

NEPAL MATTERS FOR AMERICA

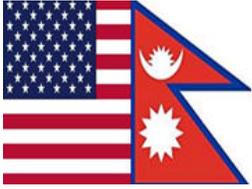
Policy Paper No. 1

UNITED STATES AND SOUTH ASIA: HOW TO MOVE FORWARD

The competition between India and China that has intensified in recent years has now rather quickly turned into a border standoff resembling the situation of the 1962 India-China war. As the current dispute involves a third country, Bhutan, other small neighbors in the region are rightly very concerned about possible repercussions if India and China go to war. Dr. Sigdel explains why this standoff was not unexpected given the way South Asian relations were evolving lately, and recommends that it is in South Asia's interests that the US should more actively get involved to uphold the sovereignty of small countries in the region.

Introduction

Since India's neighborhood policy has been guided by its threat perception emanating particularly from Pakistan and China — as it has fought 4 wars against Pakistan and one against China after its independence from British Raj in 1947 — the South Asian region represents a situation which Kenneth Waltz calls a structure of anarchy.ⁱ Waltz's anarchy is a situation in which there is no higher authority to regulate states' behavior. A state is fundamentally concerned with its security and survival, power maximization and relative gain.ⁱⁱ

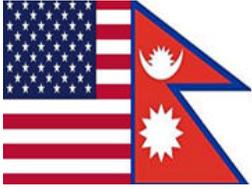


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Given this anarchy, India has had no choice but to become a nuclear weapon state, has emerged as the fourth most powerful military in the world, and has continued to pursue a very heavy-handed approach towards its neighbors/members of the SAARC of which India itself is a founding member. India's realist neighborhood policy largely explains the fact that despite the SAARC being formed 3 decades ago the region has remained the least economically integrated in the world.ⁱⁱⁱ Added to that realist paradigm in Indian thinking is also the idea of being a "civilizational state." But that has not helped since India has not seen any strong reason to deal with small neighbors with geographical disadvantages on equal footing. Besides, different bodies of Indian security establishment have been able to get hold of these countries through various ways.^{iv}

The successful story of integration and expansion of the European Union encouraged regionalization in other areas of the world, and South Asia was no exception to that. The Bangladeshi initiative—one which was understood by India as a strategy of small neighbors seeking to balance India's regional preeminence—did materialize in forming the Association of seven South Asian states including India and Pakistan, but the grouping never really moved further than a mere talk forum.

This is mainly because the structural conditions that enabled a successful integration project in Europe elude South Asia. While the post-war peace project in Europe combined with several other factors led to deepening economic and political integration,^v the structure of mistrust caused by the two-nation theory—the partition of India and Pakistan—remained as a



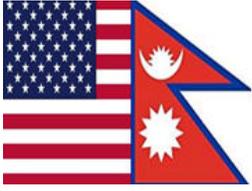
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major hurdle in South Asian integration.^{vi} Similarly, India's preference of bilateral dealings with its smaller neighbors, and those neighbors' preference to escape India's "benign hegemony" wasted the opportunity. Given the advantage India has in its size and strategic position in the region, small neighbors needed India's cooperation regardless of their desire to escape India's domination.

But now, added to the question of why the SAARC did not succeed or whether it ever will is the new fact of what repercussions Chinese inroads into the region will have on any possibility of South Asian integration. **This paper argues that South Asia will see, in fact already has seen, more competition than cooperation due mainly to the following factors:** massive Chinese investment reaching out to South Asia, India's huge economic rise and its increasing partnership with the US as well as India's military investment and foreign policy departure in openly countering China, the US' diminishing role in South Asia, and intensifying hostility between India and Pakistan especially due to the Kashmir issue. These factors are posing serious challenges to any possible integration, but at the same time not having any effective regional organization does not seem to be in India's or other smaller neighbors' interests.

South Asia, China and US

The massive economic rise of China has in recent years started to change the landscape of South Asian sub-regional relations^{vii} significantly as China has made the region an important

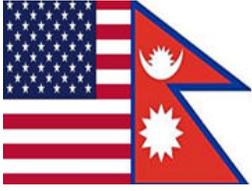


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priority and has already started to reach out with its deep pockets. Although South Asia also saw India's economic rise, China's increasing trade and investment ties in those countries that have huge strategic values in terms of China-India relations such as Sri Lanka, Bangladesh, Nepal, as well as Maldives, pose multifold challenges to India; not to mention China's ever deepening ties with Pakistan. India on its part is also using its growing economic clout to maintain its influential presence in these countries.

However, India's economic pledge is well short of what China is promising, thus it seeks to leverage the capital of geographical proximity, deep economic ties and historical cultural relations with these states. It also seems to be relying on Japanese investment on infrastructure in the region to compensate to some extent that gap vis-à-vis China. But in any case, the implications of China's infrastructure build-up in the region and the potential political mileage in return for Chinese overtures from these countries will most likely sour India's relations with the states, which traditionally fell into India's dominion, making sub-regional relations highly stressful.^{viii}

The United States for its part, with its "rebalance" policy in Asia, which seeks to counter China's rise and reinforce the fight against terrorism, has come to befriend India; unlike in the Cold War era during which the US, as friend of Pakistan, acted as a counterforce to check India's regional policy, it now apparently has largely acquiesced to India's demand to stay away from India's sub-regional relations.^{ix} India's policy in terms of its global relations has been changing from moralism—non-alignment and strategic autonomy—to neoliberalism and realism;

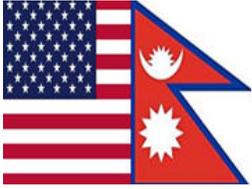


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nevertheless, in terms of its neighborhood policy it has invariably remained realist, and now even more so because of that change.

The Modi government, however, sought to improve neighbor relations, but apparently the Indian security establishment did not compromise India's traditional terms, hence the status quo ante.^x In any event, although India succeeded in aligning India with it on this, the US' gradual receding from the region indirectly served China since both India and China want the US out of their immediate neighborhood.^{xi} And the absence of the US' political role and the South Asian states' long-standing desire to diversify their dependence on India by getting closer to China, has enabled China easily to make inroads into the region.^{xii}

Moreover, while there were concerns over the last few years about Chinese "assertiveness" in the proximity of Indian waters, and over China's so-called "pearl of strings" for which it was building up maritime infrastructure at strategic points, for instance, Hambantota port in Sri Lanka, now China's Belt and Road (BnR)^{xiii} initiative that envisaged a massive investment on land and sea projects has been investing on economic corridors across Myanmar, Bangladesh, and Pakistan in South Asia. Under the BnR initiative, Chinese President Xi Jinping became the first Chinese head to visit Bangladesh in 30 years, and China altogether pledged USD24 billion for infrastructure; China has pledged USD46 billion in investing on the China Pakistan Economic Corridor (CPEC), and in fact has already spent half of the pledged amount—the CPEC goes through the disputed territory of Kashmir. China managed to clinch Nepal from India's domination by signing trade and transit agreement (Sigdel, 2016) and

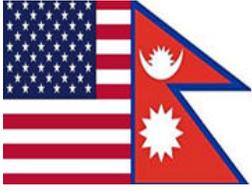


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expediting the construction of railways to reach out to Nepalese and Indian markets via Nepal. In security terms, China has made a big step in securing Nepal as a buffer zone and not fully letting it into India's dominion for the security of its most politically sensitive area of Tibet.^{xiv}

Consequently, since China has almost established itself as another big power in South Asia vis-à-vis India, the South Asian states are likely to be increasingly living under the pressure of fierce competition between the two.^{xv} First, this will also cause domestic turmoil in these states as India and China play favorites in order to secure their interests. In fact, India has always been playing favorites in its neighborhood,^{xvi} but now that will intensify as China is another player in the game. Second, this will endanger the peace and order at the regional level as India-China relations become more complicated.

The US for its part does not seem comfortable on what India wants from the US in this regard. There is no consensus among China observers in South Asia and the West on the motives of China's initiative. Indian scholars emphasize China's "grand strategy" to expand its influence through land, whereas US scholars argue that it is too early to call unless the Chinese initiative is studied in detail at the individual country level. India's preference for regional primacy and global high-table ambition (Schaffer and Howard, 2016) also gets in the way of US interest in upholding standard order and institution building because India has completely opposite dynamics in its neighborhood. Besides, it continues to show high regards for Russia and skepticism about America and it is participating in China-led financial institutions, yet wants the US stay out these institutions;^{xvii} Amitav Acharya argues that in the unfolding "multiplex"



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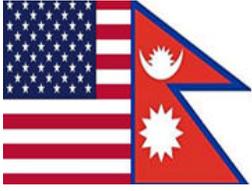
world order, India (and China) will not necessarily follow American-led international order as it holds distinct values and does not regard the privileged global position of the US. And now due to new American President Trump's preferences and behavior, disregard for America's global position will only grow stronger.

Similarly, while India is a party to some maritime cooperation mechanisms with states around Indian waters—Bangladesh, Sri Lanka and Maldives—by and large India has not preferred such mechanisms against bilateral dealings in which it holds an advantageous negotiating position. This is one reason why the SAARC has no effect. Carnegie India's C Raja Mohan puts it that there definitely is a problem while dealing with neighbors due to the differences between India's security establishment and economic establishment, thereby hampering the regional cooperation and integration process.^{xviii}

Concluding Remarks

The question raised in this paper is now highly pertinent because India's security sensitivity is at an all-time high as it suffers continuous cross-border terrorism with unprecedented violence in Kashmir—Kashmir which is now internally boiling too—and China's land and maritime build-up; its assertive behavior in the South China sea is increasing India's anxiety in terms of a potential resumption of border conflict for which both went to war in 1962.

Additionally, Indian PM Modi's foreign policy ambition—deepening US ties at the cost of annoying China by staging navy exercises together with Japan for instance — is clearly a

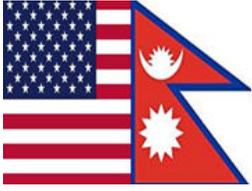


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departure from the Indian Congress party and is fueling uncertainty among neighbors which in turn encourages them to invite China to balance India in the region. Besides, the way India is spending on arms and weapons, some kind of Chinese reaction is inevitable. However, India-China bilateral trade is around 71 billion annually. India continues to seek more Chinese investment, but at the same time wants to keep the relations in check, especially in the regional influence and assertiveness.

It is almost certain that some kind of balance of power structure will set in the region, but it has its problems. The lack of rule-based order and standards of behavior is likely to cause high uncertainty in the region in the days ahead in terms of how states behave while choosing between India, China or balancing their relationships with the two. How far will China go to secure its interests in the region and continue to make India more anxious and how far will India go in responding to Chinese inroads in its security sensitive areas? Given their past history of war, still unresolved territorial issues, deepening China-Pakistan ties, and the increasing India-US relationship, the likelihood of conflict between India and China is considerably high.

Similarly, there are challenges emanating from the domestic politics of these powerful countries; while on the one hand Xi Jinping is continuously amassing power^{xix} India, regardless of its democratic character, has not been that democratic or human rights sensitive when it comes to its threat perception and regional domination^{xx}. Nor does it hesitate to reach out to Russia's Putin when it comes to undermining Pakistan or leverage against China.



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For all the changes discussed above, Indian policy elites have rightly felt the urge in forging some sort of cooperation, mainly infrastructure connectivity, in the region by alienating Pakistan and bypassing the SAARC; for instance, India is tactically promoting BIMSTEC to that end. Because in any event, India will continue to have high stakes in the region for its geographical proximity.

Regarding the US, it can make the sub-regional South Asian relations its priority by acting as a force of balance and helping maintain standard of behavior so that these states will not have to choose between China or India. And as South Asian waters are increasingly seen as a part of the so-called Indo-pacific region and as a stage for conflict and cooperation in the 21st century, the US presence as a global power is all the more warranted, and such policy should not problematize its alliance with India.

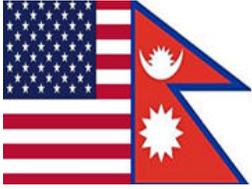
Notes:

ⁱ Waltz, 1979

ⁱⁱ Mearsheimer, 1995

ⁱⁱⁱ For instance, especially countries such as Nepal and Bhutan, which are landlocked and rely on Kolkata port, have had several ordeals from time to time in terms of smooth flow of merchandise; a very recent ordeal is that the Indian government imposed 4.5 percent service tax on ocean freight making the goods imported to Nepal very costly. Besides, according to WTO provisions, any such taxes on transit cargo are illegal, but due to complicated bilateral negotiation mechanisms traders from Nepal are bearing the brunt.

See <http://kathmandupost.ekantipur.com/news/2017-02-01/goods-imported-via-indian-ports-to-become-dearer.html>



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Similarly, to recall, Nepal also resisted a five-month long economic embargo by India. Bhutan had one in recent years too.

^{iv} For instance, among several issues and instances, the increasing number of pension camps in Nepal for the Nepalese soldiers in Indian Gurkha has alarmed the Nepalese society as it is seen as a growing network of India's security network within the sovereign territory of Nepal. See <http://cijnepal.org.np/%E0%A4%AA%E0%A5%87%E0%A4%A8%E0%A5%8D%E0%A4%B8%E0%A4%A8-%E0%A4%B5%E0%A4%BF%E0%A4%A4%E0%A4%B0%E0%A4%A3%E0%A4%95%E0%A5%8B-%E0%A4%86%E0%A4%B5%E0%A4%B0%E0%A4%A3%E0%A4%AE%E0%A4%BE-%E0%A4%AB%E0%A5%88/>

^v Those European factors are: Common European Identity, post-world war peace project, Common external threat, US support: Marshal Plan and NATO, hard and soft power of the advanced Western Europe economy, West Europe as vanguard of liberal values. While the South Asian factors are: India's objective of regional preeminence, smaller states' preference to balance India by bringing China into the game, India's limited material capability, insufficient soft power, reluctance to multi-lateralize issues of national security vis-à-vis threats from Pakistan and China etc.

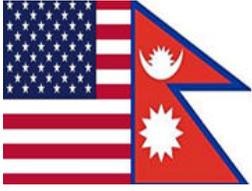
^{vi} See, Pande, Aparna (2011).

^{vii} The term "sub-regional relations" in this paper refers to India's relationship with its smaller neighbors.

^{viii} For instance, the India-Maldives relationship was recently cut off due mainly to China's inroads in the country; Chinese submarines spotted in a Sri Lankan port increased India's anxiety vis-à-vis Sri Lankan establishment and its relationship with China; Nepal is becoming a glaring example of brazen interference by India in response to recent Chinese overtures; in an effort to curb external investment, especially Chinese, on hydro-power, India recently issued a directive—"Guidelines on Cross Border Trade of Electricity"—for Nepal, Bhutan, Bangladesh and Myanmar that states India will only buy electricity if it is produced by Indian investments and only on Indian terms. See:

<http://thehimalayantimes.com/business/india-clarifies-guidelines-cross-border-trade-energy/>

^{ix} There are some exceptions and disagreements, though, between the two so-called "transactional" partners; for instance, in the recent case of Nepal conflict—its southern region's federal autonomy movement called *Madhesi* movement—while India wants Kathmandu to constitutionally guarantee *Madhesis'* fair share for their autonomous rule, the US is allegedly helping agitators (for instance, C K



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Raut) to fight for the independence of *Madhes* from Nepal in order to destabilize the country in an effort to encircle China.

^x Arguably, the only remarkable change Modi brought in the neighborhood is with Bangladesh on the ethnic enclaves in the border Land Border Agreement (LBA). Modi was the first PM in 28 years to visit Sri Lanka and in 17 years to visit Nepal. Indian President Mukherjee visited Nepal after 18 years of the Indian president's visit.

^{xi} When there was unconfirmed news about US military base in Maldives, India was alarmed and the US Assistant Secretary of State for South and Central Asia Robert O. Blake had to clarify and guarantee that US would not do anything un-transparently with India in the region.

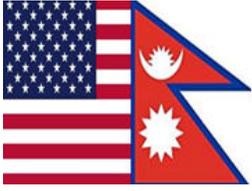
^{xii} China is far ahead of India in loaning Sri Lanka. China is also largest military suppliers for Bangladesh. Maldives had recently cut off contracts with India companies.

^{xiii} In 2013 China introduced a vast intercontinental connectivity plan called "One Belt One Road Initiative," later renamed "Belt and Road initiative" (BnR), that connects Asia with Europe and Africa by land and sea. Under BnR, the Silk Road Economic Belt contains land connectivity as its core area—road, railway, fiber optics, energy— between Asia and Europe, and China and the Indian Ocean. Then the 21st - Century Maritime Silk Road Initiative connects the South China Sea with the Mediterranean via the Indian Ocean. By some estimates, BnR will cover more than 65 countries, and stimulate about US\$ 4 trillion in investment in the next three decades.

^{xiv} When in 2016 in a historic development China sent its merchandise via land to Nepal that would traditionally arrive through Kolkata port, India reacted very strongly against the Chinese move; but China also retaliated by saying that India could not claim that it had special privileges in Nepal over China in terms of doing business.

^{xv} For instance, when Chinese President Xi Jinping visited Bangladesh recently and pledged billions, as an immediate response, India announced its share of pledges for Bangladesh. By the way, in another case, India has gone as far as announcing 1 billion USD lines of credits for Mongolia in Modi's visit of the country in India's policy of countering China.

^{xvi} In recent example, India supported in the last elections in Bangladesh. It almost openly does so in Nepal. It has recently done that with its friendly country Bhutan too. It has tried in Sri Lanka also.



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^{xvii} In the global liberal forum in Canada, BJP's Ram Madhav clearly communicated that India wanted US out of China-led institution.

^{xviii} See C. Raja Mohan (2016).

^{xix} Li, 2016

^{xx} Menon, 2016

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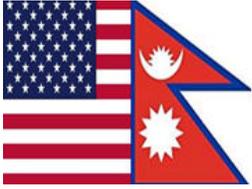
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