined as vital national interests.¹ Such interests remain outside the arena of domestic political changes. But state policies, including foreign policy, are decided by the political elite based on their perceptions, ideologies, worldviews and interests, socio-economic priorities and cultural affinities. These two aspects of foreign policy make continuity-change and domestic politics-foreign policy interfaces significant and complex. This chapter briefly looks at the ongoing internal political changes shaping Nepal's foreign policy since its unification to the current Triumph and Trauma of Transition.²

¹ Frederick H Hartmann, *The Relations of Nations* (New York: The Macmillan Company, 1957), p. 6.

² For a perspective on the ongoing political transition in Nepal from its long Hindu monarchy to constitutional monarchy and liberal multiparty democracy to its present secular federal democratic republican order and how this is affecting all facets of Nepali society, see Shambhu Ram Simkhada, *Triumph and Trauma of Transition* (Kathmandu: SANRAB Publications, 2021).

Making of Nepal and its Foreign Policy of Isolation

Since it was unified in 1768, the worldviews of Nepali rulers shaping the foreign policies they pursued can be divided into three phases – strict isolation and cautious non-alignment; selective isolation to active internationalism; and the current search for a creative new balance. To begin with, the Nepali state formation took place at a unique stage in Asian and world history. To the north of Nepal, the ancient and advanced Chinese civilisation and powerful Chinese Empire were on the decline due to internal problems and external pressure. In the South, the fractured Mughal rule over traditionally Hindu-Buddhist India was replaced by expansionist Christian Britain, consolidating its hold on the subcontinent and beyond. Aware of the evolving regional geostrategic context, the founder of the unified Nepali Hindu monarchy described Nepal as “a yam between two boulders”.³ He realised the limitation in the country’s use of power in a sensitive geostrategic location between two great powers and thus decided to adopt a foreign policy of strict isolation and cautious non-alignment.

Aware of the evolving regional geostrategic context, the founder of the unified Nepali Hindu monarchy described Nepal as “a yam between two boulders”.

Selective Isolation to Active Internationalism

The first Nepal-Tibet War (Gorkha-Tibet War) of 1788, in which Nepal invaded some districts of Tibet, was an early sign of the longer-term change in Nepal’s worldview shaped by weakening China and strengthening British presence along Nepal’s south, east and west directions. This shift ultimately led to the lean on one side more clearly pursued by the Ranas in their 104 years (1846 to 1951) hereditary rule. Subservience to Britain was seen as essential for Nepal’s independence as well as their own regime survival.⁴

³ Many of his prescriptions on both internal governance and foreign policy are contained in Baburam Acharya and Yogi Naraharinath, *Brilliant counsel of King Prithvi Narayan Shah the Great* (Kathmandu, Kartik 2061 BS [Nepali], Third Edition, 2004).

⁴ One could argue which came first – national interest or regime survival? But there is no denying that the Ranas succeeded in protecting Nepal’s sovereignty and saving their regime for 104 years through skillful diplomacy.

War to Friendship

The Anglo-Nepali War of 1814-15 and the 1816 Treaty of Sugauli limited Nepal's diplomatic outreach to Britain. Nepal Britain Friendship Treaty of 1923 not only formalised the return of the territory Nepal lost during the 1814-15 War but also explicitly recognised Nepal's sovereignty. This eventually cleared the way for the appointment of Nepal's envoy to London in 1934.

Winds of Change

Asserting its historic independence in the international realm received new impetus after India gained independence in 1947.

With the strong winds of decolonisation, particularly in the Indian subcontinent, strengthened by the aftershocks of the World Wars, Nepal saw the need to expand its diplomatic outreach. Asserting its historic independence in the international realm received new impetus after India gained independence in 1947. The Rana regime was replaced by a revolutionary change in 1951, and B P Koirala was elected as the country's first democratically elected prime minister in 1959.

Active Internationalism

Koirala brought a new perspective to international relations.⁵ His address to the United Nations (UN) General Assembly (UNGA), preference for strengthening relations with China, official visit to Israel and establishment of formal diplomatic ties with the opening of the Israeli embassy in Kathmandu when there were no Israeli embassies in this region reflected Koirala's worldview. Personally, friendship with Israel must have been his way of showing solidarity with the injustices suffered by the Jewish people in World War II. His political and foreign policy interest in befriending Israel as a way of gaining the support of the increasingly powerful United States (US) for Nepal's nascent democracy, his role as its champion and all of this serving

⁵ Purushottam Basnet, *Outline of the History of Nepali Congress*, (Kathmandu, Shikha Books, 2009), p. 543.

Nepal's national interest in the emerging regional context could not be discarded.⁶

King Tribhuvan was considered instrumental in ending the Rana family autocracy by cooperating with India and the movement for democratic changes spearheaded by the Nepali Congress party under Koirala's leadership.

An ambitious young Crown Prince Mahendra succeeded his father King Tribhuvan. In domestic politics, Mahendra could not reconcile with Koirala and democracy. So, the popularly elected government, with a three-quarter majority in Parliament, was deposed in a military coup. The Parliament was dissolved, and Koirala and his Nepali Congress senior colleagues were jailed. However, in foreign policy, Mahendra continued with Koirala's active internationalism and expanded it as the best means to protect Nepal's national interest in the face of changing geopolitics in the region and beyond.

By the time Britain started withdrawing from the subcontinent, Nepal had already established diplomatic relations with the US on 25 April 1947, India on 13 June 1947, France on 20 April 1949, the People's Republic of China on 1 August 1955 and the Soviet Union on 20 July 1956. It obtained UN membership in 1955 and had diplomatic relations with all the permanent members of the UN Security Council (UNSC). By 1970, Nepal had established diplomatic relations with almost 50 countries.

By 1970, Nepal had established diplomatic relations with almost 50 countries.

Active internationalism continued during the Panchayat era (1960-1990), with King Birendra proposing Nepal as a Zone of Peace (ZOP) at his coronation in 1975. Active internationalism received new energy after the restoration of democracy in 1990 and even after the transition from monarchy to the secular federal democratic republic in 2008. Nepal now has diplomatic relations with 155 countries and 33 diplomatic missions abroad. There are now resident diplomatic

⁶ There is considerable debate on what this bold initiative did to Koirala personally as well as Nepal's democracy but, despite his short stint in power, he remains the single most significant political leader of modern Nepal.

missions of 28 countries in Kathmandu with many consulates. Nepal also hosts resident offices of 30 UN entities, over 30 bilateral and multilateral aid missions and the South Asian Association for Regional Cooperation (SAARC) Secretariat. It is currently the second-highest troop contributor to UN peacekeeping operations.

Search for a Creative New Balance

These treaties signalled Nepal's search for a balance in the immediate neighbourhood.

The early push for active internationalism reflected Nepal's struggle for survival in a region and a world that were beginning to change. After Chinese intervention in Tibet, Nepal and independent India inked the 1950 Treaty of Peace and Friendship. Later, Nepal established diplomatic ties with China in 1955, which led to the signing of the Treaty of Peace and Friendship in 1960 and the Border Treaty in 1961. These treaties signalled Nepal's search for a balance in the immediate neighbourhood. The ZOP proposal reflected Nepal's desire not to get drawn into the Indo-Chinese rivalry. Membership of the UNSC twice (in 1967-68 and 88-89), active participation in the UN and the Non-Aligned Movement, initiating the establishment of SAARC in 1985, and developing relations with the US and all permanent members of the UNSC were intended to compensate for Kathmandu's limitations in the use of national power through diplomacy.

Balance Sheet

How has this foreign policy interfaced with Nepal's politics and geopolitics? On the bright side, the country has been able to protect its sovereignty, territorial integrity and political independence and remain active in many regional and global forums. What contributed more may be debatable, but the combined domestic politics-foreign policy picture is not rosy.

The torchbearer of the democratic awakening and initiator of active internationalism was deposed and died struggling to restore democracy. The ZOP proposal – the most important foreign policy initiative of the King who presided over the system established by ending democracy – became a failure despite the support from

over 116 countries. Under domestic and international pressure, the Hindu monarchy was forced to relinquish power and, ultimately, the throne. Despite its glorious history and outstanding peacekeeping role worldwide, defence diplomacy could not prevent Nepal from suffering a decade-long insurgency or protect its most important traditional institution. Leaders who have successfully led profound changes are struggling to institutionalise their achievements. The value of non-alignment has been debatable. Nepal has lost its bids for top positions in the UN and UNGA presidency and a seat on the UNSC. Despite successive governments making it one of the foreign policy priorities over the last 20 years, refugees entering Nepal have not returned to their home countries. Nepali workers are the lowest paid and least protected in major labour markets. With Kathmandu as the headquarters and Nepal the current Chair, in its current state, what good is the SAARC?

Leaders who have successfully led profound changes are struggling to institutionalise their achievements.

Equidistance

Talking about the strategic nature of relations with India and China, Nepal's best-known scholar-diplomat, Yadu Nath Khanal, has long suggested that failing to take their sensitivities into account will mean the failure of Nepal's foreign policy.⁷ The Panchayat rule followed active internationalism with equidistance (equi-proximity) between the two neighbours, reflecting the important domestic politics-foreign policy interface. Rising China is seen as a benign neighbourhood power, and China's hands-off approach to other countries' domestic politics, and Nepal's steadfast 'One China' policy, made Chinese communists and Nepal's monarchy reliable partners.

Independent India continued with the British-era definition of the Himalayas in the North and the seas in other directions as its security perimeter added to Nepali unease.⁸ The monarchy's concerns were exacerbated by Indian support for democratic political movements within Nepal against the King's rule and the takeover of Sikkim. These

⁷ Yadu Nath Khanal, "Nepal After Democratic Restoration", (Kathmandu: Ratna Pustak Bhandar, 1996).

⁸ Called the Nehru Doctrine, this view was initiated by Lord Curzon, British Viceroy of India, from 1899 to 1905.

contributed to Nepal's policy of equidistance between China and India. Indian sensitivity to equidistance acquires a new dimension now with India's centrality in major power contests in the Indo-Pacific.

Republican Nepal's Foreign Policy Challenges

The left nationalists became even more vocal in their support for the policy of equidistance.

Following the changes in 1990, sections of the new political elite saw themselves as culturally closer to India and inspired by democratic India and the West. The left nationalists became even more vocal in their support for the policy of equidistance. Despite mixed views on their origin, the Maoists, after their 1996 insurgency, threatened to turn Nepal into "dynamite" in a "tunnel war" against expansionist (India) and imperialists (US). Once in power, they changed the revolutionary rhetoric, but the Third Wave, which brought the world's first democratically elected government of Marxists-Leninists-Maoists to power, has further intensified internal divide and external demands.⁹

As a result of foreign policy fallout, the Mahakali Treaty with India has been languishing since 1996. The gradual normalisation of relations affected by the Indian blockade after the promulgation of the secular federal democratic republic Nepali Constitution in 2015 is now seriously complicated by the border dispute. The Eminent Persons Group (EPG), which was created by both governments in 2016, submitted a report in 2018 which demanded a review of the 1950 Treaty of Peace and Friendship.¹⁰ However, it was placed in a deep freezer. India is yet to respond to Nepal's requests for discussion on the border issue. Despite historically deep and wide-ranging bonds of history, geography, politics, economics, religion and culture, Indian Prime Minister Narendra Modi's question to Indian Ambassador to

⁹ As a high-level NC party delegation was visiting India to strengthen ties with the BJP, Chinese Ambassador in Nepal was calling on Nepali communists to unite. For the ripples of the ongoing political changes in Nepal beyond its borders, see Shambhu Ram Simkhada, "Third Wave in Nepal", in *Nepal India China Relations in the 21st Century* (Kathmandu: SANRAB Publications, 2020), as well as *Triumph and Trauma of Transition*, op cit. p. 1.

¹⁰ Article 51 of the Constitution of Nepal 2015 has made review of past treaties as one of the policies of the state.

Nepal Ranjit Rae – “Why don’t they like us?”¹¹ – underscores the challenges that politicians and diplomats on both sides face.

After the Indian blockade, Nepal’s Prime Minister K P Sharma Oli signed the Transit Treaty with Beijing during his visit to China in 2016. This was followed up by Nepal joining the Chinese-led BRI. However, the progress report on BRI projects demonstrates that the Trans-Himalayan connectivity is easier to conceptualise than to implement. Controversy over the US\$500 million (S\$702 million) MCC signed several years put a dampener on US-Nepal relations. It was only ratified by the Nepal parliament in February this year.¹² These are samples of Nepal’s relations with the major powers.

These are samples of Nepal’s relations with the major powers.

Nepal’s politics and geopolitics are interconnected. That is why restoring trust in foreign policy and bringing the profound internal political changes to a meaningful conclusion without prolonging the democratic transition will continue to challenge Nepal’s republican leaders. Revision of treaties and the return of the land included in the new map through negotiations incorporated in the Common Minimum Programme,¹³ slow ratification of the MCC, resolving the newly surfaced border issue and not allowing the “problem free” relations with China will test the political and diplomatic skills of the current five party coalition government-led by Nepali Congress President and five-times Prime Minister Sher Bahadur Deuba.

¹¹ Ranjit Rae, Kathmandu Dilemma- Resetting India-Nepal Ties (India: Penguin Random House India, 2021), p. 1. For more perspective on vitality but also complexity and sensitivity in India-Nepal relations, see “Decoding the Matrix of Indo-Nepal Relations”, the SRS Conundrum in Nepal India China Relations.

¹² Remarks by US Ambassador to Nepal, Randy W Berry at the Institute of Strategic and Socio-Economic Research, Nepal Foreign Affairs, 27 September 2019, <https://nepalforeignaffairs.com/no-one-has-joined-the-u-s-indo-pacific-strategy-ambassador-berry-full-text/>.

¹³ “CMP of the Coalition”, Editorial, *The Himalayan Times*, 10 August 2021, <https://thehimalayantimes.com/opinion/editorial-cmp-of-the-coalition>.

Nepal and India: Reflections on Special Relations

Meena Vaidya Malla

Summary

Protracted border disputes between Nepal and India, along with several other underlying issues, have disrupted their special relationship, which was viewed positively earlier. Serious efforts from both sides are needed to restructure relations in ways that reflect the changing realities of the region's geopolitics and international order and pragmatically address popular sentiments in the 21st century.

Introduction

Bilateral relations between Nepal and India, two close South Asian neighbours, have been lauded as special and unique for centuries. The people of both countries enjoy free movement across the border, commonly enter into cross-border marriages and share military expertise, for instance, the head of their armies are also the honorary heads of each other's national armies.

Each high level exchange has played a significant role in furthering bilateral relations, be it in politics, trade, infrastructure or people-to-people relations.

Despite differences in geographic size, population, economy, capability and development status, their shared socio-culture bonds, political affinity, geographic proximity and people-to-people ties have brought the two countries close together. Ever since the establishment of diplomatic relations between the two countries in 1947 (created in part due to the importance India attached to Nepal's strategic location), there have been regular visits by heads of the state and government from Nepal to India and vice versa. For instance, India's Prime Minister Narendra Modi has visited Nepal five times since he came to power – in August 2014, November 2014, May 2018, August 2018 and May 2022. Each high level exchange has played a significant role in furthering bilateral relations, be it in politics, trade, infrastructure or people-to-people relations. India also stands among

one of the major donors of foreign aid to Nepal.¹ It has supported several connectivity and infrastructural projects, such as hospitals, schools, colleges, roads and bridges.²

Nepal and India's open border, which over time, has contributed to making their relationship unique, is also the cause of occasional blips in Nepal-India relations. While the key contention in the relations between the two nations on the surface appears to be borders, the reality is more complex and complicated. The long-standing disagreement over territory and borders represents the hesitancy and unwillingness of both parties to confront and resolve underlying structural issues that have plagued the relationship since its inception, as well as a wish to preserve the base on which their special relationship has been built.

While the key contention in the relations between the two nations on the surface appears to be borders, the reality is more complex and complicated.

Surrounded by India from three sides, Nepal, with an area of 147,516 square kilometres (km), shares an 1,850-km-long border with five Indian states – Uttarakhand, Uttar Pradesh, Bihar, West Bengal and Sikkim. The ongoing territorial dispute between Nepal and India goes back to the Sugauli Treaty of 1816, signed between the East India Company of Great Britain and the King of Nepal. Instead of resolving the matter amicably by implementing Article 5 of the Treaty of Sugauli in letter and spirit, the protracted border dispute has resurfaced throughout the history of Nepal-India relations. The territorial dispute was raised several times in the 1960s and 1990s, and tensions reignited in November 2019 when India published a new political map which included the 335 km of the disputed territories of Lipulekh-Limpiyadhura-Kalapani within its territory.

In response, Nepal's Ministry of Foreign Affairs issued a press release on 6 November 2019, stating that the Nepal government had clearly demarcated the Kalapani region as an "integral part of Nepal", and that all the disputes between the two states must be settled through

¹ "India Nepal Bilateral Relations", Embassy of India in Kathmandu, Nepal, <https://www.indembkathmandu.gov.in/page/about-india-nepal-relations>.

² Tanu M. Goyal, "India's Development Assistance to Nepal: Case of the Education Sector", Indian Council for Research on International Economic Relations, India, 28 September 2018, https://icrier.org/pdf/India_Nepal_Development_Assistance.pdf.

bilateral dialogue.³ Nepal's Prime Minister K P Sharma Oli publicly requested the Indian government to withdraw its security forces from the Kalapani area under Indian administration⁴ and also claimed that the whole land east of the Kali river belonged to Nepal.⁵

However, Nepal's claims clashed with those of India, which are based on British Indian maps dating back to the 19th century. Officials in India asserted that revenue records from the 1830s show that the Kalapani area was administered as part of the Pithoragarh district, Uttarakhand.⁶ Six months after India unveiled its new political map, which placed Kalapani within its borders, Nepal unveiled a new map on 20 May 2020 that included Kalapani, Limpiyadhura and Lipulekh as Nepali territories.⁷ Responding to Nepal's move, India described the unveiling of a new political map in a strongly worded statement as an "unjustified cartographic assertion" which will "not be accepted".⁸

Special Relations? Reality Speaks Otherwise

The good intentions of these policies notwithstanding, India has seemed to deviate from both of their guiding spirits.

Nepal's foreign policy experts usually argue that India's attitude toward its neighbours in South Asia, particularly Nepal, is hegemonic. New Delhi's regional policy was originally based on the Gujral doctrine,⁹ propounded by former Indian Foreign Minister I K Gujral, which was later adopted by Modi under a different aegis, the 'Neighbourhood First' policy. The good intentions of these policies notwithstanding, India has seemed to deviate from both of their guiding spirits. Indeed, India's commitment to improve its relations with its neighbours and

³ Press Release, Ministry of Foreign Affairs, 6 November 2019, <https://mofa.gov.np/wp-content/uploads/2019/11/Press-Release-4-Nov-2019.pdf>.

⁴ "PM Oli urges India to recall its troops from Kalapani", *Republica*, 17 November 2019, <https://myrepublica.nagariknetwork.com/news/pm-oli-urges-india-to-recall-its-army-from-kalapani/>.

⁵ "India's Cartographic Manipulation Of Nepali Territory A Case Of Limpiyadhura To Lipulekh", *Himalayan Tribune*, 20 December 2019, <https://himalayantribune.com/2019/12/20/indias-cartographic-manipulation-of-nepali-territory-a-case-of-limpiyadhura-to-lipulekh/>.

⁶ Adrija Roychowdhury, "Mapping the history of Kalapani dispute between India and Nepal", *The Indian Express*, 13 June 2020, <https://indianexpress.com/article/research/mapping-the-history-of-kalapani-dispute-between-india-and-nepal-6423687/>.

⁷ "Government unveils new political map including Kalapani, Lipulekh and Limpiyadhura inside Nepal borders", *The Kathmandu Post*, 20 May 2020, <https://kathmandupost.com/national/2020/05/20/government-unveils-new-political-map-including-kalapani-lipulekh-and-limpiyadhura-inside-nepal-borders>.

⁸ "India reacts sharply to Nepal releasing new map; calls it unjustified cartographic assertion", *The Economic Times*, 20 May 2020, <https://economictimes.indiatimes.com/news/politics-and-nation/india-reacts-sharply-to-nepal-releasing-new-map-calls-it-unjustified-cartographic-assertion/articleshow/75852577.cms>.

⁹ The major principles of the doctrine were that with neighbours like Bangladesh, Bhutan, Maldives, Nepal and Sri Lanka, India does not ask for reciprocity but gives and accommodates what it can in good faith and trust.

keep them as a high priority has failed to reflect its evolving relations with Nepal, despite the acceptance of the Gujral doctrine by several succeeding Indian prime ministers. India maintains its relationship with Nepal under the realist, security imperatives of the 1950 Treaty of Peace and Friendship, which has hardly changed, despite regime changes, a newly promulgated constitution and newly elected governments of Nepal.

Following the meeting between Oli and Modi on 20 February 2016, India and Nepal agreed to review, adjust and update the 1950 Treaty of Peace and Friendship to “reflect the current realities and consolidate and expand the multifaceted and deep-rooted relationship in a forward-looking manner.” Almost two years later, the Eminent Persons Group (EPG) on India-Nepal relations, a joint mechanism mandated to review bilateral issues, concluded its final report in July 2018, which was to be submitted to the prime ministers of both countries. Yet, even after almost four years, the EPG has not been able to present its report to both prime ministers.

Economic Partnership

Economically, India is Nepal’s largest export market, the biggest source of its imports and the top investor of foreign capital stock. India also provides Nepal transit facilities through its territory to access seaports for trading with the rest of the world. Since the establishment of their diplomatic relations, both countries have been engaged in trade and commerce. Today, trade between India and Nepal is directed by three legal instruments – bilateral trade treaties, the South Asian Preferential Trade Agreement and the South Asian Free Trade Agreement. Over two-thirds of Nepal’s merchandise trade, about one-third of its trade in services, one-third of its foreign direct investments (FDI) and 100 per cent of its petroleum supplies come from India.¹⁰

India also provides Nepal transit facilities through its territory to access seaports for trading with the rest of the world.

¹⁰ “Commerce Wing Unclassified Brief”, Embassy of India, 2 July 2021, <https://www.indembkathmandu.gov.in/page/about-trade-and-commerce/>.

In order to attract more investment, Nepal has signed the Bilateral Investment Protection and Promotion Act with India.

Approximately 150 Indian ventures operate in Nepal, accounting for over 30 per cent of the country's total FDI.¹¹ These Indian firms cover manufacturing, banking, insurance, education, telecommunication, power and tourism sectors, among others.¹² In order to attract more investment, Nepal has signed the Bilateral Investment Protection and Promotion Act with India.¹³ Some large Indian investors include ITC Limited, Dabur India, Hindustan Unilever, Tata Communications Limited (previously known as Videsh Sanchar Nigam Limited), Telecommunications Consultants India Limited, Mahanagar Telephone Nigam Limited, State Bank of India, Punjab National Bank, Life Insurance Corporation of India, Asian Paints, Container Corporation of India Limited, GMR India, IL&FS, Manipal Group, MIT Group Holdings, Nupur International, Transworld, Group, Patel Engineering, Bhilwara Energy, Bhushan Group, Feedback Ventures, RJ Corp, KSK Energy, Berger Paints, Essel Infra Project Ltd and Tata Power, India.¹⁴

Likewise, some major Indian-led hydropower projects in Nepal include the Arun-III hydroelectric project (900 megawatts [MW]), Upper Karnali HE Project (900 MW), Lower Arun Hydropower project (679 MW), Upper Marsyangdi HE Project (600 MW) and the Tamakoshi-III HE Project (650 MW).¹⁵ However, several India-funded projects, such as the Arun-III Hydropower project, have repeatedly faced protests and attacks by the locals and domestic political parties.¹⁶

India is one of the major donors in Nepal, and New Delhi continues to support several connectivity and infrastructural projects in the landlocked country. India is also building integrated check posts, cross-border railways, postal highways and several other mega projects. India has proposed to build six rail links with Nepal from

¹¹ Hari Bansh Jha, "Nepal's FDI challenges", Observer Research Foundation, 30 October 2020, <https://www.orfonline.org/expert-speak/nepals-fdi-challenges/>.

¹² "FDI inflows in Nepal", Santander Trade, <https://santandertrade.com/en/portal/establish-overseas/india/foreign-investment>.

¹³ Ibid.

¹⁴ "India-Nepal Bilateral Relations", Ministry of External Affairs, February 2020, https://mea.gov.in/Portal/ForeignRelation/India-Nepal_Bilateral_Brief_Feb_2020.pdf.

¹⁵ "Indo-Nepal Cooperation in Hydro Power Sector", The Central Electricity Authority of India, February 2021, <https://cea.nic.in/wp-content/uploads/hpi/2021/02/Nepal-01-1.pdf>.

¹⁶ "3 explosions hit India-assisted Arun-III hydel project in Nepal", ANI News, 8 February 2019, <https://www.aninews.in/news/world/asia/3-explosions-hit-india-assisted-arun-iii-hydel-project-in-nepal20190208212912/>.

Raxaul, Jogbani and Jayanagar in Bihar to Birgunj, Biratnagar and Bardibas in Nepal; Nautanwa in Uttar Pradesh to Nepalgunj in Nepal; and Jalpaiguri of West Bengal to Kakarbhitta of Nepal.¹⁷ The first phase of cross-border railway connectivity, the 17-km Jayanagar-Bardibas railway project, was completed in October 2021 at the cost of ₹550 crore (S\$99.2 million). In April 2018, India announced plans to construct the Raxaul-Kathmandu railway line. The ambitious US\$3.15 billion (S\$4.3 billion) project will connect Kathmandu to the Indian railway network, providing Nepal with access to all Indian cities.¹⁸

In April 2018, India announced plans to construct the Raxaul-Kathmandu railway line.

According to the Organisation for Economic Co-operation and Development's Development Cooperation Report 2019, India ranked fifth amongst Nepal's top five bilateral development partners in FY2018-2019, with US\$56.7 million (S\$77.41 million) in official development assistance disbursements.¹⁹ In recent years, the Indian government's development assistance has focused on the creation of infrastructure at the grass-roots level, with numerous initiatives implemented in the areas of infrastructure, health, water resources, education and rural community development.²⁰

During the COVID-19 pandemic, India pledged a contribution of US\$10 million (S\$13.4 million) and donated about 825,000 dosages of essential medicines, including 320,000 dosages of paracetamol and 250,000 doses of hydroxychloroquine, to the South Asian Association for Regional Cooperation's COVID-19 Emergency Fund.²¹ Similarly, as part of India's vaccine diplomacy, India provided one million doses of Oxford-AstraZeneca's CoviShield vaccine to Nepal in grant assistance to build goodwill among the Nepalese people.²²

¹⁷ Elizabeth Roche, "India looks to build five railway links with landlocked Nepal", *Mint*, 21 March 2016, <https://www.livemint.com/Politics/bIMtLTB2F08qyJc1V9WVJ/India-looks-to-build-five-rail-links-with-landlocked-Nepal.html>.

¹⁸ Prithvi Man Shreshta, "Proposed Kathmandu-Raxaul rail project moves a step ahead", *The Kathmandu Post*, 24 March 2021, <https://kathmandupost.com/money/2021/03/24/proposed-kathmandu-raxaul-rail-project-moves-a-step-ahead>.

¹⁹ Tanu M Goyal, "India's development partnership with Nepal: The paradigm shift and future prospects", Observer Research Foundation, 15 July 2019, <https://www.orfonline.org/expert-speak/india-development-partnership-nepal-paradigm-shift-future-prospects-53022/>.

²⁰ "India-Nepal bilateral relations", Ministry of External Affairs, February 2020, https://mea.gov.in/Portal/ForeignRelation/India-Nepal_Bilateral_Brief_Feb_2020.pdf.

²¹ "Nepal thanks India for COVID-19 assistance", *DD News*, New Delhi, 23 April 2020.

²² Hari Bansh Jha, "A reset of India-Nepal relations", Observer Research Foundation, 29 January 2021, <https://www.orfonline.org/expert-speak/reset-india-nepal-relation>.

Urgent Need to Restructure Relations

The border disputes that have marred the history of special relations between Nepal and India suggest that both countries should move beyond their conventional relationship.

The border disputes that have marred the history of special relations between Nepal and India suggest that both countries should move beyond their conventional relationship. Indian scholar S D Muni has correctly observed that the old clichés like *Roti-Beti* (bread and bride) relationship and the countries' deep civilisation bond (while sounding good and possibly holding some truth) do not adequately explain the rapidly evolving dynamics of their bilateral relations unless they are linked to the present and future.²³ In his assessment of the shrinking role of the smaller states in managing national and international trends, former Ambassador of Nepal to India L R Baral opined that Nepal-India relations could no longer be understood through the old prism.²⁴ However, the matrix of South Asia's neighbourly relations seems to foreclose on the possibility of Nepal and India upgrading their relations. Thus, the need to restructure relations essentially emerges from the deficit in positive relations between the states.²⁵

Since 2020, both sides have made efforts to repair their century-old relations. The recent high-level visits indicate New Delhi's desire to reaffirm its ties with Kathmandu. Notably, Vijay Chauthaiwale, a senior Bharatiya Janata Party (BJP) leader and party head of the foreign affairs department to Kathmandu, visited Nepal twice in a little over a month after the appointment of Prime Minister Sher Bahadur Deuba in August 2021. Correspondingly, on Chauthaiwale's invitation, Deuba sent a three-member delegation to Delhi on a four-day visit. These are seen as attempts by the current Nepali administration to improve ties with the ruling BJP. Further, the appointment of diplomatic experts as new ambassadors to Nepal's major partners, including India, demonstrates Kathmandu's desire to engage India more effectively.

²³ "Kalapani-Lipulekh & Nepal-India Relations", S D Muni, NIICE Nepal, 22 May 2020, https://www.youtube.com/watch?v=3wXJcXuTKTM&t=574s&ab_channel=NIICENEPAL.

²⁴ L R Baral, *Nepal-Nation-state in the Wilderness: Managing, State, Democracy, and Geopolitics* (India: Sage Publication, 2012), p. 112.

²⁵ Anand Aditya, "Regime Capability and Relational Stakes in the Emerging World Order," *Journal of Foreign Affairs*, 1 (1) (January 2021): p. 6.

Conclusion

Nepal-India relations have hardly adjusted to the new realities of global politics and attendant changes in the regional and international order. Bilateral relations, as observed now, continue to be driven by a conservative mindset with hardly any strategic reformulation in vision towards the countries' objectives or strategy in the fast-changing scenario. It is imperative for India and Nepal to reshape their bilateral relations with new thoughts based on ground realities and the regional/global paradigm flux, not through the lens of seven decades ago.

In order to translate these ideas into action, Nepal needs to clean its own house and overcome the over-politicisation of its Indian policy by developing a strong national consensus. It is also critical that the top political leaders not misinterpret and use Nepal-India relations for their narrow benefits at the expense of national interests. Only then would there be a possibility of the Nepal-India relations realising their true potential.

It is imperative for India and Nepal to reshape their bilateral relations with new thoughts based on ground realities and the regional/global paradigm flux, not through the lens of seven decades ago.

Changing Contours of Nepal-China Relations

Pramod Jaiswal

Summary

Sandwiched between India and China, Nepal occupies a unique position in these countries' strategic calculations. China, which has traditionally adopted a pro-establishment policy in Nepal, is seen to have become increasingly assertive in its engagements there since the 2015 massive earthquake in Nepal. Under such circumstances, one can expect greater competition between China, India and the United States (US) in Nepal in the coming days.

Introduction

This became apparent when China began increasing its engagement with Nepal after the massive earthquake in April 2015 devastated several parts of the landlocked country.

Since China announced its ambitious Belt and Road Initiative (BRI), also known as One Belt One Road, in 2013, it has been quite assertive in its approach towards Nepal. This became apparent when China began increasing its engagement with Nepal after the massive earthquake in April 2015 devastated several parts of the landlocked country. China provided US\$483 million (S\$659.4 million) in grant assistance for 25 reconstruction projects in five sectors: infrastructure, people's livelihood in mountain areas, archaeological heritage renovation, disaster preparedness and health for post-quake reconstruction.¹

When the "unofficial blockade" by India had precipitated a backsliding in India-Nepal relations, Nepal's Prime Minister K P Sharma Oli signed multiple agreements on his visit to Beijing in March 2016 related to infrastructure development with China. The agreements included plans to build several construction projects and feasibility studies for future projects, such as building a bridge over the Karnali River in Hilsa; constructing oil storage facilities; conducting a feasibility study on oil and gas resources in Nepal; and looking into prospects for railway linkages and the construction of Nepal's Pokhara International

¹ "China Aid Post-Quake Reconstruction Projects in Nepal", Embassy of the People's Republic of China in Nepal, <https://www.mfa.gov.cn/>.

Airport. Both countries also signed an Agreement on Trade and Transit, which allowed Nepal to use seven Chinese sea and land ports for third-country trade and would end Nepal's total dependence on India.²

Furthermore, Nepal and China signed a framework on the BRI in the presence of Deputy Prime Minister and Finance Minister Krishna Bahadur Mahara and Foreign Minister Prakash Sharan Mahat on 12 May 2017, marking Nepal's official bid to become part of China's BRI through the revival of the ancient Silk Road.³ The most significant was Chinese President Xi Jinping's visit to Kathmandu in October 2019. Xi became the first Chinese president to visit Nepal in 23 years. He signed 18 memorandums of understanding (MoUs) and two letters of intent. The major pacts included an agreement on a Border Management System, an MoU between the Ministry of Physical Infrastructure and Transport of Nepal and the Ministry of Transport of China on a Feasibility Study of a China-Nepal Cross-Border Railway Project and an MoU between the Ministry of Finance of Nepal and the China International Development Cooperation Agency on Tunnels Construction Cooperation.⁴

Xi became the first Chinese president to visit Nepal in 23 years.

Behind the unexpected proximity between the two countries was the strong anti-India sentiment among the ruling party of Nepal, led by Oli. As the major political parties of Nepal failed to address Indian requests to delay the promulgation of the newly drafted 2015 Constitution of Nepal to address the demands of the Madhesis, Janajatis and women, India imposed an "unofficial economic blockade" to pressure the parties into acquiescence. However, the blockade, on the contrary, had the opposite effect of banding the major political parties, except for the Madhesi parties, against India. There is the perception that China, to exploit the situation, lobbied for the merger of Nepal's two major Communist parties – the Communist Party of Nepal (United

² "Joint Press Statement between the People's Republic of China and Nepal", Ministry of Foreign Affairs, Government of Nepal, 23 March 2016, <https://mofa.gov.np/joint-press-statement/>.

³ Sanjeev Giri, "Nepal, China sign deal on OBOR", *The Kathmandu Post*, 12 May 2017, <https://kathmandupost.com/national/2017/05/12/nepal-china-sign-framework-deal-on-obor>.

⁴ "Joint Statement Between Nepal and the People's Republic of China", Ministry of Foreign Affairs, Government of Nepal, 13 October 2019, <https://mofa.gov.np/joint-statement-between-nepal-and-the-peoples-republic-of-china-2/>.

Marxist Leninist) and Communist Party of Nepal (Maoist Centre) – which resulted in the formation of the Nepal Communist Party (NCP), the largest political force in the country.⁵ This perception became a conviction for many when a high-level Chinese delegation, led by Vice Minister of the International Department of the Communist Party of China, Guo Yezhou, visited Nepal to remedy the split between Oli and Pushpa Kamal Dahal (widely known as Prachanda).⁶

After India's 2015 blockade, Nepal realised the greater need to establish closer ties with China and improve connectivity to resist Indian pressure in future.

Alongside increasing its engagement with Nepal, China was able to bolster its normative ties by establishing strong party-to-party relations, organising a training programme on “Xi Jinping Thought” in Kathmandu,⁷ and announcing “sister cities” relationship status and establishing a new Consulate General of Nepal in Chengdu in 2021. However, despite its efforts, China has failed to stop the split of the left alliance. Meetings were held between a high-level Chinese delegation and Chinese ambassadors with the NCP chairmen, Oli and Dahal, to defuse the tensions. After India's 2015 blockade, Nepal realised the greater need to establish closer ties with China and improve connectivity to resist Indian pressure in future. Though the NCP officially split in April 2021, China's engagement in Nepal is expected to intensify in the days to come, as all of Nepal's political parties are interested in keeping China engaged.

Economic Engagement

Nepal's economic engagement with China has deepened over the decade, especially due to the increased levels of infrastructure connectivity, investment, trade and tourism. For a landlocked country that has traditionally depended on India for its external trade and fuel, the recent Trade and Transit Treaty of 2016 and Protocol Agreement

⁵ “China and India focused on creating partnership, won't play small games: Former Nepal PM Prachanda”, *The Hindustan Times*, 9 September 2018, <https://www.hindustantimes.com/world-news/china-has-told-us-to-work-with-india-former-nepal-pm-prachanda/story-CqAx5deQMCVtxQ1ePF2WIK.html>.

⁶ “High-level Chinese delegation in Nepal trying to patch split between Oli and Prachanda”, *The Hindustan Times*, 27 December 2020, <https://www.hindustantimes.com/world-news/high-level-chinese-delegation-in-nepal-trying-to-patch-split-between-oli-and-prachanda/story-KdMADrAj3sLHSyYFmJ5YN.html>.

⁷ Anup Kaple, “A blueprint for consolidating power: China exports Xi Jinping Thought to Nepal”, *The Kathmandu Post*, 24 September 2019, <https://kathmandupost.com/2/2019/09/24/a-blueprint-for-consolidating-power-china-exports-xi-jinping-thought-to-nepal>.

of 2019 with China allowed for third-country imports and exports in Nepal through its northern neighbour, which would have the long-term effect of diminishing Nepal's over-dependence on India. Similarly, the agreement gives Nepal access to seven Chinese sea and land ports. These include four Chinese seaports in Tianjin, Shenzhen, Lianyungang and Zhanjiang, and three land ports in Lanzhou, Lhasa and Shigatse for third-country imports. The agreement also allows Nepal to carry out exports through six dedicated transit points between the two countries.⁸

The agreement also allows Nepal to carry out exports through six dedicated transit points between the two countries.

Presently, China is Nepal's second-largest trading partner. In 2019, Nepal exported US\$20.9 million (S\$28.5 million) to China, while its imports from China stood above US\$1.5 billion (S\$2.05 billion). This clearly shows the huge trade deficit in Nepal's trade relations with China.⁹ Even though China has granted zero tariff entry facilities to over 8,000 Nepali products since 2009, the country has been unable to reduce the trade deficit.¹⁰

China's financing in Nepal is another vital facet of the two countries' bilateral relations. The proposed Kyirong-Kathmandu railroad, worth US\$2.15 billion (S\$2.94 billion), holds great potential to boost the current trade relations between the two parties. According to the report released by the Research Lab AidData, Chinese "financial diplomacy" in various infrastructure projects in Nepal, including road and hydropower, was approximately US\$1 billion (S\$1.37 billion) between 2000 and 2017. Some of the projects under construction include Pokhara International Airport, Gautam Buddha International Airport, the Tanahu Hydropower Project, the Tamakoshi Hydro Power Project, the Bheri-Babai Diversion Project, the Tribhuvan International Airport Maintenance Project, the 4G/LTE project, the Narayangarh-Butwal Road Project, the Budhi Gandaki Project and the Middle Bhotekoshi Hydropower Project.¹¹

⁸ Anil Giri, "Nepal's transit deal with China makes no headway even after five years", *The Kathmandu Post*, 11 July 2021, <https://kathmandupost.com/national/2021/07/11/nepal-s-transit-deal-with-china-makes-no-headway-even-after-five-years>.

⁹ "China/Nepal", Observatory of Economic Complexity, <https://oec.world/en/profile/bilateral-country/chn/partner/npl>.

¹⁰ Anil Giri, "Nepal's transit deal with China makes no headway even after five years", op cit.

¹¹ "Chinese Investments in Nepal", Gateway House, 16 September 2016, <https://www.gatewayhouse.in/chinese-investments-nepal-2/>.

Most of the Chinese investments in Nepal are in the form of FDI, humanitarian assistance and development aid.

Notably, China has topped Nepal's foreign direct investment (FDI) chart for six years in a row. According to Nepal's Investment Department, Nepal received FDI pledges of NPR32 billion (S\$361.73 million) in the last fiscal year, with China accounting for around 71 per cent of the total. Most of the Chinese investments in Nepal are in the form of FDI, humanitarian assistance and development aid. Similarly, China is among Nepal's top five bilateral donors in the disbursement of foreign aid in the fiscal year 2017-18. According to the Nepal Finance Ministry's Development Cooperation Report released in April 2021, the United States (US), the United Kingdom (UK), India, China and Japan are the top bilateral development partners. The report also shows that China's contribution to overall foreign aid to Nepal in 2021 stood at 3.6 per cent. Moreover, China's external aid and development agency, China International Development Cooperation Agency, has pledged to finance 15 pilot development projects in 13 northern districts within Nepal under the "Northern Region Border Development Programme", which was signed in June 2018.¹²

In the fight against the COVID-19 pandemic, China has also supported Nepal as its most vital partner through vaccine assistance. While Nepal has purchased 10 million doses of COVID-19 vaccines from China, the latter has also provided 3.8 million doses in the form of a grant to Kathmandu. Since July 2021, after Sher Bahadur Deuba came to power, Nepal has received millions of doses of COVID-19 vaccines from China.¹³ As per China's pro-establishment policy, Beijing has continued to support the newly elected Deuba government in its fight against the pandemic.

¹² Anil Giri, "China's foreign aid agency is all set to make foray into Nepal's northern region", *The Kathmandu Post*, 5 January 2021, <https://kathmandupost.com/national/2021/01/05/china-s-foreign-aid-agency-is-all-set-to-make-foray-into-nepal-s-northern-region>.

¹³ "China pledges additional 1.6 million vaccine doses to Nepal", *The Kathmandu Post*, 16 July 2021, <https://kathmandupost.com/national/2021/07/16/china-to-donate-additional-1-6-million-doses-of-covid-19-vaccines-to-nepal>.

Strategic Ties

India, the US and the UK have long been Nepal's major defence partners. However, in recent times, China has emerged as one of Nepal's most important major defence partners. In 1989, Nepal purchased military hardware such as anti-aircraft guns, medium-range surface-to-surface missiles and AK-47 rifles, whose sale was halted with the fall of the monarchy in 1990. During the short royal takeover, Beijing resumed its weapon sale to King Gyanendra by providing around US\$1 million (S\$1.37 million) to fight the Maoist insurgency.

There has also been a constant flow of security assistance from Beijing to Kathmandu since then. This includes aid to the tune of US\$2.6 million (S\$3.55 million) in 2008, RMB20.8 million (S\$4.46 million) in 2009, US\$7.7 million (S\$10.52 million) in 2011 and US\$32.3 million (S\$44.11 million) in 2017. Further, in 2017, Nepal and China began the first-ever joint military drill, 'Sagarmatha Friendship', which was a major turning point in their bilateral defence cooperation. During the visit of Deputy Prime Minister and Defence Minister Ishwor Pokhrel to China in October 2018, both countries signed an agreement in which China pledged to increase its military support to Nepal by 50 per cent to strengthen Nepal Army's disaster management capabilities and to better equip Nepal's United Nations peacekeeping missions. Besides financial assistance, the People's Liberation Army has also increased the number of war college seats and National Defence Course quotas for Nepal Army officers.¹⁴ The recent engagement between the two countries goes on to suggest that China is set to overtake Nepal's traditional defence partners.¹⁵

Besides financial assistance, the People's Liberation Army has also increased the number of war college seats and National Defence Course quotas for Nepal Army officers.

Issues and Challenges

Despite the previous resolution of border disputes between Nepal and China, there have been reports of Chinese encroachment of

¹⁴ Nihar R. Nayak, "China's Growing Military ties with Nepal", Manohar Parrikar Institute for Defence Studies and Analysis, 31 March 2017, https://idsa.in/idsacomments/china-growing-military-ties-with-nepal_nrnayak_310317.

¹⁵ Kamal Dev Bhattarai, "A brief history of Nepal-China defense ties", *The Annapurna Express*, 19 May 2019, <https://theannapurnaexpress.com/news/a-brief-history-of-nepal-china-defense-ties-1560>.

Nepalese territory in Humla in recent times. On 21 August 2021, the Deuba government formed a panel, led by Jaya Narayan Acharya, Joint-Secretary at the Ministry of Home Affairs, to study the boundary issues along the Nepal-China border from LimiLapsa to Hilsa of Humla. The panel concluded that there are issues at Pillars 11 and 12 and suggested the government resolve the issues by forming a joint inspection group of experts. The six-member panel, which had representatives from the Nepal Police, Armed Police Force, National Investigation Department and the Department of Survey, stated that there are issues in need of bilateral attention.¹⁶ However, China denied such encroachment.¹⁷

New Delhi will undoubtedly find it challenging to successfully manage China's expanding footprint in Nepal on its own.

India, on the other hand, is concerned about China's growing proximity to Nepal, which has historically been India's sphere of influence. New Delhi will undoubtedly find it challenging to successfully manage China's expanding footprint in Nepal on its own. Similarly, it is also predicted that the US is going to be more proactive in Nepal after its US\$500 million (S\$682.2 million) Millennium Challenge Corporation (MCC) grant project was ratified in the Nepalese parliament in February 2022. Nepal started to view the MCC with suspicion after the US Acting Deputy Assistant Secretary for South Asia, David J Ranz, remarked that the MCC project was an important initiative under the US Indo-Pacific strategy during his visit to Kathmandu in May 2019. The remark led the Left parties of Nepal to believe that the MCC would invite the China-US rivalry to Nepal. Media reports and analysts see a Chinese hand behind the anti-MCC protests, as China has understood the MCC to be an integral part of the US Indo-Pacific strategy, putatively designed to encircle China strategically.¹⁸ In such a situation, one can expect greater competition between China and the US in Nepal, moving forward.¹⁹

¹⁶ "Panel on Nepal-China border issues calls for bilateral intervention," *The Kathmandu Post*, 29 September 2021, <https://kathmandupost.com/national/2021/09/29/panel-on-nepal-china-border-issues-calls-for-bilateral-intervention>.

¹⁷ "China, Nepal border is free of dispute: Chinese embassy", *WION News*, 4 September 2021, accessed on 1 February 2022, <https://www.wionews.com/south-asia/china-nepal-border-is-free-of-dispute-chinese-embassy-410577>.

¹⁸ Achyut Wagle, "Behind the anti-MCC protests," *The Kathmandu Post*, 13 September 2021, <https://kathmandupost.com/columns/2021/09/13/behind-the-anti-mcc-protests>.

¹⁹ Sanjeev Nepal, "Nepal's security agencies see China's hands in stirring anti-MCC outrage", *Khabarhub*, 7 September 2021, <https://english.khabarhub.com/2021/07/207680/>.

Conclusion

China is in favour of a stable Nepal with a strong government so that it can push its development projects, especially under the BRI. Additionally, a stable government in Kathmandu would serve China's primary interests in maintaining security in the Tibetan Autonomous Region. This is because only a strong and stable government can address Chinese demands and its strategic interests in Nepal. China has been accusing external actors (read Western powers) of making use of Nepal's fragile situation (read Tibet). Hence, Beijing would prefer a government in Nepal that is sensitive to Chinese interests. Breaking away from the traditional norms of China's pro-establishment policy, Beijing is interested in engaging with the different political parties because, apart from its major security interests, China now also wants to dilute, if not challenge, India's predominant influence in the country. Thus, Beijing is proactively engaging in public diplomacy and establishing several development projects within Nepal to expand its leverage.

This is because only a strong and stable government can address Chinese demands and its strategic interests in Nepal.

Nepal and the Major Powers

Sanjeev Humagain and Sumitra Karki

Summary

Contemporary academic and public debates on Nepal's foreign relations are heavily centred on its relationships with China and India. Though situated between two colossal, economically and militarily mighty neighbours, Nepal has been able to attract the attention of other great and rising powers and economies. Such engagements have become more intense in the last decade, with China's growing interest in Nepal, triggering a competition for influence among the great powers and making Nepal an indispensable component of their strategic interests.

Introduction

Geopolitical studies basically examine how states or countries have competed for the control of territory and the resources within them.

The contemporary academic debate is significantly focused on Nepal's geopolitical dynamics and security challenges.¹ Geopolitical studies basically examine how states or countries have competed for the control of territory and the resources within them.² This state- and power-centric discussion often follows the realist theoretical approach to international relations. Heavy emphasis on geopolitical dimensions and the realist approach have created a foreign policy trap, where even thinking about the diversification of Nepal's foreign relations – in terms of actors and agenda – has become difficult. Even though Nepal has frequent economic exchanges with many major powers, such as the United Kingdom (UK), Japan, the United States (US), France and the European nations, Nepal has not yet been able to realise the pragmatic political benefits of these varying sets of economic relations.

Nepal's diplomatic engagement with the major powers can be traced to the years prior to establishing ties with its peripheral

¹ Stuti Bhatnagar and Zahid Shahab Ahmed, "Geopolitics of Landlocked States in South Asia: A Comparative Analysis of Afghanistan and Nepal", *Australian Journal of International Affairs*, 75, no. 1 (2021): pp. 60-79.
² Colin Flint, *Introduction to Geopolitics* (London and New York: Routledge, 2006), p. 13. SANRAB Publications, 2021).

neighbours. Long before establishing official diplomatic relations with independent India (June 1947) and China (August 1955) – which are both Nepal’s immediate and most important neighbours – Nepal had already established relations with the two great powers, the UK (1816) and the US (April 1947). Similarly, diplomatic ties with France (April 1949), Russia (July 1956) and Japan (September 1956) were established immediately after Nepal recognised its official ties with India and China.

Nepal and the United States

Since Nepal established diplomatic ties with the US in 1947, the latter has supported Nepal’s democratisation, the peace process following the civil war and the promotion of long-term development through agriculture, health, family planning, environmental protection and vocational education programs in Nepal.³ The fiscal year 2015/16 could be marked as an important year in Nepal-US relations as Washington provided moral and political support and solidarity to the political and constitution-writing process in Kathmandu.⁴ In terms of trade as well, the US has continued to be a major export destination for Nepal. The passage of the Trade Facilitation and Trade Enforcement Act in 2015 further boosted the prospect of increased exports to the US.⁵ In addition, the US has also committed security assistance to Nepal, working with the Nepali Army to strengthen its peacekeeping and disaster response capabilities.

In terms of trade as well, the US has continued to be a major export destination for Nepal.

On 14 September 2017, the US government’s Millennium Challenge Corporation (MCC) and the Nepal government signed a US\$500 million (S\$682.83 million) compact to spur economic growth and reduce poverty in Nepal by prioritising energy and the transport sector.⁶ The programme was finally ratified in the Nepal parliament in

³ “Nepal: Political Developments and U.S. Relations”, Congressional Research Service, 4 December 2015, https://www.everycrsreport.com/files/20151204_R44303_9a436fef1eb4ec04f7853f941004042db74bee70.pdf.

⁴ “Nepal-US relations”, Global Security, <https://www.globalsecurity.org/military/world/nepal/forrel-us.htm>.

⁵ “President Obama Signs Proclamation to Implement Nepal Preference Program”, Nepal Trade Information Portal, 15 December 2015, https://nepaltradeportal.gov.np/contents?p_p_id=ntippportlets_WAR_tepc&p_p_lifecycle=0&p_p_state=normal&p_p_mode=view&ntippportlets_WAR_tepc_param=viewDetailById&id=171.

⁶ “Nepal Compact Signing Ceremony”, Millennium Challenge Corporation, <https://www.mcc.gov/news-and-events/event/signing-091417-nepal>.

February 2022, which had been on hold for five years, due to political infighting over its merits.⁷

The armies of the two countries have engaged in regular visits and a sharing of expertise and experiences in training, disaster management, logistics management, counterterrorism and interoperability, among others. On 18 December 2019, the US handed over two M28 Skytrucks to the Nepali Army, representing the start of one of the largest security grants to Nepal in its history. Similarly, in the coming years, the US plans to provide additional M28 aircraft and tailored training on demand for the Nepali Army to better protect the Nepali people.⁸ These initiatives demonstrate the collaborative and close partnership between Nepal and the US in strengthening Nepal's long-term sustainability, security and strategic resilience.

Nepal and Europe

Over the years, the UK has remained one of Nepal's top development partners, with annual British aid on an upward trend.

Nepal shares some of its oldest diplomatic ties with the UK, dating back to the 19th century. After Brexit, the UK has been playing a more proactive role in the international community. However, the effects have been less visible in Nepal, given that the two countries have enjoyed the benefits of bilateral relations long before Britain joined the European Union (EU).⁹ Over the years, the UK has remained one of Nepal's top development partners, with annual British aid on an upward trend. Tourism, trade, education and the British Gurkha connection remain key dimensions underpinning their bilateral relations. One of the most important historical aspects of the relationship relates to the number of Nepalis recruited to the British Army since 24 April 1815. Hundreds of Nepalis are recruited as Maritime Security Guards in the UK. Around 150,000 Nepalese are living in the UK today – the majority of them are ex-Gurkha servicemen and their families.¹⁰

⁷ Prithvi Man Shah, "MCC officials wrap up visit hoping the US program's ratification", *The Kathmandu Post*, 13 September 2021, <https://kathmandupost.com/national/2021/09/13/mcc-officials-wrap-up-visit-hoping-the-us-programme-s-ratification>.

⁸ "U.S. Hands Over Sky trucks to the Nepali Army", U.S. Embassy in Nepal, 18 December 2019, <https://np.usembassy.gov/u-s-hands-over-skytrucks-to-the-nepali-army/>.

⁹ "Brexit will have little impact on Nepal", *The Himalayan Times*, 3 July 2016, <https://thehimalayantimes.com/kathmandu/brexit-will-little-impact-nepal>.

¹⁰ "Nepal-UK Relations", Embassy of Nepal- London, <https://uk.nepalembassy.gov.np/nepal-uk-relations/>.

Nepal's Prime Minister Sher Bahadur Deuba undertook his maiden foreign visit to the UK for the United Nations' (UN) Climate Change Conference in 2021.¹¹ With the Deuba government in power, the US and the UK are expected to increase their engagement with Kathmandu. Former Prime Minister K P Sharma Oli visited the UK in 2019, the first Nepali prime minister to visit in 17 years. With Deuba appointing a competent diplomat and former Foreign Secretary, Gyan Chandra Acharya, as Nepal's Ambassador to the UK, the engagement between the two countries is expected to accelerate further.¹² Moreover, with the fast-evolving geopolitical landscape in the Indo-Pacific region, coupled with the emergence of security and development initiatives such as the trilateral security pact – AUKUS (between Australia, the UK and the US) – and US President Joe Biden's proposed 'Build Back Better World' project, London's engagement with the South Asian states in general, and Nepal in particular, will undoubtedly intensify.

With the Deuba government in power, the US and the UK are expected to increase their engagement with Kathmandu.

France is another major power that works closely with Nepal. Both countries currently cooperate in multiple domains, including the national seismological network, petroleum exploration, water supply and others. The countries also engage with each other at the military level, with France, for instance, providing training courses for Nepali soldiers departing for missions at the Peace Operations Training Centre in Paanchkhaal.¹³

Similarly, Oli's visit to France in 2019 was the first by a Nepali prime minister in 18 years. Senior Nepali leaders used to visit Paris on a regular basis, but this frequency has decreased in recent years.¹⁴ According to the Department of Industry, the cumulative amount of foreign direct investment from Paris to Kathmandu stood at NRS1.03 billion (S\$11.64 million) as at 15 July 2020. Cumulatively, there are

¹¹ "PM Deuba received by British PM Johnson at COP26 summit", *The Himalayan Times*, 2 November 2021, <https://thehimalayantimes.com/nepal/pm-deuba-received-by-british-pm-johnson-at-cop26-summit>.

¹² Tika R Pradhan, "MCC dominates ambassadorial hearing", *The Kathmandu Post*, 6 December 2021, <https://kathmandupost.com/national/2021/12/06/mcc-dominates-ambassadorial-hearing>.

¹³ "Conferment of the French decoration upon Brigadier General Suresh Baniya and Major Prativa Thapa", Embassy of France in Kathmandu, 28 July 2021, <https://np.ambafrance.org/Conferment-of-the-French-decoration-upon-Brigadier-General-Suresh-Baniya-and-Major-Prativa-Thapa>.

¹⁴ "Nepal-France Relations", Ministry of Foreign Affairs, <https://mofa.gov.np/nepal-france-relations/>.

about 107 projects operating in Nepal with French investment, generating employment for 3,603 people. France and Nepal have huge opportunities to nurture their bilateral economic partnership, especially in developing Nepal's critical tourism industry.

Cooperation between Nepal and France, including other European countries like Germany, is channelled through the EU, UN agencies and non-governmental organisations. The partnership between the EU and Nepal covers several sectors and areas like education, human rights, peacebuilding and election programmes. As of 2019, Germany was the top-ranking contributor to the EU's budget, followed by France.¹⁵

Another important element of Germany's engagement with Nepal is its support for the Nepali peace process.

Germany is involved in public and private development policy cooperation in Nepal. Its assistance focuses primarily on improving the healthcare system, promoting renewable energies and energy efficiency and promoting sustainable economic development.¹⁶ Germany has supported Nepal's efforts to consolidate and strengthen its democratic structures since the start of the peace and democratisation process in 2016. Another important element of Germany's engagement with Nepal is its support for the Nepali peace process. Berlin has agreed to provide €10 million (\$\$15.42 million) in grants to Kathmandu to support Nepal's Green Recovery and Inclusive Development. With this new and upgraded financial assistance, Kathmandu is expected to cooperate with Berlin in more diverse fields and sectors in the coming days.¹⁷

Over the years, the EU has been a reliable development partner of Nepal. It is imperative to consider the domestic discourse regarding the role of European countries and the EU in Nepal's political transition. Starting in 2014, Nepal and the EU signed the Multi-annual Indicative Programme (MIP) twice for 2014-2020 and 2020-2027.¹⁸

¹⁵ "Amount contributed to the budget of the European Union in 2019 – by member state", *Statista*, 19 January 2019, <https://www.statista.com/statistics/316691/eu-budget-contributions-by-country/>.

¹⁶ "Germany and Nepal: Bilateral relations", Federal Foreign Office, 23 September 2021, <https://www.auswaertiges-amt.de/en/aussepolitik/nepal/235712>.

¹⁷ "Germany pledges EUR 34.4 million to Nepal for the continuation of bilateral support", German Embassy Kathmandu, 15 June 2021, <https://kathmandu.diplo.de/np-en/aktuelles/-/2465796>.

¹⁸ "Nepal European Union Relations", Ministry of Foreign Affairs, <https://mofa.gov.np/nepal-european-union-relations/>.

The MIP 2020-2027 has been well-placed to support Nepal in the least developed country graduation process and the targets of the Nepal Five- Year National Development Plan 2019-2024; hence, the priority areas include Inclusive Green Growth, Human Capital Development and Good Governance.¹⁹

As Nepal battled the COVID-19 pandemic, it was among the first countries to receive the COVID-19 vaccine doses through the COVID-19 Vaccines Global Access (COVAX), an initiative aimed at equitable access to vaccines. Several countries, including Australia, Finland, France, Germany, Japan, Korea, Norway, Qatar, Saudi Arabia, Switzerland, the UK and the US, the EU as well as foundations and corporations were key partners behind the launch of COVAX.²⁰

Nepal-Russia Ties

Diplomatic relations between Nepal and the Union of Soviet Socialist Republics (USSR) were established on 20 July 1956 and continued even after the collapse of the USSR, as the Nepal government extended full and formal diplomatic recognition to the Russian Federation as a sovereign and independent state on 28 December 1991. With its changing geopolitical bearings in the global economy, Russia has already started to tie up with Nepal diplomatically and economically. There is a chance that they will collaborate on industrial ventures that rely on Russian technology, especially relating to hydro-power plants, building materials, energy and small and medium-scale labour-intensive industries considered to be suitable for Nepal.

With its changing geopolitical bearings in the global economy, Russia has already started to tie up with Nepal diplomatically and economically.

According to Russian President Vladimir Putin, “Moscow and Kathmandu have good prospects of cooperation in the energy, metallurgy, infrastructure, and civil aviation sectors. Russia already supplies helicopters to Nepal.”²¹ During Foreign Minister Pradeep

¹⁹ “Nepal Multi annual Indicative Programme 2021-2027”, European Commission, https://ec.europa.eu/international-partnerships/system/files/mip-2021-c2021-9053-nepal-annex_en.pdf.

²⁰ “Nepal among the first countries in Asia to receive COVID-19 vaccines from COVAX Facility”, United Nations Children’s Fund, 7 March 2021, <https://www.unicef.org/nepal/press-releases/nepal-among-first-countries-asia-receive-covid-19-vaccines-covax-facility>.

²¹ Nikola Mikovic, “What Are Russia’s Interests in Nepal?”, Australian Institute of International Affairs, 14 January 2020, <https://www.internationalaffairs.org.au/australianoutlook/what-are-russias-interests-in-nepal/>.

Kumar Gyawali's visit to Moscow in November 2019, Russian Foreign Minister Sergey Lavrov said, "The Russian aviation equipment has proved itself to be good in the high-mountain conditions of Nepal. Mi-17 helicopters supplied earlier are operating in Nepal and plans are in place to develop the interactions in this sphere for the future."²²

Such convergences likely also reflect a deepening of Nepal-Russia ties.

Similarly, during the tenure of Russia's Ambassador to Nepal, Sergey Vasilievich Velichkin, Nepal became a dialogue partner at the Shanghai Cooperation Organization (SCO); and it is expected that through its involvement at the SCO, Nepal would be better able to project and strengthen its national interests in regional and global forums. Such convergences likely also reflect a deepening of Nepal-Russia ties.²³

Japan and Nepal

Nepal's engagement with Japan has been substantial, with Tokyo contributing its assistance towards the creation of a sustainable ecosystem that would allow the Nepali economy to develop in tandem with tourism, hospitality industries and other sectors.²⁴ Nepal and Japan celebrated their 66th anniversary of diplomatic relations in 2022. Japan has always been Nepal's major development partner; a report published by the Nepali Ministry of Finance listed Japan as one of the top ten disbursing development partners for 2019/20, ranked just below India.²⁵

Conclusion

Nepal's political relationships are mostly centred on the major powers. Such a claim could be argued based on the priorities shown by Nepal's high-level visits. Though there were few attempts by the Oli government to initiate high-level visits to new countries, Nepal's

²² "Russia plans to broaden helicopter supplies to Nepal, says Lavrov", TASS, 25 November 2019, <https://tass.com/economy/1092453>.

²³ Rajib Neupane, "Nepal-Russia Relations: Strengthening the Cooperation", Asian Institute of Diplomacy and International Affairs, 24 May 2020, <http://www.aidiaasia.org/research-article/nepal-russia-relations-strengthening-the-cooperation>.

²⁴ Keshab Poudel, "Nepal Japan Relations Perspectives from Japan", *Spotlight Nepal*, 17 March 2021, <https://www.spotlightnepal.com/2021/03/17/nepal-japan-relations-perspectives-japan/>.

²⁵ "Development Cooperation Report 2019/20", Ministry of Finance, https://mof.gov.np/uploads/document/file/DCR%202019-20_20210408015226.pdf.

high-level exchange is mainly limited to the major powers. It is also interesting to observe the diversification of Nepal's foreign policy with high-level political visits and exchanges with countries such as Cambodia, Bangladesh, Vietnam and others.

It is argued that by diversifying its relations with other powers, Nepal can reduce its trade deficit.²⁶ It is also necessary to extend this debate into the terrain of *realpolitik*, where diversification is a major policy of countries in important geostrategic locations. Beyond Nepal, many other countries have sought to enhance their 'autonomy through diversification' by enhancing relations with multiple and varied partners.²⁷

Moving forward, Nepal needs to further strengthen its relationship with the other traditional powers. Second, it needs a strategic plan to develop relations with the middle powers. Third, it needs to develop political relationships with its new and important economic partners. However, in order for Nepal to develop a strategic approach vis-à-vis the three groups of powers/partners and examine its effectiveness, Nepali academia needs a rigorous theoretical debate on Nepal's foreign policy imperatives. Without overcoming the conventional hurdles to the conceptualisation of foreign policymaking, it is difficult to imagine a pragmatic breakthrough in Nepal's foreign policy to build and enhance relationships with other powers.

It is also necessary to extend this debate into the terrain of realpolitik, where diversification is a major policy of countries in important geostrategic locations.

²⁶ Khubi Ram Acharya, "Nepalese Foreign Trade: Growth, Composition, and Direction", *NCC Journal* 4, no. 1, (2019): pp. 91-96.

²⁷ Tullo Vigevani and Gabriel Cepaluni. "Lula's Foreign Policy and the Quest for Autonomy through Diversification", *Third World Quarterly* 28, no. 7 (2007): pp. 1309-1326; Carlyle A. Thayer, "Vietnam's Foreign Policy in An Era of Rising Sino-US Competition and Increasing Domestic Political Influence", *Asian Security* 13, no. 3 (2017): pp. 183-199.

Nepal's Relations with the ASEAN Member States

Khaga Nath Adhikari

Summary

There exist ample opportunities for Nepal to promote trade, investment, technology transfer, tourism and cultural cooperation with the ASEAN member states.

Nepal has a policy of pursuing friendly and cooperative relations with all countries and regions in the world. The Association of Southeast Asian Nations (ASEAN) offers Nepal with tremendous opportunities to promote political and economic relationships. Additionally, the historical connections and cultural commonalities between Nepal and the ASEAN member states present added advantages for both sides to promote such relationships. There exist ample opportunities for Nepal to promote trade, investment, technology transfer, tourism and cultural cooperation with the ASEAN member states. Similarly, ASEAN has developed various mechanisms for establishing links with other countries and regions. However, Nepal is yet to focus on promoting bilateral relations with the ASEAN member states or with ASEAN as a regional bloc. Based on available literature and personal experience, this paper looks into the opportunities for promoting Nepal-ASEAN relations and cooperation and suggests measures Nepal should take towards this end.

Introduction

Nepal is a middle-sized, landlocked country located between China and India. Protection and preservation of its sovereignty, territorial integrity and independence have always remained the first and foremost objectives of Nepal's foreign policy. Since it was sandwiched between China and India, King Prithvi Narayan Shah the Great termed Nepal "a yam between two boulders".¹ Another equally important objective of Nepal's foreign affairs is the protection of the country's national interests, which include areas such as safeguarding the

¹ Prithvi Narayan Shah, Dibhya Upadesh, the Wise Counsel by Prithvi Narayan Shan [Kathmandu: Nepal Law Commission (ND)], p. 9, <https://www.lawcommission.gov.np/>.

rights of the Nepali people, border security, economic well-being and prosperity, according to Article 5 of the Constitution of Nepal. Nepal's foreign policy is guided by these geopolitical imperatives and constitutional principles.

Nepal has a stated policy of maintaining good and cooperative relations with its immediate neighbor – China and India – and other friendly countries. “Friendship with all, enmity with none” is the motto of Nepal's foreign policy.

Consisting of 10 Southeast Asian nations, ASEAN is a fast developing region. Irrespective of their different political systems and backgrounds, the ASEAN member states have focused on developing the region's socio-economic development as a whole. The region is marked not only by different political and military orientations but also by economic disparities. The region contains countries at different levels of socio-economic development. However, the cohesion among the ASEAN member states and their efforts at brining all members along and, to borrow a United Nations (UN) phrase, “leaving no country behind” is a worth-appreciating approach.

The region contains countries at different levels of socio-economic development.

ASEAN is a region with tremendous opportunities. It is a region with about 680 million people and is marked by fast economic growth with average annual growth of around five per cent. The volume of its merchandise trade was worth US\$2,815.2 billion (S\$3,844.61 billion) in 2019. In this context, it is notable that intra-ASEAN trade accounts for 22.5 per cent of the total trade. Among the major trade partners, China accounts for 18 per cent, the United States (US) 10.5 per cent and the European Union (EU) 10 per cent of the total trade. Similarly, the region has grown as an important destination for investment, with US\$160.6 billion (S\$219.32 billion) worth of foreign direct investment in 2019. Intra-ASEAN investment accounts for 13.9 per cent, whereas the shares of the US, Japan and the EU stand at 15.2 per cent, 12.7 per cent and 10.1 per cent respectively.² Similarly, the ASEAN member

² Eye on Asia, Singapore (2021), <https://www.eyeonasia.gov.sg/>.

It is true that there are vast opportunities for Nepal too to promote all-around relations with the ASEAN members states, but Nepal has failed to take advantage of the potential offer by ASEAN.

states have also emerged as viable sources of foreign investment for many countries and regions worldwide, including South Asia.

These figures show that ASEAN possesses great potential for the promotion of business relations and cooperation. Many countries have benefitted from the economic prosperity of ASEAN, and many others are working towards this end. India, for example, is seriously focused on promoting its relations with ASEAN under slogans such as the 'Look East' policy by the earlier Manmohan Singh government and now the 'Act East' policy under the present government of Narendra Modi.³ It is true that there are vast opportunities for Nepal too to promote all-around relations with the ASEAN members states, but Nepal has failed to take advantage of the potential offer by ASEAN. It is equally true that not much study has been carried out about Nepal-ASEAN relations, and very little has been written about it. Nepal has cooperative relations with the individual member states of ASEAN but has not developed any institutional ties with ASEAN as a community. Also, no study has been done about the necessity or possibility of institutional relations between Nepal and ASEAN. Therefore, this paper has tried to look into the relations between Nepal and the ASEAN member states and explain whether any possibilities exist in the institutional relationship between Nepal and ASEAN in the near future. It also attempts to suggest some measures that Nepal can take to promote political and economic relations with the ASEAN member states individually as well as with ASEAN as a regional organisation.

Nepal-ASEAN Relations

ASEAN has established an institutional relationship with a number of countries outside Southeast Asia, but there is no such relationship between Nepal and ASEAN. Therefore, Nepal's relations with the individual ASEAN member states have defined Nepal's relations with ASEAN as a whole.

³ Achal Malhotra, "India's Foreign Policy: An overview. Core Objectives, Fundamental Principles and Current Priorities", Distinguished Lecture Series, Ministry of External Affairs India, 18 December 2019. India officially established a relationship with ASEAN as early as 1992. In 1992, it established the Sectoral Dialogue Partnership which was upgraded to Dialogue Partnership in 1996. Since 2002, ASEAN and India have been meeting under the India-ASEAN Summit platform. India now calls its partnership with ASEAN a 'Strategic Partnership'.

A long time has passed since the establishment of diplomatic relations between Nepal and the ASEAN member states. Thailand was the first country in the region with which Nepal established diplomatic relations in November 1959. Diplomatic relations were established with five Southeast Asian countries in 1960 – Indonesia, Laos, Malaysia, Myanmar and the Philippines. Nepal established diplomatic relations with Singapore in 1969, Cambodia and Vietnam in 1975 and Brunei in 1984.⁴ Nepal has good and cordial relationships with all the ASEAN member states. Moreover, ASEAN is a region with vast and varied opportunities for countries like Nepal. However, despite the long and cordial bilateral relationship and friendly perceptions of the governments and the peoples of ASEAN for Nepal and vice versa, the cooperation between the two sides has not yet reached a satisfactory level.

Bonds of Friendship

The deep understanding of and respect for each other among the peoples of Nepal and the ASEAN member states are underpinned by some historical and cultural realities, and it serves as a great source of strength for fostering Nepal-ASEAN cooperation. There are many strong links between the two sides that can greatly contribute to the promotion of bilateral relations. For example, a battalion of British Gurkha soldiers is stationed in Brunei. Many Nepalis work in Brunei, including in the Royal Palace. Nepal and Myanmar share historical links from the time that Myanmar was under the British rule. Even today, over 250,000 Nepalis are staying and working respectfully in Myanmar.⁵ Hundreds of thousands of Nepalis work in Malaysia not only to improve their quality of life but also to support their families back home.

There are many strong links between the two sides that can greatly contribute to the promotion of bilateral relations.

Nepal and Singapore also share historical linkages. Over 2,000 Nepalis are serving in the Singapore Police Force and making an outstanding contribution to the security of Singapore.⁶ Singapore's first prime

⁴ Diplomatic Relations, Ministry of Foreign Affairs, Kathmandu, <https://mofa.gov.np/foreign-policy/diplomatic-relations/>.

⁵ Ministry of Foreign Affairs, Kathmandu, <https://www.mofa.gov.np/>.

⁶ Ibid.

minister, Lee Kuan Yew, has a memorable statement about Nepalis in his book, *The Singapore Story: Memoirs of Lee Kuan Yew*. He elucidated:

(After the Japanese defeated Singapore), "...Many looked dejected and despondent, perplexed that they had been beaten so decisively and so easily. The surrendered army was a mournful sight. There were some who won my respect and admiration. Among them were the Highlanders whom I recognised by their Scottish caps. Even in defeat they held themselves erect and marched in time- 'Left-Right, Left-Right, Left, Left!' shouted the sergeant major. And the Gurkhas were like the Highlanders. They too marched erect, unbroken and doughty in defeat. I severely cheered for them. They left a life-long impression on me. As a result, the Singapore government has employed a Gurkha company for its anti-riot police squad from the 1960s to this day."⁷

Similarly, Nepal and Nepalis too have deep respect and regard for ASEAN countries and the people there.

There exists a deep respect for Nepal and Nepalis in Thailand, mainly because of Buddhism and the location of Buddha's birth place in Lumbini, Nepal. Similarly, Nepal shares cultural links – Buddhist and Hindu – with Cambodia, Laos, Vietnam and Indonesia. Malaysia and Indonesia also remember the historical contribution of Nepalis (as British soldiers) in their efforts for independence and national security. Thus, Nepal is a popular country among the ASEAN member states. Similarly, Nepal and Nepalis too have deep respect and regard for ASEAN countries and the people there.

The Gurkha contingent, who are a part of the Singapore Police Force, are recruited annually.⁸ They are highly respected officers in Singapore because of the responsibility they hold. In the past, it was more about handling riots in Singapore, and they were at the forefront in

⁷ Lee Kuan Yew, *The Singapore Story: Memoirs of Lee Kuan Yew* (Singapore: Marshall Cavendish Editions, 1998): p. 55.

⁸ "The Gurkha dream", *The Kathmandu Post*, 10 September 2021, https://kathmandupost-com.translate.goog/art-culture/2021/09/10/the-gurkha-dream?_x_tr_sl=en&_x_tr_tl=ne&_x_tr_hl=ne&_x_tr_pto=sc.

getting the country back to stability and ensuring the violence did not go out of control. The Gurkhas also play a vital role in guarding the infrastructures in Singapore. In June 2018, the elite Gurkha police officers were deployed to provide security for the summit between American President Donald Trump and North Korean leader Kim Jong Un in Singapore.⁹

The deep respect and understanding for the Nepali people among the peoples of the ASEAN member states were very clearly visible in the aftermath of the devastating earthquake that hit Nepal in April and May 2015. The governments and people from the ASEAN member states took the necessary measures to help the Nepalis. Similarly, the governments of the ASEAN member states have also helped Nepal in its fight against the ongoing COVID-19 pandemic.

Bilateral Relations

The major areas of Nepal's interests among the ASEAN member states include tourism, foreign employment, trade, scholarships and, to some extent, investments.

Nepal and some of the ASEAN member states (Cambodia, Myanmar, Thailand and Vietnam) have exchanged high-level visits that have contributed to the improvement of bilateral understanding. Nepal receives scholarships from Thailand and Singapore. Singapore has also been contributing to promoting Nepal's human resources, especially under the Singapore Cooperation Programme. Nepal has established consultation mechanisms with many countries in Southeast Asia. These mechanisms are useful for exchanging views on bilateral, regional and multilateral issues. Besides, Nepal and some of the ASEAN member states have concluded the memorandum of understanding on the waiver of visa requirements for the holders of diplomatic and official passports; some others are in the process.

Nepal has established consultation mechanisms with many countries in Southeast Asia.

⁹ "Elite Gurkhas from Nepal deployed to secure Trump-Kim summit", *The Hindu Business Line*, 11 June 2018, <https://www.thehindubusinessline.com/news/world/elite-gurkhas-from-nepal-deployed-to-secure-trump-kim-summit/article24135047.ece>.

Connectivity is another important area of cooperation. Nepal has direct air connectivity with Myanmar, Malaysia, Thailand and Singapore. Besides, Nepal and the ASEAN member states have been working together in international forums. The Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (Myanmar and Thailand from ASEAN), the Non-Aligned Movement and Least Developed Countries/Landlocked Developing Countries forums are some avenues in which Nepal has been exchanging cooperation with individual ASEAN member states. Singapore has been active in the formation and functioning of the Forum of Small States, where Nepal can have meaningful cooperation with Singapore and other small states.

Modern diplomacy is more focused on promoting economic agendas, especially in trade, investment and tourism.

Modern diplomacy is more focused on promoting economic agendas, especially in trade, investment and tourism. The ASEAN member states are top-rated tourist destinations. Thailand alone, for example, received more than 39 million tourists in 2019.¹⁰ All of the ASEAN member states receive a high number of tourists from around the world. The ASEAN region can be a good source of tourists for Nepal. At the same time, Nepal can learn and benefit from the ASEAN experiences in the tourism sector. At present, tourist arrivals from ASEAN are not high. Nepal receives tourists mainly from Thailand (over 41,000 in 2019), Myanmar (36,000) and Malaysia (21,000).¹¹ The numbers of tourists from the other ASEAN member states are small. However, enough potentials exist for more tourists from the region.

Nepal-ASEAN trade too is minimal and negligible by ASEAN standards. The following figures show the trend of trade between Nepal and ASEAN countries.

¹⁰ Ministry of Tourism and Sports, Royal Thai Government, <https://www.mots.go.th/>.

¹¹ Ministry of Culture, Tourism and Civil Aviation, Government of Nepal, <https://www.tourism.gov.np/>.

Table 1: Nepal-ASEAN Trade, 2020 (Figures in NPR)

ASEAN Member States	Nepal's Export	Nepal's Import	Total Trade
Brunei	2,739,291	8,036,051	10,775,342
Cambodia	7,825,320	59,233,857	67,059,177
Laos	249,084	4,294,692	4,543,776
Indonesia	262,403,753	18,039,601,611	18,302,005,364
Malaysia	137,161,935	9,473,615,035	9,610,776,970
Myanmar	87,879,250	3,914,713,249	4,002,592,499
Philippines	6,020,426	470,878,376	476,898,802
Singapore	69,228,878	4,175,302,387	4,244,531,265
Thailand	48,136,318	8,125,117,687	817,325,4005
Vietnam	81,359,423	7,480,860,446	7,562,219,869
TOTAL	703,003,678	51,751,653,391	52,454,657,069

Source: Trade and Export Promotion Centre (www.tepc.gov.np)

The ASEAN member states offer good potential for investments. Singapore has investments in several South Asian countries. It is the leading source of investment for countries like India and Sri Lanka. However, investment from Singapore accounts for less than five per cent of Nepal's total investment. According to Nepal Rastra Bank, Singapore had an investment of only NRS8,728.5 million (\$98.68 million) in 2018/19.¹² There is potential for investments from other ASEAN member economies like Brunei, Indonesia, Malaysia, Thailand and Vietnam.

There is potential for investments from other ASEAN member economies like Brunei, Indonesia, Malaysia, Thailand and Vietnam.

Another area in which Nepal has to enhance its cooperation with the ASEAN member states is security. There have been instances of criminal activities related to human smuggling, business frauds and narcotic drugs by Nepalis or other nationals in the ASEAN member states. The two sides are exchanging cooperation in the fight against transnational crimes, but the cooperation is not formally institutionalised, making cooperation efforts ad hoc and uncertain.

¹² Nepal Rastra Bank, 2021, <https://www.nrb.org.np/>.

Nepal has to be proactively willing and ready to learn from the experiences of such countries and approach them accordingly.

Singapore can provide a model of development for Nepal. Though there can be no comparison between the two countries in terms of the level of development, Nepal can learn many things from Singapore and also seek Singapore's assistance in its development efforts. Singapore's surprising development in a short span of time, its present policies, and effective and active diplomacy can be good examples for Nepal. Singapore has offered to help Nepal in investment promotion. Nepal has to be proactively willing and ready to learn from the experiences of such countries and approach them accordingly.

ASEAN Mechanisms and Nepal

ASEAN has a number of mechanisms to cooperate with other countries. It has Dialogue Partnerships, Sectoral Dialogue Partnerships and Development Partnerships, among others. Similarly, there are other forums such as ASEAN Plus Three, East Asia Summit, ASEAN Regional Forum and free trade areas between the ASEAN member states and other countries.

Three South Asian countries, namely Bangladesh, India and Pakistan, have joined ASEAN institutionally through some of these mechanisms. However, Nepal has no official link with ASEAN so far. Nepal does not even have any accreditation to the ASEAN Secretariat in Jakarta. It is high time that Nepal works toward establishing formal institutional links with ASEAN and promoting cooperation in possible areas.

The Way Forward and Recommendations

ASEAN is a region with tremendous opportunities. The deep-rooted respect and understanding among the peoples of Nepal and the ASEAN member states is an excellent source of strength for both sides to promote cooperation. Many opportunities exist to promote bilateral trade, investment, tourism, economic, social and cultural cooperation. Both sides have to strengthen cooperation in controlling transnational crimes and further their cooperation in international

forums.

In order to meaningfully promote its relations with ASEAN, Nepal can take many steps. It can establish an institutional link with ASEAN. It has to accredit its Ambassador to Indonesia to ASEAN concurrently as well. Similarly, Nepal has to seek partnership (sectoral or development, to begin with) with ASEAN. Bilateral agreements can be concluded with as many ASEAN member states as possible, covering various possible areas of cooperation. Such agreements can be on trade, investment, tourism and culture, bilateral consultations and mutual legal assistance.

Bilateral agreements with the ASEAN member states can also be made to allow Nepali citizens visa on arrival facilities. Nepal issues visas on arrival to all ASEAN citizens. Such an arrangement would greatly promote bilateral tourism and understanding between the two sides. Nepal can establish resident embassies in more ASEAN member states. To begin with, Nepal can open embassies in Singapore and Indonesia. Similarly, Nepal has to establish consulates in countries where it does not have a diplomatic presence. Experience has shown that diplomatic or consular presence can effectively promote bilateral cooperation, trade, tourism and investment and assist the country's citizens in times of need, among other functions.

Similarly, Nepal should establish direct air connectivity with more ASEAN member states, including Indonesia and Vietnam. In the same manner, ASEAN can look into the possibility of establishing road connectivity through the India-Myanmar-Thailand Highway (Moreh to Mae Sot), which is being upgraded. The road will provide a great opportunity for Nepal to promote relations and cooperation with the ASEAN member states, especially Myanmar and Thailand. If implemented appropriately, this highway would be a highway connecting the states of the South Asian Association for Regional Cooperation with ASEAN. Nepal can also learn from the experiences of the ASEAN member states in the area of multilateral diplomacy. Thailand's experience with the UN and G-77, for example, and Singapore's experience in effective multilateral diplomacy, including mobilising the cooperation of small states, can provide some

Nepal can also learn from the experiences of the ASEAN member states in the area of multilateral diplomacy.

lessons for Nepal. Effective internal arrangements can also be made to promote Nepal-ASEAN relations. These measures include the development and maintenance of touristic sites, capacity building to absorb foreign investment and advanced technology and creating a conducive atmosphere for businesses.

There will certainly be other possibilities. However, beginning with small but practical steps, Nepal will benefit from the vast opportunities present in the ASEAN region. This would, in turn, further enhance Nepal-ASEAN bilateral relations.

Nepal and Regionalism: Convergence of Geo-economic and Normative Interests

Bibek Chand

Summary

Nepal's topographical challenges, coupled with limited material capabilities, have historically pushed it to become more integrated with the economies of its neighbouring states. Nepal's efforts towards regional institution-building are also rooted in normative aspirations. Its limited state capabilities could thus be enhanced normatively by emphasising its role as a collaborator in regional institutions. Such efforts allow Nepal to punch above its weight. As such, the convergence of geo-economic and normative considerations will enable Nepal to pursue its economic and ideational interests.

Introduction

Historically, the Kathmandu Valley was a major economic hub linking India and Tibet; those links were largely severed since the 1816 signing of the Sugauli Treaty between Nepal and the British East India Company. Thereafter began the isolation of the Kingdom of Nepal. Nepal remained isolated from the rest of the world until 1951 when the country opened its borders to the outside world. Despite the pursuit of diplomatic relations, Nepal remained largely isolated from economic and infrastructure links. However, King Mahendra increasingly sought to change this isolation and internationalised Nepal's foreign policy. In 1955, Nepal successfully joined the United Nations (UN), and King Mahendra further pushed for extensive diplomatic links with the wider world to elevate the country's status in the international community.

Despite the pursuit of diplomatic relations, Nepal remained largely isolated from economic and infrastructure links.

While the early engagements with international institutions following Nepal's emergence from isolation emphasised the survival of the country and reinforced its international presence, the democratisation of the country opened up new avenues for engagement. Nepal was

The limitations in Nepal's material capabilities make normative approaches attractive to its foreign policymakers.

at the forefront of creating the South Asian Association for Regional Cooperation (SAARC) and was one of its founding members in 1985. It has also been an active participant in regional institutional frameworks such as the South Asian Free Trade Area (SAFTA), Asian Development Bank, Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the Bangladesh, Bhutan, India, Nepal (BBIN) initiative. While the primary motivation for joining such organisations is economical, as Nepal seeks to overcome its topographical challenges through integration, the normative aspect cannot be overlooked. The limitations in Nepal's material capabilities make normative approaches attractive to its foreign policymakers. Thus, Nepal has increasingly positioned itself to become a part of regional geo-economic opportunities, which could be leveraged to draw greater attention to the country's international standing. Such a convergence would allow Nepal to pursue economic interests while also bolstering its normative power.

Nepal's Geo-economic Interests and Regionalism

First coined by Edward N Luttwark, geo-economics is “the use of economic instruments to promote and defend national interests, and to produce beneficial geopolitical results; and the effects of the other nations' economic actions on a country's geopolitical goals.”¹

In Nepal's context, its geo-economic interests are tied to its status as a landlocked country dependent on neighbouring China and India for economic linkages with the rest of the world. Nepal has traditionally used India's Kolkata port for third-party trade, but since 2017, it has started using the Visakhapatnam Port, which overtook the Kolkata port to handle Nepal-bound cargo in 2019.² In 2016, Kathmandu signed a transit agreement with Beijing that allows Nepal to use the Chinese seaports at Tianjin, Shenzhen, Lianyungang and

¹ Edward N Luttwark, “From Geopolitics to Geo-Economics: Logic of Conflict, Grammar of Commerce”, *The National Interest*, no. 20 (Summer 1990): p. 17.

² Shankar Acharya, “Visakhapatnam Overtakes Kolkata in Handling Nepal-bound Cargo”, *The Kathmandu Post*, 21 July 2019, <https://kathmandupost.com/money/2019/07/21/visakhapatnam-overtakes-kolkata-in-handling-nepal-bound-cargo>.

Zhanjiang and the dry ports at Lanzhou, Lhasa and Xigatse for transit.³ However, the implementation of this agreement remains incomplete as the Nepali side has yet to develop a concise implementation plan. Further, the lack of a strong political will on both sides has stalled its implementation.⁴

Furthermore, a bulk of Nepal's trade is tied to its two neighbours. As of 2020, 73 per cent of exports from Nepal were to India; 64 per cent of all Nepal's imports were from India and 14 per cent were from China.⁵ The data show that Nepal is highly reliant on its neighbours for trade, with India leading the way. As a result, fostering deeper interconnections in regional platforms could be one way to lessen its economic dependence on its immediate neighbours. Through participation in regional institutional frameworks, Nepal could expand its portfolio of trading partners and pursue its geo-economics interests. This is not to say that Nepal is not interested in building better interconnections with India and China, but the idea is that by using multilateral frameworks, Kathmandu can exert more control and have greater agency in its interactions with other countries.

Through participation in regional institutional frameworks, Nepal could expand its portfolio of trading partners and pursue its geo-economics interests.

Nepal's involvement with regional institutions and initiatives highlights its willingness to partake in regional integration. Nepal actively participated in the SAARC, hosting its headquarters in Kathmandu as well as three SAARC summits in 1987, 2002 and 2014. In 2004, Nepal became a signatory of the SAFTA, which would eventually lead to a free trade area amongst the SAARC member states. Due to the stalling of the SAARC, the SAFTA has also taken a back seat. However, Nepal has sought bilateral means to look for third-country transit routes. Since 1997, Bangladesh has opened port facilities in Mongla for use by Nepal for trade purposes.⁶ However, given that such a

³ Gopal Sharma, "Nepal Says China to Allow Access to Ports, Ending Indian Monopoly on Transit", *Reuters*, 7 September 2018, <https://www.reuters.com/article/us-china-nepal-ports/nepal-says-china-to-allow-access-to-ports-ending-indian-monopoly-on-transit-idUSKCN1LN1KJ>.

⁴ Anil Giri, "Nepal's Transit Deal with China Makes No Headway Even After Five Years", *The Kathmandu Post*, 11 July 2021, <https://kathmandupost.com/national/2021/07/11/nepal-s-transit-deal-with-china-makes-no-headway-even-after-five-years>.

⁵ "Nepal Trade Information Portal", Ministry of Industry, Commerce and Supplies, Government of Nepal, <https://nepaltradeportal.gov.np/web/guest/data-visualization>.

⁶ "Nepal-Bangladesh Relations", Ministry of Foreign Affairs, Government of Nepal, <https://mofa.gov.np/nepal-bangladesh-relations/>.

transit would have to take place over Indian territory, logistical issues have arisen.⁷

BIMSTEC would open avenues for Nepal to sell its hydroelectricity to a wider market, including regional partners like Bangladesh, which is keen on importing hydroelectricity from Nepal and Bhutan.

Nepal has also been a member of BIMSTEC since 2004. This regional organisation was established in 1997 (formerly known as Bangladesh, India, Sri Lanka and Thailand Economic Cooperation) to bridge relations between the South and Southeast Asian states. Given that the organisation uses a sectoral approach for cooperation, Nepal leads the poverty alleviation sector.⁸ BIMSTEC recognises transport and communication integration as an important goal amongst its member states, and this integration forms part of Nepal's geo-economic strategy to reduce dependence on its neighbours. In addition to transportation, BIMSTEC focuses on integrated energy sectors such as the BIMSTEC Grid Interconnection programme. Such a programme is appealing to Nepal as the country's current production rate of hydroelectricity is at one gigawatt (GW), a far cry from its hydroelectricity potential of approximately 42 GW (which is economically feasible).⁹ BIMSTEC would open avenues for Nepal to sell its hydroelectricity to a wider market, including regional partners like Bangladesh, which is keen on importing hydroelectricity from Nepal and Bhutan.

Due to tense India-Pakistan relations, the SAARC summits and substantial projects tied to the organisation have stalled since the 2014 SAARC summit in Kathmandu. Despite setbacks for the SAARC, Bangladesh, Bhutan, India and Nepal have collectively envisioned a sub-regional initiative known as the BBIN initiative. This initiative seeks to increase the flow of goods between the participating states while also promoting greater movements of people.¹⁰ As Parthapratim Pal notes, initiatives like the BBIN "also give a boost to landlocked LDCs [least developed countries] such as Bhutan and Nepal, with

⁷ Shohel Mamun, "Where Do Things Stand with Transit of Good to Nepal and Bhutan?", *Dhaka Tribune*, 4 July 2021, <https://archive.dhakatribune.com/business/commerce/2021/07/04/where-do-things-stand-with-transit-of-goods-to-nepal-and-bhutan>.

⁸ Poverty Alleviation, BIMSTEC, https://bimstec.org/?page_id=286.

⁹ Herath Gunatilake, Priyantha Wijayatunga, and David Roland-Holst, "Hydropower Development and Economic Growth in Nepal", Asian Development Bank, June 2020, p.3, <https://www.adb.org/sites/default/files/publication/612641/hydropower-development-economic-growth-nepal.pdf>.

¹⁰ Parthapratim Pal, "Intra-BBIN Trade: Opportunities and Challenges", Observer Research Foundation/The Asia Foundation, March 2016, https://www.orfonline.org/wp-content/uploads/2016/03/ORF-Issue-Brief_135.pdf.

small domestic markets. It is imperative for these countries to have access to global markets, both for exports and imports.”¹¹ In all three regional initiatives discussed here, the common themes include greater connectivity, multilateralism and access to a wider market. For Nepal, these are non-negotiable geo-economics interests that are inextricably linked to its status and survival as a developing landlocked country.

Furthermore, as Kathmandu seeks to increase its agency in international politics, reducing dependence on its neighbours becomes an important pathway. Pursuing this goal through regional initiatives gives Nepal access to a wider market for its hydroelectricity and the diversification of its economic partners, potentially lessening its reliance on its neighbouring states, particularly India. In the first nine months of 2021, 99 per cent of Nepal’s overland trade went through customs stations at the Indian border.¹² The prior experience of trade blockades by India (in 1990 and Nepal’s accusation in 2015 of India doing the same again) informs Nepal’s geo-economic interest in lessening trade dependence on India. Moreover, participating in regional platforms could be perceived as a more politically sensitive and diplomatic approach compared to an overt departure from engaging/trading with India.

Moreover, participating in regional platforms could be perceived as a more politically sensitive and diplomatic approach compared to an overt departure from engaging/trading with India.

Normative Interests and Regionalism

As a small state, Nepal is limited in its material capabilities. It has sought to build more normative power to compensate for its material limitations. Limitations in material capabilities can stifle a state’s pursuit of international influence. However, by creating new norms in international relations, some states have taken on the role of norm entrepreneurs. Repeatedly, such norm entrepreneurs have emerged to punch above their weight in international politics. However, Nepal has yet to emerge as one or take on such a role. Nevertheless, it has sought to build soft power by other means; the first example is the

¹¹ Ibid., p. 4.

¹² Commerce Wing Brief, Embassy of India, Kathmandu, 2 July 2021, <https://www.indembkathmandu.gov.in/page/about-trade-and-commerce/>.

Zone of Peace proposition made by King Birendra in 1975. The notion was to promote Nepal as a zone of peace without any foreign military presence, which was also a means to reduce the influence of India and China and stave off any possible application of hard power. At the same time, this proposal would build the international image of Nepal as a state uniquely committed to peace.

Such a normative alignment is important, given that the UN is a key actor in the development sector of Nepal.

Since democracy was introduced in 1990, Nepal has postured as a multilateral player dedicated to upholding the UN Charter. In fact, the UN Charter is codified into the foreign policy of Nepal, wherein the country endorses “abiding faith in the Charter of the United Nations.”¹³ It has also signed 21 international conventions on human rights, six related to humanitarian law and over 26 tied to regionalism.¹⁴ Additionally, Nepal and Bhutan are the only two states that do not practise capital punishment.¹⁵ Nepal followed the normative shifts within the UN discourse on lesbian, gay, bisexual, transgender, queer (or questioning) and intersex (LGBTQI) issues and enshrined protections for the LGBTQI communities in its Constitution in 2015.¹⁶ Additionally, at the UN, Nepal was the only South Asian country to sign the “joint statement ending acts of violence and related human rights violations based on sexual orientation & gender identity.”¹⁷ As such, Nepal has increasingly positioned itself as a normative team player that is committed to the principles of internationalism and multilateralism championed by the UN. Such a normative alignment is important, given that the UN is a key actor in the development sector of Nepal.

Nepal’s normative commitments that align with the UN also largely concur with the norms espoused by the European Union’s (EU) foreign and security policy. The EU’s official foreign and security policy

¹³ “Nepal’s Foreign Policy (2021)”, Ministry of Foreign Affairs, Government of Nepal, <https://mofa.gov.np/foreign-policy/>.

¹⁴ “List of Multilateral Treaties to Which Nepal is a Party and a Signatory”, Ministry of Law, Justice and Parliamentary Affairs, Government of Nepal, March 2018, <http://www.moljpa.gov.np/wp-content/uploads/2019/04/List-of-Multilateral-Treaties-Signed-by-Nepal.pdf>.

¹⁵ “Death Penalty”, *Amnesty International*, <https://www.amnesty.org/en/what-we-do/death-penalty/>.

¹⁶ Kyle Knight, “How Nepal’s Constitution Got Queered”, Human Rights Watch, 14 October 2015, <https://www.hrw.org/news/2015/10/14/how-nepals-constitution-got-queered#>.

¹⁷ “Over 80 Nations Support Statement at Human Rights Council on LGBT Rights”, U.S. Mission to International Organizations in Geneva, 22 March 2011, <https://geneva.usmission.gov/2011/03/22/lgbtrights/>.

includes the promotion of international cooperation, consolidation of democracy, the rule of law, respect of human rights and fundamental freedoms.¹⁸ Both the UN and the EU are key development partners for Nepal, with extensive economic commitments. By normatively aligning with them, Nepal positions itself as an attractive destination for development activities and investments. Furthermore, Nepal's emphasis on multilateralism and internationalism is consistent with its participation in regional initiatives and institutions, highlighting its commitment to these norms. Its engagements with the SAARC, BIMSTEC and BBIN are all based on the principles of multilateralism and regional integration. Active participation in these regional initiatives has allowed Nepal to build normative currency as a regional player committed to regionalism and multilateralism.

Its engagements with the SAARC, BIMSTEC and BBIN are all based on the principles of multilateralism and regional integration.

Nepal's normative interests have primarily been to carve out its space in international politics without extensive economic commitments. Given Nepal's limitations in material capabilities, normative alignments seem to be the best course of action for Nepal to pursue its interests while also cultivating goodwill with international and regional partners.

Convergence of Geo-economic and Normative Interests

Nepal's efforts in regionalism can be assessed within the context of the convergence of its geo-economic and normative interests. Regionalism could serve as a means to lessen the dependence on its direct neighbours and explore alternative integration routes with the rest of the region. Further, Nepal's experiences with economic blockades have also prompted it to diversify its economic integration and partners, including alternate trade routes and ports for international transit. As a small power limited by material capabilities, participating in regional initiatives serves to build its normative power. Without extensive expenditure, Nepal can normatively signal to regional partners that it is a state committed to regionalism,

¹⁸ "Foreign and Security Policy", European Union, 2021, https://europa.eu/european-union/topics/foreign-security-policy_en.

As highlighted by this approach, in the cases of the EU and the UN, Nepal could emulate the same with regional organisations.

internationalism and multilateralism. As highlighted by this approach, in the cases of the EU and the UN, Nepal could emulate the same with regional organisations.

Commitment to regionalism allows Nepal to pursue its geo-economic interests while inculcating normative power concurrently. Geo-economic considerations based on regional initiatives allow Nepal to pursue economic opportunities more widely in terms of economic interactions. Nepal's willingness to engage in such endeavours also serves as a means for it to overcome its limitations as a small power amidst larger powers. The convergence of Nepal's geo-economic aspirations and normative commitments could serve the material and ideational interests of the country.

Level up the Foreign Policy Pace or Rust in Peace: Nepal's Contribution to UN Peacekeeping

Antara Singh

Summary

The participation of Nepalis in the United Nations (UN) peacekeeping force evokes national pride based on the country's historical underpinnings. However, the disregard of international law, lack of implementation of a human rights framework concerning the conduct of the troops, neglect in the coordination of national machinery and management of the information space in situations where controversies occur pose risks to Nepal's standing as a competent UN peacekeeper.

Introduction

For over six decades, Nepali peacekeepers have protected vulnerable communities and supported countries transitioning from conflict to peace, doing so at great personal risk and in harsh conditions. According to national records, 82 Nepali peacekeepers have lost their lives serving under the UN flag over the last 60 years.¹ Nepal is currently the third largest contributor to UN peacekeeping operations, with personnel serving in over a dozen countries.² Going beyond notions of peacekeeping as a source of foreign currency for its economy, Nepal has long valued the principles of friendship and cooperation in its foreign policy through active engagements in global peacekeeping. Medals have been won and special acknowledgements achieved from the highest echelons of the UN, political leadership and the international community for Nepal's remarkable peacekeepers'

Nepal is currently the third largest contributor to UN peacekeeping operations, with personnel serving in over a dozen countries.

¹ "Nepal's Contributions to UN Peacekeeping", Ministry of Foreign Affairs, Press Release, April 2021, <https://mofa.gov.np/statement-by-hon-mr-pradeep-kumar-gyawali-minister-for-foreign-affairs-at-the-conference-on-nepals-contributions-to-un-peacekeeping/>.

² Data as of 21 August 2021, United Nations Peacekeeping, <https://peacekeeping.un.org/en/troop-and-police-contributors>.

selfless actions, who have delivered and performed well in highly complex and sensitive situations in the field.³

Under the aegis of the UN Charter and international principles of peacekeeping, Nepal is conferred with a pivotal diplomatic edge in its soft power diplomacy.

Nepal's position in UN peacekeeping is often cited as one of its strengths. Under the aegis of the UN Charter and international principles of peacekeeping, Nepal is conferred with a pivotal diplomatic edge in its soft power diplomacy. Nepali peacekeepers are guided by the overarching principles of impartiality, respect for the consent of parties in conflict-torn countries, and the non-use of force except in moments of self-defence or in defence of the UN mandate of peacekeeping.⁴

The command structures, underlined in the Capstone Doctrine of the Department of Peacekeeping Operations, stipulate that peacekeepers should remain primarily within the control of their contributing states by virtue of a National Contingent Commander of the dispatched troops; they are also under the direction of a Force Commander who is the UN senior military official for the peacekeeping mission.⁵ In all operations, the presence of grey-zone areas and the subsequent questions of liability and attribution of controversial acts to the peacekeepers in such areas determine which actors are deemed in 'effective control' for a mission. The key issue is how Nepal responds when these difficult questions arise, as seen in the aftermath of Nepali peacekeepers' links to sexual misconduct in the Democratic Republic of the Congo (2005) and South Sudan (2018), as well as incidents of cholera outbreak in Haiti (2010).⁶ Gaps in the implementation of strategies and modalities in such complex situations are observed on the part of Nepal for the support of accountability benchmarks, providing justiciable resorts and administering public information engagement based on investigations.

³ "Recently in 2020 for service in Central African Republic and South Sudan", United Nations, <https://www.un.org/en/events-and-news>.

⁴ Suman Thapa, "How to increase the Nepali Army's effectiveness of the Nepali Army's Infantry Battalion in the UN peacekeeping missions", Master's Thesis, Tribhuvan University, <https://apps.dtic.mil/sti/pdfs/AD1105232.pdf>.

⁵ Nina Mileva, "State Responsibility in Peacekeeping, The Effect of Responsibility on Future Contributions", *Utrecht Law Review*, 12 Utrecht L. Rev.

⁶ "Nepalese troops accused of sexual abuse", *The Guardian*, 24 April 2018, <https://www.theguardian.com/world/2018/apr/24/un-peacekeepers-accused-of-child-in-south-sudan>; and "Peacekeeping Without Accountability", on Haitian Cholera Epidemic, Yale Law School, 2013, 2021, https://law.yale.edu/sites/default/files/documents/pdf/Clinics/Haiti_TDC_Final_Report.pdf.

The selection of the soldiers for peacekeeping with alleged records of human rights and humanitarian law violations has long been brought to the fore by international mechanisms and experts. In 2005, the UN High Commissioner for Human Rights issued a public warning to the Nepali government that the army's involvement in extrajudicial executions, disappearances and torture could threaten its peacekeeping participation.⁷ Monitoring organisations such as the International Crisis Group had recommended that the international community use its leverage to push for improvements by suspending the Nepal Army from UN peacekeeping operations if it does not improve its record.⁸ The vestiges of the past, coupled with the pending status of domestic laws, are being invoked to bring accountability to the culprits through formal judicial mechanisms. It does not help that the matter remains unaddressed by the transitional justice processes, which are yet to be concluded in line with international commitments.

The vestiges of the past, coupled with the pending status of domestic laws, are being invoked to bring accountability to the culprits through formal judicial mechanisms.

International human rights organisations continue to raise concerns over Nepal's obligation to investigate and, where justified by the evidence, prosecute those accused of serious abuses. In October 2020, Nepal's National Human Rights Commission published 20 years of data, naming 286 people, mostly police officials, military personnel and former Maoist insurgents. The data is used to guide the UN in vetting Nepali security forces for peacekeeping missions, as well as other countries in their efforts to ensure international justice, including their obligations to prosecute or extradite individuals suspected of committing crimes under international law.⁹ Another concern surrounding the troops involved cases of child rape committed through acts of bribery. Tribunals have convicted Nepali soldiers on charges of sexual exploitation and abuse, serious violations

⁷ Rebecca Brubaker, "Breaking the Mold: Lessons from Sixteen Years of Innovative UN Political Engagement", International Peace Institute, February 2021, https://www.ipinst.org/wp-content/uploads/2021/02/2102_UN-Political-Engagement-in-Nepal.pdf.

⁸ "Nepal's Crisis: Mobilising International Influence", International Crisis Group, 19 April 2006, Asia Briefing N°49, <https://www.refworld.org/docid/4455fe124.html>.

⁹ "Nepal: Carry Out Rights Panel's Recommendations Report Reveals Weak Protections, a Wake-Up Call for Development Partners", Human Rights Watch, <https://www.hrw.org/news/2020/11/03/nepal-carry-out-rights-panels-recommendations>.

Nepal must address these problematic conduct and shortcomings of its peacekeepers in accordance with the attribution of state responsibility and accountability in international peacekeeping.

which have undermined legal obligations and commitments.¹⁰ Nepal must address these problematic conduct and shortcomings of its peacekeepers in accordance with the attribution of state responsibility and accountability in international peacekeeping.

Due diligence is an important legal principle that underpins positive duties under international human rights law and serves as a standard against which to measure the performance of UN peacekeeping forces. The failure to take cholera prevention measures in Haiti raises questions about the liability of the troops contributing to the country, and the lack of institutional modalities for a public review of such instances in domestic settings necessitates deeper scrutiny.

Amidst these reviews of Nepali peacekeepers' performance at the global level, the UN was placed at the centre of the debate in terms of its organisational responsibilities, which were even brought through a court case in New York claiming compensation to the victims.¹¹ Questions arise with regard to due diligence measures taken by Nepali troops to protect the rights of the Haitians, such as by ensuring proper sanitation practices, foregrounding yet again the human rights obligations that the troops are supposed to uphold.

Better Preparations

Changing dynamics in the global context of peacekeeping is fast unfolding. Therefore, it becomes imperative for Nepal to deliberate and establish its position from the vantage point of its peacekeeping legacy. While previous UN peacekeeping missions were conducted under Chapter VI of the UN Charter – which authorises the UN to intervene with the consent of the conflicting parties – the new generation of peace operations is authorised under Charter VII's

¹⁰ "UN peacekeepers jailed for sex abuse", *Al Jazeera*, 23 July 2005, <https://www.aljazeera.com/news/2005/7/23/un-peacekeepers-jailed-for-sex-abuse>; "Nepal jails six peacekeepers for sex abuse in Congo", *Gulf News*, 24 July 2005, <https://gulfnews.com/world/asia/nepal-jails-six-peacekeepers-for-sex-abuse-in-congo-1.295124>; and Carla Ferstman, "Criminalizing Sexual Exploitation and Abuse by Peacekeepers", United States Institute of Peace (USIP), September 2013, <https://www.usip.org/publications/2013/08/criminalizing-sexual-exploitation-and-abuse-peacekeepers>.

¹¹ Rosa Freedman, "UN Immunity or Impunity?: A Human Rights Based Challenge", 25 *EJIL* 239, Rosa Freedman and Nicolas Lemay-Hebert, "Towards An Alternative Interpretation of U.N. Immunity: A human rights-based approach to the Haiti Cholera Case", University Reading Article, <http://centaur.reading.ac.uk/>.

peace enforcement provisions, which allow for the deployment of armed forces without the consent of the parties in a conflict to restore peace and security.

In recent years, the UN peacekeeping operations have directly embroiled the international organisation in issues relating to transnational terrorism, weapons proliferation and illicit trafficking by international organised crime.¹² Amid this churn, Nepal needs to perform an internal undertaking to take stock and determine how the evolving peacekeeping agenda can create new opportunities for cooperation to better fit with global issues of sustainable security, promotion of effective governance and establishment of the rule of law beyond its borders.

Some steps of Nepal's diplomatic engagement have taken the right directions; for instance, its emphasis on systematically pursuing the advancement of permanent capabilities beyond temporary equipment maintenance and training; prioritising equitable global-regional partnership; introducing and using advanced technologies in missions; and sustaining the local ecosystem in increasingly conflict-prone zones are some examples.¹³ Evidence-based reports state that climate-induced conflicts will escalate to unforeseeable levels. Amid the shifting priorities among UN mechanisms lies an avenue for Nepal to prepare the capabilities of its peacekeepers to deliver in areas that could face extreme logistical challenges, such as harsh terrains with poor internal communications, lack of roads and unmarked and porous borders where people are enmeshed in poverty and conflicts.

Evidence-based reports state that climate-induced conflicts will escalate to unforeseeable levels.

Integrating human rights and development measures into peacekeeping operations is even more critical in a post-pandemic world. The global situation has pushed the drivers of instability to trigger high levels of conflict eruptions. In order to keep up with the times and new challenges, peacekeepers should be better trained to

¹² Robert M Perito, "U.N. Peacekeeping in the Sahel: Overcoming New Challenges", USIP, <https://www.usip.org/sites/default/files/SR365-UN-Peacekeeping-in-the-Sahel-Overcoming-new-Challenges.pdf>.

¹³ "Nepal's Contributions to UN Peacekeeping", Ministry of Foreign Affairs, Press Release, April 2021, <https://mofa.gov.np/statement-by-hon-mr-pradeep-kumar-gyawali-minister-for-foreign-affairs-at-the-conference-on-nepals-contributions-to-un-peacekeeping/>.

If the foreign policy goal is to bolster Nepal's human rights reputation, it is also time to move beyond and do away with the norms that use a negative marking list in the selection of peacekeeping candidacies.

monitor virus-related conflict triggers and the impact of containment measures on the most vulnerable groups.

If the foreign policy goal is to bolster Nepal's human rights reputation, it is also time to move beyond and do away with the norms that use a negative marking list in the selection of peacekeeping candidacies. For this, attention is needed for transparent reforms in domestic vetting processes by setting higher criteria for selection based on merit, positive records on human rights and humanitarian law, and the overall broadening of a performance evaluation framework.¹⁴ In the existing model, both the notable and genuine civilian protection acts performed by the candidates, as well as the implementation of the accounting peer review system, are some significant steps in the assessment process. Other reformative measures that deserve implementation include negotiating terms of good behaviour; instituting terms of service to better deal with misconduct, investigation and discipline; mending gaps in handovers; and, finally, in improving knowledge management.

Similarly, there is a need to instil greater gender sensitivity and inclusion throughout the training phases with exposure to a practical learning environment.¹⁵ Issues on gender awareness in their work need to be highlighted, including cultural awareness, implications of the environment on pervasive sexual violence – whether as a weapon of war or as a proclivity in a violence-infused local culture – and the disproportionate personal and social damage inflicted on women and children. Increasing the participation of Nepali women in UN peacekeeping forces, as requested by the former UN Secretary-General Ban Ki-Moon in 2014, would not only help improve Nepal's gender parity image, but would also bolster its quality of delivery, situational awareness and acceptability by and access to local communities. Various in-depth studies have found that female

¹⁴ "Progress on UN peacekeeping reform: HIPPO and beyond", Netherlands Institute of International Relations, Clingendael Report 2017, https://www.clingendael.org/sites/default/files/pdf/Progress_on_UN_peacekeeping_reform.pdf.

¹⁵ William Durch and Michelle Ker, "Police in UN Peacekeeping: Improving Selection, Recruitment, and Deployment", International Peace Institute, November 2013, <https://www.ipinst.org/2013/11/police-in-un-peacekeeping-improving-selection-recruitment-and-deployment>.

peacekeepers undertaking sensitive security roles yield effective outcomes with less confrontational atmospheres.¹⁶

As discussed, revelations of sexual exploitation and abuse by Nepali peacekeepers during the UN Organisation Stabilisation Mission in the Democratic Republic of the Congo in 2005 and the UN Mission in South Sudan in 2018 have caused great damage to Nepal's reputation and credibility, the UN and peace operations. Accountability measures should be a key priority for legal and policy implementation as well as procedures for preventing, enforcing and ensuring swift justice for the victims. An External Independent Review Panel in 2015 reported that the UN had focused on protocols rather than on victims and that its passive, fragmented and bureaucratic response had perpetuated a culture of impunity.¹⁷ Although Nepal has pledged to support the UN Secretary-General in combating these abuses, signed the Voluntary Compact on preventing and addressing them and adopted a zero-tolerance policy against sexual exploitation and abuse by peacekeepers, the country has yet to see the outcomes of the implementation of criminal legislation and policy through actual records and reports.

Accountability measures should be a key priority for legal and policy implementation as well as procedures for preventing, enforcing and ensuring swift justice for the victims.

In its diplomatic position, Nepal has outlined that when criminal offences by UN officials or peacekeepers are reported, including sexual abuse, fraud and corruption, they should be brought to the attention of the states concerned, and information exchange should be prioritised in order to facilitate investigations and prosecutions. The onus has been placed on the triangular relationship between the UN Secretariat, peacekeeping missions and the host governments. However, they can only be effective if Nepal first builds a robust information management system to take immediate action against cases of violation.

¹⁶ "Security Council's discussions, where UN SG cites evidence of impact of female peacekeepers", United Nations, 2019, <https://www.un.org/press/en/2019/sc13773.doc.htm>; and Jamile Bigio and Rachel Vogelstein, "Increasing Female Participation in Peacekeeping Operations", Council on Foreign Relations, 26 September 2018, <https://www.cfr.org/report/increasing-female-participation-peacekeeping-operations>.

¹⁷ "Progress on UN peacekeeping reform: HIPPO and beyond", Netherlands Institute of International Relations, Clingendael Report 2017, op. cit.

Conclusion

The principles of world peace have been key fundamental pillars of Nepal's foreign policy. Proliferation and the increased scope of peacekeeping operations potentially provide greater significance to Nepal in using peacekeeping as a foreign policy tool. As such, Nepal's deployment of and contribution to peacekeeping operations should be in tandem with its international commitments as well as its constitutional, foreign and security policy considerations. Moreover, tools of foreign policy reforms bear the potential to affect and structure government action, which means that the reform of processes and interactions in peacekeeping contexts should not be temporary but rather permanently institutionalised.

With these steps, Nepal can become more relevant and better promote its soft power ambitions among other friendly countries.

While Nepal's longstanding areas of engagement in peacekeeping can be made more effective, there are many opportunities for Nepal's entry points through the contribution of contextually needed capacities in this century's newly evolving peacekeeping dynamics. Efforts should, therefore, be taken to assess the emerging areas. Preparing and strengthening the competence of the troops in these directions will be of added value. Also, national machinery should develop coordination mechanisms and build a more robust and transparent vetting process. Likewise, the management and delivery of information space pertaining to the peacekeeping engagements should be systematised to provide regular updates and respond adequately during crises. With these steps, Nepal can become more relevant and better promote its soft power ambitions among other friendly countries.

Nepal's Landlocked and Least Developed Country Status

Gyan Chandra Acharya

Summary

In addition to the traditional factors, Nepal's foreign policy is guided by its least developed and landlocked country status. These characteristics, combined with its geostrategic location, necessitate maintaining balanced and robust relationships with its neighbours and developing multidimensional relationships with other extra-regional development partners. The international norms and principles – particularly those related to free and unhindered access to the sea, diversification in transit routes and enhanced level of economic collaboration – play a prominent role. As a result, Nepal's desire to transcend its least developed country (LDC) status and get away from the regional cocoon are important objectives which are informing the foreign policy priorities that it is pursuing through beneficial integration with the global economy and enticing global support.

Introduction

Nepal's foreign policy, like that of any other country, is guided by its history, geography, culture, capabilities and the aspirations of its people as well as the interplay of policies and approaches of other countries towards it. The overlapping principles of sovereignty, territorial integrity, promotion of dignity and the enhancement of the prosperity of its people among the comity of nations remain some of the fundamental priorities of Nepal. Its status as one of the oldest independent nations in Asia, located in the South Asian region between India and China, and as a responsible member of the United Nations (UN) and other multiple regional organisations, has also defined its outlook, aspirations and expectations. As is often said, what you see depends on where you stand. Therefore, Nepal's fundamental foreign policy approach has been to maintain independent, confident, balanced and forward-looking relationships

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with its neighbours. It aims to build diverse and multidimensional ties, and not play any one country against another.

Geostrategic Imperatives

Given its geostrategic location, maintaining a balanced and cordial relationship with India and China is necessary but insufficient for Nepal's forward-looking foreign policy.

Given its geostrategic location, maintaining a balanced and cordial relationship with India and China is necessary but insufficient for Nepal's forward-looking foreign policy. Therefore, Nepal is consciously engaged in promoting robust relationships with major external powers to transcend its regional constraints, reduce over-dependence on the region, increase its freedom of choice, broaden opportunities and increase the scope for independent action. Membership within the UN and other organisations has further consolidated Nepal's international profile while also promoting the norms and principles of international relations, which, though of great significance to all countries, are vital to Nepal as a guiding beacon and ideal enshrined within its constitution.

Scrupulous observance of the principles and purposes of the UN Charter, which promotes sovereign equality, peaceful settlement of disputes, collective security, non-aggression, the solidarity of international cooperation, human rights and progressive development of international law, is not only critical to promoting international peace and stability, but also to reinforce its fundamental long-term interests. Against this background, this paper delves into the two key issues faced by Nepal: its landlocked and LDC status.

Landlocked or Land-linked?

For the conduct of international trade of goods and services or travel, landlocked countries have to transit through the territory of other countries. Unlike the coastal countries, the landlocked countries have no internal access to the international seas by which they can independently conduct commercial and other economic activities. Similarly, the landlocked states do not enjoy the benefit of coastal living and non-living resources like crude oil, salt and gas hydrates provided by nature. The global integration of economies is an

important means to promote economic growth and reduce poverty. Still, the landlocked countries are inherently at a greater disadvantage than the coastal states in terms of their competitiveness, as seaborne trade is much more competitive than surface transport-based trade.

To help landlocked developing countries (LLDCs) overcome these challenges, there is a long history of international instruments and conventions, which have now been established as customary international law for these countries. It will be worthwhile to mention that the Barcelona Convention of 1921, the General Agreement on Tariffs and Trade of 1947, the New York Convention on Transit Trade of Landlocked States of 1965 and the UN Conference on the Law of the Sea of 1982 have firmly established the landlocked countries' right of access to and from the sea and the freedom of transit in the high seas as being a right that belongs to the common heritage of mankind.¹

Nepal's landlocked status, combined with its mountainous geography, raises transportation costs significantly, as evidenced by its high import and export bills. Its major challenges, like those of the other 10 landlocked developing countries in Asia, are ensuring efficient and uninterrupted transit facilitation, infrastructure development and maintenance, trade facilitation, regional integration and cooperation, structural economic transformation, and concessional access to financing for investment. Therefore, stronger and more facilitatory bilateral arrangements with quicker dispute settlement mechanisms and the use of modern technology with further consolidation of trade and transit facilitation measures would play a critical role.

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'Landlockedness' has also resulted in low levels of productive capacity development, sluggish economic growth and limited structural transformation. A report published by the UN Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States in 2013 states that the average LLDC achieves a level of development 20 per

¹ "United Nations Convention on the Law of the Sea", United Nations, New York, 1982, https://www.un.org/depts/los/convention_agreements/texts/unclos/unclos_e.pdf.

cent lower than the average coastal country. It also states that the cost to export or import from and to the LLDCs is more than twice the cost of exporting and importing from and to the transit countries.² Jeffrey Sachs, a renowned international economist, has stated that even when there is no direct conflict, the LLDCs are highly vulnerable to the political vagaries of their neighbours.³

In order to diversify its transit transportation, promote trade diversification and avoid occasional border disruptions and blockades from India, Nepal also signed an agreement and a protocol to open transit facilities with China in 2016.

In 1950, Nepal signed its first transit agreement with India. With several renewals and creating a separation between trade and transit in the agreements in the subsequent decades, Nepal now has a separate transit treaty with India, which is renewable every seven years. According to the provisions of the trade treaty, two ports in India have been designated for Nepal-bound cargo, with 30 border crossing points, 15 general transit routes, one rail-based and four road-based dry ports. India has provided cooperation and support to build modern dry port facilities in Nepal. In order to diversify its transit transportation, promote trade diversification and avoid occasional border disruptions and blockades from India, Nepal also signed an agreement and a protocol to open transit facilities with China in 2016. In the same spirit, Beijing agreed to provide access to Kathmandu to four Chinese seaports and six agreed points for transit with two inland container depot points in 2019; the ports are presently under construction.

As stated earlier, reducing transit time and cost, promoting efficient international trade at the border, ensuring unfettered cross-border movement, improving transport infrastructure within the country and beyond up to the seaport and enhancing regional cooperation with equitable integration will not only help improve the structure of the economy but will also contribute to reduce poverty and speed up economic growth in Nepal. Since Nepal's foreign policy includes ensuring prosperity to the people, competitiveness has a high

² Office of the UN High Representative for the Least Developed Countries, Landlocked Developing countries and Small Island Developing States (OHRLLS), *The Development Economics of Landlockedness* (United Nations, New York, 2013): p. 20.

³ Jeffrey Sachs et. al, "The Challenges Facing Landlocked Developing Countries", *Journal of Human Development*, Vol. 5, No. 1 (March 2004): p. 45.

premium on the international market in today's globalised world to duly benefit from the global trade.

Nepal faces a couple of structural economic challenges. Its economy has found itself trapped in a low equilibrium; the contribution of manufacturing to gross domestic product (GDP) has remained negligible, and the export to GDP ratio is also very low when measured against countries of comparable sizes, together with meagre diversification of export products and markets. Therefore, rapid, inclusive and sustainable prosperity depends upon a fair and meaningful integration into the regional and global economy with competitive products and facilities for smooth transport and transit.

Graduation from a Least Developed Country Status

As a result of its location between two big countries – one an emerging superpower (China) and the other an aspiring superpower (India) – Nepal would also like to be a land-linked country with effective transport connectivity with both neighbours. As the geopolitical dynamics of the region and the world are heading in the direction of greater confrontation and stridency, Nepal should make a concerted effort to find a more collaborative approach on issues of common interests or solidarity.

Many landlocked countries in Europe and Africa have become land-linked by developing the necessary infrastructure to connect the missing links. Similarly, the regional transport connectivity network among the countries under the South Asian Association for Regional Cooperation, as well as under the Bangladesh, Bhutan, India, Nepal initiative and the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation, could go a long way towards reducing the disadvantages associated with Nepal's landlockedness when coupled with the emphasis on the creation of regional value chains.

It is for these reasons that Nepal has been consistent in its call to create regional transportation networks and regional integration. Several studies by regional development banks, such as the report,

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Regional Integration and Economic Development in South Asia, by the Asian Development Bank (ADB) have also shown that South Asia has huge untapped opportunities to promote its economic growth through enhanced regional transport networks and regional economic integration.⁴ In Asia, Laos, Mongolia and Kazakhstan have also invested in their neighbouring countries and inked agreements to connect with them in the hope of diversifying trade. Although no two countries' experiences are identical, useful and appropriate lessons can nevertheless be learnt from one another.

These countries share common characteristics: limited human development, low per capita income, structural economic impediments, multiple vulnerabilities and a high dependence on external support and cooperation.

Further, Nepal's status as a least developed country has foreign policy ramifications as well. There are 46 LDCs in the world and a third of them are in the Asia-Pacific region. These countries share common characteristics: limited human development, low per capita income, structural economic impediments, multiple vulnerabilities and a high dependence on external support and cooperation. Such LDCs are often either landlocked countries, small islands or desert countries. Nepal has been recommended for graduation from the LDC status by the end of 2026, since it has consistently met two of the three criteria for graduation, namely, the Human Assets Index and the Economic and Environmental Vulnerability Index. Nepal has not met the criterion for the gross national income per capita, which is set at US\$1,222 (S\$1,669), as against its outstanding per capita of US\$1,027 (S\$1,402).

The challenge of accelerating economic growth with structural transformation, reducing inequality with inclusive growth, promoting export growth to closing alarming trade deficits and reducing over-dependence on consumption, imports and remittances to drive economic growth calls for not only a paradigm shift in Nepal's development approach but also an enhanced level of sustained and robust cooperation from the neighbouring countries and other development partners. While there has been some improvement in economic growth and the volume of exports in recent years, they have

⁴ "Regional Integration and Economic Development in South", Asian Development Bank, 2012, <https://www.adb.org/sites/default/files/publication/29871/regional-integration-economic-development-south-asia.pdf>.

neither fundamentally changed the structure of the Nepali economy nor boosted exports from the country. Moreover, the COVID-19 pandemic has dealt a devastating blow to Nepal's economy with severe consequences for the health sector, poverty and inequality.

As a result of the collective efforts of the LDCs and the solidarity and support of the international community, including advocacy by the UN and other international institutions, specific international support measures are in place for countries like Nepal. Specific support in the area of trade, with duty-free and quota-free access, along with flexibilities and technical support, such as in prioritisation and concessionality in the allocation of official development assistance, facilitatory measures on investment, debt relief measures, climate change financing and technical cooperation, have been useful in increasing access to resources and participation in regional and global economic activities.

Nepal's major trading partners are India, China, the United States (US), the European Union (EU), Turkey and the United Arab Emirates (UAE), with India occupying almost two-thirds of the total trade. Nepal's total trade deficit is at 38 per cent of its GDP, which is high and unsustainable. Its major development cooperation partners are the US, the UK, India, China, Japan and Switzerland. Nepal also receives substantial concessional lending and grants from the World Bank, the ADB, the EU and the UN. The contribution of external resources represents about five to six per cent of Nepal's GDP or 23 per cent of the national budget.⁵ Even though foreign direct investment stock in Nepal is low, at around US\$2 billion (S\$2.7 billion), some of the major investors in Nepal are from the West Indies, India, China, Ireland, Singapore, Australia, the UAE and the US.⁶ With about 25 per cent of the working population based overseas as labour migrants, Nepal's dependence on remittances is very high at about 25 per cent of GDP,

Nepal's total trade deficit is at 38 per cent of its GDP, which is high and unsustainable.

⁵ "The Development Cooperation Report, 2020", Ministry of Finance, Nepal, https://mof.gov.np/uploads/document/file/1660713168_DCR%20Report%202021_7.pdf.

⁶ "A Survey Report on Foreign Direct Investment in Nepal, 2020", Nepal Rastra Bank, <https://hotel-couronne-jougne.com/a-survey-report-on-foreign-direct-investment-in-nepal-2019-20/>.

one of the highest in the world.⁷ Nepali labour is found predominantly based in the Middle East, Southeast Asia and India.

These economic features of Nepal also call for deeper and more extensive relationships with other members of the international community. As Nepal is slated to graduate from the LDC status by the end of 2026 (within the difference of just a few years as compared to several other countries, such as Bhutan, Bangladesh, and Laos), ensuring comprehensive and robust support from the international community as an LDC until its graduation, including continued support beyond graduation, is one of the major priorities of Nepal's contemporary foreign policy. From this perspective, Nepal's foreign policy orientation requires further expansion and a consolidation of its relationships with its neighbours, the major powers and significant development and trade partners.

Conclusion

After all, in today's globalised and integrated world, islands of prosperity amidst the sea of poverty are neither desirable nor sustainable.

Nepal has worked together with countries in similar situations to collectively pursue the development of an equitable, just, inclusive and rules-based international order, in which all countries, particularly vulnerable ones, can equitably participate and make rapid economic and social progress in an accommodative spirit. After all, in today's globalised and integrated world, islands of prosperity amidst the sea of poverty are neither desirable nor sustainable. It is also in the developed countries' enlightened self-interest as well as that of all members of the international community to ensure that peace and stability are promoted everywhere, poverty is eradicated globally, and prosperity is guaranteed for all.

Nepal's LLDC and LDC status calls for greater understanding and a clear appreciation of its constraints and aspirations, particularly by the neighbouring countries and development partners. Nepal's peace, stability and prosperity will reinforce the presence of the same in both the region and the world at large.

⁷ "Resilience: COVID-19 crisis through a migration lens", Joint Report by The World Bank and KNOMAD, May 2021, https://www.knomad.org/sites/default/files/2021-05/Migration%20and%20Development%20Brief%2034_0.pdf.

Ratification of the MCC Nepal Compact: Domestic Political Implications

Wini Fred Gurung and Amit Ranjan

Summary

In February 2022, the Nepal government ratified the controversial Millennium Challenge Corporation (MCC) Compact, which had been on hold for five years. This paper looks at the series of events that led to its ratification. More importantly, it discusses the implications of this move on Nepal's domestic politics and the upcoming elections.

Introduction

On 27 February 2022, the much-debated MCC Nepal Compact was ratified by Nepal's parliament just a day before the deadline set by the United States (US).¹ The ruling alliance, led by the Nepali Congress, which includes the Communist Party of Nepal [CPN] (Maoist Centre), Janata Samajbadi Party and the CPN (Unified Socialist), under the leadership of Prime Minister Sher Bahadur Deuba, voted in favour of the bill.² However, the bill was passed with an "interpretative declaration", due to differences among the coalition partners over the MCC.³ Earlier, on 16 February 2022, the CPN (Maoist Centre) had threatened to quit the government if the bill was passed without amendments.⁴

However, the bill was passed with an "interpretative declaration", due to differences among the coalition partners over the MCC.

What is the MCC Nepal Compact?

The MCC is an independent aid agency of the US that assists developing countries in their economic development.⁵ In 2017,

¹ Official Press Statement, "MCC Statement on Nepal Compact Ratification", Millennium Challenge Corporation, United States, 1 March 2022, <https://www.mcc.gov/news-and-events/release/stmt-030122-nepal-compact-ratification/>.

² "MCC ratified by House of Representatives, at last", *The Himalayan Times*, 27 February 2022, <https://thehimalayantimes.com/nepal/mcc-ratified-by-house-of-representatives-at-last>.

³ Ibid.

⁴ "Deuba backtracks on MCC compact tabling after Maoist warning to quit government", *The Kathmandu Post*, 16 February 2022, <https://tkpo.st/3oObE3e>.

⁵ "About MCC", Millennium Challenge Corporation, United States, <https://www.mcc.gov/about>.

Nepal's Finance Minister, Gyanendra Bahadur Karki, and the MCC Acting Chief Executive Officer, Jonathan Nash officially signed the MCC Nepal Compact.⁶ The programme's main focus is to uplift Nepal's energy and road sectors. Under this Compact, about 312 kilometres (km) of 400 kilovolts transmission lines in Nepal's Lapsipedi-Galchhi-Damauli-Sunawal corridor are likely to be constructed, along with three substations.⁷ The transmission lines will not only help in the domestic distribution of power but also in exporting electricity to the other countries in the region, especially India.⁸

In short, the MCC Nepal Compact is seen as a big boost for Nepal's trade and economy and increase employment opportunities in the country.

Additionally, the MCC proposes for the maintenance of 300 km of roads in various alignments of Mechi, Koshi, Tribhuvan Rajpath, the East West highway and Sagarmatha.⁹ For all these projects under the MCC, the US will bear the cost of US\$500 million (S\$681 million), and Nepal will provide US\$130 million (S\$177 million), amounting to a total of US\$630 million (S\$858 million) worth of projects.¹⁰ This amount will be split into US\$500 million (S\$681 million) for the energy sector and US\$130 million (S\$177 million) to maintain a road network.¹¹ In short, the MCC Nepal Compact is seen as a big boost for Nepal's trade and economy and increase employment opportunities in the country. Despite the positive prospects of the Compact for Nepal's development, as underlined by its supporters, the MCC has been widely debated, termed "controversial" and has taken five long years to be ratified by the country's parliament.

The Road to Ratification

After Deuba assumed office in July 2021, the push for ratification of the Compact gained momentum. However, the CPN (Maoist Centre),

⁶ "Nepal Compact Signing Ceremony", Millennium Challenge Corporation, United States, <https://www.mcc.gov/news-and-events/event/signing-091417-nepal>.

⁷ "Electricity Transmission Project", Government of Nepal, Ministry of Finance, Millennium Challenge Account Nepal Development Board, <https://mcanp.org/en/projects/electricity-transmission-project/>.

⁸ Prithvi Man Shrestha, "Transmission lines' worth lost in the din of charged-up MCC row", *The Kathmandu Post*, 9 March 2022, <https://tkpo.st/3oVt3ad>.

⁹ Ashmita Rana, "The MCC Debate and the Heat of Indo-Pacific Geopolitics", Kalinga Institute of Indo-Pacific Studies, 14 October 2021, <http://www.kiips.in/research/the-mcc-debate-and-the-heat-of-indo-pacific-geopolitics/>.

¹⁰ Gopal Sharma, "Explainer: Why is a US infrastructure grant behind protests in Nepal?", *Reuters*, 24 February 2022, <https://www.reuters.com/world/asia-pacific/why-is-us-infrastructure-grant-behind-protests-nepal-2022-02-24/>.

¹¹ "Nepal Compact", Millennium Challenge Corporation, United States, <https://www.mcc.gov/where-we-work/program/nepal-compact>.

led by Pushpa Kamal Dahal, popularly called Prachanda, was not in favour of the ratification.¹² The US made several attempts to convince Kathmandu to push for its ratification. The US Secretary of State, Antony J Blinken, called Deuba in July 2021 to discuss bilateral cooperation and the fight against COVID-19. During the phone call, Blinken also discussed the MCC with Deuba.¹³ Also, in September 2021, the MCC's Vice President Fatema Z Sumar visited Nepal to convince the political leaders from both the ruling coalition and the opposition to ratify the Compact.¹⁴ Additionally, Washington pressured Kathmandu to reach a decision by 28 February 2022.¹⁵ During his phone call with Deuba, the US Assistant Secretary of State, Donald Lu, warned that the failure to do so would lead the US revisiting its relationship with Nepal.¹⁶

In Nepal, supporters of the MCC believe that it will help to boost the country's economy. The critics (mainly the Maoists), on the other hand, are of the view that the MCC is a part of the US' larger Indo-Pacific strategy to counter China, and that Washington is looking to use Kathmandu for its strategic and military advantages.¹⁷ They also believe Nepal will lack adequate supervision over the project board. Moreover, they perceive the clauses of the Compact as an attempt to undermine Nepal's sovereignty. To get clarifications from the US on the mentioned points, Nepal's Finance Ministry sent a letter with a list of questions to the MCC headquarters in Washington in September 2021.¹⁸ The list, among other things, questioned if the Compact was a part of the US Indo-Pacific strategy; whether it would have a security impact on Nepal; who would audit the project; and where the Compact might conflict with Nepal's Constitution.¹⁹

In Nepal, supporters of the MCC believe that it will help to boost the country's economy.

¹² "Maoist Centre says it is against MCC compact tabling", *The Kathmandu Post*, 16 February 2022, <https://tkpo.st/34D1KuF>.

¹³ "US Antony Blinken Calls Nepal's New PM Deuba To Discuss Bilateral Ties And COVID-19", *Republic World*, 28 July 2021, <https://www.republicworld.com/world-news/us-news/us-antony-blinken-calls-nepals-new-pm-deuba-to-discuss-bilateral-ties-and-covid-19.html>.

¹⁴ "MCC Vice President Fatema Sumar visits Nepal", United States Embassy Kathmandu, 9 September 2021, <https://np.usembassy.gov/media-note-mcc-vice-president-fatema-sumar-visits-nepal/>.

¹⁵ Ram Kumar Kamat, "US sets Feb 28 deadline for MCC ratification", *The Himalayan Times*, 7 February 2022, <https://thehimalayantimes.com/nepal/us-sets-feb-28-deadline-for-mcc-ratification>.

¹⁶ Shirish B Pradhan, "US says will review ties with Nepal if it failed to ratify MCC pact by Feb 28 deadline", *The Print*, 11 February 2022, <https://theprint.in/world/us-says-will-review-ties-with-nepal-if-it-failed-to-ratify-mcc-pact-by-feb-28-deadline/828391/>.

¹⁷ Santosh Sharma Poudel, "Nepal's MCC Debate Reflects Flaws in Its Decision-Making", *The Diplomat*, 18 February 2022, <https://thediplomat.com/2022/02/nepals-mcc-debate-reflects-flaws-in-its-decision-making/>.

¹⁸ Prithvi Man Shrestha and Anil Giri, "MCC responds to Nepal's concerns ahead of its top officials' arrival", *The Kathmandu Post*, 8 September 2021, <https://tkpo.st/3yUPEWz>.

¹⁹ Ibid.

The US further affirmed that the Nepal government would maintain the project's records and documents and Nepal's Constitution would take precedence over the Compact.

In response, the MCC headquarters sent back a letter on 8 September 2021 stating that the Compact was independent of Washington's Indo-Pacific strategy. The US further affirmed that the Nepal government would maintain the project's records and documents and Nepal's Constitution would take precedence over the Compact.²⁰ On her visit to Kathmandu in September 2021, Sumar corroborated these clarifications by stating that the programme has no military component and will not undermine Nepal's sovereignty.²¹ She met with political leaders from the ruling alliance and various opposition parties, including K P Sharma Oli, former prime minister and now leader of the opposition, CPN (Unified Marxist- Leninist), to lobby for support for the approval of MCC.²² However, the CPN (Maoist Centre) stood firm in its stance against tabling the agreement in its original form.

Despite opposition from its alliance partner, the Nepali Congress pushed for the ratification, even at the cost of breaking the alliance. This was evident when Nepali Congress leader Ramachandra Poudel stated during a press conference on 24 February 2022 that the ruling coalition could break up if the allied parties did not support the MCC.²³

After many rounds of meetings and much deliberation, the Compact was finally ratified on 27 February 2022 with 12 interpretative declarations, which are:²⁴

1. Nepal declares that being a party to the Compact, Nepal shall not be a part of any US strategy, military or security alliance, including the Indo-Pacific Strategy.

²⁰ "Responses by Millennium Challenge Corporation to Consolidated Clarification Questions from Government of Nepal Regarding the Millennium Challenge Compact", Millennium Challenge Corporation, United States of America, 8 September 2021, <https://drive.google.com/file/d/156L1jGJgoKrFnRrVlXrz9-dz-9GSaYd3/view>.

²¹ "MCC Vice President Fatema Sumar visits Nepal", US Embassy Kathmandu, 9 September 2021, <https://np.usembassy.gov/media-note-mcc-vice-president-fatema-sumar-visits-nepal/>.

²² Amit Ranjan, "The MCC Nepal Compact A Victim of Political Divisions", Institute of South Asian Studies (ISAS) Insights No. 686, 20 September 2021, <https://www.isas.nus.edu.sg/papers/the-mcc-nepal-compact-a-victim-of-political-divisions/>.

²³ Rastriya Samachar Samiti, "Ruling coalition can break if no support in endorsing MCC: NC leader Poudel", *The Himalayan Times*, 24 February 2022, <https://thehimalayantimes.com/nepal/ruling-coalition-can-break-if-no-support-in-endorsing-mcc-nc-leader-poudel>.

²⁴ "What's in 12-point interpretative declaration on MCC?", *Setopani*, 27 February 2022, <https://en.setopati.com/political/158036>.

2. Nepal declares that the Constitution of Nepal, being the fundamental law of the land, shall prevail over the Compact and other associated agreements.
3. The MCC Funding and Programme Assets do not and shall not obligate Nepal to comply with the current or future US laws or policies for any purpose other than the use of the MCC Funding.
4. Nepal declares that the conduct of activities of Millennium Challenge Account (MCA) Nepal Development Board (the MCA Nepal) shall be governed by the laws of Nepal and regulated by the provisions of the Compact.
5. Nepal declares that MCC shall not have ownership over the Intellectual Property and that Nepal shall own and fully enjoy all the Intellectual Property created under the Compact program.
6. Nepal declares that the Implementation Letters under the Compact shall be implemented within the scope of the Compact.
7. Nepal declares that, in addition, the audits of all the activities and funds of MCA Nepal shall be conducted by Office of the Auditor General in accordance with prevailing laws of Nepal.
8. Nepal declares that in addition to Nepal's right to terminate the Compact without cause by giving 30 days' prior notice, Nepal has the right to terminate the Compact by giving 30 days' prior notice in case the activities/program under the Compact violate Nepal's laws or policies.
9. Nepal declares that provisions under the Compact which survive after the expiration, suspension or termination of the Compact shall only relate to the Compact program and the use of MCC Funding including for evaluation of the projects under the Compact, audits and settlement of taxes.
10. The programs under the Compact shall be implemented by complying with the Compact and in accordance with the domestic laws of Nepal.
11. Nepal declares that the Electricity Transmission Project, including all movable and immovable assets and land associated with the project, shall be owned by the Government of Nepal or entities of the Government of Nepal.

Nepal declares that the Implementation Letters under the Compact shall be implemented within the scope of the Compact.

12. Nepal understands that the responses in the letter sent by the MCC on 8 September 2021, as mentioned above, shall aid in the interpretation and the implementation of the Compact.²⁵

Implications of the Ratification

However, a section of their supporters is seemingly unhappy with the ratification of the MCC.

By ratifying the Compact, Deuba had hopes of garnering a strong support base in the MCC-supporting constituency while also showcasing that he is not supportive of Nepal's tilt towards China, as the MCC is widely perceived as a counter to the Beijing-led Belt and Road Initiative. As for the two communist forces in the alliance – CPN (Maoist Centre) and CPN (Unified Socialist) – it has become clear, at least for now, that their main motive is to keep the alliance intact. They have chosen to take the middle ground as they do not want to be seen as too supportive of China or anti-US. However, a section of their supporters is seemingly unhappy with the ratification of the MCC. The student wings of the ruling coalition, the CPN (Maoist Centre) and the CPN (Unified Socialist), joined others in protesting against the MCC before it was put for ratification in the parliament.²⁶

On 4 March 2022, Prachanda defended his decision to support the ratification of the MCC and said that if the party had refused to support the agreement, the coalition government at the centre and provincial levels would have been dissolved.²⁷ The dissolution could have sabotaged the Comprehensive Peace Agreement,²⁸ a peace accord signed between the Nepal government and the CPN (Maoist Centre) in 2006.²⁹ The passage of the agreement with the interpretative declaration, according to Prachanda, was the only way things could have worked out and was the only middle way available.³⁰

²⁵ "Responses by Millennium Challenge Corporation to Consolidated Clarification Questions from Government of Nepal Regarding the Millennium Challenge Compact", Millennium Challenge Corporation, United States of America, 8 September 2021, <https://drive.google.com/file/d/156L1jGJgoKrFnRrVlxrz9-dz-9GSaYd3/view>.

²⁶ "Coalition partners' student wings protest against MCC", *The Kathmandu Post*, 18 February 2022, <https://kathmandupost.com/visual-stories/2022/02/18/coalition-partners-student-wings-protest-against-mcc>.

²⁷ "Dahal defends decision to back MCC agreement", *The Himalayan Times*, 5 March 2022, <https://thehimalayantimes.com/nepal/dahal-defends-decision-to-back-mcc-agreement>.

²⁸ Ibid.

²⁹ Comprehensive Peace Accord signed between Nepal Government and the Communist Party of Nepal (Maoist), *United Nations Peacemaker*, 22 November 2006, <https://peacemaker.un.org/nepal-comprehensiveagreement2006>.

³⁰ Ibid.

Although the MCC has been ratified, the interpretative declarations and the protests may create ripples in the coalition government. The magnitude of such ripples will determine the future of the Deuba-led coalition government. The coalition partners will decide their future course of action by weighing the respective electoral gains and losses in the aftereffects of the MCC ratification.

Conclusion

After the MCC was ratified, debates on its objectives and the stances of the different political parties have concluded. The Nepali Congress has shown itself to support the MCC while the Maoists have taken the middle path. After the ratification, Oli said that the MCC Nepal Compact agreement was “a deliberate misinformation campaign” launched to topple his government.³¹ The coalition partners raised the issue of the government’s support for the MCC as one of the reasons to break the alliance that led to the downfall of the Oli-led government in July 2021.³² In such a situation, it will be interesting to observe how the MCC issue is raised and publicly debated in the upcoming national elections and whether this move will garner electoral gains or losses for the political parties.

The Nepali Congress has shown itself to support the MCC while the Maoists have taken the middle path.

³¹ “MCC was a deliberate misinformation campaign launched to topple UML govt: Oli”, *Republica*, 1 March 2022, <https://myrepublica.nagariknetwork.com/news/mcc-was-a-deliberate-misinformation-campaign-launched-with-the-aim-of-ousting-the-uml-government-oli/>.

³² Santa Gahar Magar, “MCC row rocks Nepal’s ruling coalition”, *Nepali Times*, 9 September 2021, <https://www.nepalitimes.com/latest/mcc-row-rocks-nepals-ruling-coalition/>.

Navigating Nepal's Economic Diplomacy and Worldview

Deepak Prakash Bhatt and Sunaina Karki

Summary

Nepal, a least developed country (LDC) that suffers from integral operational constraints, including landlockedness, a harsh landscape, deprived resource base, poverty and lethargic economic improvements, wishes to diversify its foreign economic relations as it is expected to graduate to a middle-income developing country status by 2026.

Introduction

Economic diplomacy is often used as a tool by countries to exert influence on foreign governments' policy and regulatory decisions to advance their economic interests.

The Himalayan country of Nepal, with its economic growth estimated to be just 1.8 per cent in FY2021/22, has 17.4 per cent of its population living in poverty. Economic diplomacy is often used as a tool by countries to exert influence on foreign governments' policy and regulatory decisions to advance their economic interests. The scope of Nepal's foreign relations for economic diplomacy expands to its immediate neighbourhood, extended neighbourhood, development partners and major powers, destination countries for overseas employment as well as regional and multilateral forums. The United Nations (UN) General Assembly's recent approval of a proposal to upgrade Nepal from an underdeveloped country to a middle-income developing country by 2026 makes economic cooperation with these bilateral, regional and multilateral development and trading partners a necessity than just a matter of choice for Nepal.¹

Despite being a landlocked LDC (LLDC), Nepal hopes to break its geographical barriers through economic integration. Deeply entwined in the geopolitical competition among its peripheral neighbours,

¹ "Nepal to be upgraded from LDC category", *The Kathmandu Post*, 25 November 2021, <https://kathmandupost.com/money/2021/11/25/un-approves-proposal-to-upgrade-nepal-from-ldc-category>.

Nepal's economic diplomacy deals not only with economics but also involves geographic, strategic and security aspects. This brings along enormous vulnerabilities and possibilities for the country. However, Nepal's economic diplomacy and engagements are often only studied from the vantage point of the large, powerful nations, in terms of their geo-economics intents or what impels such powers to partner with smaller powers like Nepal. The interests and outlook of the smaller powers are rarely brought into perspective. In order to engage with Nepal productively and sustainably, placed in a strategically delicate situation, it becomes pertinent to recognise the factors shaping Nepal's economic interests and to ask: How do they inform its view of the world in terms of forging its economic relations?

Liabilities of 'Landlockedness'

The alignment of Nepal's foreign policy with its economic development interests crucially stems from the conditions of its geographic remoteness due to its landlocked status and challenging topography.² Being a LLDC, Nepal faces the liabilities of its landlockedness, such as the lack of access to the open sea, high trade transaction costs, additional border crossings and remoteness from major markets. Liabilities also include dependency on transit countries, infrastructural constraints and limited regional integration.³ Due to its complex terrain, Nepal's exports and imports have to transit through neighbouring territories to get to and from seaports, raising the trade cost by 24 per cent compared to 18 per cent for the sea linked nations.⁴ Thus, Nepal is highly dependent on its immediate neighbours, India and China. In addition, the prevalence of significant discriminatory barriers by India has also contributed to high trade deficits in Nepal.⁵ These barriers can be identified as high tariffs and

Liabilities also include dependency on transit countries, infrastructural constraints and limited regional integration.

² Damir Cosic, "Climbing Higher: Toward a Middle-Income Nepal", World Bank, 1 May 2017, <https://www.worldbank.org/en/region/sar/publication/climbing-higher-toward-a-middle-income-country>.

³ "The Development Economies of Landlockedness: Understanding the development costs of being landlocked", United Nations Office of the High Representative for the Least Developed Countries, Landlocked Developing Countries and Small Island Developing States, March 2014, <https://www.lldc2conference.org/custom-content/uploads/2014/04/Dev-Costs-of-landlockedness11.pdf>.

⁴ Ibid.

⁵ "Nepal - Trade and Competitiveness Study: A study conducted as part of the Integrated Framework for Trade Related Technical Assistance", Organisation for Economic Co-operation and Development, 22 October 2003, <https://www.oecd.org/aidfortrade/countryprofiles/dtis/Nepal-DTIS-2003.pdf>.

para-tariffs, non-tariff measures and high costs of trading.⁶ Hence, for a country with finite resources, less levels of development and high dependency on trade, official development assistance (ODA) and remittance, economic diplomacy is of utmost priority.

Nepal wants to graduate from the LDC status by increasing its per capita income, reducing poverty, enhancing human capital and improving the living standards of vulnerable populations.

Following the UN General Assembly's decision, Nepal is currently preparing smooth national transition strategies.⁷ Nepal wants to graduate from the LDC status by increasing its per capita income, reducing poverty, enhancing human capital and improving the living standards of vulnerable populations.⁸ The LDC graduation will be an essential milestone in Nepal's development trajectory towards its ambitious "Prosperous Nepal, Happy Nepali" foreign policy vision, encapsulated in its first-ever foreign policy doctrine released in 2020. After its promotion to a developing country status in 2026,⁹ Nepal will participate in the competitive market with less preferential market access, and it will no longer be entitled to privileged development financing and flexibility in meeting international regulations and obligations.¹⁰

Integration of the Secluded Himalayas

Stemming from the complexities of ever-expanding economic globalisation, Nepal attempted to institutionalise and practise economic diplomacy by establishing the Ministry of Foreign Affairs (MOFA) and bilateral overseas missions post-1990 after the restoration of democracy.¹¹ Today, in addition to its respective overseas missions, the Policy Planning, Development Diplomacy and Overseas Nepalese Affairs Division at the MOFA are primarily responsible for Nepal's economic diplomacy.

⁶ Saiju Ravi Shanker, "IFA Research symposium, Economic Diplomacy and the International Trade Facilitation", July 2021, *Institute of Foreign Affairs*, https://www.youtube.com/watch?v=dlai_XsqB5I.

⁷ Bijendra Shakya, "Developing country, here we come", *The Kathmandu Post*, 5 October 2021, <https://kathmandupost.com/columns/2021/10/05/developing-country-here-we-come>.

⁸ Pradeep Gyawali, "Keynote Speech at Research Symposium", *Institute of Foreign Affairs*, 8 July 2021, https://www.youtube.com/watch?v=J4HDjXltpHE&ab_channel=IFANepal.

⁹ "Nepal to be upgraded from LDC category", *The Kathmandu Post*, 25 November 2021, <https://kathmandupost.com/money/2021/11/25/un-approves-proposal-to-upgrade-nepal-from-ldc-category>.

¹⁰ *Ibid.*

¹¹ Rajendra Shrestha, "Economic Diplomacy For Development Partnership", *Journal of the Foreign Affairs*, 1(1) (2021): pp. 59-78.

As a landlocked nation, Nepal's turn towards an economic multilateral trading system was considerably influenced by one particular point in history. In 1989, after India amended the trade and transit treaties – the only medium that linked Nepal to the sea – with the country, Nepal suffered a sudden loss of trade routes and exports, essentially devastating its domestic economy.¹² The hurdles it had to go through because of its sole reliance on bilateralism forced the Himalayan nation to recognise that it could not remain isolated from the fast-integrating global economic system. Hence, integration with the global economy through the multilateral trading system was sought after. Moving away from a heavily inward-looking development strategy, Nepal geared up the process of economic reform in the early 1990s, realising that globalisation was not an option for developing countries.¹³ With this outlook, Nepal made efforts to establish trade and economic networks by participating in regional integration agreements and free trade agreements.

The hurdles it had to go through because of its sole reliance on bilateralism forced the Himalayan nation to recognise that it could not remain isolated from the fast-integrating global economic system.

Today, Nepal is an active member of global trade regimes like the World Trade Organization, International Monetary Fund, World Bank and regional and sub-regional economic forums such as the South Asian Free Trade Area, Asian Development Bank, Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and the Bangladesh, Bhutan, India, Nepal (BBIN) initiative. Increased participation has made it convenient for Nepal to pursue international trade and signal to the regional and international community that the landlocked country is economically and politically open and committed to reforms.

Current State of Nepal's Economic Engagements

The broad contours of Nepal's economic relations with its bilateral partners are guided mainly by trade treaties, foreign direct investment (FDI) deals and development cooperation. Various partner countries support several major development projects taking place now in

¹² P R Rajkarnikar, "Nepal: The Role of an NGO in Support of Accession", World Trade Organization, https://www.wto.org/english/res_e/booksp_e/casestudies_e/case30_e.htm.

¹³ Ibid.

the nation. The United States (US), China and India are the highest disbursing development partners, export destinations and source countries of import and foreign investors for Nepal. They are followed by Japan, Canada, South Korea, the United Kingdom and 33 other nations.¹⁴

Foreign aid still plays a highly important role in Nepal's development, representing 70 per cent of the government's budget.

Foreign aid still plays a highly important role in Nepal's development, representing 70 per cent of the government's budget. Nepal receives ODA from over 40 donors. According to the Development Cooperation Report released by the Finance Ministry of Nepal, foreign aid to Nepal reached US\$2 billion (S\$2.73 billion) in 2019-20.¹⁵ The money received from the country's development partners accounts for 23.3 per cent of the national budget.¹⁶

Nepal pursues most of its economic interests through its traditional economic partners, India and China. India is Nepal's largest trade partner and biggest source of its imports, while Nepal also stands as an important export market for Indian products. Nepal and India's current partnership in economic development has led to agreements on various joint projects such as road, railway, health and other infrastructure and connectivity projects. Similarly, dry ports, roads, infrastructure, hydropower and airbase construction are China's major ODA projects in Nepal. While most projects under the Belt and Road initiative (BRI) have been in limbo since May 2017, Nepal and China are working on a draft implementation plan for nine projects under the BRI.¹⁷ In addition to the BRI projects, several joint projects related to hydropower and an international airport are being carried out simultaneously in Nepal. Since the blockade in 2015, India's share of Nepal's total FDI shrank from a whopping 52 per cent to 13 per cent, while China's share expanded from 12 per cent to 42 per cent.¹⁸

¹⁴ "Report on Nepal's Foreign Affairs (2019-2020)", Ministry of Foreign Affairs, Nepal, August 2020, https://mofa.gov.np/wp-content/uploads/2020/12/Report-on-Nepals-Foreign-Affairs_MOFA_2019-2020.pdf.

¹⁵ "Development Cooperation Report Fiscal Year 2019-20", Ministry of Finance, Government of Nepal, https://mof.gov.np/uploads/document/file/DCR%202019-20_20210408015226.pdf.

¹⁶ Sangam Prasain, "Annual foreign aid to Nepal surged 26.87 per cent to \$2 billion last fiscal year", *The Kathmandu Post*, 8 April 2021, <https://kathmandupost.com/money/2021/04/08/annual-foreign-aid-to-nepal-surged-26-87-percent-to-2-billion>.

¹⁷ Anil Giri, "With new dispensation in Kathmandu, talks resume on projects under BRI", *The Kathmandu Post*, 27 August 2021, <https://tkpo.st/3yloZ4T>.

¹⁸ Krishana Prasain, "Foreign investment pledges fall 12.7 percent as India's commitment slumps", *The Kathmandu Post*, 11 April 2021, <https://kathmandupost.com/money/2021/04/11/foreign-investment-pledge-falls-12-7-percent-as-india-s-commitment-slumps>.

Beyond its immediate neighbourhood, Nepal rarely perceived its extended neighbours in the region as possible economic collaborators. Nepal's scope for bilateral economic engagement with the South Asian Association for Regional Cooperation (SAARC) countries, excluding India, still remains underexplored, making the region among the least integrated in the world. However, the trend is shifting, as Nepal has been attempting to foster ties in its extended neighbourhood over the years. President Bidhya Devi Bhandari's high-level visits to Bangladesh in 2021, the United Arab Emirates in 2017 and previous Prime Minister K P Sharma Oli's visit to Vietnam and Cambodia in 2019, clearly indicate Nepal's desire to diversify engagements for economic prosperity. Through inter-regional economic groupings like BIMSTEC, SAARC and BBIN, Nepal intends to carve a concerted approach toward vibrant economic diplomacy in South Asia. Similarly, through its involvement in the Shanghai Cooperation Organisation (SCO), Nepal also aims to promote and enhance connectivity for economic cooperation, especially in the Central Asian region. Connectivity is the primary interest which Nepal expects to meet through its engagement in the Central Asian region, as it is confident that it can be a gateway or connecting hub for Central Asian economies to the larger economies in South Asia and vice versa. Nepal also intends to explore the prospects of one-on-one cooperation with the Central Asian countries through its participation in multilateral forums like the SCO, in which it is a dialogue partner.

Nepal also intends to explore the prospects of one-on-one cooperation with the Central Asian countries through its participation in multilateral forums like the SCO, in which it is a dialogue partner.

While Nepal strives to expand its cooperation and connection, its export potential remains limited. The country is currently trying to achieve an increased export aptitude by promoting international trade facilitation and diversifying its scope of economic engagement. In promoting its international trade facilitation, Nepal is trying to diversify its scope and engagement with countries through a greater focus on export trade facilitation. The MOFA has created a country-specific profile to assess the potential engagements with countries under and beyond Nepal's reach.¹⁹ The Ministry of Industry,

¹⁹ "Report on Nepal's Foreign Affairs (2018-2019)", Ministry of Foreign Affairs, Nepal, August 2019, <https://mofa.gov.np/wp-content/uploads/2019/12/Annual-Report-Final-Draft-29-Dec-2019-FINAL.pdf>.

Commerce and Supplies and Trade Promotion Board is working closely with Nepal's diplomatic missions abroad regarding its export promotion.²⁰ In addition to gaining access to the dry ports, seaports, road and railway networks and the recent inland waterways with India and China, the Nepal government has also registered the UN Intergovernmental Agreement on Dry Ports in the parliament, which is awaiting ratification. Post ratification, five dry ports of the country, namely, Bhairahawa Inland Clearance Depot (ICD), Biratnagar ICD, Birgunj ICD, Kakarbhitta ICD and Tatopani ICD, will be recognised as Nepal's international dry ports while also connecting Nepal with the dry ports of 25 countries.²¹ This will enable Nepal to appear on the global shipping map, incentivising large international companies to establish their office in the country, thereby facilitating third-country trade.

The Nepal government has decided to trade electricity with India and Bangladesh to meet an ever-increasing demand for industrial growth.

Nepal is openly urging the rising economies to invest in the country and build economic partnerships with a focus on trade, investment, tourism, technology transfer, climate financing and providing decent jobs for migrant workers. Energy trade has become the major focus as the Nepal Electricity Authority is now in a position to sell its surplus energy. The Nepal government has decided to trade electricity with India and Bangladesh to meet an ever-increasing demand for industrial growth. For the first time in November 2021, India has agreed to allow Nepal to sell its electricity in India's power exchange market. Likewise, with the power trade proposal signed between Nepal and Bangladesh in 2019, Kathmandu is also expanding its economic engagement with Dhaka, one of the largest economies in South Asia.²²

Similarly, 'labour' diplomacy is also a useful tool for Nepal's economic diplomacy. As a labour-originating country with a heavily remittance-reliant economy, labour migrants are considered a commodity for export. With overseas remittances accounting for 28 per cent of

²⁰ "Report on Nepal's Foreign Affairs (2019-2020)", Ministry of Foreign Affairs, Nepal, August 2020, https://mofa.gov.np/wp-content/uploads/2020/12/Report-on-Nepals-Foreign-Affairs_MOFA_2019-2020.pdf.

²¹ "Five Nepali dry ports to be internationalized", *The Himalayan Times*, 31 July 2019, <https://thehimalayantimes.com/business/five-nepali-dry-ports-to-be-internationalised>.

²² Modnath Dhakal, "B'desh To Buy Power From Nepal", *The Rising Nepal Daily*, 21 December 2019, <https://risingnepaldaily.com/mustread/bdesh-to-buy-power-from-nepal>.

Nepal's gross domestic product, the country is keen on expanding its engagements with the Middle Eastern nations, especially Saudi Arabia and Qatar, as well as the East Asian nations such as Japan and South Korea. These countries bring the highest level of remittances to Nepal.²³

Conclusion

If Nepal sustains a high annual growth rate of seven to eight per cent, the country will attain middle-income status by 2026. Although good news, this will result in Nepal losing all its LDC privileges. The arrangements for a smooth transition post-LDC graduation are currently insufficient, making economic diplomacy a key solution. However, with the sharp decline in FDI due to COVID-19, this developing economy greatly needs investments.

At the same time, Nepal desires to be viewed autonomously and be free from the shadow cast by its larger neighbours. Although Nepal is a small power, its partner countries – to comprehend its economic aspirations and maximise their engagement with it – must stop perceiving it as a pawn but rather as an independent state whose aspirations are driven by its national interest and objectives.

The arrangements for a smooth transition post-LDC graduation are currently insufficient, making economic diplomacy a key solution.

²³ Upasana Khadka, "More remittance, more than remittance", *Nepali Times*, 13 May 2021, <https://www.nepalitimes.com/latest/more-remittance-more-than-remittance/>.

Appendix 1

About the Authors

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