

Nepal's Conundrum in the Indo-Pacific amidst the Emergence of the Great Power Rivalry

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Since the Indo-Pacific Strategy (IPS) was announced, the United States has upscaled closer cooperation with the countries in the region. Small states in the Indo-Pacific region are facing a growing dilemma, balancing their ties with the US and inevitable economic engagement with China. Since Nepal's Foreign Affairs Minister's US visit in 2018, the US has consistently been urging Nepal to play a central role in the free, open, and prosperous Indo-Pacific region. However, the role that Nepal grants itself in this region is very small. The US has offered Nepal the status of a potential partner in the IPS, which brings a distinctly new and complex diplomatic conundrum for Nepal. In this context, the paper assesses whether the US has been genuinely willing to encompass Nepal's role in the Indo-Pacific region, or whether it is looking for an opportunity to contain China via Nepal, elucidating Nepal's strategic importance in the American initiative. The question that arises here is how Nepal is to deal with, survive, and maintain its strategic autonomy in the face of the growing great-power rivalry, even if it enhances both the mode and the momentum of its interaction. The study concludes that Nepal's national interests are best served by remaining vigilant. The author considers alternative smart strategies of alignment and also identifies a number of areas where additional research could prove crucial.

Keywords: Indo-Pacific Strategy, geopolitics, non-alignment policy, Belt and Road Initiative, the USA, China, India, Nepal.

Introduction

Global politics has been recently undergoing a massive change, both subtle and rapid. The key concern at the moment is the profound transformation in the structure of the international order, led by the fierce competition between the US and China. Recent developments in the geo-political sphere have induced powerful nations to develop a whole set of military and strategic structures and models of cooperation. The US has concluded that the decades-long stability and prosperity of the Indo-Pacific region has been seriously undermined by the political and economic influence that China now wields in the countries in the region.¹ The 'Indo-Pacific' term is not

merely a chance coinage, but an evolving geographic concept that defines and explains the growing importance of the large contiguous zone inclusive of both the Indian Ocean and the Pacific.² Against the backdrop of China's growing prosperity and resurgent influence around the region, the US appears keen to redefine the geopolitical constructs, reformulating the Indo-Pacific Strategy (IPS) in order to re-strengthen its partnerships and allies in the region. After the Cold War, the West maintained its military alliances, ever seeking to strengthen and advance a new partnership in multiple ways. Then, the Trump administration was focused on reducing China's influence in Asia.

After the official visit paid after nearly two decades by Nepal's Foreign Affairs Minister Pradip Gyawali to Washington D.C. in 2018, the US has been consistently urging 'Nepal's central role in a free, open, and prosperous Indo-Pacific'.³ After his return from Washington, the minister denied that Nepal was included and supported the Indo-Pacific Strategy, and said his visit had been aimed to widen and deepen the seven-decade-long partnership, and transcend to the next level. Despite Nepal's reluctance regarding the IPS, on June 1, 2019, in the IPS report, Nepal and Sri Lanka were given the status of potential partners in the Strategy, and the US offered to hold a joint military exercise with Nepal for disaster management and humanitarian assistance. The report further stated that the United States sought to expand its defence relationship with Nepal and focus on HA/DR, peacekeeping operations, defence professionalisation, ground force capacity, and counter-terrorism.⁴

Since Nepal holds to a non-alignment policy, the IPS raises a distinctly new complex diplomatic challenge. The present case study of Nepal reflects the conundrum of small and medium states in the Indo-Pacific region. It examines whether the US is genuinely willing to extend Nepal's role in the Indo-Pacific region, or if it is merely looking for an opportunity to contain China via Nepal, highlighting Nepal's strategic importance in the American initiative. The Tibet issue remains a crucial concern for the US in its approach towards Nepal as a part of the IPS.⁵ This paper elaborates the salient features of the US–China relationship that encouraged the US to counter China by using the Tibet issue as a potential political tool in the Indo-Pacific Strategy.

¹ Department of State, *Report on 'A Free and Open Indo-Pacific: Advancing a Shared Vision'*, United States of America, 2019.

² Gurpreet S. Khurana, "Security of Sea Lines: Prospects for India–Japan Cooperation," *Strategic Analysis* 31, no. 1 (2007): 139–153.

³ Secretary Pompeo's Meeting with Foreign Minister Pradeep Gyawali of Nepal, Press Release, Office of the Spokesperson, United States Department of State, Dec 18, 2018.

⁴ Department of Defense, *Report on 'Indo-Pacific Strategy: Preparedness, Partnership, and Promoting A Networked Region'*, United States of America, 2019.

⁵ Adjoining the Tibet Autonomous Region of the PR China, Nepal also provides shelter for Tibetan refugees' whole population, which is the second largest here.

Methodology and theoretical premises

The methodology of this qualitative study is based on the relationship between a small or small-medium state and big powers. This paper aims to explore the interaction between one small-medium state, namely Nepal, and big powers, especially the US. It primarily analyses the perspective of a small-medium state vis-à-vis larger powers. In International Relations theory, the relationship between a small-medium state and a big power is normally one of dependency, accommodation, appeasement, engagement, compliance, consensus, alliance, bandwagoning, or asymmetry. The concept of power asymmetry is particularly helpful in comprehending the challenges that small and small-medium countries face. The conundrum of countries such as Nepal amidst the geopolitical rivalry of great powers consists in the intricate interaction patterns that the US–China dynamics in the Indo-Pacific region implies and entails vis-à-vis a third player, i.e. the small-medium states.

This paper assesses and analyses the big-and-small-powers relationship on the basis of the theoretical and conceptual correlations relating to the behavioural patterns of small states in the international system. Outlining the foreign policy behaviour and characteristics of the small powers, Jeanne A. K. Hey contends that the external environment is more constraining for small states.⁶ A similar point is raised by Paul Luif in his chapter devoted to Austria; smaller states are usually more sensitive to the ongoing developments in the international system, since they are more vulnerable than great powers.⁷

The significant distinction among small and great powers is felt particularly in the case of neighbourhood location and contiguity. It is, therefore, customary for a small state to be cautious with its foreign policy when it borders larger states.⁸ In such cases, only a strategic policy can maintain a secure environment at the borders for a small state. Small powers try to use their foreign policy to maintain physical and political security in order to survive.⁹ It is, therefore, the small country which needs to act extremely cautiously in its relationship with a big and powerful neighbour. With a deep understanding of international politics, small states consciously try to adopt an appropriate combination of the principles and practices of international politics – namely non-alignment, neutrality, neutralisation, and balancing of powers – in order to enhance and maintain their security.

⁶ Jeanne A. K. Hey, "Introducing Small State Foreign Policy," in *Small States in World Politics: Explaining Foreign Policy Behavior*, ed. Jeanne A. K. Hey (London: Lynne Rienner Publishers, 2003), 6.

⁷ Paul Luif, "Austria: The burdens of history," in *Small States in World Politics: Explaining Foreign Policy Behavior*, ed. Jeanne A. K. Hey (London: Lynne Rienner Publishers, 2003), 95–113.

⁸ M. Nedelea, "Economics' diplomacy and Romania's foreign interests promotion," *The USV (University Suceava) Annals of Economics and Public Administration* 9, no. 1 (2009): 335–340.

⁹ Robert S. Ross, "International Bargaining and Domestic Politics: U.S.–China Relations Since 1972," *World Politics* 38, no. 2 (1986): 255–287.

Characteristics of small states in the Indo-Pacific region

The Indo-Pacific Strategy vows to promote rules-based security and economic order in Asia by encouraging closer cooperation among regional US partners. However, the IPS has conveniently overlooked many littorals, such as the ASEAN countries, South Korea, and smaller, economically less powerful countries in the Indian Ocean. The IPS is centred around four pillars: the US, India, Japan, and Australia. While explaining the Indo-Pacific Strategy at the ‘Shangri-la Dialogue’, Singapore, on June 2018, the US Defense Secretary Jim Mattis portrayed the IPS mainly through the security lens and said that the Indo-Pacific was critical for America’s continued stability, security, and prosperity.

In the meantime, the US and its allies are anxious about China’s raising role in the terrestrial and maritime security spaces around. The examples of such engagements include Djibouti, Maldives, and Myanmar making China the resident military power in the Indian Ocean Region (IOR). The emergence of the Indo-Pacific concept is seen as a response to this evolving situation.

China treats the Indo-Pacific Strategy with cynicism and suspicion. However, it made a rare statement on the concept; there are very few explicitly open assessments made by high Chinese officials on the IPS. Still, the Chinese government and China’s academia and policymakers have maintained a deep interest in understanding the strategy in terms of its conception and substance.¹⁰ China’s Foreign Minister Wang Yi commented on the US–Japan–India–Australia quadrilateral security dialogue (QUAD) with his sharp remark on the IPS as a weak strategy bound to “disappear as it appeared”. Wang also alluded to the fact that such a collaboration is not directed against China to be devoid of confrontational policy outcomes. In a similar vein, Shicun and Colombage state that the US’ Indo-Pacific Strategy will have an adverse impact on China’s economic, military, and strategic interests, especially the ‘Belt and Road Initiative’.¹¹

Small states throughout the Indo-Pacific region confront a growing dilemma over balancing their traditional security ties with the US and rapidly growing economic engagements with China. Regular US partners, such as Singapore, have expressed their concerns about smaller countries being caught up in the intensifying great-power regional rivalry.¹² Most of the United States’ partners and allies are deeply enmeshed with the Chinese, and forcing them to disentangle from Beijing would be a very challenging strategic stance to take.¹³ However, small states in the Indo-Pacific

¹⁰ Bo Ma, “China’s Fragmented Approach toward the Indo-Pacific Strategy: One Concept, Many Lenses,” *The China Review* 20, no. 3 (2020): 177–203.

¹¹ Shicun Wu and Jayanath Colombage, “Zhongguo ruhe pojie meiguo de yintai zhanlue?” [“Indo-Pacific Strategy and China’s Response”], *The China Review*, 12 (2019).

¹² Hsien Loong Lee, “Singaporean PM Lee Hsien Loong delivered keynote speech at Shangri-La Dialogue,” International Institute for Strategic Studies (IISS), May 31, 2019.

¹³ Ishaan Tharoor, “The U.S. Can’t treat China the ‘same way’ it treated the Soviet Union, warns Asian leader,” *The Washington Post*, 27 September, 2019, <https://www.washingtonpost.com/world/2019/09/27/us-cant-treat-china-same-way-it-treated-soviet-union-warns-asian-leader/>.

region simply cannot rule out the proposal of the Indo-Pacific region or the Belt and Road Initiative (BRI), which gives Washington and Beijing potential leverage over small states to use within their competition with one another. It is, therefore, natural that both the US and China will vie for power and influence in the region, while small states have less room for manoeuvre. It is thus essential for smaller states to exploit their transactional value in the marketplace of international relations.¹⁴

South Asia in the Indo-Pacific region

India is an integral part of the Indo-Pacific construct. Within South Asia, the US is working to operationalise a major defence partnership with India while at the same time pursuing emerging partnerships with Sri Lanka, Maldives, Bangladesh, and Nepal.¹⁵ Over the last decade, India has steadily shifted towards being a 'net security provider' in the region, strengthening its naval capabilities, supporting maritime capacity-building efforts in Southeast Asia and stepping up engagement in multilateral security dialogues, such as the 'Quad.' Since Prime Minister Narendra Modi's ascent to power in 2014, there has been a significant shift in India's external outlook, its global ambitions, and its adherence to the nonalignment principle.¹⁶ The distinctive feature of India's external relations in the present is its pronounced tilt towards the United States. The India-US relationship has evolved as a 'strategic convergence' based upon the conception that the world's two largest democracies are 'natural allies'. The United States had taken major steps towards enlisting India in countering the rapid rise of China as a strategic competitor and eventually forming an alliance.¹⁷ This became evident in 2008 with the civil nuclear cooperation deal with the US and, during Modi's first term in office when India signed two 'foundational accords' proposed by Washington – the 'Logistics Exchange Memorandum of Agreement (LEMOA)' and the 'Communications Compatibility and Security Agreement (COMCASA)'. In 2015, the two governments also concluded a 'Framework for the US-India Defense Relationship', essentially renewing the previous framework agreed upon a decade earlier.¹⁸ Recently, after signing the BECA pact with the US and joining the 'Quad' naval exercises in the Indian Ocean, New Delhi is now firmly in the IPS. Jaishankar, the incumbent external minister, played a central role in formulating these crucial agreements, as he negotiated the nuclear deal and thereafter facilitated and relentlessly

¹⁴ Hsien Loong Lee, "Singaporean PM Lee Hsien Loong delivered keynote speech at Shangri-La Dialogue."

¹⁵ Department of Defense, *Report on 'Indo-Pacific Strategy: Preparedness, Partnership, and Promoting A Networked Region'*, United State of America, 2019, 21.

¹⁶ Takenori Horimoto, "Explaining India's Foreign Policy: From Dream to Realization of Major Power," *International Relations of the Asia-Pacific* 17, no. 3 (2017): 463-496. <https://doi.org/10.1093/irap/lcx011>.

¹⁷ Robert D. Kaplan, "How we fought China," *Atlantic Monthly*, 2005.

¹⁸ Department of Defense, "Framework for the U.S.-India Defense Relationship," 2015, <http://archive.defense.gov/pubs/2015-Defense-Framework.pdf>.

pushed the foundational accords through the Ministry of External Affairs (MEA) and the Prime Minister's Office (PMO) of India. India, working with the US, is piling geopolitical pressure on small countries in the region.

To some extent, South Asia is becoming a sub-region where the US and India as defence partners are rubbing up against China unpredictably. India showed readiness to cooperate with several 'like-minded' countries in order to offer alternative sources of infrastructure development and connectivity initiatives to counter China's expansionism in South Asia, which has opened a window of opportunity for the US to cooperate with India in the region.¹⁹ While the US and India forged a closer strategic relationship, this has evoked a sense of encirclement in Beijing. Being once a bilateral relationship that had largely been focused on economic cooperation, the US–India relationship today covers an entire gamut of issues, with the United States becoming an increasingly influential player in the US–China–India regional dynamic.

Despite the seemingly overlapping Indo-Pacific visions, the US and India each appear to have different priorities. Contrary to Washington's preferences, India disapproves of the term 'strategy', which is solely aimed at strategic security. Instead, New Delhi has sought to make the Indo-Pacific region more inclusive by involving not just the ASEAN countries, but also China, which is to diminish the risk of an excessive American footprint in the region.²⁰ Moreover, New Delhi remains firm in its traditional position of strategic autonomy and non-alignment, and in working with Russia, China, and other powers. India continues to cultivate Russia partly out of the need for 'balance in the Indo-Pacific'.²¹ Despite its closer defence relationship with the US, India wants to cooperate with China when it plays by regional rules and norms. While talking about China's rise as one of the "disruptions" for the world, incumbent External Affairs Minister S. Jaishankar stated that such a disruption was positive in many ways. He argued that China had, in a way, opened up the international order, which allowed India to make its presence felt.²²

For India, it is somewhat of a tightrope walk. India's leadership in South Asia is overwhelmingly challenged by the rise of China and also by extended engagements of the US with other South Asian countries. India might not yet be prepared for any 'regional architecture' that thwarts the Indian dominance in South Asia. However, India is gradually also ceding its strategic space to China. In the backdrop of the 'Doklam Standoff' in 2017, President Xi Jinping and Prime Minister Modi met for an 'informal summit' in Wuhan and discussed a wide range of bilateral issues, exchanging their

¹⁹ Constantino Xavier, "Converting Convergence into Cooperation: The United States and India in South Asia," *Asia Policy* 14, no. 1 (2019): 19–50. doi:10.1353/asp.2019.0016.

²⁰ R. Mukherjee, "Looking West, Acting East: India's Indo-Pacific Strategy," in *Southeast Asian Affairs*, ed. D. Singh and M. Cook (ISEAS, 2019), 44–51.

²¹ D. Jaishankar, "Four Hurdles to Brighter India-US Relations," *East Asia Forum*, 2019.

²² S. Jaishankar, "A Disruptive World: Solutions for Tomorrow," *Raisina Dialogue*, 18 January 2018, <https://www.youtube.com/watch?v=i-MXiCK5Agk>.

views on the regional order. The 'China–India Plus' cooperation is considered to be a result of the 'Wuhan Spirit', which was further elaborated by Chinese President Xi Jinping at 'Chennai Connect'. It is about "gradually expand[ing] the 'China–India Plus' cooperation to South Asia, Southeast Asia and Africa, to create a more smooth regional interconnection network, and to reach upon a 'Regional Comprehensive Economic Partnership (RCEP)' agreement at the earliest."²³ In November 2019, India shied away from the sixteen-nation free-trade grouping, i.e. the RCEP agreement, citing fears of free flows of cheap goods into its domestic market from China. The leading members are wooing India to rejoin the regional trade pact, but India has opted to stay away from the RCEP for now.

The geostrategic significance of Nepal

Geography has endowed Nepal with a degree of strategic importance to great powers. Despite being a small-medium and landlocked state, Nepal has assumed a pivotal position in the South Asian geostrategic environment as it borders two Asian giants, with a 1,415 km border with China and a 1,880 km border with India.

With great power rivalry emerging, Nepal's geopolitical centrality has gained international attention. For the US, Nepal's strategic significance lies, first and foremost, in its geographical proximity to China and India, making it imperative for the US to deal with both rising powers.

The US' strategies in Nepal

The US was the first great power to recognise Nepal as an independent country after World War II, establishing official relations with the state on April 25, 1947, and opening its Kathmandu embassy in 1959. During the onset of the Cold War period, the principal aim of the US' policy in Nepal was to keep away the communists – especially the Chinese – from extending influence in Nepal.²⁴ The mechanism of such a policy was largely determined by the aid programme. Economic cooperation between Nepal and the US started with the 'Point Four Program' initiated by President Harry S. Truman. Nepal received 22 thousand NPR as a form of American assistance.²⁵ Between 1951 and 1961, the United States helped Nepal with a total of 45.5 million USD, or about 4 million USD a year. Before the mid-1960s, the United States had not only been the first developed country to provide assistance to Nepal, but it had

²³ Ministry of Foreign Affairs of the PRC, "习近平同印度总理莫迪在金奈继续举行会晤," *Press Release*, 12 October, 2019.

²⁴ Narayan Khadka, "U.S. Aid to Nepal in the Cold War Period: Lessons for the Future," *Pacific Affairs* 73, no.1 (2000): 77–95. doi:10.2307/2672285.

²⁵ Lal Shankar Ghimire, *Inside Out: A Reflection on Development Practies* (Kathmandu: We Read, Kathalaya, 2019).

also been a country that provided the largest amount of aid to Nepal. According to Ludwig Stiller and Ram Prakash Yadav, the US alone contributed assistance worth of 443.2 million Rs in the 13 years between 1952 and 1964, which was equivalent to the joint contribution made by India, China, the United Kingdom, Switzerland, the United Nations, and the Soviet Union.²⁶ Between 1962 and 1982, the US provided aid worth of 13 million USD, while between 1983 and 1990 this aid increased to an average of 19 million USD annually.²⁷

During the Cold War, the US' policy towards Nepal was largely subordinated to the global strategy of ideological confrontation between the US and the Soviet Union. Afterwards, Nepal's position and importance in the US' South Asia strategy significantly declined and the US' aid also plummeted.²⁸

Given India's immense leverage in Nepal, despite all apprehensions, the United States aligned its Nepal policy with that towards India. In the early 2000s, for a brief period, the rise of the Maoist insurgency in Nepal made the US uneasy. Especially after 9/11, New Delhi became supportive of the increased US profile and presence in South Asia, as well as its military and economic aid to Nepal in order to counter the Maoist insurgency. India believed it would go a long way not only in stabilising Nepal, but also in curtailing the Chinese influence in the region.²⁹ The US chose to view Nepal through the Indian lens and took the strategy of not antagonising India at the cost of supporting Nepal. Consequently, the US accommodated itself to the Indian position to deal with Nepal's peace process after 2006.

The US' recent approach to Nepal through the IPS might indicate a renewed US interest in Nepal, and its policies towards the latter could now be independent of India's influence. In a major attempt to re-position itself in Nepal, the US signed the Millennium Challenge Corporation (MCC) compact on 14 September, 2017, in order to strengthen Nepal's energy sector, improve regional energy connectivity, and control transport costs to encourage growth and private investment.³⁰ The US' unprecedented foreign assistance, to the tune of 500 million USD pledged to Nepal, altered the magnitude of great powers' role in Nepal. In the past seven decades, the US assistance was focused on human rights, women's empowerment, and more, and this

²⁶ L.F. Stiller and R.P. Yadav, *Planning for People: A study of Nepal's Planning Experience* (Kathmandu: Tribhuvan University, 1979).

²⁷ Narayan Khadka, *Foreign Aid and Foreign Policy: Major Powers and Nepal* (New Delhi: Vikas Publishing House, 1997), 110.

²⁸ Wang Yanfen and Wang Shiming, "Lengzhan yilai meiguo yu niboer de guanxi" ["US-Nepal Relations since the Cold War"], *South Asia Studies*, 1 (2009): 29–37. Doi: 10.16608/j.cnki.nyyj.2009.01.005.

²⁹ Manish Dabhade and Harsh V. Pant, "Coping with challenges to sovereignty: Sino-Indian rivalry and Nepal's foreign policy," *Contemporary South Asia* 13, no. 2 (2004): 157–169.

³⁰ The Agreement aims to enhance Nepal's energy connectivity and minimise transportation cost for economic growth and prosperity through constructing about 300km of electricity transmission lines and supporting maintenance of 300km of roads within 5 years of the project's duration. The MCC projects are jointly funded by the US and Nepal governments, as the latter contributes 130 million USD to it.

is the first time that the US' assistance on such a huge scale has been available for the physical infrastructure development of Nepal.

Similarly, in order to deepen the military cooperation, the US government handed over two M28 Skytruck planes to Nepal on December 18, 2019, claiming that the Skytruck is one of the best-suited aircraft for Nepal's mountainous terrain. The aircraft were funded through a 15-million-USD Foreign Military Financing programme that represents the largest security assistance grant programme in the over-70-year-long history of US–Nepal bilateral relations.³¹

The compact, however, has also raised considerable debate in Nepal as it is regarded as a part of the Indo-Pacific Strategy. The concern mounted further after David J. Ranz, the then US acting deputy assistant secretary for South Asia, stated that the MCC compact programme is one of the most important initiatives being implemented in Nepal under the US' Indo-Pacific Strategy.³² Critics of the MCC feel it undermines Nepal's sovereignty as a key element in the MCC Nepal compact, given that it requires the government to endorse the agreement from the Parliament.³³ The MCC compact does not say it has to be ratified by Nepal's parliament. However, the text of the agreement, signed in 2019, does say that provisions in the compact will prevail over Nepal's existing laws in case of conflicts, which requires parliamentary ratification, according to the Nepal Treaty Act. Therefore, it is considered that there should be renegotiations of some conditions of the MCC before it is endorsed by the Parliament. Given the relationship of the MCC to the US National Security Strategy, it is feared that the compact could make inroads towards greater US control and undermine Nepal's sovereignty and territorial integrity. Since Nepal is yet to agree to the IPS proposal, the ratification of the MCC compact by Nepal's federal parliament has been delayed. Recently, the US' officials appear to have changed tack and are beginning to distinguish between the IPS and the MCC. After intense debates inside the then ruling Nepal Communist Party (NCP) as well as in the media and civil society, on 17 January, the American Embassy in Kathmandu issued a ten-point clarification emphasising that the MCC does not have any military components.³⁴ Defending the MCC, the embassy further stated that "the \$500 million is a grant, with no strings attached, no interest rates, and no hidden clauses. All Nepal is to do it to commit to spend the amount, transparently."³⁵

³¹ Department of State, "U.S. Delivered Skytruck Aircraft Help Nepal's Humanitarian and Disaster Response Capabilities Soar," 11 February 2020, <https://www.state.gov/u-s-delivered-skytruck-aircraft-help-nepals-humanitarian-and-disaster-response-capabilities-soar/>.

³² Roshan S. Nepal, "MCC important initiative under Indo-Pacific Strategy," *The Himalayan Times*, 15 May 2019, <https://thehimalayantimes.com/nepal/millennium-challenge-corporation-compact-programme-important-initiative-under-indo-pacific-strategy>.

³³ In December 2019, the Standing Committee meeting of the Nepal Communist Party, the then ruling party, failed to decide on ratification following sharp criticism from its members.

³⁴ U.S. Embassy in Nepal, "MCC in Nepal, Top Ten Facts," *Press Release*, 17 January 2020, <https://np.usembassy.gov/mcc-in-nepal-top-ten-facts/>.

³⁵ U.S. Embassy in Nepal, "MCC in Nepal, Top Ten Facts."

Also, in the debate over whether Nepal's parliament should endorse a \$500-million grant from the MCC, much attention has been paid to whether the grant is a part of Washington's counter to Beijing's Belt and Road Initiative (BRI).³⁶ There is also some sort of conspiracy that China could be behind the opposition to the MCC, as Beijing strongly opposed to the US' Indo-Pacific Strategy. Some analysts, such as Hari Bansh Jha, perceive that geopolitics and rivalry between the US and China has delayed and complicated the implementation of the MCC in Nepal.³⁷ However, China has publicly clarified that it does not oppose any foreign aid to Nepal. In a press conference, Chinese Ambassador to Nepal Hou Yanqi reiterated that "China welcomes any international assistance to Nepal if it is for economic cooperation".³⁸

Nuances in the Tibet issue

Tibet occupies a delicate and unique position in the international world and in relations between the United States and China. After communist China's control of the region in the 1950s, the United States covertly sponsored various forms of Tibetan anti-Chinese resistance to further their opposition to the Communist regime. Since the inclusion of Tibet into China, the US took advantage of its relations with Tibet and the Dalai Lama in order to use Tibet as a weapon against Communist China.³⁹ Beginning in the 1950s, the US started "covert support for a Tibetan guerrilla force... [and] also provided funds and other forms of non-military support for the Dalai Lama".⁴⁰ After the onset of the Cold War, the Tibet issue added a new dimension to the American interests in Nepal. By the mid-1960s, the CIA had set up an army of 2,000 across the border in Nepal. The Tibetan rebels who attempted to make China's Tibetan region vulnerable with the help of the West, especially Americans, stepped in to establish secret military base camps for ethnic Khampa fighters in the Mustang area of Nepal.⁴¹

The US continued its support to Tibet until the normalisation of Sino-American relations in 1972. In the early 1970s, the Western approach towards China started

³⁶ Kamal Dev Bhattarai, "The Indo-Pacific Vs. the Belt and Road: Nepal's Great MCC Debate," *The Diplomat*, 30 January 2020, <https://thediplomat.com/2020/01/the-indo-pacific-vs-the-belt-and-road-nepals-great-mcc-debate/>.

³⁷ Hari Bansh Jha, "Rivalry between US and China in Nepal delays MCC," *Observer Research Foundation*, 14 January 2020, <https://www.orfonline.org/expert-speak/rivalry-between-us-and-china-in-nepal-delays-mcc-60298/>.

³⁸ Binod Ghimire, "China says it welcomes any foreign economic support – even the MCC – to Nepal," *The Kathmandu Post*, 3 January 2020, <https://kathmandupost.com/national/2020/01/03/china-says-it-welcomes-any-foreign-economic-support-even-the-mcc-to-nepal>.

³⁹ Aaron Bekemeyer, "The Nuances of the US-Tibet Relationship," *Michigan Journal History*, 2009, <https://michiganjournalhistory.files.wordpress.com/2014/02/bekemeyer2.pdf>.

⁴⁰ Melvyn C. Goldstein, "The United States, Tibet, and the Cold War," *Journal of Cold War Studies* 8, no. 3 (2016): 145–164.

⁴¹ Paul Salopek, "The CIA's Secret War on Tibet," *The Chicago Tribune*, 26 January 1997, <https://www.chicagotribune.com/news/ct-xpm-1997-01-26-9701270002-story.html>.

to change. Nepal embraced an aggressive policy towards the Khampa rebels, and the Khampa rebel camps were completely destroyed by the Nepal Army. After the Sino-American rapprochement in 1972, Tibet's utility as an American foreign policy tool dissipated. Henceforth, as relations between the US and China improved, the Tibetan issue was less used as leverage to pressure Nepal either way.

Recently, the US has shown a greater interest in supporting the Tibetan exile community in Nepal. Since the US amended the Tibet Policy Act in 2002, financial assistance for Tibetan refugees has substantially increased. In 2017, despite the Trump administration's move to withhold aid to Tibetans, the key Congressional Committee proposed 6 million USD for fiscal year 2018 to continue to flow for the exiles in India and Nepal. In December 2020, the US passed the Tibet Policy and Support Act (TPSA), legislation that definitively upgraded the American support towards the Tibetan exiles. The TPSA also authorised the release of \$6 million each year from 2021–2025 towards preserving the Tibetan culture and language, and promoting the development of the next generation of leaders from Tibetan communities in India and Nepal. In November 2019, eight lawmakers, including two co-chairs of the Tom Lantos Human Rights Commission – a bipartisan caucus of the United States House of Representatives – appealed to Nepal's ambassador to the United States not to sign an extradition treaty with China, saying it could target the Tibetan community. Nepal and China had considered the extradition treaty on the eve of President Xi's visit to Nepal in 2019, but in the end the treaty was not signed.

Tibet has thus been a constant point of discussion during American officials' visits to Nepal, as they often blame Nepal for failing to honor the 'gentlemen's agreement'⁴² with the UN to provide safe transit to Tibetans on their way to Dharma Shala.⁴³ The West insists that Tibetans should have the right of transit and should be handed over as refugees to the UNHCR in Kathmandu. A very delicate issue for Nepal is whether to allow people fleeing Tibet to make a transit to third countries, or to hand them over to the Chinese authorities as per Nepal's 'one China policy' and insist that no one be allowed to take advantage of Nepal's territory to engage in separatist activities or anti-China activities on the issue of Tibet. Therefore, Nepal faces a serious dilemma in dealing with the Tibetan refugee issue.

In the 1960s, China and the US were not regarded as competitors. The US adopted rapprochement with China to weaken the Chinese-Soviet bloc. But the power balance of world politics has now shifted and China is emerging as the main competitor

⁴² As per the "gentleman's agreement" that lends a sort of *de facto* refugee status for Tibetans fleeing the TAR, Tibetans who make it across the border are supposed to be escorted by Nepal's police to Kathmandu, turned over to the Department of Immigration, passed on to the Tibetan Refugee Reception Center in Kathmandu, processed by the UN High Commissioner for Human Rights (UNHCR), and dispatched to India on a one-way transit visa. See: Peter Lee, "China tests Nepal's loyalty over Tibet," *Asia Times Online* 4, no. 2 (2011).

⁴³ Utpal Parashar, "India Losing Little Gate Game," *Hindustan Times*, 5 September 2010.

of the US in both the economic and the strategic capacity. The Tibetan refugees in Nepal are gaining precedence in the US' policy, and thus their annual financial assistance has been stepped up. Beijing's concern is that if the Tibetan exodus to Nepal intensifies, it will enhance the American intervention. The US seems to be exploiting it for its strategic advantage and the Tibetan issue now constitutes extraordinary leverage in US–China relations. Every time when tension arises (as competition intensifies) between the US and China, the Tibetan issue will come into play in the US-led Indo-Pacific Strategy. The larger picture will then be dominated by the rivalry of these two great powers, but how that rivalry plays out in Nepal will remain linked to the Tibetan issue.

The US' policy also appears paradoxical, as while the country was withdrawing as a global power in line with the Trump administration's approach, it was also coaxing smaller countries such as Nepal, Sri Lanka, and Maldives into walking away from the economic influence of China.

Coping with the great-power rivalry – trajectories for Nepal's foreign policy

International politics is the realm where great powers are constantly seeking opportunities to expand their hegemonic role. In this realm, small states on the periphery of great powers face intense pressure and severe limits to their sovereignty. Nepal, a landlocked country between China and India, is a classic example of a small-medium state striving to preserve its sovereignty in ceaseless efforts to augment its strategic maneuverability.

China's rise and India as an emerging economy have both enhanced the geopolitical importance of Nepal more than ever before.⁴⁴ The geopolitical conflict has dominated relations between India and China.⁴⁵ While both China and India are competing for global and regional influence, there is some concern about securing their interests in the close neighbourhood. Traditionally, as China and India have competed to increase their dominance over Nepal, Kathmandu has attempted to conduct its foreign policy so as to attain maximum leverage over its two giant neighbours.⁴⁶ In this sense, Sino-Indian competition over the expansion of both states' power and influence in South Asia has been the major determining factor in the evolution of Nepali foreign policy.⁴⁷ Until the 1990s, there had been concerns about Nepal being 'absorbed' by either of these

⁴⁴ B.N. Baral, "Changing Dynamics of Nepalese Foreign Policy: Patterns and Trends," *Journal of Political Science* 18 (2018): 25–46.

⁴⁵ John W. Garver, *Protracted Contest: Sino-Indian Rivalry in the Twentieth Century* (New Delhi: Oxford University Press, 2001), 5.

⁴⁶ Rupak Sapkota, "China–India–Nepal Trilateralism: An Initiative Beyond Geopolitics," *Journal of International Security Studies* 34, no. 4 (2016): 68–92.

⁴⁷ Dabhade and Pant, "Coping with challenges to sovereignty."

two neighbours,⁴⁸ which is why the diversification and counterbalancing beyond the neighbourhood, and the active diplomacy to promote Nepal as the 'Zone of Peace' all became an existential necessity. Over the past decade, the most intriguing aspect in Nepal's foreign-policy thinking was the effort to leverage its geographic position as an advantage through approaching Nepal to act as a catalyst to push China and India into a collaborative relationship in a trilateral framework, with Nepal itself achieving a decent small-medium regional-power status.⁴⁹

Notwithstanding all this, Nepal has shored up the regional cooperation initiatives as open and inclusive platforms for countries to cooperate constructively and deepen regional integration. The initiatives are principally economic in nature and the connectivity is fundamentally in favour of Nepal's interest. Hence, Nepal has to collaborate. There are a number of reasons that specifically sustain Nepal's interest in the Belt and Road Initiative (BRI). However, Nepal's enthusiasm in joining the BRI is solely driven by economic imperatives, i.e. the economic benefits that are likely to accrue therefrom.⁵⁰ During his two-day state visit in October 2019 – the first one by a Chinese leader in 23 years – President Xi said that China would provide Nepal with assistance worth 56 billion NRs over the next two years in order to aid Nepal's development programmes and transform the "landlocked nation into a land-linked country."

Additionally, Nepal is also seeking to leverage the existing bilateral and multilateral mechanisms to consolidate economic cooperation. Connectivity has recently emerged as an important dimension of Nepal's bilateral relations with its immediate neighbours. In this respect, it is not only the BRI, but Nepal has also become a major stakeholder in other regional and sub-regional architectures, such as the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) and Bangladesh–Bhutan–India–Nepal (BBIN), in which India has a larger role.

Despite all that, Nepal's enduring diplomatic legacy abides by the principle of non-alignment, and due to its geopolitical sensitivity, Nepal could hardly embrace a proposal with clear strategic implications for its adjoining neighbours, i.e. China and India. Nepal has never been a part of any external military alliance and strategy, and will hardly consider participation in a military partnership or alliance in the future. This cautious approach to foreign and defence postures calls for the state to sustain an unshakeable stance premised on strategic neutrality.

Therefore, Nepal should be constantly and relentlessly engaging the US, China, and India to balance and pursue steadfast diplomacy to maximise its benefits without jeopardising those of its partners. In any engagement with great powers, economic development and infrastructure will remain the key issues. The challenge for Nepal

⁴⁸ Leo E. Rose, *Nepal Strategy for Survival* (Berkeley: University of California Press, 1971), 291.

⁴⁹ Sapkota, "China–India–Nepal Trilateralism," 68–92.

⁵⁰ Rupak Sapkota, "Nepal in the Belt and Road: New Vista on Building a China–India–Nepal Economic Corridor," *China International Studies* 67 (Nov/Dec 2017): 105–121.

lies in enhancing its strategic capability to implement an approach that facilitates both these goals.

Conclusions

The United States is encouraging closer cooperation with the countries along the Indo-Pacific region, although the role of a country such as Nepal in the IPS will remain small.

Since the end of the Cold War, the relationship between Nepal and the US has experienced a period of lesser significance, marked by India's dominance. However, the Maoist insurgency in Nepal augmented the US' interest in Nepal. The IPS is now encouraging Nepal towards an active engagement with the US.

Nepal's geostrategic location does offer potential strategic leverage for great powers, epitomised in the increasing competition over developmental assistance and strategic partnerships. The evolving engagement with the US might push Nepal to build a better relationship with the international community well beyond its immediate neighbourhood. However, the IPS can also raise complications of ominous scope for the region's geopolitics, especially the China–India–Nepal regional dynamics. Nepal does hold a close diplomatic relationship with the United States, but it does not agree with the US' view towards China. Also, it is uneasy with the US' willingness to outsource South Asia to India, or to trust the US–India regional coordination, which is still surprisingly limited, especially in Nepal.

In addition, there are legitimate concerns that Nepal abides by the principle of non-alignment and, due to its geopolitical sensitivity, Nepal cannot afford to side with any proposal that carries strategic implications for its adjoining neighbours.

The history of foreign aid in Nepal is deeply rooted in its geostrategic role, beginning with early investments by India, China, the US, and others since the 1950s. Therefore, Nepal must weigh its core national interest in order to formulate and then execute its national policy accordingly, keeping in mind that China and the United States are competing with each other for influence in the region, including over Nepal, with their own objectives. Maintaining an astute balance is the critical challenge for Nepal, as it cannot afford to become a cockpit of strategic competition. Instead, Nepal should try to bolster and enhance its strategic autonomy in promoting national interests without jeopardising the fundamental policy objectives of big powers, be it immediate neighbours or more distant entities.