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Caught in The India-China Rivalry
Policy Options for Nepal

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Nepal is strategically located between India and China, which also is a paramount concern for her security and stability (Bhattarai, 2005:10). Slightest of stir in Nepal will have spillover effect on these two fastest growing economics. Apart from the economic and trade interest of both the countries, they also have interest in containing the US influences in the region. Both countries consider the other as competitor and the trust deficit between them is ample after the 1962 war on border dispute.

After the loss of Tibet as a buffer state in 1950 when China took control over it, Nepal has become strategically important for both the countries. Nepal is the gateway to the sensitive Tibet Autonomous Region (TAR), which plays an important role in China's South Asia Policy. Tibet issue, which is China's major security concern, has become a major determinant of Chinese foreign policy towards Nepal specifically to reiterate a historical fact that the Khampa rebels of Tibet used Nepalese territory in 1959. Both the countries want to keep Nepal under their sphere of influence. Though Nepal is a separate sovereign political entity, it has always remained in India's security system (Ray, 1983: Preface).

China is concerned about Nepal being used by other external powers to challenge its strategic interests. Chinese security analysts argue that Nepal is being used by the United States in its larger strategy of encircling China (Wolfe, 2006). During the 1960s, there were several demonstrations in Kathmandu as well as in Tibet by Tibetan separatists who had bases in Nepal. This led China to be skeptical on external engagement in Nepal. The Chinese Ambassador Zheng Xianling raised this issue and remarked that foreign forces were actively engaged in instigating the anti-China activities in Nepal. He strongly condemned the French parliamentarians meeting with Tibetan leaders in

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Nepal and the US senate resolutions on the Tibet issue.

Prior to 1950, when Tibet was not a part of China, Nepal had closer relations with Tibet. There were very limited relations with China. After Tibet became a part of China, Nepal established diplomatic relations with China in 1955. A close scrutiny of Nepal – China relations divulges that the economic aspects have always regulated the sphere of diplomatic relations between the two countries. Kathmandu, being the center point of Trans-Himalayan trade from the medieval period to the turn of this century; added a significant dimension to Nepal – Tibet relations.

I
Nepal – China Relations

China has always adopted a pro-establishment policy towards Nepal, which highlights three determinants. First, the relationship stands on Five Principles, or the *Panchsheel*. Second, China would not intervene in Nepal's domestic politics. Third, it would expect Nepal's support on issues concerning China's sovereignty and national interests, including the issues of Tibet, Taiwan, and human rights (read – One China policy).

Monarchy adopted a close relationship with China to counter the Indian influence, as India was perceived to have closer relations with democratic forces in Nepal. China was a crucial factor in King Mahendra's foreign policy. King Mahendra discerned that China could be a balancing factor against India's influence in Nepalese politics. King Mahendra effectively played the 'China card' during the 1950s and 1960s to counter Indian influence in Nepal. King Gyanendra reinforced Nepal's proximity to China by openly supporting China during the thirteenth summit of the South Asian Association for Regional Cooperation (SAARC) in Dhaka. Moreover, Gyanendra indicated at the Dhaka summit that Nepal would veto Afghanistan's entry into SAARC unless China was to be given an observer status (Kharel, 2005).

According to their pro-establishment policy, China maintained relationship with the establishment, rather than with any party or a leader. When Girija Prasad Koirala shared the benefits of multiparty democracy in Nepal, Chinese bluntly replied, "Mr. Prime Minister, China does not care what system you have in your country, our relation is state-to-state, not party-to-party relations" (Peoples' Review, 8 April 2010)

After Nepal became a republic in 2008, China lost its most reliable partner (Monarchy). King, being the Commander in Chief of the Army, used to serve the security interest of China. China needed a trustworthy partner in Nepal. It became obvious that it has to choose between two major political forces in Nepal - the democratic parties, which were mostly pro-India, and the Maoists, a large party with anti-India and anti-US sentiments. China also found it expedient to cultivate the Maoists because of the growing tensions in Tibet, particularly after the March 2008 uprising when Tibetans strongly started its anti-China protest around the world on the eve of the Olympic Games to embarrass China among the international community. China wanted to curb the underground activities of some 20,000 Tibetan refugees settled in Nepal.

Nepal has the most accessible entry point to Tibet and it has the second largest Tibetan refugee community in the world. China has traditionally alleged that international forces are operating against China, through Tibetans based in Nepal. In this context, China was deeply perturbed when six Nepalese Parliamentarians visited Dalai Lama in Dharamsala in February 2009 (Nayak, 2009). Only after this China haS started establishing good relations with traditional political parties like the Communist Party of Nepal-United Marxist-Leninist (CPN-UML) along with new emerging political forces like Madhesi People's Rights Forum and

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Communist Party of Nepal- Maoist (CPN-Maoist).

Interestingly, China supported the Maoist party only after they emerged as the single largest party in the Constituent Assembly election of April 2008. In fact, China was the only country to supply arms to King Gyanendra to quell the Maoist insurgents when India, the US and the UK had refused to provide help of that nature (Jaiswal, 2010).

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China developed its links with the Maoists to serve its security interests in Nepal. The Maoists in Nepal are sympathetic to China due to ideological affinities. Maoists extended hand towards China as they were in dire need of support from a strong power. China accepted it as Maoists view India and US as 'imperialist power' and stated that they were fighting against their interference in Nepalese politics. In order to form an impression on Chinese, Prachanda accepted the invitation of Chinese to attend the Closing ceremony of the Olympics. He became the first Prime Minster to break the trend of going to India for the first foreign visit after holding the chair. India took this act of Prachanda very seriously (Verma, 2009). Indian analysts stated that it was the clear inclination of Maoist towards China. Indian Media went on to report that India lost Nepal from its sphere of influence and that it would affect India's security (Singh, 2010).

Though Maoist leaders pose themselves as anti-Indian, most of them understand that ultimately they will have to deal with India, and that they cannot deter from the geographical, historical, cultural and socio-economic linkages between the two countries. It is almost certain that they will temper their policies towards India once they come to power. However, for the moment, the Indian policy of preventing Maoists from coming to power and the Maoist's counter-tactic of mobilizing popular opinion on the basis of growing anti-India sentiments in Nepal, seems to be pushing the Himalayan country deeper into uncertainty, which will not serve the interests of either country.

Nepal – China Military Relations

On 24 October 2005, China pledged military assistance of $989,000 to Nepal. The assistance was given to curb the Maoist insurgents in Nepal while India, US and UK had suspended military assistance to Nepal since February 2005 which was after King Gyanendra seized power. Again, in December 2009, China agreed to provide military aid worth 20.8 million Yuan (approximately Rs 220 million) to Nepal for the supply of "non-lethal" military hardware including logistics and training the Nepal Army. As per the agreement, China had to supply 20 million Yuan worth of "non-lethal" military hardware to Nepal and the remaining 800,000 Yuan would go into construction of a "friendship building" in the Nepali territory along the Nepal – China border (Nepalnews.com, 16 December 2009).

This assistance to Nepal came when there were reports of Tibetans fleeing from Tibet through Nepal and then Chief of Nepal Army, Chhatra Man Singh Gurung, was in India meeting Indian foreign and defense ministers, senior government officials and army top brass to push for better military and civil relations between the two countries including additional military aid.

In September 2008, during the then Nepalese Defence Minister, Ram Bahadur Thapa's visit to China, Beijing declared to provide Rs 62.5 million as military aid to Nepal. China in turn expressed desire that Nepal would restrict any activities against China on its territory. China further contended that the military aid to Nepal would help the small nation to stand tall besides every hurdle and obstacle. It was a clear indication to the Maoist government of Nepal that they need not fear India (Indiaserver.com, 27 September 2008).

China's proactive policy in Nepal can be discerned doubtlessly from the military

assistance it has been providing. On 7 December 2008, during a meeting in Kathmandu between Nepali Defence Minister Ram Bahadur Thapa and the deputy commander of China's People Liberation Army, Lieutenant General Ma Xiaotian, China pledged to provide US $2.6 million as military assistance for Nepal's security sector. Earlier in September 2008, China had announced military aid worth $ 1.3 million, the first of such assistance to the Maoist government in Nepal (Bhattacharya, 2009).

Again, in December 2009 when the Chinese delegation met with the Defence Minister Bidhya Bhandari, a requested for the assistance in extending the army hospital at Chhauni, Kathmandu was put forward which was duly addressed (Nepalnews.com, 16 December 2009).

II
India – China Competition and Rivalry in Nepal

China and India have been competing for influence along the Nepal-China border. Soon after India provided development assistance of Rs. 100 million for the remote hilly region of Mustang, China responded with financial assistance worth Rs. 10 million for construction of a library, science laboratory and school building with computers in Chhoser village (adjoining Jhongwasen district of Tibet) in the same region to counter Indian influence. Subsequently, the ambassadors of both countries have visited the area (The Hindustan Times, 8 July 2010).

There are reports of China funding and promoting China Study Centers (CSCs). According to the CSC website, there are ten local branches (most of them on the India-Nepal border) located in Butwal, Banepa, Sankhuwasabha, Pokhara, Biratnagar, Morang, Sunsari, Chitwan, Nepalgunj and Lumbini, besides the central organization of the CSC-Nepal in Kathmandu. China Radio International has also launched a local FM radio station in Kathmandu (The Financial Express, 25 April 2008).

Besides CSCs, a Nepal – China Mutual Cooperation Society (NCMCS) that was funded by the Chinese Embassy in Nepal, was established in March 2005. There has been a sudden rise in high-level visits of Chinese top politicians, officials and military teams after 2008. In February 2009, China proposed and submitted the draft of new "Peace and Friendship Treaty" to Nepal (ANI, 27 February 2009). Prime Minister Prachanda was supposed to sign the treaty on his China visit but he was obliged to resign one the issue of Chief of Army Staff before his scheduled China visit.

In response to the Chinese attempt to extend the railway link from Tibet till the Nepalese border, India has drafted a plan to extend its railway links to Nepal along the border. India has announced assistance worth Rs. 10.88 billion for the expansion of railway service in five places along the India – Nepal border. The first phase of expansion is scheduled to start from Birjung of Nepal which is about 350 kilometres south of Tatopani, the place which is to be connected by China through railway tracks. The power-game between China and India is thus slowly unfolding in Nepal.

In the recent years, there has been a gradual shift in China's focus from the eastern seaboard to the South West China such as Tibet, Quinhai, Guansu, Sichuan, Kunming and Xinjiang, which are immediate neighbourhood of Nepal. Nepal is assuming a new geo-strategic eminence as buffer zone between India and China, particularly for the defence build up in Tibetan plateau, construction of Karakoram highway, rail link from Beijing to Lhasa and now from Lhasa towards Nepal and Sikkim (Rana, 2011)

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Economic Relations

Nepal's aid history and its experience show that aid flow into the country is situated in its

strategic, political and economic context (Khadka, 1997). The allocation of foreign aid was mainly focused on infrastructure development until the 1970s. As a result of the paradigm shift in later decades, focus was put on people-oriented development objectives, such as fulfilment of basic needs, area-based rural development and labour-intensive programmes, promotion of good governance, rule of law, human rights, women's empowerment, peace building, child welfare, and people's participation in development (Francesca Bonino and Antonio Donini, 2009). The motivation behind Chinese aid to Nepal is mainly strategic and political. Chinese aid has mainly been strategic, keeping in view the Indian and US interest and influence in Nepal. China's major concern has been Tibet and it serves it just right to keep Nepal independent and neutral in the region, which is climacteric for its own stability.

China itself was an aid recipient when it began to provide aid to Nepal after maintaining diplomatic relations in 1955. The Chinese aid became more active when King Mahendra came to power in December 1960. China went on to become one of the major donors to the Party-less Panchayat regime. The volume of Chinese aid was Rs 14.8 million in 1962. 67% of Chinese aid was in the transport sector, industry and power till 1980. Capitalizing on the souring Nepal-India relations, the Chinese succeeded in opening up the strategically important Kathmandu-Kodari road. The matter seriously troubled India as a symbolic loss in the strategic battle over Nepal.

Chinese investments in mega projects include Arniko Highway, the ring road, national stadium, and Birendra International Convention Centre in Kathmandu. According to the figures presented by the Trade and Export Promotion Centre of Nepal (www.tepc.gov.np), Nepal's balance of trade with China in fiscal year 2010/11 (in US$ million) is as follows: exports to China: 8.29 million; imports from China: 507.066 million; balance: 498 million. The total trade volume between Nepal and China amounted to US$1.2 billion, in 2011.China's total investment in Nepal till 5 July 2012 (in Rs. million) was 14 billion. According to the figures presented for 2012 by the Department of Industry, a total of 478 firms have invested in Nepal; the total foreign investment involved is Rs 7.9 million and it has generated 26, 651 jobs for Nepali citizens.

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China has provided assistance in 64 projects of Nepalese Government which amounts to RMB 1.4 billion. Since 1981, the volume of contracted projects of China in Nepal has reached to US$ 0.72 billion by the end of 2002, and turnover reached US$ 0.62 billion. In 2002, there were 19 projects of US$ 20 million under Chinese contact with 2003 staff working for their projects. Chinese had earned reputation for completing the project at low cost and before the schedule.

Nepal – China trade volume is insignificant. In 2002, it totaled US$ 110.35 million, down 28% from the previous year; of which China's exports accounted for US$ 105.07 million, down 29.3% from 2001, and its imports US$ 5.28 million, up 13.9% from 2001. China and Nepal set up a joint economic and trade committee in 1983. During the Nepalese Prime Minister's visit to China in April 1996, both sides signed notes on agreeing to establish a forum for non-governmental cooperation between China and Nepal led by industrial and business federations of the two countries so as to promote people to people economic and trade exchange and cooperation between the two countries.

Trade and Investment

The volume of Nepal – China trade has been ascending over years. Nepal's trade with China is largely through the route of Tibet and Hong Kong. The six points along the Nepal – China border have been opened for overland trade, which are Kodari-Nyalam; Rasua-Kerung; Yari (Humla)-Purang; Olangchunggola-Riyo, Kimathanka-Riwo and Nechung (Mustang)-Legze

Chinese interest lies in investing in hotels, restaurants, electronics, cell phone service, radio paging services, readymade garments (pashmina), nursing home, hydropower, civil construction, etc. By Mid 2003, there were 25 industries operating under Chinese investment while 6 were under construction and 13 were licensed. Improved law and order situation in the country and enhanced publicity in China could further increase Chinese investment in Nepal.

In May 1994, the two countries signed an auto transport agreement on Lhasa-Kathmandu route. In 1999, they signed the notes of agreement on cross-border grazing. In July 2002, they signed an agreement on trade and other issues between Tibet Autonomous Region of China and Nepal.

Over the recent years, trade volume between Tibet and Nepal has greatly increased, which totaled US$ 66.159 million in 2002, with China's exports registering US$ 61.02 million. As part of economic assistance, during Prachanda's term, China announced doubling of aid to Nepal amounting to $21.94 million. To attract Chinese investment in Nepal, on 7 April 2009, the Nepal – China Executives Council (NCEC) and the Chinese People's Association for Friendship with Foreign Countries (CPAFFC) signed a MoU. The trade volume between the two countries currently stands at $401 million with China selling goods worth about $386 million, and Nepal exporting a mere $15 million. To bridge the trade deficit, China has agreed in April 2009 to provide duty free access to 497 Nepali goods in the Chinese market. There were proposals for a second South Asian Countries Commodity Fair to be held from 6-10 June 2009 at Kunming where 40 Nepali enterprises were slated to participate with 30 stalls. China is the third largest country to provide FDI to Nepal, India and the US being the first and second, respectively (Bhattacharya, 2009).

In the last few years, trade relations between Nepal and China have taken a rapid pace with China's share in Nepal's foreign trade increasing from 11 per cent in 2009 to 19.4 per cent in 2011. Chinese aid to Nepal has also increased from a mere $128,200 in 2005/6 to $32.5 million in 2011.

The construction of a road link between Lhasa and Khasa, a border town located - 80 kilometres north of Kathmandu is functional. Furthermore, China has also accepted Nepal's proposal in April 2009 to open up two more custom points in addition to the existing five. China is also building a 65 km second road link, the Syafrubesi-Rasuwagadi road, which is the shortest route from Tibet to Kathmandu. As part of promoting Nepal's hydro-power projects, in 2008, China's Assistant Minister for Foreign Affairs, He Yafei, pledged to provide Nepal a loan of $125 million for Upper Trishuli 3 'A' and $62 million for Upper Trishuli 3 'B'. The plants would start operating from 2012. Apart from economic assistance, China has been contributing in educational sector by providing scholarships to 100 Nepalese students annually to pursue higher studies in China.

Chinese engagement in Nepal has been prominent once the Comprehensive Peace Agreement (CPA) was signed in 2006, with a particularly marked increase in 2011. In the last few years, trade relations between Nepal and China have taken a rapid pace with China's share in Nepal's foreign trade increasing from 11 per cent in 2009 to 19.4 per cent in 2011. Chinese aid to Nepal has also increased from a mere $128,200 in 2005/6 to $32.5 million in 2011. In the proposed Lumbini Development Project, China assured to build an airport, highway, convention centre, temples and a Buddhist university. The project was aborted, as it was widely felt that the Chinese were proposing the project for strategic reasons, much to the dismay of India and Western donors.

III
Chinese Aid vs Indian Aid: A Comparison

In fiscal year 2010/2011, China disbursed $18,843,988 aid to Nepal, while India expended $50,728,502. In the case of joint ventures, Indian investment amounts to 48 per cent of all the joint ventures in Nepal, and India tops the list by giving employment opportunities to 56,407 individuals. China comes second, with 10.30 per cent joint ventures and employing 23,325 individuals. Indian aid is almost three times more and it fares a lot better than Chinese aid. Nepal's hydropower potential has attracted Chinese investment like the Indian. Despite myriad issues between India and Nepal on the hydropower/water-sharing front, it is commonly acknowledged that even if India will not be an investor in the hydro sector, it would definitely be the market.

Visibility

Indian aid was more visible in the 1960s-1970s when the focus was on large infrastructure projects such as highways and bridges. Media coverage of Indian projects are less as Indian aid projects are big in number and are often worth little value to have any place in the news. The larger aid projects are always covered at par with Chinese projects. Chinese projects are largely visible and centrally located, for example, the Trolley bus service, Civil Service hospital, Ring road, and the International Convention Hall which later became the Constituent Assembly building. However, there are some visible mega Indian projects, such as the 200-bed trauma centre built in the centre of Kathmandu. The Indian aid experiment with the BPKHIS hospital in Dharan also shows that big projects like educational institutes are likely to have immediate multiplier effect.

Objectives

Compared to India, China has the advantage of a sole objective, i.e. to ensure security of its borders and enhance its influence, and it concentrates aid to meet this objective. India, contrarily, has diverse objectives, confused channels, and often contradicting sentiments, which muddle its aid presence. Furthermore, India-aided projects are often decided as tokens of appreciation of bilateral visits of Prime Ministers and other dignitaries and special occasions of India like Republic Day and Independence Day. There is very little homework and planning to strategically allocate aid projects to meet the larger development objectives and manage the perceptions.

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Perception

Chinese aid in the initial phase focused on promoting industries along with infrastructure building in Nepal to have a direct multiple effects to its aid program and indirectly decrease its economic dependence on India. While India invested in road construction that has facilitated the expansion of the Indian market in Nepal as well as opened up a market for the supply of cheap Nepali labour into India. For instance, India's support to building the Siddhartha Highway was a way of opening up the market for Indian goods as well as opening up the flow of cheap labour from the middle hills into India. Nepali migrant labour works in India in agriculture, manufacturing as well as in the service sectors. Moreover, there is prevailing perception that Indian projects come with lots of conditions and delivery of projects are not punctual, unlike Chinese. However, there are few Chinese projects such as Melamchi, which has not reached its completion on the stipulated time.

To conclude, Nepal's position has become strategically more significant with the rise of China as a superpower. Situated between the two regional powers who aspire to be global powers, Nepal can capture the opportunities and become a center of geopolitical competition between the rising China and a defensive India. Chinese influence in Nepal will increase if Nepal remains unstable, internally

vulnerable, and is incapable to resist foreign interference. For stability, economics should over ride the politics in Nepal and both India and China should come forward for economic development of Nepal by investing in hydro-electricity and tourism. Probably, trilateral cooperation between India, China and Nepal can be in the interest of the region. Stable and prosperous Nepal can only serve the security concerns of both the Asian giants.

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