

From a buffer towards a bridge

Nepal's new foreign policy agenda

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Abbreviations

ADB	Asian Development Bank
BRIC	Brazil Russia India and China
CIA	Central Intelligence Agency
CICIR	China Institutes of Contemporary International Relations
CPA	Comprehensive Peace Agreement
FDI	Foreign Direct Investment
FES	Friedrich-Ebert-Stiftung
IFA	Institute of Foreign Affairs
LLDC	Landlocked Least Developed Countries
PPP	Purchasing Power Parity
RITES	Rail India Technical and Economic Services
SPA	Seven Party Alliance
TAR	Tibetan Autonomous Region
THiSAEC	Trans Himalayan Security and Economic Cooperation
UCPN-M	Unified Communist Party Nepal-Maoist
UN	United Nations
USSR	Union of Soviet Socialist Republic
WWII	World War Second



Preface

Nepal's positional status as a landlocked country has turned itself a hostage of its geography, severely limiting its prospects in political, economic and diplomatic frontiers. Physical constraints imposed by geography have been limited not only on its access to third country beyond its immediate neighbours, it has also created a structure of dependence in which Nepal remained just a 'client' state to its powerful neighbors. Maintaining Nepal's independence and protecting its geographical sovereignty has been a major goal of its foreign policy, leave alone the idea of having influence outside. The asymmetric dependence remained for centuries particularly after the unification of Nepal.

Historically however, Nepal's role was not limited to serve as a 'Buffer' space between India and China. Expansion of Buddhism, travel accounts of Fa-xian and Huan-xang about ancient Nepal stand in testimony that Nepalese land was used as a shortcut for the travellers of both nations. During the medieval period, the Malla kings of Kathmandu valley maintained good trade relations with both neighbors. In fact, it was a vibrant trade route linking those two giant countries during that period.

The ancient trade route seems possible now given the burgeoning economic cooperation between two political adversaries particularly with the onset of globalization. The idea of Nepal linking the two economic giants and taking benefit of it has been articulated many times by its rulers since late 20th century. Late King Birendra during 1970s and 80s came up with the idea of developing the nation as a gateway between South Asia and Central Asia. Former King Gyanendra also expressed Nepal's willingness to be a transit state for the overall economic development of the region. Lately, former Prime minister Dr. Baburam Bhattarai in his inaugural speech at the second Convention of China and South Asia forum at Kathmandu proposed the idea of turning Nepal into a vibrant bridge for the overall development and cooperation of the region. The idea has not been principally opposed by neighboring countries; in fact, so far China seems to favor this proposition strongly.

This report tries to redefine Nepal's traditional identity of a "buffer zone" to adapt with the changing economic, security and political developments in the neighborhood. It outlines the possibilities of turning Nepal into a "vibrant bridge" entailing more economy focused foreign policy orientation. This



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report is prepared by literature review and personal interview with eminent personalities and experts on this subject. Institute of Foreign Affairs (IFA) believes the findings of this report would greatly help reshape Nepal's foreign policy shifting its priority from geo-politics to geo-economics. IFA is thankful to National Planning Commission (NPC), for financial contribution especially to its former vice-chairman Deependra Bahadur Kshetry for support and inspiration to conduct this research. IFA is thankful to Yam Prasad Chaulagain for his leading initiatives during the entire research period. Researchers Shyam Bandhu Subedi and Tika Prasad Dhakal deserve great appreciation for their vigorous research on the materials covered in this book. IFA also wishes to thank Khush Narayan Shrestha, Deputy Executive Director of IFA, and Sanu Raja Puri, Librarian of IFA, for their valuable cooperation. I hope that this report will be an armory of thoughts and analyses on Nepal's changing foreign policy priorities dominated by economic interests over political agendas. IFA welcomes comments, suggestions and feedbacks so that we will be able to refine our future publications.

Dr. Rishi Raj Adhikari
Executive Director



Chapter - One

Nepal's historic geo-economic relations with India and China

Nepal's central location on the southern side of the imposing mountain system that separates the Tibetan plateau from the plains of India has always strongly conditioned the country's history and foreign policy (Rose, 2005, p. 3). The country is bordered to the north by China and to the south, east and west by India. On the north, Nepal has a 1400 km border with China, and on the east, west and south it shares 1700 km border with India. Nepal's geographical status as a landlocked country used to be regarded as the major stumbling block to its socio-economic development, but not any longer. The two neighbors' quest of becoming superpowers in the next 20 to 30 years and their incredible economic rise have necessitated Nepal to rethink its foreign policy discourse- from the traditional buffer state mindset towards becoming a vibrant bridge between them.

The politico-economic and cultural relationship between the present day hill areas in the North and the plain terrain to the south of Nepal has been closely connected for centuries. Nepal's politics and culture seem to have been influenced by India – especially its northern region -- since the reign of Emperor Ashoka in 4th century B.C.. Kirati rulers that arrived in Nepal in the 7th or 8th century BC from the east were the first in recorded history in Nepal. Kautilya's Arthashastra states that during the Kirat rule, people of Nepal used to sell wool, herbs and handicrafts to several Indian markets. This trade was expanded during Malla period as they specialized in activities such as art, painting, metal casting and gem cutting, wood and bronze carving, sculpture etc. and exported to Tibet and India (Dahal, 2006).

History shows that Nepal's territory, due to its geographic setting, was used as an entrepôt¹ between Tibet and India. It was during seventh century with the emergence of powerful kingdom in Tibet, with its capital at Lhasa, Kathmandu valley was transformed from an isolated sub-Himalayan backwater into the intellectual and commercial entrepôt between India and Central Asia (Rose:

¹ *A trading centre or port at a geographically convenient location, at which goods are imported and re-exported without incurring liability for duty.*

1971, p. 10). It opened for the first time, a new channel of communication between India and China across the Himalaya through Nepal (Ramakanta: 1976, p.48). At that time the main trading passes were Kerong and Kuti which turned Nepal into a commercial entrepôt for the trans-Himalayan trading system. Modern transportation system didn't exist in Nepal, India and China. Bullock and horse carts were used as a means of transportation In India. In Nepal goods were transported mainly by human beings, while yaks were the primary means of transportation for carrying goods to and from Tibet. Marketing system of goods was not organized. In those days, the principle items of exports from Nepal were composed of copper coins, grains and iron. In turn, Nepal used to import woolen goods, salt, raw wools, tea, herbs and bullion etc.

The Licchavis, who are said to have migrated into Nepal from North India around 250 A.D. by defeating the Kiratis, sought to maintain cultural and economic ties with Tibet. Among many Licchavi rulers, Anshuverma and Narendradev were instrumental in expanding economic and cultural relation to Tibet and China. Anshuverma opened the trade route to Tibet. One of his daughters, Bhrikuti, who was married to the Tibetan ruler Tsrong-tsong Gampo, played an important role in spreading Buddhism in Tibet and China. Narendradev also initiated friendly relations with China. Trade and other relations were suspended from 618 to 907 A.D., and resumed from Yuan dynasty. Araniko helped to expand cultural development across the east and Southeast Asia (Dahal, 2006).

After the fall of the Licchavi dynasty, the Malla period started in the 12th century, growing into a huge empire. Specializing in the activities like arts, painting metal carving and sculpture, among other things, Nepal increased the volume of export materials to India and Tibet during the Malla period. The 16th and 17th centuries were crucial period in the relation between Nepal and Tibet as a result of the struggle between competing Buddhist sects in Tibet². Nepal's two ambitious kings – Ram Shah of Gorkha and Pratap Malla of Kathmandu took the advantage of Tibet's weaknesses and seized control of the vital border pass areas through which most of the trans-Himalayan trade was conducted. Pratap Malla controlled Kerung for a short time. His forces led by Bhim Malla crossed Kuti around 1645-50 and reached Shigatse (Dahal: 2006). A treaty was signed between Kathmandu and Tibet which stipulated that Tibet could not use another route next to Kathmandu in its trade with

² *The struggle between competing Buddhist sects and the more basic regional conflict between the two central Tibetan provinces, of which Lhasa and Shigatse were the political centers.*

India. As per the terms of this treaty Kathmandu also obtained the right to mint coins for circulation in Tibet, (Clement: 1879). Nepalese merchants did not have to pay any entry and exit tax on the flow of goods to and from Tibet. The Malla family of the valley of Kathmandu and Shahs of Gorkha emerged as the main contenders for Nepal-Tibet Trade regime between 13th and 18th century. Trans-himalayan trade became a bone of contention between them too. The framework of trans-himalayan trade between Nepal and Tibet was entirely based on natural setting and mutual benefit that lasted up to the half of the 17th century³. During this period the great trade route from India to Tibet passed through the valley and on to Tibet through the passes at Rasuwa and Kodari. The valley thus enjoyed a strategic position on this trade route.

Nepal went to war with Tibet three times – in 1788, 1792 and 1855 citing economic reasons. The Nepal-Tibet war of 1788 originated mainly due to the worsening of Nepal-Tibet relations over the questions of currency, trans-Himalayan trade, and the internal conflict in Tibet vis-à-vis Nepal's drive for outward expansion (Thapa, 2010, P.120). In the first war, Tibetans were defeated and agreed to pay an annual tribute to Nepal (Rose: 1971). But the treaty was not honored by Tibet even for a year, as Tibet sought support from China as a defense against Nepal's attack. The second invasion led to Chinese intervention and was sorted by signing of new Nepal Tibet treaty in 1792. The treaty was agreed upon under Chinese mediation, according to which, Nepal would send gifts to the Chinese Imperial Court every five years (Ibid). From this period upto 1846 Nepal and Tibet did not see any significant change in bilateral or trilateral relation due to internal problems in the Royal Palace of Nepal (Adhikari : 2010, p.24). Nepal declared a war on Tibet in March 1855, when Nepal's request to return the territories captured in 1791-1792 war, and trade-related issues were ignored by Tibet as per the 1792 treaty. The war ended up with a Treaty signed on 24 March 1856 (Thapa: 2010, p. 122).

Before unification, Nepal was geographically isolated from the international scene. Prithivi Narayan Shah, a warrior king and statesman, unified several principalities into a single modern state over 240 year ago, and declared Nepal an independent nation. After the death of Prithivi Narayan Shah, conspiracies for power sent Nepal in disarray. Taking the advantage of this situation, the British got permission in 1801 to establish a British residency in Kathmandu. In the meantime, the Nepali state entered an expansionary phase and pushed its borders to Kangra in the west and the Teesta River in the east (Lohani: 2011, p. 3). Consequently, a war broke out between Nepal and the rising British Empire and Nepal lost the war. A peace treaty, formally signed by Nepal

³ Quoted in, Majumdar, B.P; *The Socio-Economic History of Northern India*, Firma KLM Ltd, Calcutta, 1966.

in March 1816 included territorial concessions by which Nepal lost almost one-third of its territory on the east, south, and the west (Pathak: 2010). In this process in 1846, Jung Bahadur Rana, capturing the state power through the Kot massacre, made some important choices regarding Nepal's foreign policy. Firstly, he decided that Nepal was to remain isolated from the outside world. Secondly, he decided to ignore China since it was a declining power and thirdly, relationship with the British was strengthened by helping to quell the Sepoy mutiny in 1857, in which Nepali troops fought in Lucknow for the British (Lohani: 2011, p.3).

The *entrepôt* status of Nepal ended forever particularly after 1904, when British-India entered into a trade agreement with Tibet under which India carried out the idea of its trade with Tibet through Gyantse and Chumbi valley near Kalimpong. This had two adverse economic repercussions for Nepal (Amatya: 1986, p.53). Firstly, the new routes proved to be easier and more economical than Tatopani-Rasuwa and Kuti-Kerong of Nepal, and trade traffic was directed to Kalimpong reducing the volume of trade between Nepal and Tibet. Secondly, Nepalese traders in Tibet had to face severe competitions from Indian goods imported into Tibet via the new Indian trading route (Sigdel: 2003, p. 124-125). Thus, British India's success in trade agreement with Tibet resulted in a great loss for Nepal, virtually ending its historical legacy as an *entrepôt* between India and Tibet. More importantly, British India's development on railway links and motorable roads and its spillover effects to Nepal's Terai region eventually increased Nepal's dependence towards its southern neighbor. The trade treaty signed between Nepal and British India in 1923 further facilitated import of unrestricted British goods to Nepal, deteriorating Nepal's competitive strength in trading. In the process, Nepali market was opened to British manufactured products as a part of the overall colonial economic system (Lohani: 2011, p.3). Powerful British empire recruited Nepalese in the British-Indian army. Gradually Nepal became more and more dependent on British India for its foreign trade, international travel, and employment of its manpower (Bhattarai: 2005, p.20). Thus, in the span of century, the wars Nepal fought with Tibet and British India made Nepal's position vulnerable and significantly lessened Nepal's trading to nothing.

The tectonic shift emerged in the aftermath of WWII on Nepal's neighbours and the subsequent political transformations that occurred in Nepal's domestic sphere altered Nepal's traditional foreign policy priority. Until India's independence in 1947 and communist China's takeover of Tibet in 1950, Nepal was under the British security umbrella and ignored China in the north. In fact, the presence of stronger China and imperialist USSR in the north led British India to consider Nepal as a Buffer state and integrate Nepal into its security parameters. Even after being an independent nation from British colonial rule, India could not ignore the geo-strategic importance of Nepal

and considered it as a buffer between itself and communist China. Soon after communist China's expansion towards Tibet, India initiated the signing of Treaty of Peace and Friendship in 1950 which defined the political, economic and strategic relation between the two countries. However, the peace and friendship treaty India signed with the dying Rana regime in 1950 is regarded by most Nepali intellectuals as the continuation of the British policy with the intention to cash in on the imminent political upheaval in Nepal. The newly independent India discontinued its previous patronage to Ranas by brokering a deal between Nepali Congress and the Monarch which eventually succeeded in overthrowing the Rana regime.

Simultaneously signed (1950) treaty between Nepal and India was the treaty of Trade and Commerce which caused much controversy in Nepal from the very beginning. While Nepal gained the right to import and export through India without the payment of Indian excise or import duties, Nepali businessmen strongly objected to article 5, which stated:

“The Government of Nepal agrees to levy at rates not lower than those leviable for the time being in India customs duties on imports from and export to countries outside India. The Government of Nepal also agrees to levy on goods produced or manufactured in Nepal which are exported to India, export duty at rates sufficient to prevent their sale in India at prices more favorable than those goods produced or manufactured in India which are subject to central excise duty (Commonwealth Legal Information Institute. 1950).

Nepali businessmen argued that whatever was agreed in favor of Nepal was taken away by the above-mentioned clause. Similarly, the cumbersome procedures established for the transit of goods through India under the trade treaty became the object of strong criticism in Nepal. Demands for revision of the treaty were voiced almost immediately after its ratification, and the Ranas were accused of antinationalism for having accepted an “unequal” treaty (Rose: 1971, p.187).

India's Nepal policy, based on Nepal's two-pillar system⁴, faced a crisis when the King Mahendra took power in 1960. After that the two pillar system was

⁴ *The Ranas also allowed the British to recruit Nepalis for their colonial adventures and wars. The British found that Nepalis, especially from the hilly region, were good fighters. In 1919 the British accepted the title of His Majesty for the king of Nepal. In 1923 the British accepted Nepal as an independent nation. In the process, Nepali market was opened to British manufactured products as a part of the overall colonial economic system. Since then, British India adopted the so called twin-pillar foreign policy with respect to Nepal that included built-in support both for a ceremonial monarch and an executive prime minister under parliamentary democracy. For further details, see: Lohani, Prakash Chandra.(2011). *Nepal's Evolving Relations with China and India*.*

gone and King was the only pillar. Prakash Chandra Lohani, former foreign minister of Nepal, observes that:

In order to establish his legitimacy, the king expanded Nepal's diplomatic relations. His efforts were directed towards resisting Indian pressure and asserting Nepal's independent foreign policy. Nepal had become a member of UN in 1955; diplomatic relations were established with China in 1955, the then Soviet Union in 1956 and Israel in 1960. Nepal started projecting a non-aligned image between global and regional powers. That was one way of saying that we decide our own destiny, that we have an independent foreign policy and that old realities are no longer relevant (Lohani: 2011, p. 5-6).

Between 1960 and 1990 Nepal had the partyless Panchayat system under the King's leadership. In this period, Nepal started receiving development assistance from different countries that included People's Republic of China, Soviet Union, Switzerland, Australia, Japan and New Zealand. With this new menu of choices Nepal rejected the traditionally-ascribed buffer status, ordered the Indian military mission to leave Nepal in 1969, adopted neutralism in Sino-Indian conflict, formulated equidistance policy during cold war between the regional and global powers, adopted non-aligned posture in its international behavior and tried to project its independent image though Arms Assistance Agreement of 1965 between Nepal and India sought to limit defense cooperation with the Anglo-Saxon bloc (Dahal: 2011, p. 40). However, some critiques argue that King Mahendra adopted the policy of playing one country off against the other, which had also been Nepal's strategy for survival in the early decades of its existence as an independent state (Hoftun, et. al., 1999 P. 262).

Until the mid-1960s, Nepal relied upon India mostly for its development projects. When the multilateral assistance programs began in the 1970s, by the end of the 1980s, the huge amount of foreign aid was in the form of multilateral assistance program directed through the international development assistance of World Bank and the Asian Development Bank characterized as soft loans (Chaulagain: 2011). This means that the recent flourishing ties with the international community opened new avenues for external actors beyond India's traditional influence in Nepal's geo-political landscape. The royal regime's primary motive was to establish and prove its legitimacy to the people. To reach this strategic goal, the regime relied on the slogan of economic development and nationalism. Unlike Nepal's relatively liberal economic policies, until the end of the 1980s, India's economic policies were interventionist and provided little leeway to the private sector. In many

ways, when the Indian economy was controlled, Nepal became a place for many Indians to come and buy consumer goods that were not allowed to be imported in India (Lohani: 2011, p. 6).

When the trade and transit agreement between India and Nepal were to be renewed, India wanted to use Nepal's vulnerable position to its advantage. In 1989, India imposed a crippling economic blockade on Nepal, partly in retaliation to King Birendra's new-found assertiveness in considering arms purchases from Beijing. As a result of the subsequent domestic unrest, the king was forced to surrender his absolute powers and Nepal became a constitutional monarchy in 1990 (Lee: 2009). The two-pillar system was restored with a constitutional monarchy and an elected executive Prime Minister running the government. During this period, both countries sought to enhance cooperation on border management, water resources, foreign direct investments and road transit for Nepal as well. When King Gyanendra purchased Chinese arms in an unsuccessful attempt to defeat the Nepalese Maoists. In 2005, India brokered an alliance between the democratic parties and the Maoists that culminated in the collapse of the monarchy (Ibid). Prof. S.D. Muni, a Nepal expert in New Delhi's political and academic circles, argues that-

For analytical convenience, India's policy towards Nepal's People's Movement and its approach toward the Maoists can be looked at in three phases; (1) pre-palace massacre. (2), post-palace massacre (2001-5), and (3) the period from February 2005 royal coup to the People's Movement (2005-6). During the momentous developments of the third phase and even earlier all the major players in Nepal's People's Movement were in contact at different levels with the Indian government and political leadership (Muni: 2012).

Gopal Thapa, an official from the Ministry of Foreign Affairs in Nepal, argues that the royal takeover in 1960, the demolition of multiparty democracy and constitutional monarchy, system of governance as practiced after the restoration of democracy in 1990 and the current state of anarchy that Nepal is going through are partially the consequences of the inconsistent and ambivalent Indian policy pursuit in Nepal (Thapa: 2011). Thapa further observes that Nepal's India policy is inconsistent, incoherent and bereft of national consensus, and can also be characterized by excessive dominance of less qualified political leaders and petrified bureaucracy (Ibid).

Unlike India, Nepal's bilateral relations with China, despite some fluctuations, flourished well. In August 1955, a joint communiqué on the establishment

of diplomatic relations was concluded between Nepal and China. The two governments agreed to establish diplomatic relations and exchange of ambassadors (Jain: 1981). In 1956, Nepal and China signed friendship treaty having trade as the major aspect. Under the agreement, Nepal recognized China's sovereignty over Tibet (Federal Research Division, 1993). The agreement also abrogated all treaties and documents that had existed in the past between Nepal and China, including those between Nepal and Tibet (Jain: 1981, p. 288). As an attempt of strengthening bilateral relationship, Nepal's Prime Minister B.P Koirala paid a visit to China in April 1960. During this visit, a Treaty of Peace and Friendship was signed. Chinese Premier Zhou-En-Lai also visited Nepal in April 1960, followed by the opening of the Chinese Embassy in Kathmandu, and the Nepalese Embassy in China in September 1961 (Pokharna: 2009, p. 162).

When King Mahendra seized state power by dismantling parliament in 1959, Nepal gradually shifted its foreign policy priority from traditional skepticism towards a balancing dynamism. During King Mahendra's China visit in October 1961, boarder agreement was signed between Nepal and China. Nepal gained Chinese acceptance of its traditional boundary (Rowland: 1967). During this visit, an agreement to construct 104 km Kodari highway connecting Nepal and Tibet was the significant step which could facilitate trade between Nepal-China border areas. During the Sino-Indian War of 1962, Nepal reasserted its neutrality. In the post 1962 period, there was a substantial expansion of the amount of foreign aid available to Nepal, especially from China, which was, in part, a reflection of Nepal's geo-strategic role in the Sino-Indian dispute (Pokharna: 2009, p. 163). The trading agreement of 1974 and 1981 between Nepal and China further opened new avenues boosting Nepal-China-Tibet overland trade (Sigdel: 2003, p.25).

King Mahendra's successor King Birendra continued the policy of equal friendship between China and India but wanted to woo China to counter India's growing influence in the region (Library of Congress, 1991). The most important strategic move King Birendra followed was that he rejected Nepal's buffer status and sought to maintain Nepal's indifferent position proposing Nepal a "Zone of Peace". Dev Raj Dahal, a Nepali political analyst, argues that India's assertion of its position following its policy tilt to the Soviet Union in the seventies, active role in the emergence of Bangladesh, annexation of Sikkim, a tiny Himalayan state close to Nepal and nuclear test inspired Nepal to innovate a new policy initiative to be declared a "zone of peace." (Dahal: 2011, p. 41). When King Birendra concluded an agreement to purchase weapons from China in 1988, India imposed economic blockade against Nepal for almost a year. This happened because there is a provision in the 1950 treaty of friendship between Nepal and India which states that India

will provide transportation facilities through its territory for arms bought by Nepal. Nepal's interpretation was that the treaty did not preclude Nepal from importing arms from China via Tibet, but the Rajiv Gandhi government then was of the opinion that it violated the spirit of the treaty (Lohani: 2011, p. 7).

Throughout the King's direct rule in Nepal from February 2005 to April 2006, China responded by dispatching arms to Nepal, despite the ideological affinity of the Maoists with China.⁵ Chinese comments regarding the political situation came only after the 12-point understanding was agreed between the Maoist and the Seven Party Alliance (SPA) to fight against the king's direct rule in November 2005. (Thapa: 2010, p.44). As soon as Maoist joined parliament and signed Comprehensive Peace Agreement (CPA), the relations between Nepal and China on bilateral front continued to grow.

A critical question might arise here as to why the Chinese and the Indians favored two-pillar policy in Nepal in the past. The Chinese observed monarchy as a strong institution which would not allow Nepal to be a place for creating problems in Tibetan affairs. In the same way, the long relationship between Nepali King and Indian political elite helped assure India that Nepal would not be used against their national interest. This clearly reveals that why both our neighbors – India and China – supported two-pillar doctrine with respect to Nepal's political affairs.

After 1990, with a new world order dawning in international relations, emerging nations seem to be journeying towards a new geopolitical realm. Their desire of achieving superpower status through technological innovations and economic miracles has rightly dominated the contemporary discourse over security concern. In the Himalayan region, China and India seem to be having single fundamental aim in common: Strategic primacy on their own side of the Himalayas (Hoftun, Raeper & Whelpton, 1999, p. 280). Their booming economic growth and prospects of becoming superpowers in near future has brought them on the forefront of economic cooperation. The new found prosperity, natural resources need, and their pursuit to seek alternative maritime passages have challenged the South Asian dynamics in a significant way. (Bohara: 2010).



⁵ Referring to the Nepali Kantipur daily, BBC reports that eighteen trucks of arms and ammunition had been delivered to Nepal from China. Retrieved from http://news.bbc.co.uk/2/hi/south_asia/4469508.stm

Chapter - Two

Geo-politics to geo-economics

In international system, small independent states lying between two larger states, usually the rivals, are referred as buffer states (Mathison, 1971). Geography, capability distribution and foreign policy orientations are generally affected by the rival or potentially rival interests of larger states. Based on this definition, Nepal lying between two rival states is called a buffer state and its foreign policy has been affected by its geo-political positioning and relatively weaker economy compared to its immediate big neighbours. Until today, Nepal's geographical position between the two potentially rival big powers has proved to be the greatest constraint to its independent foreign and economic policy. Though the buffer state mentality is purely a cold war phenomenon, sometimes it still prevails in the relation of Nepal with India and China. The end of Cold War witnessed the rise of regional and global economic integration surpassing political and military factors having dominance in international system. However, Nepal's economic weakness, to a large extent underlined by its political instability, did not let it to play an assertive roles by using its geo-politics as a tool to link India and China, the second and third largest economies in terms of PPP (World Bank, 2011). Firstly, India and China have started developing cooperation at least on economic matter. Their bilateral trade has been estimated to reach \$100 billion by the year 2015. If political issues dominate their economic relations it will seriously affect their growth aspirations of being economic superpowers. Secondly, the leaders of both India and China are positive on developing Nepal corridor to link their trade relation that will significantly trim down their shipping cost. Such tri-lateral partnership, at least on economic interests of all the three countries would promote the feelings of regional cooperation. Above all, Nepal would be the biggest beneficiary through the promotion of trade and tourism among others.

Since the unification of Nepal, founding father Prithvi Narayan Shah ended Nepal's isolationist policy and opened up to the world as an effective buffer state between India and China. For centuries, since then, Nepal served as a buffer state between the expanding British colonial power on the east, west and south, and China and Tibet on the north. Nepal, not only worked as an entrepôt in ancient times, but also worked as a buffer state between China and

British India, and even later during the Cold War. Nepal had virtual monopoly over the trans-Himalayan trade and was one of the influential actors in the region. Revival of Nepal's economic prosperity is possible even through the spillover effect from rapid economic growth in its immediate neighborhoods.

The conqueror king Prithvi Narayan Shah's remarks on Nepal stemmed from its geopolitical positioning as 'yam between two boulders' that reflects the asymmetric power relations of India and China vis-à-vis Nepal. It suggests the need for a delicate balance of relationship between its two big neighbors and has been a fundamental rule of Nepal's foreign policy even in present context. Nepal has enjoyed the best of relations with both of its contiguous neighbors since the unification and that alone has helped Nepali rulers to protect and preserve Nepal's independence, sovereignty and territorial integrity (Bista, 2012). Nepal's foreign policy so far, rests on the principles of Panchasheel namely, Non-interference, mutual respect for each other's territorial integrity and sovereignty, non-aggression, equality and mutual benefit and peaceful co-existence in addition to Non-alignment, values of world peace, principles of International law and United Nations Charter. All of these principles have their roots in protecting territorial integrity and maintaining Nepal's independent existence. Protecting a country from war and occupation used to be the primary national interest during the nineteenth century. Those five principles of peaceful coexistence are also the foundations of independent India's foreign policy since 1950s. First Prime Minister of independent India Jawaharlal Nehru once said, "If these principles were recognized in the mutual relations of all countries, then indeed there would hardly be any conflict and certainly no war" (Nehru, 1958). Safeguarding its geo-politics was a major challenge for Independent India at the time communist China had just occupied Tibet.

Throughout the Cold War period, national interests reflected only through on political and military means as China and India successfully tested their nuclear missiles and witnessed border war. Protecting its geography and maintaining neutrality in the relation with India and China was a major challenge to Nepal as trade and commerce were not the only economic concerns. The trade embargo imposed over Nepal by India in 1989 was an example of Nepal's geopolitical limitations and the dominance of political interests over economic issues. During the 90s, India paid more attention to economic development which China had already started under Deng Xiao Ping. Despite political differences and contentious border issues, China and India are now forging smooth economic partnership and are not interested in bringing out political agenda at front at the expense of economic interests.

Rapid technological advancements during the late twentieth century and the growing integration of economies and societies in the name of globalization shifted nation-state centered national security framework towards strengthening economic power in order to influence other countries through international trade and financial regime. China's move towards state capitalism since 1970s and Indian economic development since 1990s marked their shifting of priorities from politics to economy. The growing volume of trade between China and India in recent years has dramatically changed the socio-political landscape of whole of Asia. Despite disputes and a brief war in 1962, India and China have normalized their relations through bilateral trade and economic cooperation.

So, it serves the interests of both India and China to consider their smaller neighboring countries as a land of opportunity rather than a platform for rivalry. Both countries are, in fact, already forging various individual bilateral economic linkages with the smaller South Asian neighbors (Bohara, 2010). China's interplay in the region with diplomacy, foreign aid, trade, and investment has presented itself as a major player. China's broad objective in South Asia is to expand multi-dimensional cooperative relations with all the countries of that region (Garver, 2005). China and Sri-Lanka have been cooperating in developing Hambantota port on the southern tip of the island. Another South Asian country, Bangladesh is collaborating with China to open a transportation outlet to Myanmar (Bohara, *ibid*). On the other hand, India has been supporting Bangladesh for natural gas supplies and is looking into its transportation network within Bangladesh as a transit corridor to reach the north-eastern frontier states, and perhaps beyond into Myanmar (*ibid*). Mongolia, a landlocked state between China and Russia, is exemplary in this case. It is moving towards economic independence by balancing cooperative relations with Russia and China, simultaneously diversifying relations with United States and International Institutions. Nepal can march towards economic independence by incorporating economic agenda in its geo-politics centered foreign policy.

Protecting national interest does not equal with maintaining territorial control. Since economic security gradually precedes over geo-political interests, certain strategies should be framed out in order to grasp the wave of economic growth in the region. As part of foreign policy agenda, such aspects of economic interests have to be institutionally initiated by Nepal government.



Chapter - Three

Bridge Discourse

Historically Nepal's strategic position was interpreted only from geo-political perspectives, which severely limited its foreign policy options. King Prithivi Narayan Shah, who unified Nepal by bringing together several tiny principalities with the strength of his sword, defined Nepal's strategic location as a yam between two boulders. This was at a time when British-India was expanding its empire in Asia and China was confined with the security of Middle Kingdom and the maintenance of its tributary relationship with the neighbors (Dahal, 2011, p. 31). In the mid 18th century, Nepal's most formidable problem in the formulation and implementation of foreign policy was the preservation of the country's independence in the face of threats posed by the newly emerging dominant power in the northern India; the British East India Company, and a slowly but steadily expanding Chinese Presence in Tibet (Rose, 1971). However, Nepal could not balance the relation and was forced to make concessions after being defeated by China in the late 18th century and then by British East India Company in late nineteenth century. Following the signing of Sugauli Treaty with British India in 1816, the British Empire consigned Nepal to a position of a buffer state precariously dependent on the south for formal socializing agencies, strategic commodities and essential goods. (Dahal, 2011, p. 31). Until British colonial power ruled South Asia, the Rana oligarchy regime maintained its hold on power with patronage from the British rulers.

The political change of 1950 ended the 104 years old Rana oligarchy rule. But the old regime in Kathmandu sought and followed the diktat from New Delhi in order to protect its beleaguered regime which has been under severe pressure and crisis from the burgeoning people's movement for political changes (Lamsal, 2009). At the same time, Nepal's special relationship with India, following the Indo-China war of 1962 was further neutralized by king Mahendra through a policy of diversification in aid, trade and foreign relations, aiming to escape from regional geo-political constrains and enhance its freedom of maneuver in international system. **Dev Raj Dahal, political analyst of Nepal, opines that** rejecting this buffer status, King Birendra in the 1970s and 1980s, articulated the nation as a gateway between South Asia and Central Asia (Dahal, 2011, p. 41).

Over the past decade, Nepal seems to have been grappling for means to transform its traditional buffer state mentality towards the definition of a new economic corridor- a vibrant bridge- between its two immediate neighbours. Nepal's traditional identity of a "buffer zone" needs redefinition to adapt with the changing economic, security and political developments in the neighbourhood. Since 1990s, both India and China are discovering means to cooperate than to compete. End of Cold war has dramatically reduced old security tensions between them, focusing on economic interests over security contestations. Can Nepal also put its economic agenda on the table? Can the security connotations associated with buffer mindset be replaced with a new economic order in the region? In today's world where the locus of international relation is gradually moving from geo-politics to geo-economics, the concept of transit economy should therefore be seen as one of the salient features of an emerging world economic order (Pandey, 2005).

In the recent context, the year 2006 was a year of momentous changes in Nepal. It was in this year that the ten year Maoist armed insurgency ended. The country became a republic doing away with centuries-old monarchy. The Unified Communist Party of Nepal, Maoist (UCPN-Maoist) eventually chose the peaceful path to power. Changes in political landscape were the primary motivation in bringing new ideas for progress. One of the ideas as an offshoot of the change was an inception of discourse on reinventing Nepal into a bridge between India and China so as to take advantage of the rapid economic growth of both neighbours.

Three remarkable events during the year of 2012 tellingly indicate Nepal's gradual shifting foreign policy projection. Nepal's ruling and largest political party, UCPN-Maoist, through its seventh plenum document in July 2012 formally dropped its animosity towards India signalling a policy shift and newfound realization that only cooperation with the neighbourhood could help Nepal develop into a prospective partner in achieving national goals of all. In view of the party's declared mobilizations against India during their 'People's War' and after, this step was a significant reallocation towards a "good neighbourhood" policy.

Second, the strong and serious bilateral aspiration conveyed by Mr. Ai Ping, Chinese Communist Party's vice Minister for South Asia, and later on, by Chinese premier Wen Jiabao, eloquently signal China's shifting foreign policy priority in Nepal. Visit of Mr. Ai Ping in June 2012 made headlines in Nepalese media. They intensively covered the bilateral deliberations as focused in his presentation of Chinese concern over Nepal's proposed course of identity-based federalism. It was received seriously in the light of China's history of

mostly flawless diplomatic gestures vis-à-vis Nepal. Later, China clarified it would not be bothered by the choice of federal course Nepal liked to tread and this would depend on Nepali people's choice, a line Beijing has always preferred to maintain. The development of apprehension is evident in expert circles from where policy inputs are received in Beijing.

Thirdly, in January 2012, before both of the above events happened, Nepal's Prime Minister Dr. Baburam Bhattarai reintroduced in the discourse a long overdue Nepalese aspiration—Nepal can and should act as a bridge between India and China and take advantage from the rapid economic development of the two biggest and fast growing economies (Nepalnews, Kathmandu, 2012).

Nepal's conventional wisdom of being a yam between two boulders is a metaphor to explain its historical compulsions to balance relations between the two big neighbours, China in the north and India in other three sides. Yam's reality is reflected in its contemporary bilateral trade statistics too. In 2010 India accounted for almost 60% of Nepal's foreign trade, followed by China (20%) and the EU (5%). By virtue of its geographic knot with these two superpowers, Nepal has also been viewed from security perspectives of India and China.

Nepal has historically been a transit route to and from both India and China. Expansion of Buddhism, travel accounts of Fa-xian and Huan-xang during the ancient Nepal stand in testimony that Nepalese land was used as a short-cut way by the travellers of both nations. During the medieval period, the Malla kings of Kathmandu valley maintained good trade relations with both India and China. During the 17th and early 18th centuries the city's spectacular monuments were built on the proceeds of trade between India and China, trade which was to wither in later centuries (The Economist, 2012). Three wars Nepal fought with Tibet in the span of a century during the Shah regime first gradually thinned Nepal-Tibet trade patterns, and eventually reduced it to nothing. Opening of the southern border, far more accessible and geographically proximate than the difficult north, over the years motivated Nepal's mutual contact towards India. The bridge aspiration, deeply rooted in the history remained alive, though not realised.

Nepal's shift towards acting as a bridge seems to have emerged in 2001 with King Birendra's visit to China, which succeeded in forging an agreement between Nepal and China to expedite construction of the Syaprubeshi-Rasuwa road— a second road linking Sino-Nepal to the Tibet Autonomous Region of China (Chaulagain: 2013). Sino-Nepal relations of this particular period seemed to be marked by a convergence which in theory saw the

leveraging of bilateral relations to position Nepal in a broader 'Asian' framework, and which in practice began to expand the physical infrastructure that would facilitate this motive (Koirala, 2012). As King Birendra forged the bilateral agreement of constructing Syaprubesi- Rasuwa road with his Chinese counterparts in Beijing, some intellectuals in Nepal began exploring Nepal's transit aspirations. Praksah Chandra Lohani, rightly said that there have been some who have talked of Nepal as being a "link nation" having direct land link with two of the most dynamic economies of the world instead of being a "landlocked nation" (Lohani, 2003).

Likewise, former King Gyanendra's formal declaration of developing Nepal as a transit point between China and India at Afro-Asian Summit -2005 in Jakarta revived Nepal's bridge ambition once again. Addressing Jakarta's Afro-Asian Summit on April 22, 2005 and second South-South Summit held in Doha on June 15, the then King expressed the nation's willingness to extend all possible assistance to further this process hoping that it would substantially contribute to transform the region into an engine of viable economic growth. He further added that the concept of building an electric railway linking Birgunj to Kathmandu and Kathmandu to Tatopani should be brought into implementation for developing Nepal as a transit point between two neighboring countries (Dahal, 2006). However, Nepal's internal conflicts, changing political context and home troubles didn't allow the idea to gain much traction. Most recently in 2012, as former Prime Minister Dr. Baburam Bhattarai invoked the bridge concept with a new qualifier "vibrant", it has rightly dominated Nepal's foreign policy discourse. The agenda brings with it a geo-economic proposal to break Nepal out from its traditional geo-political brackets.

Nepal's landlocked geographic position and its size until a couple of years ago was perceived as a major handicap of country's overall development. However, our immediate neighbors' speedy aspirations of becoming super powers in the next twenty to thirty years has necessitated a cheerful shifting on Nepal's foreign policy agenda-from traditional buffer towards becoming the vibrant bridge. A nation of thirty million people is not exactly a small country; but when surrounded by two big giants on all of the four sides creates the feeling of smallness. For a country of thirty million people to be sandwiched between two billion people moving fast on the economic ladder is actually an opportunity. This is the way we view our position at present (Lohani, 2011).

Previously, during the Inter-Governmental Committee meeting in Kathmandu in January 2004, India officially asked Nepal to provide transit to China for carrying out trade through Nepali territory. In the same way, it has been

publicized that during the last year visit, Chinese premier Wen Jiabao and Chinese vice minister responsible for South Asia affairs, Mr. Ai Ping, held crucial conversation with their Nepalese counterparts to foster bilateral and trilateral trade relationship. Delivering speech at a talk program on “India, Nepal and China: An Emerging Trilateral Relations in the 21st Century.” former Chinese Ambassador HE Yang Houlan, articulated that China and India had realized rapid development, which brought a good opportunity for Nepal. The leaders of Nepal have said many times that they hoped to be the dynamic bridge between China and India as well as between China and South Asia. China agreed with this point. In his opinion, the China-India, China-Nepal and Nepal-India relations were all undergoing through an active development, which lay the foundation for good interaction for the three countries. He further argues, strengthening the interaction and exchanges among our three countries and realizing the win-win benefit is our common interests, and is also conducive to the stable development in the region (Haulan, 2012).

The rapid development of Tibetan Autonomous Region (TAR) will create better opportunities for strengthening bilateral interaction and promoting mutually-beneficial cooperation. Meanwhile, in a unique geographic position, Nepal could act as a bridge between China, including TAR, and South Asian region. Then all parties could realize the goal of common development.

Dr Hu Shisheng, Deputy Director of the Institute of South, South Asian and Oceanic Studies in the China Institutes of Contemporary International Relations (CICIR), while talking to the Hongkong based representative of a national daily published from Kathmandu (December 12, 2011), shared the similar idea regarding this context. Dr Hu said;

“Nepal shares border with China’s Tibet. Apart from that, geo-economical element also plays a vital role. Nepal could play the role of a ‘golden bridge’ between the two emerging economic giants (India and China). In the future if South Asia is linked to China through Nepal, the entire population inhabiting the region will be immensely benefitted. In this scenario, Chinese and Indian population will be highly obliged to Nepal”.

It is almost certain that Asia will re-emerge as the dominant global economy in the next few decades, spearheaded by India and China. So there is a need to explore logistical connectivity between the Asian giants through air, sea, rail and road. Logistical infrastructure between China and India is central to the development of intra-Asian trade networks. The India-China-Nepal corridor has to be seen as an integral part of this larger strategic picture

Financial express further reports that the Nepal corridor will also promote Indian exports to Nepal, as well as discourage unofficial trade flows from China through Nepal as re-exports with a mark-up. The corridor will also be more accessible to the economic centers of Ahmadabad and Mumbai than the Tibet-Sikkim transit corridor. The Nepal corridor is a step towards fulfilling India's ambition to play a central role in Asian trade, investment, energy, security and geopolitics. The corridor, along with the ones linking Central Asia, south-west China and Southeast Asia will be pivotal in fulfilling this goal (Ibid).

As an attempt of fostering fresh discourse on trilateral cooperation between China, India and Nepal, a joint meeting of politicians, scholars and businessman from the three nations recently held in Kathmandu concluded that trans-country power trade, travel and tourism could be a few of the several areas where the three countries could work together within the trilateral framework of cooperation. The meeting also agreed that specific and concrete projects should be initiated at the earliest to give immediate impetus to the concept of China-Nepal-India trilateral cooperation.

Whether Nepal becomes a dynamic bridge between the emerging world economies and reaps the benefits totally depends on how sensitively Nepal's political actors handle the relations and how considerately the neighbors reciprocate Nepal's gestures while maintaining its own security concerns (Tiwari, 2008). However, indicating former prime minister's assertion of transforming Nepal as a vibrant bridge between China and India, former Chief of Protocol, Mr. Gopal Thapa argues that,

“Prime minister failed to offer any plausible or convincing logic behind the irrelevance of the time-tested Yam theory that has remained a cornerstone of Nepal's foreign policy for more than two centuries. His proposal had no explanation of whether Nepal has enough national resilience to act as a bridge durable enough to withstand the weight that these two gigantic neighbors may bring to bear on her, if she were to offer herself as a bridge between them” (Thapa: 2013).

He further opines that contemporary international and national realities have necessitated the redefinition of Nepali foreign policy. Such changes have to occur without demolishing the core principles of our foreign policy, especially those that have withstood the test of time. Any fine-tuning exercise on foreign policy must be undertaken with the elements of “continuity and change” in mind, and the primacy of the element of continuity must be preserved at all cost (Ibid). He firmly believes that shared culture, geography, tradition,

and values alone do not help promote meaningful and win-win bilateral cooperation, or lead to a healthy and productive relationship. Regardless of who proposed Nepal's transit aspiration, at the moment, some crucial questions arise: can Nepal practically reshape its traditional role as a trading hub between Tibet and India that it had once enjoyed? Do our giant neighbors need such connectivity? Most importantly, Will Nepal really benefit as a transit for India and China trade?

Chapter - Four

Becoming the bridge

Getting trade and transit facilities by landlocked countries have some inevitable compulsions of dependency upon neighboring countries. The transit providing countries generally impose very cumbersome transit procedures, time consuming customs formalities, charges, safety measures etc. which may be seen as unnecessary for transit receiving countries (Nepal: 2006, p. 19). However, at present, trade liberalization in the modern world has created opportunities for trade integration and search for efficient and effective supply chain and wide connectivity. Landlocked countries can now change their status by being land linking countries providing their land for transit use to their neighbors (Ibid). Long time back Nepal used to be known as a bridge nation facilitating foreign trade between India and China through its territory. At present, Nepal relies on India for its foreign trade and transit. For a long time, mutual relations of China and India remained strained. In the aftermath of cold war, the shifting balance of power in the international relations and the unprecedented economic growth on their domestic sphere has brought them together on the forefront of mutual cooperation. The growing trade between these two giant economies in the absence of permanent and feasible trade corridor on their side seems to have necessitated them to opt Nepal as their transit partner. That's the reason our transitional trade routes, through which Indo-Chinese trade used to be conducted in the past, are to be reevaluated by both our neighboring countries.

Road transportation started in Nepal in the early 1950. A major highway connecting Kathmandu with India via Birjung/Raxual border was built in early 1950s with the assistance of India. Another major highway, connecting Kathmandu with Lhasa in Tibet via Tatopani/Zhangmu border, was built in the 1960s with the assistance of China (Bhattarai: 2005, p.21). Recent foreign policy discourse on bringing Nepal as a bridge between India and China from the level metaphor requires opening from both sides. Our borders with India are open and geographically comfortable while border region with China are a major handicap because of terrain and accessibility issues. There are 27 routes for mutual trade, six immigration points between Nepal and India, that are connected by road. India has extensive highway and railway system. Several bordering towns-Birgunj, Janakpur, Nepalgunj- are connected to Indian towns by Indian railways.

On the other hand, Nepal and TAR (Tibet Autonomous Region) have 1414 kilometers long common international border and is shared by Tibet's 7 counties namely: Tingkey, Tingri, Naylam, Kyirong, Saga, Drongpa and Purang. It also shares Nepal's 14 districts namely: Taplejung, Sankhuwasabha, Solukhumbu, Dolkha, Sindhupalchowk, Rasuwa, Manang, Mustang, Dolpa, Mugu, Humla, Bajhang and Darchula (Ibid). The borders consist of several passes along the mountainous range but the only functional route for carrying trade is linked with Khasa by road transport, which is 130 kilometers from Kathmandu.

The transportation facilities in the northern part of Nepal compared to the south are not satisfactory, while the southern part of Nepal, which borders India, has a relatively developed road network. Currently, China has been constructing railway from Lhasa to Shigatshe. This railway line is expected to be completed by 2014. Regarding the Lhasa-Sighatse railway connection, Hridayesh Triphthi, a former Nepalese Minister for Physical Planning and Transportation Management, says that the initial plan was to connect Tibetan capital Lhasa to Khasa of Sindhupalchowk District via Sighatse. But due to the difficulty of terrain and the rugged mountains, the Chinese have diverted the rail track towards Kerung of Rasuwa District (Kantipur: 2011). The total distance from Shigatshe to Lhasa is about 350 kilometers whereas from Shigatshe to Kerung is just 275 kilometers. In the year 1962 Kodari highway established transport connectivity to Nepal's northern border by road. The road has followed the river trail, is not too wide and subject to the problem of land slide each year during rainy seasons. Besides, the road cannot sustain the traffic of huge vehicles. So, it needs to be improved for the sake of possible transit outlets. In 2005, the Department of Roads prepared a plan to develop connectivity with Indian and Chinese road- railway network. Department of Roads has altogether identified eight potential north-south road corridors:

Possible Routes of North-South Roads through Nepal

Transit Road Corridors	Total length (Km)
Mohana-Dhangadi-Atari-Baitadi-Darchula-Tinker	415
Nepalgunj-Surkhet-Jumla-Hilsa-Yari-Purang	581
Bhairahawa-Pokhara-Jomsom-Lizhi	467
Raxual- Trishuli- Rasuwa	265
Birgunj-Naubise-Kathmandu-Tatopani-Nyalam	393 (already exists)
Janakpur-Dolakha-Lamabagar-China border	295
Rani-Itahari-Hile-Kimathanka-China border	419
Kechana-Taplejung-Olangchungola	460

(Source: Department of Road, Nepal, 2005)

At present only the 393 km Birgunj-Kathmandu-kodari serves as a highway link between India and China but this route is not enlarged and well maintained. Another highway route via Rasuwagadi-Kerung is under construction and hasn't been used for trading purpose yet. Similarly, Galchi-Rasuwa (18 km.) part of Birjung-Saprubeshi corridor has been completed with the financial assistance of Asian Development Bank (ADB). Rasuwa-Safrubresi-corridor part of Birgunj-Safrubesi corridor has also recently been completed with the financial assistance of Chinese government. It has been suggested the Raxual-Trishuli- Rasuwa (265km) will be the shortest highway connecting Nepal's southern border with northern. The shortest potential transit routes, other than (Raxual- Trishuli- Rasuwa), are Janakpur-Dolakha-Lamabagar, Mohana-Dhangadi-Atari-Tinker and Rani-Hile-Kimathanka. These roads were also proposed by Division of Roads in 2005. Connectivity between India and China would be more efficient after the completion of construction of these roads.

4.1 Trans Himalayan security and economic cooperation (THiSAEC)

The relationship between India and China has long been one of the most understudied great power complexes in international affairs.⁶ An increasingly common argument posits that India and China, as rising Asian and global powers, are natural competitors whose proximity and zero-sum interests are creating tensions that will make it extremely difficult to avoid sustained strategic rivalry.⁷ While few analysts fully subscribe to the "Chindia" thesis, there is some substance to the prediction that Sino-Indian relations in the 21st century will be underscored by cooperation and mutual benefit.⁸ Both countries share a range of interests and challenges which may, overtime, serve as a foundation for greater cooperation, compromise and policy alignment. In the domestic arena, New Delhi and Beijing will continue to face massive population, rising resource needs and the associated challenges of poverty alleviation, development, public sector reform, environmental sustainability and internal stability.⁹ As sustained economic growth is a prerequisite for

⁶ *It should be noted that, there is a paucity of English-language scholarship presenting Chinese perspectives on Sino-Indian relations.*

⁷ *For prominent accounts of the Sino-Indian rivalry thesis, see Emmott, B (2008). Rivals: How the Power Struggle Between China, India and Japan Will Shape Our Next Decade. London: Penguin; Kaplan, R (2010). Monsoon: The Indian Ocean and the Battle for Supremacy in the 21st Century. New York: Random House; Holslag, J (2010). China and India: Prospects for Peace, pp. 67-76. New York: Columbia University Press; Bajpae, C (2010).*

⁸ *The term "Chindia" was coined by Goldman Sachs executive, Jim O'Neil, in a 2001 report entitled "The World Needs Better Economic BRICs". For a selection of works on the Chindia thesis, see Baru, S (2009). India: Rising through the slowdown.*

⁹ *On the shared challenges faced by India and China and their mutual imperative to cooperate, see Siddharth Varadarajan, Time to reset the India-China relationship (December 15, 2010). The Hindu.*

addressing each of these concerns, India and China have a common interest in preventing their impeding wider geopolitical concerns.

Over the past decade, mutual economic need has transformed India and China into substantial trading partners for the first time in modern history.¹⁰ In 2008, China overtook the United States to become India's largest trading partner and, during President Hu Jintao's 2010 visit to New Delhi, the two countries set a bilateral trade target of U.S. \$100 billion by 2015.¹¹ Given their domestic imperatives for rapid economic growth, a key objective of Indian and Chinese strategic policy is the maintenance of a stable international environment — that is, a world system conducive to trade and internal development.¹² Yet as both states are situated in turbulent neighborhoods replete with fragile states, protracted insurgencies, contested sovereignty claims and unresolved boundary disputes — the stability of recent years may be difficult to sustain. It remains to be seen whether India and China can transform the shared challenges of terrorism, separatism, piracy, organized crime, pandemics, resource insecurity and environmental degradation into a foundation for sustained bilateral cooperation.¹³ Lowy Institute's¹⁴ Rory Medcalf and Ashley Townshend argue that while enduring strategic competition in the form of competitive coexistence characterizing their relationship, China and India are unlikely to become fully fledged strategic rivals.

On the other hand, realist school of thought in international relations hypothesizes that states are primarily driven by security concerns and compete for power in order to survive in anarchic world. Both India and China are declared as nuclear powers and their conventional and nuclear capabilities are growing along with their economic muscle. Mutual hostility between the two countries could escalate any time in the future, threatening their continued cooperation and potentially undermining the political foundations upon which continuing trade and investment ties between the two states

¹⁰ Anil Gupta and Haiyan Wang, *Why China and India need each other* (May 27, 2010). Bloomberg.com

¹¹ *India and China set \$100 bn trade target by 2015* (December 16, 2010). BBC News.

¹² *On India and China's need for a stable international environment*, see D. S. Rajan, *India–China connectivity: No need to over hype*, Paper No. 3889 (South Asia Analysis Group, 2010).

¹³ *In this book chapter, Authors Medcalf and Ashley Townshend examine the factors that are likely to influence the strategic dynamic of the China-India bilateral relationship in the Asian Century. Although engagement through trade, defense dialogue and high-level visits has deepened, strategic relations remain strained. While it is likely that strategic competition will come to overshadow cooperation between the two Asian giants, it is yet unclear whether this competitive dynamic is likely to devolve into rivalry.*

¹⁴ *The Lowy Institute is an independent, nonpartisan international policy think tank located in Sydney, Australia. It is ranked as Australia's top think tank Institute.*

ultimately depend (Karki: 2013). While mentioning the issues of Sino-Indian rivalry and their global and regional influences, Nepali stakeholders should not forget that these two giants' vital interest in neighboring countries is largely attached with their security concern. These two Asian superpowers have been seemingly raising their concerns in Nepal's peace process and constitution writing as they have clearly understood that Nepal's political stability will be vital to serve their desired goals regionally.

Nepal has always been historically, culturally, economically and politically close to India. India believes Nepal acts as a 'strategic Himalayan frontier' against possible Chinese threat. India perceives China as building strategic footsteps in Nepal by developing a rail link from Lhasa to Kathmandu, and placing its strategic nuclear warheads in Tibet. India perceives this as a part of China's 'string of pearls'¹⁵ strategy (Karki: 2013). Threat perceptions to India do not directly arise from Nepal per se. They arise from the possibility that through Nepal's northern borders any power (emphasis on China) upon entering Nepal, can easily access the Indian mainland since Indo-Nepal borders are not separated by any natural barrier and in this sense are open.¹⁶

Strategically, Nepal is important for China as it borders Tibet.¹⁷ Unlike with India, Nepal's bilateral relation with China is one-dimensional. China is concerned about the role of US, European Union, and India in their perception of instigating the 'free Tibet movement' in Nepal and its impact on its 'territorial integrity. China sees Nepal is in a strategic position to contain it, and part of the strategy of 'arc of democracy'¹⁸ being played out in Nepal.

¹⁵ A 'pearl' is a sphere of influence seeded, secured, and maintained through the use of economic, geopolitical, diplomatic, or military means. The 'string of pearls' is about the dragon's sea power and its emerging maritime strategy. India perceives 'string of pearls' as an encirclement strategy against it. See: ?My Republica, (February, 2013) http://www.myrepublica.com/portal/index.php?action=news_details&news_id=47446

¹⁶ These threat perceptions were not something which had arisen upon India achieving independence. They were in a sense a continuity of the perceptions held by British India. The British, in fact, in the face of the forward policy of the Chinese claiming Nepal (along with other cases of British special interest) had concluded the Treaty of 1923 with Nepal. See: <http://www.idsa-india.org/an-dec9-8.html>

¹⁷ The Chinese government terms the Autonomous Tibetan region - part of Sichuan province

¹⁸ During Prime Minister Manmohan Singh's visit to Japan, India and Japan signed the Joint. The declaration — recognizing their common commitment to democracy, open society, human rights and the rule of law — with specified elements and mechanisms of military cooperation, is only the second security agreement signed by Japan. Japan had signed a similar declaration earlier with Australia, besides its post-World War historical security ties with the US. Coming immediately after the Indo-US Nuclear deal, the Chinese are likely to view this as an Asian "arc of democracy" — Japan, Australia and India — trying to strategically contain China at the behest of the US.

Beijing's attempt to influence political power in Kathmandu may be viewed as a diplomatic move to establish a buffer zone and thereby checking perceived Western and Indian infiltration to destabilize the region and China itself.¹⁹ Hence, China's interest in Nepal rose significantly in the recent times, and China is determined to pursue the policy of containing 'Free Tibet' protests in Nepal at any cost (Karki: 2013). China seems to perceive that Nepal's current discourse of ethnic federalism and the right of self-determination will impact so-called Tibetan nationalism. Thus, Chinese and Indian strategies reflect their respective desires to expand their relative influence over Nepal. Both powers display a lack of satisfaction with the current status quo in Nepal and have pursued strategies that are aimed at maximizing their share of regional power" (Dabhade and Pant: 2004, p. 167).

So what should be Nepal's role in this scenario? As described above, in international relations, major powers are primarily driven by their security concerns. First and foremost, India and China's legitimate security concern in relation to Nepal should be resolved. China's concern about free Tibet movement and India's geo-strategic concern vis-à-vis China should be addressed. Other vital issues for India's security such as Islamic terrorist and criminal organizations operating within Nepal, counterfeit Indian currency, possible threats from vulnerable international airport in Kathmandu, among others should be taken into consideration. We should do well to think before venturing into a trilateral agreement or cooperation initiative with our two mammoth and competing neighbors. Gopal Thapa, Former Chief of protocol of Nepal, suggests that,

"We must concurrently consider ways for augmenting our existing national capacity, political maturity, and institutional competence. We then have to identify what our supreme national interests are. The next logical step would be to forge national consensus on these. Then the same have to be enshrined in our future constitution. Such steps are absolutely essential to eradicate the inconsistencies and ambivalence that have bedeviled our foreign policy. It would only be prudent and practical for us to forge bilateral or trilateral cooperation with our neighbors based on such evaluations" (Thapa: 2013).

Before formally initiating trilateral economic cooperation among three countries, common trilateral security architecture should be established on

¹⁹ *Historically speaking this is sometimes referred to as the "China card". India has attempted twice to establish economic blockades of Nepal as a punitive measure. In 1962 and again in 1989 but China stepped in and not only provided goods and products across the border from Tibet but also claimed to side with the people of Nepal (Duquesne 2011).*

common consensus. An agreed trilateral security apparatus would eventually lead to sustained trilateral economic cooperation. Europe's post WWII history shows that economic cooperation among neighboring countries eventually fosters political stability, thereby enhancing collective security mechanism. The common security and economic cooperation among the member countries in Europe have bonded them in a secure platform easing their previous mistrust. It is anticipated that the increasing economic cooperation between China and India will eventually prohibit them from waging war or any aggression on their frontiers. This will help Nepal achieve security, peace and economic development on her domain as well. Additionally, the mutual cooperation between China and India could enhance a conducive environment to foster proposed trilateral partnership between Nepal-India and China.

We have been left far behind in sense of forming credible cooperation with our concerned neighbors whereas other landlocked counties in the international scene have already been forging many bilateral and trilateral agreements with their giant neighbors. In this process, Mongolia could be an inspiring example. Being a landlocked country, Mongolia is moving towards economic independence by striking cooperative agreements with both neighbors-Russia and China, and other countries like US as well (Bohara: 2010, p.4). Dr. Alok K. Bohara²⁰, Professor at the University of New Mexico, articulates that;

Nepali policymakers need to have a strategic vision, followed by a set of doable policies. For such a vision, they need to make sure the regional politics are tied to their economic development strategies, and that the small country like Nepal can promote interests that are mutually beneficial for all parties involved. To that end, Nepal needs to persuade its two neighbors to sign a tri-lateral agreement – the Trans-Himalayan Economic Cooperation Agreement (Ibid).

What should Nepal do to initiate the proposed THISAEC? Concerned Nepali strategic community should do the following:

- I. Produce a detailed proposal for the formation of trilateral security concern, and initiate brainstorming concentrating on the core idea of this initiative through track II level.
- II. Once track II diplomacy becomes matured, the leaders of major political parties should be invited to build a common consensus on this new foreign policy agenda.

²⁰ Dr. Alok Bohara is a professor of Economics at the University of New Mexico in the United States. He has, published extensively in US and European academic journals in many areas. As a founding director of Nepal Study Center at UNM, he is collaborating with the Nepali and the non-Nepali scholars to promote South Asia Policy Studies and the global connectivity of the Diaspora knowledge society.

- III. The high level visit and subsequent interactions should be initiated with influential Chinese and Indian leaders until the idea wins their confidence.
- IV. As soon as the proposal of trilateral partnership secures the high level political confidence, attempts should be made to incorporate this new foreign policy agenda in our proposed constitution. As we are shifting from traditional buffer state mindset to becoming more vibrant bridge in the changing scenario, this attempt could be instrumental in fine-tuning our old strategies to address our newly emerged necessities.
- V. Once the security concerns of both our neighbors are addressed on consensus, the proposed THiSAEC is likely to gain momentum. For this, Nepal can revisit the same diplomatic initiatives fully concentrating on the trilateral economic affairs.

Thus, these questions of security and economic concerns have to be worked out carefully by having meetings with the two neighbors. The trilateral security and economic cooperation (THiSAEC) among three countries needs vigorous team work. Politicians should come up with new commitment by breaking down their conventional perceptions of geo-political paranoia and economic stagnation. Nepali politicians must eliminate their tradition of using one neighbor against the other. The long run success of this proposal will require strong political endorsement from all the political parties in Nepal.

4.2 How can Nepal bridge India and China?

Nepal on the north has a 1400 km border with China and on the East, West and the South shares 1700km border with India. India and China share a 4,500- kilometer long border, most of it between northern India and Tibet, along the Himalayas. Recent growth in trade and the movement of people between China and India and Nepal provides sufficient evidence to support the development of a fixed rail link through the mountains.

Over the past decade the volume of bilateral trade between China and India has increased fifteen fold, and by China and Nepal by seven fold. But the transport has become a bottleneck for growing Sino-Indian bilateral trade as there is no all seasoned trade route to connect their geography. The Nathu La pass, which had been closed after the 1962 Sino-Indian war and was re-opened in 2006 following the numerous trade agreements, is the only trade route that is currently operational between India and China. But the Nathu La pass is not operational in all season as it stands at the height of above

4400 meter, snowbound, risky, costly, and far from India's major industrial cities. Since no infrastructure has been erected in Nathu La not its approach, the likelihood of extensive trade in an assortment of commodities, involving a variety of stakeholders, doesn't appear possible in the existing situation (Sinha, 2005).

A long and narrow stretch of Nepal, with multiple transit points, provides an excellent transit buffer to link China's Tibetan territory and its east-west highway network with the densely populated Indian plains of Bihar and Uttar Pradesh (Bohara: 2010). As mentioned above, Currently Nepal has only one highway smoothly connecting Kathmandu with a Tibetan border of Khasa. Several other multi-lane feeder highways linking Kathmandu with Tarai (southern plains), and another land route Rasuwa via Kerong are under construction. Given the fact that the travelling distance between the northern and southern borders is not more than 300 km, Nepal can comfortably link two giant neighbor through her land territory. According to China's Xinhua news agency, the Lhasa-Shigatse extension of the Qinghai-Tibet Railway project will be completed a year ahead of schedule, in 2014, which is encouraging. Since China is making heavy investment on its western frontier, commonly known as China's silk roads, and also into the resource-laden central Asian countries, Nepal's connectivity could be of great strategic importance for India to counterbalance towards such move. In fact, India views Nepal corridor as a step towards fulfilling India's ambition to play a central role in Asian trade, investment, energy, security and geopolitics (Mitra and Roy, 2005).

Since Sino-Indian trade is largely conducted by sea and air transport, and Nathu La Pass through Sikkim has proved unfeasible, the Nepal corridor will be of great economic significance to both India and China as it will link the regional markets of Tibet and Sichuan to India and the entire North Indian prefecture to China (Chaulagain:2013). Sichuan, particularly, is a huge market for Indian goods and services. Given Chengdu's emergence as a technology hub, there is potential for joint ventures in the development of hardware and software (Mitra and Roy: 2005).

Some trade routes connecting India and China are in Arunachal Pradesh and Ladakh where the historical boundary disputes between two Asian giants haven't been resolved. Another route from Asam (Ledo) through Burma to China was constructed during WWII but has now totally disappeared. Given the unsettled disputed border issues between China and India in the north-east and the north-west frontiers, Nepal provides an excellent transit buffer for overland trading between the two countries (Bohara: 2010). That's why China has been concentrating on the development of its western part in Tibet

and Xinxiang. As a part of its development strategy, India is also focusing on north and north western states which are relatively backward. These are the provinces that will be receiving more resources in the future. Tibet's GDP is increasing at a rate of over 10 per cent. Similarly in India, the state of Bihar which was considered a problem state has now a growth rate of around 10 per cent. This means there is tremendous opportunity of trade between these new growth centers of India and China via the land route of Nepal (Lohani: 2011, p. 22).

Put practically, Lhasa, the capital of Tibet is now connected to mainland China by rail. China's railway extension from Lhasa to Sighatse, the closest Tibetan city to Nepal, is scheduled to be completed by 2014. The distance from Sighatse to Tatopani border is around 500 km and from Tatopani to Kathmandu is only 115 km. From Kathmandu to Birgunj, the border town adjoining India, it is another 200 km. At present, trade between western China and India means over 5000 km of rail/road plus sea transport. The new connectivity via Nepal can create wonders for all the countries involved (Ibid).

4.3 Prospects and challenges of transit state

With Bihar and Uttar Pradesh in the south making strides and China investing like never before for improving Tibet's infrastructure, revival of the bridge theory in Nepal is timely (Dhakal, 2012). The vision of Nepal serving as a land bridge for the expansion and diversification of bilateral trade between China and India is of considerable importance from the long term prospects of developing transport and trade link among the countries of north, south and central Asia (Dahal: 2006, p. 14). The opportunity to become a transit point would not only connect both neighbors but would also provide the access to Central Asia and Russia that are rich in natural resources such as petroleum and natural gas (Nepal:2006, p. 22). Oil and gas supply pipelines could be well extended from the resourceful Central Asian countries to the South Asian region (Dahal: 2006, p.14). If Nepal's transit aspirations are fruitful, it will open up a new landscape of regional cooperation, foster the possibility of direct foreign investment, create job opportunities, strengthen tax and revenue bases and provide a huge market for Nepali products.

Nepal's north side is less developed than the south. This requires a people centered and decentralized development strategy and a strong focus on improving this north-south connectivity. It needs remote areas to link the economic growth hubs emerging in the mid hills and Terai to these areas. This will improve development inputs and well being of people with greater efficiency (Nepal: 2006, p.21-22). In addition to Nepal's development strategy

to reduce poverty, these corridors will also help national integration and may yield millions of rupees by attracting numerous Chinese and Indian tourists to Nepali geography. However, Dr. Nischal Nath Pandey, former Executive Director of the Institute of Foreign Affairs (IFA), argues that prior to this, both Asian giants need to mutually confer, cooperate and collaborate with each other in their respective Nepal policies instead of competing within Nepal (Pandey: 2006).

Infrastructural development is a pre-requisite to develop Nepal into a transit state. Nepal's northern parts still lacks operational roads and railway connection. It still suffers from poor international communion system, cargo handlings, vulnerable infrastructure and mismanaged traffic mechanism at home. To reap benefit being a transit state between India and China, Nepal should think about constructing its own immediate domestic infrastructure. Constructing highways, renovating border cites, developing communication, transportation and storage facilities and administration of internal freight movement should be its top priorities. Additionally, developing institutional capabilities, protecting the economy from cutthroat competition, controlling cross-border smuggling, advancing technology, enhancing diplomatic ties and formulating compatible trade and industrial policies is essential in the new transit regime. To be sure, Nepal has to follow the East Asian model of development, with a strong government promoting and regulating economic growth (Dahal: 2006). Dev Raj Dahal, Head of Friedrich-Ebert-Stiftung (FES) Nepal, rightly opines that Nepal has to achieve first a modicum of political stability and sense of confidence in leadership, before attempting to resolve security dilemma of both the neighbors in the context of geo-strategic shift in Asia.²¹



²¹ Based on in-person interview conducted on January 16, 2013.

Chapter - Five

Trade and Tourism

Nepal, predominantly an agricultural economy is based on subsistence farming. Surrounded by only landmasses, the geographical positioning of Nepal has acted as a serious constraint in its effective and independent external economic behavior. Trade deficit with India and China has been increasing every year. High dependence on India for its economic survival due to its land-locked position has curtailed its power to independently exercise its foreign policy. Trade diversification option with third countries besides India and China totally depends on transit transportation through India, making it difficult and expensive.

However, the positive thing is that, the two giant economies have been in the rapid surge of economic growth with an average of 7 percent since last few decades. Many political economists have forecasted that the 21st Century will be an Asian Century given their rapid technological advancement, industrialization and work force among others. Because of geo-proximity, such developments can have a direct impact on many adjoining countries. Those impacts could be in any form of trade and tourism, Foreign Direct Investments, and other spillover effects. So far, Nepal is being used as a buffer zone keeping apart the two great civilizations and economies. However, it could act as a bridge bringing them together for collective interests. Most importantly, the revival of trans-Himalayan trade between China and India through Nepal, and the exploration of new routes with modern transportation system would greatly benefit Nepal with unrestricted trade between two countries.

5.1 Nepal as an ancient trade route

Historically, Nepal was long a renowned trade route linking Tibet and China with South Asia and India with China and Central Asia. It is believed that by the sixth or fifth century BCE, Indian traders were regularly making their way to the Kathmandu Valley, which lies across one of the main pathways linking India with Tibet and the ancient east-west trade routes. According to Bal Chandra Sharma, a reputed historian of Nepal, Nepal's commercial relations with India and Tibet can be traced back as early as 5th century B.C. During 2nd Century B.C. North-eastern India and South-western China used to trade on Chinese Silk cloth and Chinese bamboo flute via Nepal. Afghanistan and Central Asia were also connected to such trade (Sen, 1971).

During the Malla reign, trade between India, Nepal and Tibet was flourishing not only making both countries' economies vibrant, but also developing people to people relations. There were at least eighteen passes in the central Himalayan region used for commercial purpose. Kuti, Kerrong, Wollangchung, Khumbu, Tukuhe and Karnali were the major trade routes between Nepal and Tibet (Jha: 2006). During Seventeenth and Eighteenth centuries, trade relation between India and Tibet via Nepal was free and unrestricted. Tibetan merchants used to bring woolen clothes, ponies, shawl goats, yaks, sheep, musk, salt, borax gold, silver and paper to Kathmandu. Indian merchants carried cotton cloth, cutlery, glassware, coral, pearls, spices, camphor, betel and hardware. These were sent to Tibet through the passes of Nepal. A trade route leading from Benares and Mirzapur of India passed through Mustang of Nepal transporting valuable sorts of Bengal goods to Tibet. Until the unification of Nepal, Nepal was a vibrant trade route linking India to Tibet and Central Asia (Sen, 1971). Until Anglo-Sikkimese Treaty of 1861, Nepal route was the only option to connect India to Tibet and Central Asia. During late nineteenth century, the commissioner of Kuch Bihar Colonel Haughton enumerated the following routes through which the 'markets of Central Asia could be approached from India: (1) via Ladakh (2) via Nepal (3) via Darjeeling (4) via Buxa and Western Dooars (5) via Assam and Towang (6) via Bhamo and Burma. The diversification proposition of trade routes between India and Tibet up to Central Asia was underpinned by two reasons: The first was the difficult geographical terrain and the lack of overland road. At that time, another alternative proposition to develop trade route along the course of rivers was proposed, but this could not be materialized. The second reason was the climate of tension between Nepal and Tibet. The East Indian government, later on were not serious about operating trade via Nepal to Tibet and Central Asia. In 1889, F. Prestage, the Chairman of the Darjeeling Himalayan Railway Company proposed extending the Darjeeling Himalayan Railways upto Arun Valley through Dhankuta. That would reduce the cost of transportation between India and Tibet by one third compared to Lhasa and Sikkim route (another proposed route linking India and Tibet via Sikkim) (Sen, 1971). However that proposition could not materialize. The revival of Nepal route to link Tibet and India, despite many enthusiastic attempts, could not materialize even during 20th Century. Instead the newly independent India used its marine route to get connected with China.

5.2 Nepal-China: trade and tourism

The idea of developing Nepal as a transit state appears to be gaining significance once again as the leaders and diplomats of China, Nepal and

India have been reiterating the need of trilateral cooperation in recent days. The possibility of bridging China and South Asia, has been stressed upon by Chinese Ambassador Yang Houlan in his recent (2012) remarks. He said, "From an economic viewpoint, Nepal links China (with 1.3 billion people) with South Asia (with 1.5 billion). The huge common market provides great opportunities for both China and South Asia. China is pushing its 'Develop West' strategy, and South Asia represents one of the main overseas investment opportunities (Houlan, 2012). Nepal could provide China the much-needed overland channel to South Asia. Developing trade routes from India to China through Nepal would significantly reduce the distance, hence lowering the cost and time spent on shipment and transportation for both China and India. Above all, Nepal's position as a land-locked country would transform into land-linked country developing its entire economic well-being (ibid).

The spectacular landscape and diverse, exotic cultures of Nepal represent considerable potential for tourism. Cultural exchanges with both neighbors have also been growing in recent days. There is a huge potential for tourism in Nepal from both India and China as Nepal possesses Mt. Everest, the birthplace of Buddha, Pashupatinath temple, diverse culture and pristine Himalayan weather. Tanka Karki, former ambassador to China stresses on developing those attractions as a soft power tool to attract tourists for a longer time which not only supports economic well-being of a country, but could also act as a major tool of strengthening ties by developing people to people relations²².

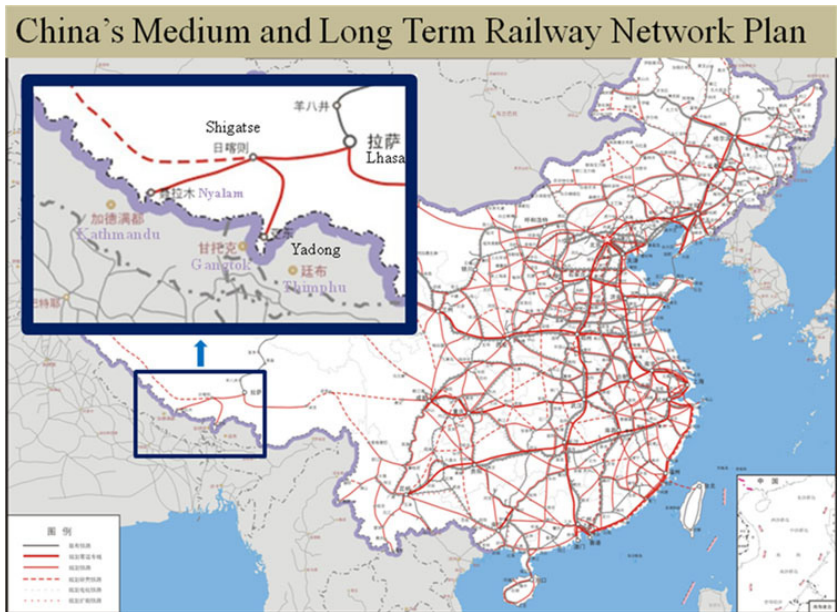
At present, Nepal and China have two designated routes for trade and transit. One route is at Tatopani, which lies on the Kodari-Kathmandu highway, and the other at Nara Nangla in Humla, with a mule track from Simikot (Houlan, ibid.). However, the recent completion of the 16 Kilometer Syaphrubeshi-Rasuwa road further opens the possibility of trade increment after China completes constructing a dry port at Kerung. The then Chinese Ambassador to Nepal Qiu Guohong in 2009 said; "The Syabrubeshi-Rasuwegadi road is now under construction under a Chinese grant. After the completion of this road, the Chinese side will push for the establishment of Kerung Pass, which will mark the inception of the second trade corridor between China and Nepal (Guohong, 2009)."

The construction of Syaphrubeshi-Rasuwegadhi road has just been completed allowing Chinese side to focus on the development and establishment of Kerung Pass. The opening of Kerung pass would pave the way for the shortest transit

²² Based on in-person interview conducted on 11 February, 2013.

route between India and China. The corridor will go through Raxaul-Trishuli-Rasuwa (265 Kilometers) (Dahal, 2006), the shortest possible way shortening 125 Kilometers than the current Raxaul-Kathmandu-Khasa (390 Kilometers). Railway connection would be the best option making transportation cheaper and effective. China has been carrying out track laying work from Lhasa to Shigatse. According to recent news, the construction work will be completed by the end of this year before the planned deadline of 2014.

Figure No. 1: China's Medium and Long term railway plan



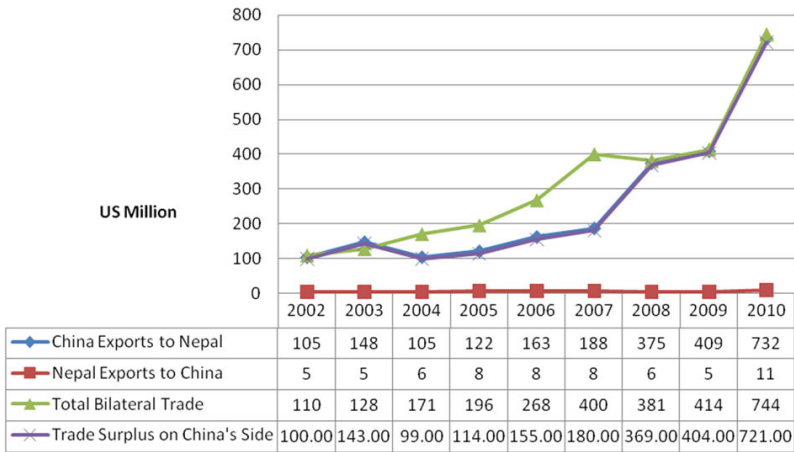
[Source: Zeng Yang Long, Tunnel Talk, 2012]

Beijing has also planned to extend the railway network along Tibet-Nepal border of Kerung near Rasuwagadhi, which could ultimately lead to its extension up to Kathmandu (Agrawal, 2012). If planned properly, this railway line will have positive effects as far as augmenting our ailing economy is concerned (Pandey, 2006). The US \$ 1.98 billion construction is designed to transport 8.3 million tons of freight annually. The Shigatse prefecture borders India, Bhutan and Nepal and is 270 km to Nepal from Lhasa. This extension has certainly brought the Nepal border closer to the railway line (ibid). South and South Asia Director of China Contemporary International Relations, Hu Shisheng says, "The railway will be constructed upto Kathmandu after widening

the highway, and that will link other neighboring countries as well” (Basnet, 2012). After the Railway and Highway connection from China to South Asia is materialized, the geographical landscape will not be a problem. In a unique geographic position, Nepal could act as a bridge between China, including TAR, and South Asian region. Then all parties could realize the goal of common development (Houlan, 2012). Economically, Nepal’s location between the two emerging economies of China and India is an important trading route between China and South Asia. The economic and trade cooperation has witnessed progress in the past few years and there is potential for further progress (ibid).

Though India is Nepal’s dominant trade partner, foreign trade with India has been in decline in comparison with other countries since 1960s. On the other hand, trade with China has been continuously increasing since the formal bilateral relations between two countries in 1955. Now, China comprises of 20 % of Nepal’s total trade which is steadily increasing.

Figure No. 2: Nepal-China Bilateral Trade:



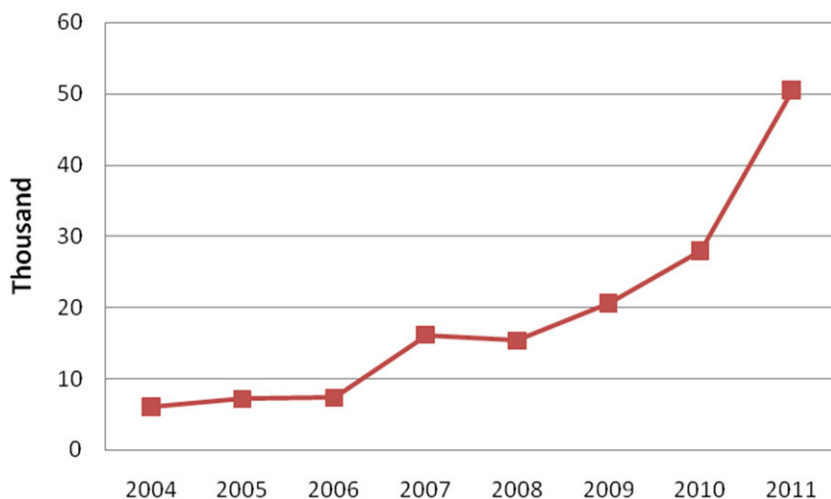
[Source: Zeng Yang Long, Tunnel Talk, 2012]

However, trade deficit with China is widening day by day. According to statistics compiled by the Trade and Export Promotion Centre, Nepal exported goods worth Rs 1.21 billion to China and imported goods worth Rs 30.59 billion from China in the first five months of the current fiscal year (2069/2070) (Republica, January 19 2013). Even though China so far, has provided zero tariff facility

to 7,787 Nepali goods and is a major destination for Nepali products such as ginger, lentils and medicinal herbs among others, the deficit has been widening. Nepal should realize that a fully industrialized country like China, with whom the United States is also in trade deficit, and an agriculture based economy like Nepal cannot balance trade. Nepal should seek alternative sources of balancing the deficit. The bridge concept can shrink this gap by spillover advantages of transit trade and also by boosting its tourism sector through the attraction of large numbers of visitors.

Nepal has witnessed a rapid surge in the number of Chinese tourists visiting Nepal. The figure below shows the gradual increment of Chinese tourist visiting Nepal.

Figure No. 3: Chinese tourists visiting Nepal



[Source: Zeng Yang Long, Tunnel Talk, 2012]

China has now placed itself as the second largest origin of tourists visiting Nepal after India. Nearly 50 thousand tourists visited Nepal from China by the year 2011 compared to 30 thousand by the year 2010. Lumbini, the birthplace of Buddha holds special place in the heart of millions of Buddhist people in China. Former Chinese Ambassador to Nepal Yang Houlan says, 'Cultural exchange through tourism is one of the effective means of promoting

relationship between two countries' (Republica, 07 April 2012). He further says:

“Cultural exchanges have also been growing between the two countries. From January to September in 2012, the number of first-stop-to-Nepal Chinese travelers reached 78,400, a 24.4 percent increment from 2011. Likewise, the number of Nepali people who went to China went up to 26,900, an increase of 17.4 percent. This indicates a big increase in exchange of culture.”

It is believed that a railway link connecting China and South Asia would, without doubt, attract more people due to its lower cost and more convenience. It is vital to include Kathmandu as a transfer station, thus improving its infrastructure, connecting it with the outside world, and stimulating local economic growth while at the same time protecting the vulnerable ecology and environment of the mountains (Long, 2012).

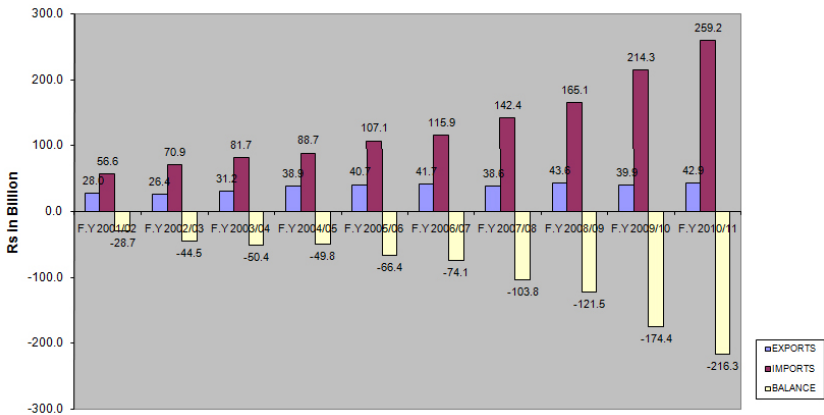
5.3 Nepal-India: trade and tourism

India, so far, is Nepal's largest trade partner and the only transit providing country. Leaving aside the ancient bilateral trade and Nepal's role as an entrepôt between India and Tibet, India accounted for 95% of Nepal's trade during the Rana regime. The 1923 Treaty of Friendship institutionalized and regulated the bilateral relations including trade and commerce. Nepal's export was limited to some agricultural products while Nepal imported industrial and manufactured goods from India during that time. The first trade treaty signed with independent India was the Treaty of Trade and Commerce in 1950, providing transit access to Nepal. During 1950s, nearly 90% of its trade was conducted with India (Countries of the World. 1991). Since 1996, Nepal's exports to India have grown more than eleven times and bilateral trade more than ten times (Embassy of India, Kathmandu, Nepal. 2012). Bilateral trade that was 29.8% of total external trade of Nepal in the fiscal year 1995-96 has increased to 66.4% in 2010-11. Since 1995-96, the total external trade of Nepal has increased from NRs. 9433 crores (IRs.5895 crores) to NRs. 45946.1 crores (ibid.). Indian firms are the biggest investors in Nepal, accounting for 47.5% of total FDI proposals approved foreign direct investment of IRs 42.53 billion (approx. US \$ 448 million) and 23.7% of total 2108 FDI proposals approved ventures with foreign investment (ibid.). In recent years, Hydropower sector has emerged as an attractive sector for Indian investments. The government of Nepal has issued 28 survey licenses to Indian companies for hydropower projects in Nepal having generation

capacity of 8249 MW to Indian companies. Nepal's transit trade is routed through twenty two designated routes from India-Nepal border to the port of Kolkatta/Haldia. In addition, Nepal's trade with and through Bangladesh also transits through India. The construction of cross-border trade related infrastructures are underway with Indian support. It includes upgradation of four major custom checkpoints at Birgunj-Raxaul, Biratnagar-Jogbani, Bhairahawa-Sunauli and Nepalgunj-Rupediya to international standards; upgrading approach highways to the border on the Indian side; upgrading and expanding the road network in the Terai region of Nepal; and broad gauging and extending rail links to Nepal (ibid). The East-West electric railway is in its initial survey phase with most of the support coming in from the Indian government. Times of India quotes Managing Director of Rail India Technical and Economic Services (RITES) V K Agrawal as saying, "Railways had earlier chalked out a comprehensive plan to provide rail links between Nepal and Bhutan". The RITES had also submitted a feasibility report in the matter. But the project could not kick off for one reason or the other" (Agrawal, 2012). However another proposition from Railway India aims to build six rail links with Nepal and three with Bhutan on a priority basis. Bipin Chandra Agrawal further writes in Times of India that "the Indo-Nepal routes which are under survey now include six lines from Raxaul, Jogbani and Jayanagar in Bihar to Birgunj, Biratnagar and Bardibas in Nepal. Besides, the railways has proposed to link Nepal from Nautanwa and Nepalgunj Road (Bahraich) in Uttar Pradesh as well as from New Jalpaiguri in West Bengal to Kakarbhitta in Nepal" (ibid). Nepal India Transit Treaty was signed in 1971, which is automatically renewed in every five years. With the signing of this treaty, Nepal Transit and Warehousing Company has been established by the government of Nepal to provide transit facilities for Nepalese imports and exports to and from abroad (Dahal, 2006). Nepal has only one dry port at Birgunj which lacks necessary infrastructures. Goods are generally transported from Kolkata port to Raxaul to Birgunj. Due to poor road connectivity from Kolkata to Birgunj and several other bottlenecks inside make the goods expensive (Pandey, 2006).

Nepal has the largest trade deficit with India, and this figure has been increasing each year. Until January 2013, trade deficit with India had surged by 33.7 per cent while trade deficit with other countries increased by 24.6 per cent (The Himalayan Times, 12 January, 2013).

Figure No. 4: Bilateral trade between Nepal and India



[Source: Trade and Export Promotion Center, Government of Nepal, Ministry of Commerce and Supply, 2012]

The above figure shows the history of bilateral trade between India and Nepal where the balance of trade has been in favor of the Indian side from the very beginning. Of late, it is widely felt that Nepal must concentrate heavily on import substitution and in setting up and furtherance of export-oriented industries.

Besides trade, India is also the origin of largest numbers of tourists coming to Nepal. In 2012, visitors arrival from India by air to Nepal had recorded a 13.3 per cent increase over the previous year. During 2012, Nepal received 1,64,680 tourists from India by air and the country hopes to register a 17 per cent increase in tourist arrivals from India to the country during 2013 (The Himalayan Times, 2013). A large number of Hindu devotees also visit Nepal, especially during Maha Shivarathri. Religious tourism from India has been an ancient phenomenon which is now diversified with holiday makers too. The development of transportation and infrastructure along with the increment of trade obviously attracts more tourists contributing to lessen the trade deficit.

5.4 India-China trade and the importance of Nepal transit

Though both countries are in the list of developing countries, China and India have surpassed most of the developed countries placing themselves as the second and fourth largest economies respectively (World Bank, 2011). Their recent economic success has resulted in seeking an expanded space in

regional as well as international decision-making, together with strengthening their political and strategic position. Even though both countries have their political contradiction, their bilateral trade has been increasing year by year. Over the past decade the volume of bilateral trade between China and India has increased fifteen fold. In the year 2011-2012, bilateral trade between two countries stood at \$ 75.45 billion with a trade deficit of \$29 billion on India's part (Economic Times, 2012). The target of \$100 billion for 2015 gives a picture of their ever increasing trade relations, unaffected by political dissimilarities. India's exports in 2012, comprising largely of ores, cotton, chemicals and raw materials, reached \$18.8 billion while imports from China, driven by a growing demand for power and telecom equipment and machinery reached \$47.7 billion. Bilateral trade was \$66.47 billion in 2012 (The Hindu, 2013).

Both countries are developing various individual bilateral economic linkages with the smaller south Asian neighbors including Nepal. So, Dr. Alok Bohara, Professor at the University of New Mexico opines "a proposal from a transit corridor country like Nepal for a trilateral economic cooperation with India and China should be welcomed as a natural economic reality made possible by the unprecedented growth trajectories of the two rising economic giants" (Bohara, 2010). Land Transportation for the bilateral trade is rare between India and China. Currently, most cargo is transported through sea lane, with land transport through the Nathu La Pass accounting for a small fraction of the volume. Border trade through that Pass has been "uninspiring" since the historic trade route re-opened in the year 2006, after 44 years of closure due to border conflict (Economic Times, 2011). This opens up a further possibility of bridging the two countries through Nepal since there is no other viable option of land transit. In a recent interview, Former Indian ambassador to Nepal, Shyam Sharan supported the idea as he said, "Nepal can be a very important transit country between India and China. Our trade treaty talks about the possibility of using Nepal as a transit country between India and China" (Sharan, 2013).

Recently in 2012, an academic research team from China and Nepal conducted an expedition in Nepal to investigate possible rail alignments between Kathmandu and Zhangmu, a town on the Chinese border. The team suggested that building tri-party cooperation among China, Nepal and India is necessary for regional cooperation and the promotion of trade and tourism (Long, 2012). Most of the visitors prefer air travel to visit Nepal because of the lack of proper ground connection. The railway link would without doubt attract more people for lower cost and more convenience. "What is more," according to Bai Yun of Tonji University in Shanghai, "for the purpose of helping the Nepalese, it is vital to include Kathmandu as a transfer station, thus improving

its infrastructure, connecting it with the outside world, and stimulating local economic growth while at the same time protecting the vulnerable ecology and environment of the mountains. All these factors support a railway link proposal." (ibid)

The idea of developing ecology friendly Himalayan highway and railway connection is what the Professor Nikhilesh Dholakia at University of Rodhe Island compares with connection between United States and Canada. He remarks, "Imagine this scenario. United States and its largest trading partner Canada decide that they will not permit any border crossings for trade or tourism. All trade will happen only between the East coast ports in Canada's Maritime Provinces and U.S. ports such as Galveston, Texas and Long Beach, California – using a long and circuitous shipping route. Sounds like a ridiculous way of doing business, doesn't it? But this is about the way China and India carry on their burgeoning trade." (Dholakia, 2009).

His statement clearly remarks on the cumbersome trade routes China and India have been using so far. China has ocean access only on its eastern side, and the crossover from the Pacific Ocean ports of China to India's ports on the Indian Ocean is a long haul, through the very southern Straits of Malacca. This long and circuitous route is what the Chinese and Indian vessels have to use to reach each other's markets (ibid). The only significant border crossing Nathu La is basically a route for mule trains, like the ancient Silk Road. The Nathu La connection between China and India is not like the smooth alpine highways of Europe, in which trucks roll from Germany all the way to the Mediterranean. He further suggests,

"Environmentally safe highways, railways and tunnel systems could be created at selected border passes, with large swaths protected as nature preserves on either side of the border, and including nations of Nepal and Bhutan. The situation could be analogous to the American Rocky Mountains. Trade and travel routes, highways and railways, cross from East to West but the best wilderness stretches in the U.S. and Canadian Rockies are preserved as pristine nature parks. China and India could also select, carefully planned, low impact trade and travel routed through the pristine Himalayan ranges".

Former Foreign minister Ramesh Nath Pandey opines that Nepal as a transit state has an important socio-cultural dimensions beside economic benefits. Greater flow of goods and materials will inevitably entail greater flow of people and ideas. Tourism in this sense is an interconnected phenomenon with greater flow of trade and economic activities. Environment friendly highways, railways and tunnels would further enhance the flow of visitors from India

and China. So, the concept of linking the two giants will turn into a civilization bridge, bringing ever closer the two ancient civilizations. He further says, 'Nepal's independent political history will give us an important opportunity to play a role in promoting cross-cultural interaction in our region'. This gives us an important responsibility of taking initiatives to materialize the idea of becoming a bridge (Pandey, 2005).

Chapter - Six

Conclusion and Recommendations

The wave of globalization has led many European, Latin American and East Asian countries towards collective economic development through economic integration despite political differences. The definition of nation-state and sovereignty have changed significantly after the Cold War as great powers are less interested on expanding their physical occupation over weaker states. The recent development in Indo-China trade volume indicates the same. Both countries are competing to achieve economic growth despite serious political discrepancies, and border disputes. Their continuous economic success after the Cold War is guided by their economic goals over political interests. Being a landlocked country is no more a curse. National security from a military perspective has been preceded by economic security.

Nepal's conventional wisdom of being a yam between two boulders is a metaphor to explain its historical compulsion to balance relations between the two big neighbours, China in the north and India in other three sides. Yam's reality is reflected in its contemporary bilateral trade statistics too. In 2010 India accounted for almost 60% of Nepal's foreign trade, followed by China (20%) and the EU (5%). Nepal, is still facing the predicaments of being sandwiched between the two Asian giants; economically, politically and demographically. It has equally carried out the potentiality to bridge its largest bordering neighbors. Nepal's special geographic advantage can turn itself a vibrant bridge bringing closer the two neighboring countries that have been relying on time consuming marine transportation for their trade and commerce. No alternative trade route has been identified beside the Nathu La Pass which has proved to be inconvenient due to its high altitude and Sino-Indian border dispute. The idea of turning Nepal into a vibrant bridge has recently gained wider approval. This would turn Nepal from a land-locked to land-linked status. However, lots of efforts and needed from inside to materialize this possibility. The two strong countries are going very well leaving Nepal only one option to follow those countries by taking advantage of their economic growth. India and China are not only the biggest economies in Asia, but are also two greatest civilizations. The population of South Asia including China comprises of nearly a half of the world's total population. Nepal,

being a border between these civilizations holds an enormous potentiality of being a bridge connecting the two giants. As former Prime Minister Dr. Baburam Bhattarai said, "South Asia and China could work together for trade, tourism, transportation and infrastructure development, transfer of technology in human resources management, agricultural development, and social development in sectors like health and education and environment conservation. Besides air links among China, Nepal and India, electric railway network through Nepal to link the two fastest growing economies is very important in the days ahead.²³". The remit of the call was a bit ambitious. Yet its vision was so timely that the bridge debate is now the top foreign policy agenda for Nepal. Beyond merely becoming a diplomatic foreign policy ideal, the agenda brings with it a geo-economic proposal to break Nepal out from its traditional geo-political brackets.

By virtue of its geographic knot with these two superpowers, Nepal has also been viewed from the security perspectives of India and China. Over the past decade, Nepal seems to have been grappling for means to transforming its traditional buffer state mentality towards the definition of a new economic corridor- a vibrant bridge- between its two immediate neighbours.

Bridging India and China has some logical underpinnings of geo-political realities underpinned by mutual economic interests. In his visit to New Delhi in 2010, Chinese Prime Minister Wen Jiabao and his counterpart agreed to set \$100 billion target of their bilateral trade. This agreement, though, faces challenges in terms of transportation costs and time.

Trade relations between India and China are ever increasing but the mode of transportation includes the lengthy and cumbersome marine transportation for the most part from the east coasts of China to the Indian port. It then takes further time to transport these goods to the northern states of India. The shortest possible roadway from the Northern Indian state of Bihar to the proposed Kerung dry port at Nepal-China border of TAR is only 265 kilometers which saves a lot of time and transportation costs for both countries. Developing electric railway would further trim that distance and cost significantly making it the only best option for trade.

Chinese, Nepalese and Lately the Indian government officials and policy makers seem to agree with the idea of the above mentioned trade route. The

²³ *Inaugural address by Prime Minister Dr. Baburam Bhattarai in the 2nd Convention of China and South Asia Forum of Organizations, 14-17 September 2011, Kathmandu.*

shift of mindset from a buffer state dates back to King Birendra's articulation of Nepal as a gateway to South Asia and Central Asia. After a long time, he resurfaced the idea of being a transit state in his address to the Boao Forum in China. During his visit, China agreed to construct Syphrubeshi-Rasuwegadhi road which has just witnessed its completion. Later on, addressing Jakarta's Afro-Asian Summit in 2005, King Gyanendra expressed Nepal's willingness to be a transit state for the overall economic development of the region. During the same year, he also put forth the concept of building an electric railway linking Birgunj-Kathmandu-Tatopani to materialize the idea of being a transit state. Former Prime minister Dr. Baburam Bhattarai in his inaugural speech at the second Convention of China and South Asia Forum in Kathmandu proposed the idea of turning Nepal into a vibrant bridge for the overall development and cooperation of the region. Since 1960s China wanted to open its border to South Asia through Nepal. The construction of Kodari High-way was the major step towards its connectivity to South Asia. The idea of developing Nepal as a transit state reflected in former Chinese Ambassador Qiu Guohong's remarks on developing Kerung Pass as a second trade corridor between Nepal and China ultimately linking South Asia. During his Nepal visit in 2012, Chinese premier Wen Jiabao was said to be positive over Nepalese official's proposal to develop Railroad from Shigatse to Kathmandu to Lumbini. Former Chinese Ambassador to Nepal, HE Yang Houlan officially stated that Nepal's unique geographic position could act as a bridge between China and South Asia materializing the goal of common development. Indian side has also lately been positive towards Nepal's interest to be a vibrant bridge. Former Indian Ambassador Shyam Sharan's recent remark on Nepal's possibility to be a transit state between India and China reflects Indian interest to develop its economic relations with China through Nepal route.

Some practical initiations can also be witnessed regarding Nepal's bridge aspirations. The recent completion of Syabrubeshi-Rasuwegadhi road brings closer the opening of the shortest route, linking northern part of India to the TAR. The recent development of Rail road from Lhasa to Shigatse within TAR opens up further possibility of linking Nepal and China by high speed electric rails further connecting India. Chinese officials are positive on Nepal's request to link Tatopani all the way to Lumbini through Kathmandu. China's plan of linking its remote province of Xianxiang to Lhasa by High speed train within 2020 opens up further possibility of linking Central Asia with South Asia through Nepal. India has also agreed to Nepal's request of constructing east-west railway line parallel to the east west highway, which is now in its preliminary phase of survey and Environmental Impact Assessment (EIA). Besides this, the Indian government has been surveying other Railway lines

from Raxaul, Jogbani and Jayanagar in Bihar to Birgunj, Biratnagar and Bardibas in Nepal. Besides, the railway will purportedly link Nepal from Nautanwa and Nepalgunj Road (Bahraich) in Uttar Pradesh as well as from New Jalpaiguri in West Bengal to Kakarbhitta in Nepal.

In addition to the promotion of trade and commerce, Nepal benefits greatly as a transit country linking India and China. The spillover advantages from the commercial activities between the two countries will range from sprouting economic activities around the highways and railroads to various means of taxations for the government. Tourism is a major sector that directly benefits from the development of modern transportation system. The expensive air-service is the only alternative for visitors from China and India so far. Road transportation, so far takes a long time coupled with poor infrastructure and transportation system. Given that just India and China combined account for about 37 percent of the total world population, a transportation line dissecting the Himalaya in Nepal would provide a ground link that would stitch together a huge number of people and present numerous opportunities for commercial activities across the border, especially in agriculture and tourism.

6.1 Policy Recommendations

Turning to be a bridge from buffer is not only an economic issue; it carries significant concerns of national interest and demands reframing of foreign policy priorities as well. At a time where economic interests have been taking precedence over political one, Nepal's dream of becoming a transit state cannot be significantly affected by the Sino-Indian political differences since it also has huge economic benefits for them. It opens China's South Asia door, expanding trade and commerce significantly by reducing shipping costs that benefits both China and India. Revival of Nepal's historical *entrepôt* role could be a significant step to transform Nepal from land-locked country to a vibrant bridge offering transit facilities to both the economic giants. To achieve this goal, Nepal should be politically prepared, build consensus among all the stakeholders, and take initiation to achieve trilateral consensus. The following points categorically suggest some important steps to materialize the idea of being a transit country linking its immediate neighbors.

1. Political Stability and Well Defined National Interests:

First of all, Nepal has to achieve a modicum of political stability and a sense of confidence in leadership, only then can it resolve security dilemmas of both neighbors assuring them Nepal cannot be a source of instability at their domestic affairs. Nepal should

ensure its internal security mechanism sufficiently enough to support its transit aspirations. Different political parties and interest groups operate on behalf of their own interests. Forging a common consensus is yet another challenge Nepal would have to deal with. Well defined national interests always guide effective foreign policy. Nepal still lacks clearly defined national interests and foreign policy priorities. So, framing the priorities of its external relations and developing strategies to achieve those would result in its effective presence in the international community, ultimately supporting its initiation of developing trilateral partnership.

2. Define Clearly the Strategies of Turning Nepal from Buffer to Bridge

The buffer state mentality and dependence on India for trade and transit route results into the vicious cycle of structural dependence. Developing Nepal as a bridge between China and South Asia needs some practical strategies. Those strategies range from protecting national sovereignty, infrastructure development to the overall economic stability. Those issues need to be addressed before bridging the biggest economies, populations and civilizations.

3. Prepare Trade, Transit and Industrial Policies

Though Nepal is a landlocked country relying upon transit facilities of neighboring countries specially India, It does not have clear transit policy addressing its possibility of being a transit country itself. A transit treaty with India has placed Nepal only as a transit receiving country. As Nepal is aspiring to offer transit facility to China and India, a new transit policy should be framed out addressing the issues of tariff, and preferential treatment for Nepal as LLDC. The transit policy should be guided by the objective of transporting goods through least cost corridor, constructing highways and railways, and developing warehouses and other infrastructure. Similarly, trade and investment policies aimed at attracting investors from India and China should be formulated. Luring FDI should be the major priority towards achieving economic growth. Ensuring investor's security and providing sufficient transportation facilities with easy market access should be ensured through appropriate trade and investment policies.

4. Coordinate Trans-Himalayan Security and Economic Cooperation (THISAEC)

For regional security and economic development through trade and tourism, consensus among the three countries involved namely; India, Nepal and China is a prerequisite. Providing assurance to India and China is not easy as they have contrasting political schoolings and border disputes. However, India and China have achieved significant progress on bilateral trade through the marine route. Developing Nepal as trade corridor is not their dire need. So, Nepal should take initiation to attract the two countries as this option greatly benefits its economic development. High level of political consensus should be sought particularly on this issue. Rather than leaning towards either side, Nepal should coordinate to bring the giant neighbors together to forge tri-lateral cooperation in a mutually constructive manner.

To initiate proposed THiSAEC, Nepal's strategic community must do the following:

- I. They should produce a detailed proposal for the formation of trilateral security concern and initiate brainstorming concentrating on the idea through track II level.
- II. Once track II diplomacy matures, the leaders of major political parties should be invited to build consensus on this new foreign policy agenda.
- III. High level visits and subsequent interactions should be initiated with influential Chinese and Indian leaders until the idea wins their confidence.
- IV. As soon as the proposal of trilateral partnership secures high level political confidence, attempts should be made to incorporate this new foreign policy agenda in our proposed constitution. As we are shifting from traditional buffer state mindset to becoming a vibrant bridge in the changing scenario, this attempt could be instrumental in fine-tuning our old strategies to address our newly emerged necessities.
- V. Once the security concerns of both our neighbors are addressed on consensus, the proposed THSiAECA is likely to gain momentum. For this, Nepal can revisit the same diplomatic initiatives fully concentrating on the trilateral economic affairs.

5. Develop Infrastructure Necessary to Develop Nepal as a Bridge

Since developing Nepal as a bridge is in our interest, Nepal should first identify possible routes that connect India and China in an efficient and economic way. However, everything will not be constructed with the support from these countries. Developing taxation system, custom clearance facilities, dry ports and warehouses should be among the top priorities. We cannot be a bridge while facing twelve hour power cuts every day. Connecting East to West and North to South by electric railroads needs incessant power supply. Categorically, Nepal should adopt following reforms to achieve its transit aspiration:

- I. Mutual understanding with India and China on developing road and rail networks to link the two neighbors through Nepal. Nepal should take initiation on bringing Chinese rail from Shi-gatshe. Developing alternative highways should be on the priority list.
- II. Border customs of both China–Nepal and India–Nepal should upgrade infrastructures such as customs yards, sheds, warehouses etc.
- III. Sufficient Hydro-power development should be a pre-transit accomplishment. Without enough electricity, Nepal’s transit dream is impossible. Electric railway is a far-fetched dream in the current condition of insufficient power generation.
- IV. Infrastructures should be developed keeping in mind the possibilities of railways and highways connection with Asian networks linking China to South East Asia and India to Central Asia.

6. Identify and Develop Nepal’s Soft Power to Attract More Tourists

Every country has some geographical, cultural, civilizational, developmental, and historical attractions that have the power to attract people from different corners of the world. Identifying, developing and publicizing those attractions is vital to promote tourism. Publicity of Nepal’s Himalayas including Mount Everest, birth place of Lord Buddha, rich ecological diversity and flora and fauna could attract hundreds of thousand tourist greatly contributing to national economy.



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