

# CHAPTER 1

## 1.0 ABSTRACT

*To understand this project, it's important for the reader to know about Nepal and its geographical position the historical trends between Nepal and its south and north economic giants India and China respectively. It would not be wrong if one can define Nepal as periphery countries in front of their two neighbours which also can be define as semi core and core to India and China respectively. Nepal has sound relation with both of its neighbour from the historic period to now. Due to culture, linguistic, geographical structure and socio-economic perspective one can not deny Nepal is close to India than China. Due to the fact India has significance influence in Nepal's politics.*

*This projects motive is to analyse India's influence to Nepal and China's none intervention to any other countries internal affair and the effect on Nepal in coming future with the help of available relevant theoretical framework. Researchers and experts in the field have their own view point regarding the issue. All of them will have significant insight in understanding the matter. From historic period Nepal's bilateral relation has started with both its south and north neighbours. During the time many political ups and downs country had gone through. Lots of changes had occurred and its effects have been experienced in domestic as well international political arena. Even though country had faced lots of changes the main thing country always trying to maintain its bilateral relation with both India and China. Especially, after country has transformed from the long monarchy system to democracy the relationship shifting from diplomacy to economic cooperation and mutual benefits.*

## 1.1 INTRODUCTION

Nepal and China relation have always remained sound and cordial. These relations have been based on mutual support, friendliness, appreciations of each others aspirations and sensitiveness. History shows, if one can traced 5<sup>th</sup> century, when saints and sages engaged in visiting with aim of knowledge and peace. Nepal and China's diplomatic relations has been established on 1<sup>st</sup> of August 1955. White pagoda temple constructed under the guidance of Nepalese architect 'Arniko' the marriage between Tibet king, Song Sang Gampo and Bhrikuti, the daughter of king Licchavi in the 7<sup>th</sup> century provided the historical relationship between Nepal and China.

Nepal's relation with Tibet and China was first recorded at the mid of the 7<sup>th</sup> century. When the Chinese communist invaded Tibet in 1950, Nepal's relation with China was brooked and continued to till 1955. Then after again both countries relation became better and established the resident ambassador in the Beijing and Kathmandu in July 1960. Nepal and China share a long border spanning range about 1414 kilometres. Both governments have resolved border issue amicably in 1961. Nepal has always upholding 'One China' principal and is committed not to allow Nepalese territory to be used against China. In 1996 Chinese president H.E. Mr. Jiang Zemin visits, Nepal and also in 2001 premier H.E. Znu Rongi visited Nepal. Such visits enhance the sound relations between both countries.

In July 2002 state visit from the former king and queen to China has immensely contributed to further nurturing Nepal-China bilateral relation. In 2004 the former crown prince also visited to China. In 2005 the former king and queen visited Baos in Haina province in connection with participation in the 2005 annual conference on the occasion handed over Buddha statue to Boao Buddhist temple.

In 1956 between China and Nepal first economic aid was signed. Nepal since then getting significant contribution from China in development field (Infrastructure building, establishing of the industry, health, sports). In the field of education China has been providing 100 scholarships every year for the Nepalese students which will

contribute to understand each other's tradition and culture. Which indicates the bilateral relation between these two countries is not only from the governmental level but also from peoples to peoples. There has been lots of cultural program in each others territories and visits too. In 2003 China has organized festival on the occasion of 50<sup>th</sup> anniversary of establishment of diplomatic relation between both the countries.<sup>1</sup>

Nepal has been described as a yam between two boulders. Its geopolitical status landlocked situated two Asian giants India and China. Even though Nepal has sought to maintain friendly relations with both neighbours, its cultural, linguistic, religion and economic ties with India historically much closer than China. A significant percentage of all foreign investment in Nepal is comes from India. Nepal is dependent on India as the source of access to the sea through the major port of Calcutta. Due to Nepal's geography, the northern border limits access to China. Nepal and India has open border about 500 miles. India has considered Nepal as a strategic link in its northern border defences. India thinks Nepal's instability plays the role of catalyst for the decentralization of India's north-eastern state.

It has been reported that India will support a Maoist led government and that the Maoist may demand a review of Nepal's treaties with India including the 1950 treaty of peace and friendship. The out comes of constituent assembly election in 2008, India has welcomed. Few observers had thought the concern stem from a fear by some India that China's power in the region would grow as a result of the out come of constituent assembly election.

Since 1999, Chinese government has been providing medicine and medical equipment to Nepal. Worth 1.4 million Nepali currencies, it also has provided medical equipment to the B.P. Koirala memorial cancer hospital.<sup>2</sup> To boost Nepal's economy between two giant India and China, Nepal can be considered as transit economy as well as to generate employment too. Since the establishment of diplomatic relation between

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<sup>1</sup>Government of Nepal Ministry of Foreign Affairs, '*Nepal-China Relation*', 2010, retrieved from <http://www.mofa.gov.np/bilateralRealtion/nepal-china.php>.

<sup>2</sup> Biseshwor P. Koirala Cancer Hospital is the first cancer hospital in Nepal. During the official visit by the Girija P. Koirala on March 18, 1992, government of China agreed to assist in building the hospital. The hospital starts functioning in October 11, 1995. [www.bpkmc.org/aboutus.aspx](http://www.bpkmc.org/aboutus.aspx)

Nepal and China in 1955, late king Birendra had visited China 10 times. It indicates that he wanted to establish sound relationship with both the neighbouring country. The late king was very much impressed by the achievement of China and expressed his heartfelt thanks by delivering few words, *‘By seeing the economic progress made by China and policy that has been adopted helps to improve the life of its citizens very remarkable.*

Nepali leadership has long resented Indian economic influence and has sought to establish an independent foreign policy. Nepal has at times played the China card in search of counterbalance what it considers undue pressure from India. Observers have noted that Nepal’s stability is important for both the country (India and China) because it serves in between both the country as a buffer. For China, Nepal is important because of around 20,000 Tibetan refugees living and time to time they are demonstrating against the China from the soil of Nepal. Nepal also borders Tibet and the spiritual leader ‘Dalai Lama’ has sought for autonomy of Tibetan regions within China.

Nepal had invaded Tibet in 1854 due to China’s intervened hospitalities were quickly terminated and the treaty of ‘Thapathali’ was concluded in March 1856. The treaty recognized the special status of China and Nepal agreed to assist Tibet in the event of foreign aggression.<sup>3</sup> In 1912 Nepal warned to China that Nepal would help Tibet attain conquer independent status as long as it was consistent with British interest. This leads Nepal and China relation in adverse way. It was the year 1911 when Nepal broke the relation with China, there was revolution going on in Tibet to drive out Chinese from Tibet. The Thapathali treaty was replaced by new treaty under which Nepal recognized China’s sovereignty over Tibet and agreed to surrender rights granted by the old treaty.<sup>4</sup>

An agreement signed in 1961, that China agrees to build the road which will be suitable for all kind of weather from Kathmandu to Tibet. Since then both the

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<sup>3</sup> On the China-Nepal relations, please see ‘country listing’, *Nation Encyclopedia*, Based on the Country Studies Series by Federal Research Division of the Library of Congress, retrieved from <http://countrystudies.us/nepal/69.htm> .

<sup>4</sup> Andreas M. Savada, 1991, Nepal: ‘A Case Study’, Washington GPO for the Library of Congress, Available <http://countrystudies.us/nepal/>

countries relation remained fairly steady. That was the time when Nepal and China both had not had sound relation with India. Although the new highway had no commercial value and also not viable alternative transit route but it was strategic military importance to China. This highway has direct link between two major bases with the 100 km of Kathmandu to forward bases at Gyiong in Tibet.<sup>5</sup> In 1970 India introduced some new dimensions in Nepal and China policy. His intention was not to abandon the relation with India instead to make a balanced relation with both India and China. For that he wanted to increase the relation with China to marginalise India's growing influence in the region. Nepal had made a deal to purchase weapons from China in 1988 with the aim of India's monopoly to Nepal will be marginalise.

In 2008, April when Maoist unexpectedly won in the constituent assembly (CA) election, China's foreign policy towards Nepal has been a major shift. The ideological linkage between Maoist of Nepal and China and their enthusiasm to neutralise India's influence have made them an apparent choice for engagement. Many argue in Nepal that Maoist party may work towards a single party system in future; the dictatorship has the prime in the Maoist lexicon. In 2008-2009 twelve high level Chinese delegation plus two military teams had visited Nepal. China repeatedly assured economic, technological and military aid to Nepal. From Chinese side, asked to Maoist led government not to allow anti-China activities from the soil of Nepal and adopt one China policy. Take strong action towards the Tibetan refugees and grant special facilities for Chinese investments in strategic section.<sup>6</sup>

In 16<sup>th</sup> February 2009 China's foreign minister Yang Jiechi said in Beijing, China is interested to work with Nepal on the basis of strategic partner. In the same year vice minister of International Department of the Central Committee of Communist Party of China Liu Hongcai said *'we oppose any move to interfere in the internal affairs of Nepal by any force'*. On November 4, 2008 Liu Hong, International Bureau Chief of the Chinese Communist Party stated that *'China will not tolerate any meddling from any other country in the internal affairs of Nepal-our traditional and ancient*

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<sup>5</sup> On the China-Nepal relations, please see 'country listing', *Nation Encyclopedia*, Based on the Country Studies Series by Federal Research Division of the Library of Congress, retrieved from <http://countrystudies.us/nepal/69.htm>.

<sup>6</sup> Nihar Niyak-expertise in Maoist insurgency in South Asia-Ph.d in International Relations, Jawaharlal Nehru University, New Delhi, retrieved from <http://www.idsa.in/profile/nnayak>.

*neighbour*'.<sup>7</sup> History is the evidence that Nepal and India have century old socio-cultural and economic ties. Due to that India thinks any foreign presence in Nepal is also the matter of concern.<sup>8</sup>

Since the Prithwi Narayan Shah had unified the nation, all the leaders of Nepal not only realized that a coherent policy towards India and China is must but more were farsighted enough to adjust their policy and strategies according to the changing time and altering international and regional development. Nepal and India relations are obviously unequal relations and the inequalities between the two countries are clearly inbuilt into their respective geographical dimensions, demographic magnitudes and economic resource Bases. China's policy towards Nepal has driven by the need of curb the clandestine activities of some 20,000 Tibetan refugees in Nepal. China's South Asia policy is to marginalize India's influence in Nepal. This would allow China not only to dominate South Asia but also provide to easy access of Nepal's round 83,000 megawatt hydropower.

*Country like Nepal it is very important to be neutral towards both the neighbouring country. Nepal is in such situation in one hand world's largest democratic country India which always trying to influence in Nepal's politics and the other hand biggest communist country, China, seems silent. In such situation how Nepal is going to make a balance and sound bilateral relationship with both neighbouring country? Nepal is in dilemma that how to walk in between dragon and elephant?*

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<sup>7</sup> Nihar Nayak, 2009, IDSA COMMENT: '*Nepal: New strategic partner of China*', Institute for Defence Studies and Analyses, retrieved from

[http://www.idsa.in/idstrategiccomments/Nepal/NewStrategicPartner of China\\_NNayak300309](http://www.idsa.in/idstrategiccomments/Nepal/NewStrategicPartner%20of%20China_NNayak300309).

<sup>8</sup> Ibid.

## **CHAPTER 2**

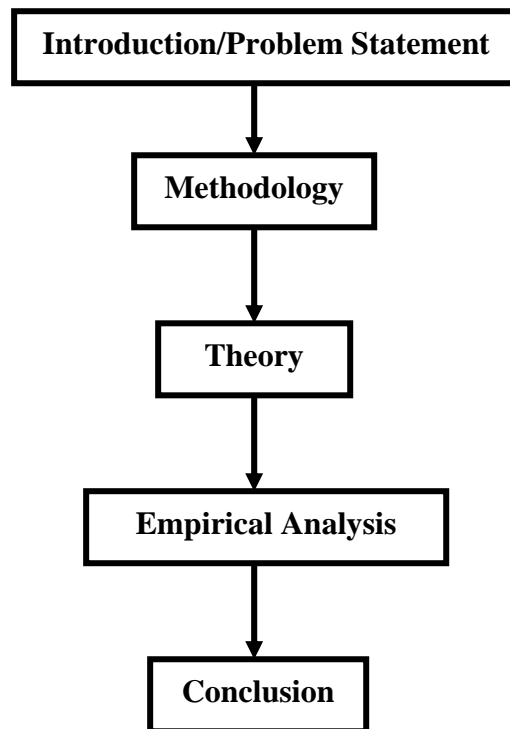
### **2.1 METHODOLOGICAL CONSIDERATIONS CONNECTED TO THE THEORY**

In order to understand the relationship between China and Nepal, a close look at a number of factors is highly imperative for the understanding of this discussion. To understand the relationship between both the countries it's necessary for the understanding of this discussion and this has with the methodological approach. Under which different theories has been chosen for its justification and relevance to understand China and Nepal relationship.

This chapter discusses the consideration made in the adopted methodology and the structure of the project. The methodology adopted in presented in terms of types of methods included and the way they are used in project. In order to understand one has to understand their historical perspective as well socio-economic relation between Nepal, India and China.

Nepal is in between two big Asian giant nations. South and north of Nepal world's biggest democratic country India and world's biggest communist country China exists. Between these two different political ideologies Nepal is having dilemma to walk in between. As India is always playing a vital role in Nepal's politics and keep very close eyes in Nepal's politics. From the ancient times Nepal has good relationship with both the nations.

The entire project is divided into five main chapters. With the help of the below figure I am going to illustrate.



**Introduction:** Introduction is mainly gives the historical back grounds of two countries (India and China). The main question is narrow down with the aim of more specific thesis.

**Methodology:** With the help of appropriate method the project is going to be analyzed.

**Theory:** The theoretical part is mainly is descriptive to understand different approaches and concepts of development.

**Empirical analysis:** In this part i am going trying to connect the analysis with the help of used theory. So, that analysis will be more logical.

**Conclusion:** At last I will draw the conclusion after analysing.

I am going to use realism theory in this discussion. It portrays the survival of the state and the state men. This theory is fit in the discussion. The core elements of the realism are statism, survival and self-help. Realism taught to focus on interest rather than



ideology. Nepal is a small and weak in economic, weak in international politics. Due to the fact that India's influence is involved in Nepal's politics. Survival and security is considered the primary concern and objectives of the state which assume the supremacy of national interest. For the survival Nepal is fully dependent on India. Most of the foreign aid is coming from India and China. Without foreign aid Nepal is unable to manage the national's budget and other development work. Due to dependent on other country and poor foreign policy national security is considered very weak. Nepal and India has open border in south, east and west. Due to poor security from Nepal's side and also due to poor national policy most of the time Indian security personnel entered to Nepal's earth and torture the local people and misbehave with them. Waltz point of view states have security as their principal interest and therefore only seek the requisite amount of power to ensure their own survival. Nepal being small and weak states in front of India and China it has to make a good relation via diplomacy. Survival is important to both the country. For that clear and concrete policy has to make so that none of the country get problem. To survive both the country need each others cooperation. India and China they belongs to the semi periphery and core respectively. They manufactured the goods and sell them in domestic market as well foreign market. To sell their goods Nepal is market and for that India and China needs energy and natural resources that Nepal has. Nepal is rich in water resources, natural herbs etc. Also Nepal could be the economic transit point for the India and China.

**Realism taught to focus on interest rather than ideology.** Nepal is the country which never has been ruled by the foreign country as other country has been ruled. So the Nepali citizen's interest is always Nepal has to remain sovereign country and do not want any other countries interfere.

Due to Nepal's geo- political structure and similarities between countries socio-economic, culture, language etc that makes Nepal and India relation closer than Nepal and China. When there was Rana regime in Nepal most of the Nepal's leaders were in India and started revolution from there. Beside that they also participated in the process of independence of the India. Due to the fact that Nepal's politician are very much influenced by the Indian political mentality. Those things knowingly/unknowingly can be seen in the Nepal's politics. Leaders task is always

keep the country in safe and assure their citizen they are always being protected. National interest has always to be in the top priority. Nepal's political leaders are traditional and influenced by the Indian political back ground that is why national interest is always in the shadow and in dilemma. While making the policy leaders has to give the prime focus on national interest. Policy has to be in the favour of the national interest and should not be influenced by the foreign power. Within very short period of time India and China became the independent country they make a significant progress in the field of development and turn from the periphery to semi periphery and core. The leaders of both countries are always putting the national interest in the top and according to that they are making policy. Even though both the countries were many years colonialize by foreign country but their leaders are not influenced by foreign ideology. Because the leaders know the countries interest has to be in the top priority. That is why now both countries reach to this level.

After 1991 when king's regime was abolished and democracy has been established since then to till now many governments has been formed and there has been many time political instability occurred. Always India's involvement has been seen while forming the new government in Nepal. Due to that in 1996 Maoist movement has been started. Their focal point is to marginalise India's influence in Nepal and set the national interest in the primary focus. Due to open border between India and Nepal security problem has to be in the top priority. Nepal have open border with India from south, east and west. Nepal's sovereignty is in problem due to India's influence in Nepal's politics and also being a powerful nation. Always Indian border security force enters to Nepal's territory and captures the Nepal's land. Nepal's citizen always raised their voice against the anti Indian activities. The Nepali citizen's national interest is to build a sound and smooth foreign relation with their both south and north neighbour. Peace is in the prime concern too. There are no border disputes with China. It was in the past which was solved by both the country's joint border commission in 1961.

Waltz argued that the key difference between domestic and international order lies in their structure. In domestic politics citizens do not have to defence themselves. Security can be realized through self-help. Providing one's security is fuelling the insecurity of others state. China is making their border high security alert because of the security purpose but India perceived it in another way. Like she feels insecure and

takes it as a threat or China is preparing for the war (Arunachal Pradesh, Sikkim, Ladhak). Same way China's high authorities visits to Nepal and Nepal's high authorities visits to China also makes India insecure and vice versa. Like Nepal and China there is no border dispute. The same way Nepal's leader has to solve the border dispute between India and Nepal so that Nepal's citizen can feel secure and sovereignty remains sound.

Other theory that I am going to use in this discussion is World System Theory. The founder of intellectual school of world system theory, Immanuel Wallerstein describes that '*it is a set of mechanism which redistributed resources from periphery to core*'. According to him core denotes the country manufacturing and having industrialized. And periphery means the underdeveloped. Nepal lies in periphery and China is on the way to core. It supplies manufacturing goods to all over the world. It is industrialized and economically very strong.

This is a big lesson to Nepal that how China able to shift from periphery to the core. Similarly other theory I am going to use is Three World Theory. Mao raised this idea publicly when he met the Zambian president. According to him USA and Soviet Union are the first world and Europe, Japan, Australia and Canada is second and rest is in third world country.

Aim of this theory is to strengthen the solidarity with third world country and strengthen the political situation in the world of international status, development foreign relations. Due to geopolitical structure of Nepal, it has to rely on India more than the China. Culturally and economically there is close similarity between India and Nepal. From the ancient time and its geopolitical structure Nepal and India has very close relation. India considers Nepal as a strategic partner. India from the history has huge influence in Nepal's politics. To marginalise its influence Nepal is showing interest with China. This will marginalise the India's influence and in long term will be beneficial for the Nepal. Also to make a balance bilateral relation it is necessary for Nepal. Third world was the main force to oppose the imperialism, colonialism, hegemony. Not directly but indirectly Nepal is imperialised by Indian hegemony.

## **2.2 DATA ANALYSIS**

In analysis it includes primarily of secondary data. Mostly books, articles, journal, magazine, internet sources. Data can be collected from so many sources which were not written particularly under this discussion but on similar historical circumstances and objectivity. Collected data from different sources as some of might be bias that might show different view and beliefs of the author. The use of the theories will clear the objectives of the analysis guided by scientific research and methodologies for a comprehensive understanding.

The methodological considerations connection to gather empirical evidence and analysing these findings in connection to a theoretical framework can be done in various ways. I have decided to develop the empirical sections on an empirical analysis, where I don't only deliver as objective empirical evidence as possible but also will compare it with theoretical framework. Also deliver empirical evidence but also analyse and compare it in connection to the theoretical framework based upon the central question.

## **2.3 SCIENTIFIC PERSPECTIVES**

In International Relation there are number to justify such relationships. The reasons and compatibilities of the choice of the theories to this essay will equally be justified in order to enhance clarity and better understanding of what this project is all about. In this regard I have chosen some of these theories- Three world theory, world system theory, realism and idealism.

According to Mao Zedong, Nepal falls under third world. The use of this third world theory has significant importance in understanding of this project as the theory that linked China and Nepal as having a sense of belonging in the third world. Therefore this theory is important for the understanding of relationship between China and Nepal. Similarly, the world system theory is also important to this project. How China has become successful to gear up from periphery to core. This theory seems similar to the three world theory but different in the sense how China able to shift from periphery, semi-periphery and close to core. Besides that also it has great

importance that third world is the one always against of the imperialism, colonialism. In that perspective this theory is relevant to Nepal because it is imperialised by India.

The reason behind choosing realism and idealism it portrays the importance of survival states and the state man. In terms of economy both the country needs each other. In Nepal china has been contributed significantly in the development sector. For China, Nepal could be an economic transit point as well strategic partner. The fact about Nepal, more than 15 years many governments have been changed and all the government keep promising about development, to minimize corruption but till now the citizens fail to feel any of the promises which they made. The fact is Nepal is governed by corrupt and power greedy political leaders.

China's policy towards Nepal has driven by the need of curb the clandestine activities of some 20, 000 Tibetan refugees in Nepal. Consequently China is also playing significant role in determining the future shape of Nepal's politics. Also other hand China's south Asia policy is to marginalise India's influence in Nepal.

## CHAPTER 3

### 3.1 THEORIES

Theory has several functions in the international relation, study. These functions throw more light to understanding the objectivity of the discussion in a justifiable way. The theory I am going to use here is realism which helps to understand this collectively agreed phenomenon through systematically organizing the facts and evidences to support the arguments. International relation theory includes several different paradigms with a different world view. Focus will be on realism with its focus on the world as an anarchic place where survival, self-help and statism are the main centre point for the state.

### 3.2 REALISM

It's necessary to put the theoretical concepts in an historical context. Since in many cases the theory adopts and changes with historical events. Thus when explaining the theoretical school of realism several types of realism are touched and are a largely product of the historical period in which they appeared.

Realism in general is '*a philosophical disposition*'<sup>9</sup>. Realism emphasizes the constraints on politics imposed by human nature and the absence of international government. Together, they make international relations largely a realm of power and interest. Human nature has not changed since the days of classical antiquity. According to realists, is at its core egoistic and thus inalterably inclined towards immortality. As Machiavelli puts in politics '*it must needs be taken for granted that*

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<sup>9</sup>Jack Donnelly, 2000, *Realism and International Relations*, Cambridge: Cambridge University press, P. 6, retrieved from [http://books.google.com/books?id=509idQ4icxIC&pg=PA9&lpg=PA9&dq=it+must+needs+be+taken+for+granted+that+all+men+are+wicked+and+that+they+will+always+give+vent+to+the+malignity+that+is+in+their+minds+when+opportunity+offers&source=bl&ots=O71F8vytAk&sig=CpqzyZ9XNB2k-UIf69gDGKysgbU&hl=en&ei=K17qTMnzHtHrObPv6YgK&sa=X&oi=book\\_result&ct=result&resnum=3&ved=0CBoQ6AEwAg#v=onepage&q=it%20must%20needs%20be%20taken%20for%20granted%20that%20all%20men%20are%20wicked%20and%20that%20they%20will%20always%20give%20vent%20to%20the%20malignity%20that%20is%20in%20their%20minds%20when%20opportunity%20offers&f=false](http://books.google.com/books?id=509idQ4icxIC&pg=PA9&lpg=PA9&dq=it+must+needs+be+taken+for+granted+that+all+men+are+wicked+and+that+they+will+always+give+vent+to+the+malignity+that+is+in+their+minds+when+opportunity+offers&source=bl&ots=O71F8vytAk&sig=CpqzyZ9XNB2k-UIf69gDGKysgbU&hl=en&ei=K17qTMnzHtHrObPv6YgK&sa=X&oi=book_result&ct=result&resnum=3&ved=0CBoQ6AEwAg#v=onepage&q=it%20must%20needs%20be%20taken%20for%20granted%20that%20all%20men%20are%20wicked%20and%20that%20they%20will%20always%20give%20vent%20to%20the%20malignity%20that%20is%20in%20their%20minds%20when%20opportunity%20offers&f=false)

*all men are wicked and that they will always give vent to the malignity that is in their minds when opportunity offers'.<sup>10</sup>*

Since realists such as Reinhold Neibuhr and Hans Morgenthau, see Machiavelli's claim as largely descriptive, egoistic to make any other assumptions unduly risky. All, however, emphasize the egoistic passions and self interests in international politics.

Most realists also recognize that men are motivated by other desires than the urge for power and that power is not only the aspect of international relations. Neibuhr couples his harsh doctrine of original sin with an insistence that 'individuals are not consistently egoistic. He even argues for an adequate view of human nature which does justice to both the heights and depth of human life. Realists also stress the political necessities that flow international anarchy.<sup>11</sup> In the absence of international government, there will be lack of law and order and jungle law will be prevailed.

The human nature usually is controlled by hierarchical political power and rule. In international relations anarchy not simply allows but encourages the worst aspects of human nature. According to Morgenthau the struggle of power is universal in time and space.

Hans Morgenthau, one of the primary claims and basis for his theory was that human nature is essentially aggressive and power seeking. Morgenthau also highlights some of the pivotal points of realism within international relation (IR) politics. That has persisted through the subsequent branches of realism. According to him, '*nation-state is considered to be the only actors in the world*'. The world is considered an anarchic place because of the lack of a world government. Whereas in a state, individuals are liable to a government hierarchy than can punish them in some way if they do not follow the laws of the state. Hence, states are all equal and no supranational instance exists above states to maintain international law, govern or punish the state.

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<sup>10</sup> Ibid, P. 9.

<sup>11</sup> 'Anarchy' as it is ordinarily used in the international relation literature; ie. In the literal sense absence of rule, lack of government. Thus international relations is taking place in an anarchic society' of states.

The fact is that the realist world is anarchic and inhabited by sovereign states that due to human nature all seek power. International politics is an arena where states will focus on their own national interest, which ultimately is survival. This means not being the victims of other states power and states will use the means necessary to maintain their own sovereignty. These claims are often summarized in three words that is – statism, self-help, and survival.<sup>12</sup>

The power struggle between states is continues and will be defined by differences in the amount of power between states. Therefore, in the theory the risk exists of one state becoming so powerful that it is able to dominate all other state a situation referred to as hegemony. However, in order to avoid such a situation, states are probable to pool their power against such hegemonic state in order to create a situation of balance of power. In main stream international theory, realism is the main theory that defined the state as the main unit of analysis. In addition realist theories assume the inherent sovereignty of the state. For the realist, the state is unitary and rational actors, whose interactions with other sates is primary interest and tend to be conflict because they occur under anarchic condition. Although, the definition of sovereignty has wide-ranging across history but core meaning is within a territory supreme authority.

Realisms main assumption is that due to human nature international politics is driven by an eternal for power, often described as '*power politics*'. The two general aspects of realism is claim about the existence and interdependence. The fact is that in this universe moon exists and its shape is spherical and independent of anything anyone happens to say or think about the matter. This is well and good in the world where things never change and everyone agrees on the meaning of 'reality'. Statism is the core of all realists thought and supports the notion of the sovereign state<sup>13</sup> as the principal and most important actor, above all others, in the anarchic international system.

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<sup>12</sup> John Baylis and Steve Smith, 2001. *The globalization of world politics: 'An introduction to international relations'*, New York: Oxford University Press, second edition, p. 143.

<sup>13</sup> For realist, state have similar responsibilities and challenges (although not the same abilities), The sovereignty means that the state 'decides for it self how to cope with its internal and external problems. Thus internal and external actors are collectively agree that sovereignty only requires states to be responsible with what happens their border and that state has the exclusive authority to intervene coercive in activities within its territory with in the anarchic international system.



Survival and security is considered as the prime concern and objectives of the state which assumes the supremacy of national interest. New forms of realist theory actually provide insight to the current uni-polar structure, with competitive political behaviour and violent conflict between nation state, which also lacks a strong supranational governing power with the authority to enforce collective rules/agreement and since realism helps explains the nature and role of coercive power, it can help to analyze and negative the dynamics of anarchic political system in order to successful implement humanitarian and relief tasks, which often also requires military support. Realist defines power in terms of military capabilities possessed by the states. State will wish to maximize their power relative to other states. Realism is state centric because realists view sovereign nation-states as the only legitimate monopolist over the use of force, which solely focus on state behaviour.<sup>14</sup> Realists point of view states has is to defend for themselves and don't rely on others for the protection and that statesman's duty is to seek to save the existence of the state.

Struggle for power is the fundamental political fact which determines the foreign policy behaviour of all states (as they pursue their national interest defined as a power) in an anarchical system. It means in international system objective of law is power. According to Morgenthau 'lust of desire' a desire for control over others; aggregated into states, humans behave as a function of this basic drive. The most famous realm in realism was Morgenthau's assertion that international politics is a 'struggle for power.....whenever (nation) strive to realize their goal by means of international politics, they do so by striving for power.'<sup>15</sup> Nations retain, increase or demonstrate their power, the first supporting the status quo, the second producing imperialism and the third is display of military force or other influence.<sup>16</sup> Nation's

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<sup>14</sup> James W. Riley, 2008, *International Relations: 'How realistic is realism'*, London: Written at king's college, retrieved from <http://www.e-ir.info/?p=384>.

<sup>15</sup> Michael Sullivan, 2002, *Theories of International Relations: 'Transition Vs Persistence'*, New York: Oxford University Press, retrieved from [http://books.google.co.uk/books?id=IEZ5JItL3ioC&printsec=frontcover&dq=Michael+P.+Sullivan,+2002,+Theories+of+International+Relations:+transition+Vs+Persistence,+Palgrave&source=bl&ots=Jiz0RyCjFO&sig=A4F1q5cdZYGsbpTsOfDDuIFwY-g&hl=en&ei=y5fmTPk2zaA60cSMjwo&sa=X&oi=book\\_result&ct=result&resnum=1&ved=0CB0Q6AEwAA#v=onepage&q=Michael%20P.%20Sullivan%20%202002%20%20Theories%20of%20International%20Relations%20%20transition%20Vs%20Persistence%20%20Palgrave&f=false](http://books.google.co.uk/books?id=IEZ5JItL3ioC&printsec=frontcover&dq=Michael+P.+Sullivan,+2002,+Theories+of+International+Relations:+transition+Vs+Persistence,+Palgrave&source=bl&ots=Jiz0RyCjFO&sig=A4F1q5cdZYGsbpTsOfDDuIFwY-g&hl=en&ei=y5fmTPk2zaA60cSMjwo&sa=X&oi=book_result&ct=result&resnum=1&ved=0CB0Q6AEwAA#v=onepage&q=Michael%20P.%20Sullivan%20%202002%20%20Theories%20of%20International%20Relations%20%20transition%20Vs%20Persistence%20%20Palgrave&f=false).

<sup>16</sup> Ibid

major characteristic is power and this is the factor that determines the nation to play in the international arena.

Due to geographical location and the size, its capacity to sustain economically have brought the China into focus the potentiality not just economic competition terms but in political and strategic terms as well. Although China is seeking greater involvement and influence in the region will be a cooperative international actor, is a matter of more immediate concern to China's regional neighbours. Its size and geographical position and the consequential implications for political and strategic influence, China's sustained economic growth has great significance in the region and global. Other hand India also growing in the area of economic and trying to influence its power to the neighbouring country. China's position in the international system and its responses to the dynamics of that system can be expected to reflect not just domestic factors as well in international. China is seeking to make a good relation with economically strong country and with its neighbours in the region as a strong international economy. China and Nepal since the history have a good relation and always committed for none interference to any countries internal affair.

Similarly, Nepal and India also have very good relation from the history. Due to culturally, linguistically, and geopolitically Nepal's topography is close to India than the China. India has a great influence in Nepal's politics and always considers Nepal as a strategic partner. Nepal and India has open border so that both countries people can travel easily. But Nepal and China does not have open border and one need to go to China has to take permission from the Chinese authority. The key point of Nepal and China policy was maintaining equal friendship with China and India while simultaneously seeking to lower down India's influence in Nepal and Nepal's dependence on India. Competition between two Asian giant would be beneficial its own economic development.

Both countries are trying to be super power in south Asian region and for that Nepal plays a vital role. China wants to keep a close look toward the India and vice versa. India and China have a border dispute in Aruranchal Pradesh, Sikkim, Laddhak etc. In recently Nepal's political situation has turned to other side. I mean to say Maoist party became the biggest party by electing in Constitution Assembly, since these party

came into main political stream, Nepal and India's bilateral relation has been affected. India has a great fear if Nepal is going to be communist country then India will suffer from that. Because it's northern part and west Bengal is also affected by the communist naxalites.

The emergence of a strident India in the early 1970s introduced new dimensions in Nepal's China policy. King Birendra did not abandon the policy of equal friendship between China and India but wanted to encourage China to counter India's growing influence in the region.<sup>17</sup> By realising this China was willing to oblige Nepal only to the extent of pledging support in safeguarding its national independence and preventing foreign interference. Nepal's sovereignty is always in danger from the India. Nepal has open border in south, east and west. It has always been seen and news in the media also published the matter that Indian police has entered to Nepal's territory and attacks the local villagers. Similarly any political changes take place India's direct involvement will be there.

There is always a question regarding the Nepal's sovereignty. Recently news published about some of the constituent assembly members and some journalist of Nepal met a religious leaders 'Dalai Lama' in India. When this has been heard by Chinese authority then Chinese embassy reacting very strictly towards the meeting with 'Dalai Lama' in India and also saying this is against of one China policy. China has been pressuring Nepal to adopt stringent measures on Tibetan refugees and raising strong objections against any activity that it thinks support the Free Tibet movement. The embassy had also raised serious objections when almost a dozen constituent assembly members met Dalai Lama last year<sup>18</sup>. This means that Nepal does not have rights and freedom towards their own interest to meet religious leader 'Dalai Lama'. In China's perspective his ideology is anti China but on the other hand Nepal is a religious country and has rights to meet him. It does not necessarily means that meeting him is against the one China policy. China's such behaviour shows against of Nepal's sovereignty. One hand China advocates none interference to any countries

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<sup>17</sup> On the China-Nepal relations, please see 'country listing', *Nation Encyclopaedia*, Based on the Country Studies Series by Federal Research Division of the Library of Congress, retrieved from <http://countrystudies.us/nepal/69.htm>.

<sup>18</sup> According to Nepali media nepalnews.com, 2010, *Chinese embassy objects to CA members meeting with Dalai Lama*, retrieved from <http://www.nepalnews.com/main/index.php/news-archive/2-political/8480-chinese-embassy-objects-to-ca-members-meeting-with-dalai-lama-.html>.

internal affairs and other hand showing direct interference of Nepal's internal affairs. Nepal is the only Hindu country in the world and 'Buddha' was born in Nepal. From the both reason Nepali citizen have a great faith on the religion and that is why they went to meet Dalai Lama. Nepal seems like puppet for India and China and they can use according to their interest.

Nepal's political leader's mentality has been affected by Indian politics since they were involved in India's independence and their education also has been done in India. Due to this fact Nepal's politics is much more influenced by India. That is why India has lot of influence in Nepal's politics and that affects while making policy. That statesman must adhere to their foreign policies that is of national self interest and specifically national security- the latter being the foundational value that statesman duty is to bound to protect. This normative standard for evaluating foreign policies gives rise to Machiavellian perception nation and citizen always must be in the top priority. Until not necessary avoid the army in trouble and if needed must be well equipped. These are the characteristics that statesman's responsibilities are determined by national interest and obligated to the citizens of their own country. I would like to mention here one of the politician of Nepal has mention Nepal have unwanted politician but lack of statesman.<sup>19</sup> According Ganesh Man Singh<sup>20</sup> '*Political party are not qualified and having lack of statesman*'. The state-whether it is formed by a social contract or by historically or by conquest or by any other method- is a self contained political community that is prior to any international associations it may subsequently join.

Nepal and India have unequal treaty in 1950 and since then there was no significant changes has been occurred. That makes between two countries relation not smooth. Due to imbalance treaty Nepal has suffered a lot and India gets benefit more form the treaty. The treaty stated that '*neither government shall tolerate any threat to the*

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<sup>19</sup> Gopal J. Shah; currently Co-president of Nepali Congress, Rukum district; He was assistant minister for labour social welfare during the king rule 26 years ago; when democracy has been practiced after 1991 he was minister of state for industry.

<sup>20</sup> Ganesh M. Singh (November 1915 – September 1997) was the commander of Nepalese democratic movement of 1990 AD. He was the first Asian to receive United Nation Human Rights Award. He was the only person ever in the history of Nepal to refuse to become the prime minister when requested by the monarch and supported by the people and is known as the father of democracy in Nepal retrieved from [http://en.wikipedia.org/wiki/Ganesh\\_Man\\_Singh](http://en.wikipedia.org/wiki/Ganesh_Man_Singh) .

*security of the other by a foreign aggressor' and obligated both sides 'to inform each other of any serious friction or misunderstanding with any neighbouring state likely to cause any breach in the friendly relations subsisting between the two governments.'* These accords cemented a "special relationship" between India and Nepal that granted Nepal preferential economic treatment and provided Nepalese in India the same economic and educational opportunities as Indian citizens.<sup>21</sup>

Friction has been seen when Nepal has criticized India's 1975 annexation of Sikkim as an Indian state. The same year late King Birendra had proposed Nepal to be recognized internationally as a peace zone and received the support from the China and Pakistan. Nepal repeated the same proposal and no reaction has been seen from India and in 1990 Nepal had received the support from 112 countries including China.

Nepal's refusal to accommodate India's wishes on the transit treaty caused India to call single transit and trade treaty. Then after Nepal took a hard line position and impact was very serious between both countries bilateral relations. In 1988 Nepal's acquisition of Chinese weaponry played a vital role for the India's dissatisfaction. Indian government perceived this as an indication of Nepal intent to build the military relation with China and take it as a violation of the 1950 treaty. Due to unequal treaty Nepal has to make an approval while purchasing the arm from any other country. That means Nepal's sovereignty is in India's hand and this Nepalese citizen can never tolerate. Due to this Nepal's political system has been changed to the parliamentary democratic system.

An open challenge to India's dominance in Nepal, Nepal negotiated a deal for the purchase of weapon from China in mid of 1988. This has been perceived by India the deal contravened an earlier agreement that obliged Nepal to secure all defence supplied from India.<sup>22</sup> Between Nepal and China there was no border dispute and no unequal treaty that is why there is sound relation from the 1955. In realistic view - state behaviour in terms of the fundamental difference between domestic and international forms of government. The realist hypothesis, as conventionally

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<sup>21</sup> On the relation of India-Nepal relation please see 'Nepal', Based on the Country Studies U.S. Library Congress, retrieved from <http://countrystudies.us/india/126.htm> .

<sup>22</sup> Relation between Nepal-India please see 'Country Studies', retrieved from <http://www.country-studies.com/nepal/china.html> .

understood, conjures up the grim view that beyond the borders of sovereign presence, politics is not about potential moral progress, but survival'.<sup>23</sup>

### 3.3 THE WORLD SYSTEM THEORY

World system theory is a micro-sociological perspective that seeks to explain the dynamics of the capitalists' world. The first major articulation and classic example has been associated with Immanuel Wallerstein, 1974 published as seminar paper '*The Rise and Future Demise of the World Capitalist system*': Concept for comparative analysis.

What Wallerstein term for the World System Theory a 'world economy' integrated through the market rather than a political centre in which two or more regions are interdependent with respect to necessities like food, fuel and protection and two or more politics compete for domination without the emergence of one single centre forever.<sup>24</sup>

In 1974 Wallerstein in his first definition said '*a world system is a multicultural territorial division of labour in which the production and exchange of goods (basic) and raw materials is necessary for the everyday life of its inhabitants*'. In the world economy two different independent regions exist; periphery and core, one is focusing labour incentives and other is capital incentives. Semi periphery states acts as buffer zone between core and periphery. World system theory is power hierarchy between core and periphery, where wealthy and powerful nation 'core' dominate weak and poor peripheral states. 'Technology' is the central factor in the positioning of a region in the core and periphery. Peripheral countries are structurally constrained to experience a kind of development that reproduces their subordinate status. The differential strength of the multiple states within the system is crucial to maintain the

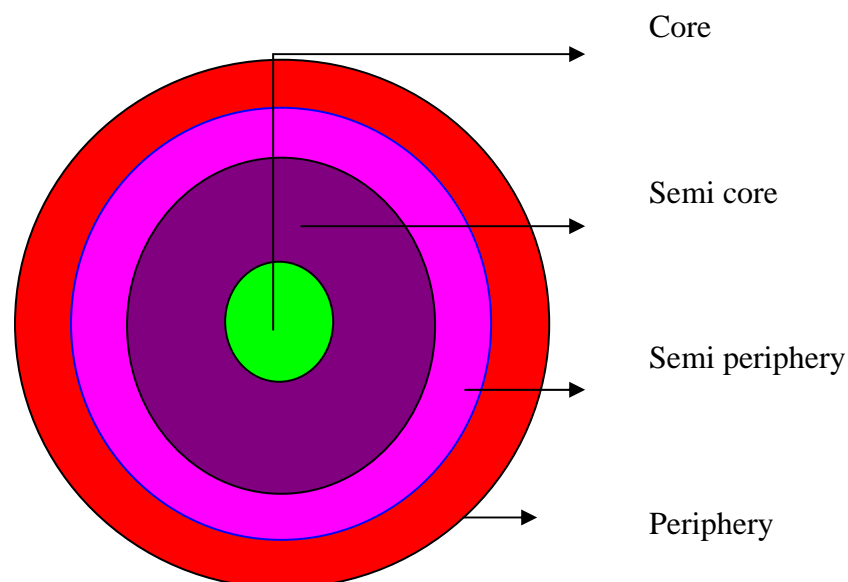
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<sup>23</sup> Martin Griffiths, 1992, *Realism, Idealism and International Politics: 'a reinterpretation'*, New York: Routledge press, p:1, retrieved from [http://books.google.com/books?hl=en&lr=&id=Nxts4\\_dAjyoC&oi=fnd&pg=PR8&dq=Martin+Griffiths,+1995,++Realism,+Idealism+and+International+Politics&ots=domcd1C2sk&sig=BJ2z2Mf2IgF73rIZ1rOD4lQ1ywI#v=onepage&q&f=false](http://books.google.com/books?hl=en&lr=&id=Nxts4_dAjyoC&oi=fnd&pg=PR8&dq=Martin+Griffiths,+1995,++Realism,+Idealism+and+International+Politics&ots=domcd1C2sk&sig=BJ2z2Mf2IgF73rIZ1rOD4lQ1ywI#v=onepage&q&f=false).

<sup>24</sup> Daniel Chirot and Thomas D. Hall, 1982, *World System Theory*, Annual Review of Sociology, Vol.8, pp.81-106.

system as a whole, because strong state reinforce and increase the differential flow of surplus to the core zone. According to Wallerstein it is called unequal exchange.

The world system theory addresses the structural implications of international economic integration into a single capitalists system.<sup>25</sup> Critical approach concerning modernization theory is that development occurs of a world economy in which the local interacts with a Europe-cantered world system.<sup>26</sup> The world characterized by the rise and fall of the hegemony in the core.<sup>27</sup> The world system can be defined as the world economy encompassing a global division of labour and multitude of political entities. In the international aid system the key donors also happen to be the advanced industrial economies in the core according to the current capitalist world system. The international division of labour has seen the concentration of capital within the core or within international firms. The world system theory is closely associated to Immanuel Wallerstein. Karl Marx and Max Weber while seeking to explain the root cause of capitalism, Wallerstein proposed the World System<sup>28</sup> theory and in his explanation of capitalism and global inequality respectively.



<sup>25</sup> Babones Salvatore and Chris Dunn, 2008, *Journal of world system-research*, 'Official Journal of the Political Economy of the World-System Section of the American Sociology Association', Vol. XIV, N. 1, p. 79, retrieved from <http://jwsr.ucr.edu/archive/vol14/Entire-vol14n1.pdf> .

<sup>26</sup> Ibid, p.80

<sup>27</sup> Ibid, p. 81

<sup>28</sup> Walter L. Goldfrank, 2000, *The rules of Wallerstein's World System Method*, 'Journal of World System Research', Vol. 6. N. 2, pp. 160-199, retrieved from <http://jwsr.ucr.edu/archive/vol6/number2/pdf/jwsr-v6n2-goldfrank.pdf> .

An industrialized and wealthy nation of the world includes Western Europe and North America. Semi periphery consists of the resource extraction and manufacturing sectors. It lies in between core and periphery includes, China and India, which wealthy, technological and core nations tend to dominate and exploit the poor and peripherals one. Due to this Wallerstein describes as capitalism and global inequalities as a result of globalisation, trans-nationalisation and interconnectedness actors national boundaries. Immanuel Wallenstein's analysis fits in relation to Nepal with China and India. In this global economic perspective both the north-south Asian giant's economy is increasing and China shift from periphery to close to the core and India also between semi periphery and core. Both countries are trying to economically be strong in the south Asian region. China and India they are seeking the market and in reality China is capturing worlds market. China is moving fast towards the core and needs energy as well as market to maintain its economic growth. For the energy purpose China and India getting the resources from African country, Middle East country and Latin American and market could itself be the Africa, Nepal and some other countries including Europe and America.

The world now became a global village due to that country is dependent to each other. For example United State and China they are dependent to each other. For China, America is the huge market and for the America, China is cheap labour. Due to that American companies manufacturing their goods in China because of cheap labour and other hand giving employment to China. More than 80 percent of the foreign investment is in China. For India and China, Nepal falls to the periphery. Nepal is supplier of the raw materials to both its neighbouring country. Nepal has a huge source of water to produce the energy and irrigation to India. Nepal is selling their water resource to India in cheap price and in return buying finished product (electricity) in an expensive price. On the other hand due to geographical structure of India most of the land is plane which is very good for the agriculture purpose. Due to lack of water resources India as buying water from Nepal and Nepal is a buying food grain (rice, maize, oil and wheat) etc. There is unequal trade treaty between India and Nepal. Due to that India is getting more benefit from Nepal's resources than Nepal is getting from India. Similarly Nepal is selling herbs to China. As Wallerstein point of view it's called capitalism and inequalities. And according to realism, powerful nation



dominate weak nation. India is economically and technologically strong so that dominating Nepal in terms of use of resources.

Nepal is poor and weak nation and since 1991 to till now there has been political instability. Due to fact of this Nepal's economy is highly affected. During this 20 years Nepal's political situation is not stable. Nepal's overall development can only be possible if there will be political situation stable. Nepal falls in periphery and two north and south neighbour their economy increasing unexpectedly every year. Nepal has huge water resource. Due to lack of technological knowledge and skilled man power it's not possible to use in a right way. Comparatively India is getting more benefit with that. Because Nepal's most of the hydro project has been run by India and there is more than 50 percent India's share. They are producing electricity and selling again to Nepal. Nepal is buying that finished product in higher price. There is unequal division of labour and incentives can be seen. Nepal's most of the natural recourses are useless because of the skilled man power as well as financial problem.

### **3.4 THE THREE WORLD THEORY**

The French economist and demographer Mr. Alfred Sauvy has published an article in 1952, the 'Observer' magazine, first time the term 'Third World'. In 20<sup>th</sup> century, 50s it was widely recognized and was needed that a term to describe those emerging countries which were different in the quality from those North American and European old countries. Hence the concept of third world gets popularity and soon a three world theory formed. According to this theory world is divided into 3 different category US-led capitalism stand as first world. Soviet Union was in second world and rest of the world were in the third world. Mao Zedong, after the Second World War divided the world into three parts. First time Mao Zedong in 1974 publicly announced the idea while met with Zambian president Kenneth Kaunda; Mao publicly said *'I think United States and the Soviet Union are the first world, Europe, Canada and Japan second world and rest of the world belongs to 3<sup>rd</sup> world (Asia, Africa, Latin America, except Japan in Asia).'*

According to Mao third world was the main force to oppose imperialism, colonialism and hegemony. The main cause of instability is fight for the hegemony between super

powers. China, India and Nepal these three countries belong to third world country and most of the third world countries are suffering from imperialism, colonialism and hegemony. This theory's core aim is about belongingness. China is determinedly together with other countries in the third world against imperialism, colonialism and hegemony and struggle against the sacred as its own international obligations.

The theory is based on nature of imperialism, socialism, national independence and liberation movements. The world is also divided into 2 different categories – Capitalist and Socialist. According to the three world theory the contradiction between worlds is the whole world against hegemony and power politics. It highlights there is contradiction between hegemony and implementation of anti-hegemonic force in the world. Also issues of the raw materials and development. Colonialism and imperialism, especially the superpowers plunder and exploitation are making poor countries became poorer and the rich becomes richer, enhances the gap between rich and poor countries.

The World Bank has divided the world into four different groups based on the evaluation of Gross Domestic Product (GDP): Low Income Countries (LIC), Lower Middle Income Countries (LMIC), Upper Middle Income Countries (UMIC), and High Income Countries (HIC). United Nation (UN) has its own style to categories the world. Human Development Index (HDI) taking life Expectancy, Purchase Power and Education into the consideration to categories the world. After 9/11 world divided into new way. Kissinger<sup>29</sup> divided the world into 3 different groups. They are-

- i. the world of the democracies ( Europe and America)
- ii. the world of equilibrium (Asia)
- iii. the world in transition (Middle east and Africa)

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<sup>29</sup> Henry A. Kissinger, 2001, *Does America need a foreign policy? 'Towards diplomacy for the twenty first century'*, New York: Simon and Schuster, retrieved from [http://www.bookfinder.com/dir/i/Does\\_America\\_Need\\_a\\_Foreign\\_Policy-Toward\\_a\\_Diplomacy\\_for\\_the\\_21st\\_Century/0684855674/](http://www.bookfinder.com/dir/i/Does_America_Need_a_Foreign_Policy-Toward_a_Diplomacy_for_the_21st_Century/0684855674/).

### 3.5 NEPAL AND CHINA RELATIONSHIP UNDER THREE WORLD THEORY

Nepal and China relationship is very sound cordial since the ancient times. Nepal has always upholding 'One China' policy. Both the countries are supporting each other in many international forums. Nepal never allowed any anti China movement from the soil of the Nepal. Nepal has appreciated China's liberal policy towards Hong Kong and Macao these two countries have 'one country two system'.<sup>30</sup> There has been lots of exchange of bilateral visits including highest level has enormously nurturing further Nepal-China relation strong. There have been flurry of government level visits from both countries. China has been supported to Nepal since the mid of 50s. The first agreement between China and Nepal on economic aid (20 million Indian rupees cash and 40 million rupees aid project) was signed in, October, 1956.<sup>31</sup> From mid of 90s Nepal is receiving from Chinese government economic and technical cooperation programme. The volume is 80 million Yuan.

China aided project in Nepal (Completed)

#### Road and Transport

- |      |                     |        |
|------|---------------------|--------|
| i.   | Arniko highway      | 104 km |
| ii.  | Kathmandu Bhaktapur | 13 km  |
| iii. | Pokhara Baglung     | 65 km  |
| iv.  | Narayanghat Mugling | 24km   |
| v.   | Kathmandu ring road | 24km   |

#### Industry

- |      |                          |
|------|--------------------------|
| i.   | Hetauda cotton mills     |
| ii.  | Harisiddhi brick factory |
| iii. | Bhaktapur brick factory  |
| iv.  | Bhrikuti paper mills     |

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<sup>30</sup> On the Nepal-China relations please see, 'Bilateral Relations' Based on Government of Nepal Ministry of Foreign Affairs China-Nepal relation retrieved from <http://mofa.gov.np/bilateral/nepal-china.php>.

<sup>31</sup> Ibid

- v. Lumbini sugar factory
- vi. Bansbari leather and shoes factory

#### Water Resources

- i. Sunkoshi hydro power
- ii. Pokhara water conservation and irrigation project
- iii. Sunkoshi vicinity electricity transmission project
- iv. Sunkoshi Kathmandu electricity line transmitter project

#### Health

- i. B. P. Koirala cancer hospital, Bharatpur

#### Ongoing project

- i. Syafrubesi-Rasuagadhi road
- ii. Civil service hospital
- iii. Polytechnic Institute in Banepa
- iv. Nepal TV metro channel station expansion and improvement.

Source: <http://mofa.gov.np/bilateralRelation/nepal-china.php>

#### Trade between China and Nepal

	<b>Export</b>	<b>Import</b>
1999/2000	514276	12530062
2000/2001	528012	11573870
2001/2002	1040075	8744459
2002/2003	1631050	9098978
2003/2004	2348150	9299902

Source: Federation of Nepalese Chamber and Commerce Industry (FNCCI)

Few points are opened for the trade between Nepal and China. They are - Kodari-Nyalam, Rasua-Kerung, Yari (Humala)-Purang, Olangchunggola-Rixo, Kimathanka\_Riwo, Nechung (Mustang)-Legze. Beside this Chinese government has been providing 100 scholarships annually to Nepalese students to study in China. In the field cultural activity various activities has been done from side.

China has announced to increase its annual package up to 50 percent to develop the infrastructure after the second visit of Prachanda. That is from US dollar 7.31 million to US dollar 21.94 million. China has also showed interest in the field of technology, tourism, water resources and agriculture. After visiting from China foreign minister of Nepal, Yadav said to reporters, '*China agrees to provide duty free access to 497 Nepalese exportable items with aim to reduce trade deficit between two countries*'. Further more showed interest to invest in the hydro power sector<sup>32</sup>.

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<sup>32</sup>According to Express India, 2009, '*China increases aid to Nepal by 50%*', retrieved from <http://www.expressindia.com/latest-news/China-increases-aid-to-Nepal-by-50/448796/>.

## CHAPTER 4

### 4.1 EMPIRICAL ANALYSIS

Kathmandu and New Delhi in 1950 initiated their relationship with treaty based on peace and friendship and accompanying letter which defined security relation between two countries including an agreement that both bilateral trade and trade transiting via India. The 1950 treaty stated that 'neither government shall tolerate any threat to the security of any foreign aggressor and obliged both sides to inform each other of any serious friction or misunderstanding with any neighbouring states likely to cause any breach in the friendly relations substituting between India and Nepal'. This treaty has provided to the Nepalese in India same opportunity as India citizens are getting in economic and education sector.

Mid of the 70s the relation between two neighbouring countries was not smooth due to Nepal pressed amendments in its favour in the trade and transit treaty then after criticized openly about the Sikkim matter as an Indian state. The same year late king Birendra had proposed the proposal that Nepal has to recognize internationally as peace country. This has been taken by India in two different ways. India viewed if it did not contradict the 1950 treaty then it was unnecessary and if it was repudiation of special relationship then it could be a threat.<sup>33</sup> Nepal repeated this proposal internationally 1984 and with Chinese support by 1990 got the support of 112 countries. Until that time India had not reacted on it. By seeing China and Pakistan voted for that India until then also keep silent. On the matter when Nepal purchased a weapon from China this had been perceived by India as Nepal is willing to build the military relationship with China. India took it as a violation of 1950 treaty because Nepal has purchased the arm without India's approval.

Its very natural India is big and powerful compare to Nepal in terms of military and economically and always wants to control weak and poor periphery country by their foreign policy or by giving foreign aid or by military threats. India connects the security with economic cooperation. Due to geography of Nepal it has to rely on

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<sup>33</sup> On the relation of India-Nepal please see 'Nepal', Based on the Country Studies U.S. Library Congress, retrieved from <http://countrystudies.us/india/126.htm> .

India. Due to the worse economic condition Nepal has faced change in political situation where democracy has been established. If Nepal is not following as India is expecting, that affects directly to Nepal's political situation. For example in 1991 democracy was established. Then to now many government has been formed and fall down. No stable government in Nepal until now. This unequal and bias relation between Nepal and India makes some groups unsatisfied and Maoist movement begins. After some years Maoist came to the political main stream and won with huge seat in the constituent assembly election in April and trying to form a government with the help of other small parties to make a new constitution and will be in government as a major ruling party. For India it would be biggest threats if they will be in the government as a ruling party. Because, then Nepal and China will have good relation which will help to marginalise the India's growing influence in Nepal. Besides that in South Asia it's very important for China to become a regional power. For both Asian giant Nepal seems very delicate and serious concern.

In the past decades Nepal and China high level exchanged visits has been expanded. Nepal and China established their diplomatic relation in 1955. Since then there were no pendent issue left from the history. Dwelling on the history between Nepal and China ties, Since Tang Dynasty, there had been constant exchange between two neighbour and lots of historical evident like princess Bhrikuti's marriage to king Songtsan Gambo and construction of white pagoda under super vision of architecture Arniko. Nepal's geographical position in South Asia links China and other South Asian countries with the nonstop growth of China and India economic relation. Nepal, which is between China and India, will attract more attention. China has provided economic assistance for many years in the various fields – road construction, bridge construction, stadium, hospital etc.

#### **4.2 NEW EMERGING RELATION BETWEEN NEPAL AND CHINA, INDIA'S WORRY**

Nepal's political scenario has been totally changed after the resignation of Prachanda. His resignation not only pushes the Nepal towards the political crisis but also affects the geopolitical vulnerability of the country as it is in between two big Asian giant India and China. India always considers Nepal as a part of its influence which is

challenged by China inroads to Nepal. If Nepal will become the communist country then it would be biggest threats as well as challenge to India. That is why India always wants to influence and involve in Nepal's internal affairs directly/indirectly. India perceives Nepal is facilitating China's security interest in the South Asian region. The statement given by the Chinese ambassador in 2008 makes India to think in that way. The statement was given at council of world affairs by the Chinese ambassador Zheng Xianglin- '*Nepal is situated in a favourable geographical position in South Asia and a passage linking China and South Asia.*'<sup>34</sup>

The first elected Prime minister of Nepal and founder member of Nepali Congress Mr. Bisheshwor Prasad Koirala<sup>35</sup> was thrown and with the help of India Late king Mahendra had reformed again the king rule in Nepal. After being elected as first prime minister of Nepal it was fixed his first official foreign visit to China. But India's Prime Minister Jawahar Lal Nehru had forced him (Bisheshwor Prasad Koirala) to make his first visit to India and not to visit China. This shows India's cunning behaviour as well as India thinks Nepal is literally its sphere of influence. India has feared that if his first visit would be the China, it means to India that Nepal wants to build its bilateral relation stronger with China rather than India. And if it goes like that then India's influence in Nepal would be less and will not be able to influence Nepal in monopoly way.

At the time when Bisheshwor Prasad was Prime Minister Jawaharlal Nehru gave the statement that '*India's border will starts from the Himalaya.*' India did it intentionally because when India forced him not to visit China he refused the proposal. It's other way to make a Nepal's political situation unstable. It seems very well planned game to put Bisheshwor Prasad in Jail and after that in Nepal no more democracy. It happened and again king rule has been reformed. Further more Chief of the Indian army came to Nepal and met late king Mahendra and advised him to do so. Nepal is the only country that never ruled by foreign power. British were tried but failed and return back to India. Nepal seems like independent and sovereign country but in

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<sup>34</sup> Abanti Bhattacharya, 2009, '*China's Inroads into Nepal, India's concerns*', retrieved from [http://www.idsa.in/idsastrategiccomments/ChinasInroadsintoNepal\\_ABhattacharya\\_180509](http://www.idsa.in/idsastrategiccomments/ChinasInroadsintoNepal_ABhattacharya_180509).

<sup>35</sup> Bisheshwor P. Koirala was the first elected Prime Minister of Nepal from 1959 to 1960, led the Nepali Congress, a social democratic political party. He was democratically elected Prime Minister in Nepali history, retrieved from [http://en.wikipedia.org/wiki/Bishweshwar\\_Prasad\\_Koirala](http://en.wikipedia.org/wiki/Bishweshwar_Prasad_Koirala).



reality not like that. Nepal's national interest is in always in the shadow. What India or other foreign country says the political leaders are following. It means leaders are not capable or if someone wants to keep the national interest in the top priority then foreign power forced not to do so or otherwise he/she can get death penalty. For example, leaders from Nepal communist party name as Madan Bhandari. His death is still mystery. Nepali citizens are not ready to accept as just a car accident. But investigating committee's report says just an accident. Similarly the case of late king Birendra, he was trying to make sound bilateral relation with both the neighbouring country and he seems nationalistic and always thinking about the national interest that is why he easily transform the 237 long king rule history into the democracy in 1991.

To neutralise India's influence he was trying to increase the relation with China which India does not like. In 2001 in Nepal royal massacre occurred and the mystery until now has not been solved. Officially the investigating committee has public their report saying it was the prince Dipendra, had killed all the family members. But the reality is something else and it will be unsolved mystery for Nepal. Late king Birendra was proposed the proposal about Nepal has to be recognized as peace country in the world. Except India, Nepal got 112 countries support including China and Pakistan.

Similarly Maoist led government only was in the government for 9 months and after that their government also fell down due to their advocacy on integration of Maoist rebel army into Nepal army. There has few official visits been done to India from the Nepal's side and India was against of this. China is always in favour of integration rebel army to Nepal army. Indian Army chief also advised to Nepal army Chief it should not be happened. Due to this there was huge politics was going and finally Maoist led government fell down. Since then Maoist are trying to be in the government again but could not succeed.

According to Abanti Bhattacharya<sup>36</sup>, China has laid down a four folded policy with the aim to strength its bilateral relations with Nepal. First accommodate each others

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<sup>36</sup> Abanti Bhattacharya is an associate professor at the department of East Asian Studies, University of Delhi. Prior she was Associate fellow at institute of defence studies and analysis, retrieved from <http://www.idsa.in/taxonomy/term/78>.

political concern, second is enhance the economic cooperation on the basis of mutual benefits third is boost people to people culture exchange and last one is strength the cooperation and coordination in international and regional affairs. China wants to develop the relation with Nepal in a way that it would serve as a model for bilateral ties between small and big countries. Normally there is saying that big fish eats small one but China wants to prove this proverb not always. China in one hand wants to show that Nepal is independent and sovereign country and will be. Other hand to get Asia's power its necessary to marginalise the India's growing involvement in Nepal and other periphery country.

According to Bhim Prasad Bhurtel, executive director of the Nepal South Asia Centre, Kathmandu, there are 33 China study centres have already been established adjoining to India border in the south. Further more he concluded with the aim of close contact with Nepal, China has launched a local FM radio station in Kathmandu. With the aim to strengthen the diplomatic relations between both countries in 2005 Nepal-China Mutual Cooperation Society (NCMCS) has been established which is funded by Chinese embassy, Nepal. Due to Nepal's geopolitical structure and cultural and linguistic also Nepal is very close to India. That is why also what ever is going India always keep its eyes on it. Especially after Maoist Rebel came to the political main stream.

#### **4.3 NEPAL AND CHANGING RELATION BETWEEN TWO ASIAN GIANTS INDIA AND CHINA**

The two Asian giants have desire to become a super power in global perspective. Before that they have to take a leadership of region. India and China both are trying to get a regional leadership. Fresh long-winded visits of senior leaders from both neighbouring country emphasize Nepal's strategic importance for them. After nuclear deal was signed between India and America, America officially get a place in South Asia politics. The competition has got new dimension. After this nuclear deal the affect is observed between India and China relation have multidimensional effect in Nepal. Effect can be in the trilateral relation between India, China and Nepal. After the constitutional assembly election Nepal's political scenario has been changed. India and America never want to have a communist government in Nepal. For that

this nuclear deal has greater importance in triangular relation. Hence, Nepal has to adopt the suitable foreign policy in changed circumstances.

I would like to mention the divine instruction given by Late king Prithwi Narayan Shah before he died '*Southern neighbour (India) as cunning and be aware about the national interest*'. He had instructed to his successor to make a balance and try to remain close with northern neighbour (China) for national benefit. If one can analyse this statement then it gives very clear meaning. When Nepal and China had established their bilateral relation since then to until now there is neither border dispute nor other problem. Never trying to hurt the nation's sovereignty and as it committed follows too. China has clear policy of non involvement to other country's internal affairs. And if somewhere dispute then in friendly environment with positive attitude wants to solve. As Chinese authority had clearly gave the statements regarding the matter of 'Kalapani' issue. It says its matter between India and Nepal and both countries' official has to solve the matter. North neighbour always shows its friendly, cordial image towards Nepal. He was a real state man and had clear vision about the nation. He dares to give this clear statement before his death.

After his death Nepal has got other leader and signed the most unequal treaty in 1950. Because of this treaty since then to till now Nepal is suffering. This treaty gives the authority to India political and economical dominance over the sovereign Himalayan country. Prachnada has expressed on his first visit to India that due to culture, history and geographical and also due to tradition of interdependence Nepal's relation is crucial and vital but also we want to develop our relation with northern neighbour 'China'. This statement shows in competencies of the leadership. Not having sufficient homework on it. Nepal definitely needs both south and north neighbour due to its geographical structure. But first Nepal's leadership have to have clear mindset and lots of homework before visiting any neighbouring country.

During each democratic regime, Nepal's relation with India and China remained inconsistent. Where as China's non intervention policy to other countries internal affairs fuelling and giving opportunity to India to play active role in Nepal's politics. In other hand China want to show that interfering to other countries internal affair is

against of their policy. However, India's excessive influence in Nepali Politics makes Chinese involvement in Nepal's politics weaker.

After coming to the government unified communist party of Nepal (Maoist) has adopted an immature foreign policy with India and China has made its foreign policy weak. Nepal needs to perform excessive homework to cooperate with difficult and changing scenario to formulate appropriate policy.

Power greedy countries are eager to exploit resources of their periphery countries for their economic prosperity. Bangladesh and Burma contains huge amount of natural resources (gas). Similarly Nepal is rich in water resources. Around 83000 mega watt hydropower energy can be generated in Nepal. Such aggression and hunger towards natural resources could be the cause to invite the conflict between them in future.

After the Beijing Olympics strategically Nepal's importance for both India and China became immense importance in the region. After the Beijing Olympic game, vast interest has been exhibited by the Chinese authority towards Nepal and exhibits strategic importance. Other hand India is intending to project Nepal's image in international community a safe place for the criminal activities. For example, Indian airlines IC-814 had hijacked from Nepal in 1999<sup>37</sup>, recent Mumbai blast and Indian media had alleged that Nepal is safe place for the terrorist group. This can be seen as revenge showing by the India. Because China have good relation with its peripheral countries (Pakistan, Nepal, Sri Lanka and Burma) and now a days Nepal and China relation has got new dimension after the Maoist came to the power. India and China both can be seen as major opponent and trying take a leadership in South Asian region.

Regarding water resources issues 'Kalapani' is well known issue between India and Nepal. This issue is about the belongingness. Nepal had raised the voice of necessity of triangular consensus between Nepal, India and China for the solution of this issue. Chinese authority has clearly says concerning the matter both the countries (India and

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<sup>37</sup> According Wikipedia Indian airlines called IC-814 way to India from Nepal was hijacked, 1999, retrieved from [http://en.wikipedia.org/wiki/Indian\\_Airlines\\_Flight\\_814](http://en.wikipedia.org/wiki/Indian_Airlines_Flight_814).

Nepal) have to solve the problem in a friendly environment.<sup>38</sup> India needs huge amount of water for the irrigation purpose as well as electricity. Due to lack of homework and negligence of Nepali authority from the past time to until now this issue has not been solved. These shows the roles of Nepal on its resources and raise question about the sovereign country and national interest.

#### **4.4 MAOIST IN NEPAL AND CHALLENGE FOR INDIA**

Nepal constitutes very strategic significance to India and China. After the abolishment of long 239 kings' rule history Nepal is able to transform from monarchy system to multi party system. After the constituent assembly election on 2008, Nepal's importance has been increased especially with China. Unpredictable victory of Maoist party of Nepal has very important geopolitical effect in the region. This is growing concern for the India. India always have fear about Nepal would be under the influence of Chinese sphere or it will be policy under equidistance between south and north (India and China).

When coalition government was formed in Nepal where Maoist party was the ruling due to won by huge amount of seat it has been seen flurry of visit from both the country Nepal and China. Due to India's growing influence in Nepal the government has decided to make a close tie with the northern neighbour. China has also increases their relation with Nepal after Maoist came to the power. In near future both the countries are planning for the economic ties. China has promised for the construction of the railway track from Lhasa to Nepal border, Khasa in near future. The economic trade between China and India is dollar more than 60 billion per annum which can be seen more than India traded in SAARC (South Asian Association for Regional Cooperation) countries.<sup>39</sup> In terms of economic trade India have close ties with China than Nepal or any other countries in south Asia. It means India want to make trade business with China without Nepal's cooperation. I fit goes same way for the long term in future then Nepal's importance will be almost marginalised. Its time to Nepal

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<sup>38</sup> According to News Daily, 2004, '*China clarifies news report on Kalapani issue*', retrieved from [http://hotelnepal.com/nepal\\_news.php?id=450](http://hotelnepal.com/nepal_news.php?id=450).

<sup>39</sup> The article published in Nepalnews.com by Alok Bohara, 2010, '*A Tri-lateral Trans Himalayan Economic Cooperation Agreement*', retrieved from <http://www.nepalnews.com/main/index.php/-guestcolumn/8329-a-tri-lateral-trans-himalayan-economic-cooperation-agreement.html>.

think and work on it how to get benefit from both economic giant and keep its importance as being boulder of tow yam. In realism the blaming in political arena between Nepal and India is simply a projection of psychology of the past days. When Russian and US ended the cold war, US was treated India as an ally of Russia in cold era. When US saw in south Asian region two powers is emerging and in near future it will be threat to the US hegemony then US has changed the policy towards the both Asian economic giants and in Bush administration forcefully bale to make India to sign in the nuclear deal. In fact behind this the main objectives was US was searching a place to keep close eyes on the south Asian politics which with the help of this nuclear deal officially US got the platform. Within the few decades India and US engaged in joint military exercise.

Its time to realise and think the relation between India and Nepal being in between two main giant have to learn how to leverage our comparative benefit. Nepal has to know the potentiality what they have, Nepal is rich in water resources, herbs, tea etc. If there will be political stability, Nepal can invite lots of foreign investors so Nepal's man power can learn some entrepreneurial skills. On the economic front Nepal and Tibet traded salt and rugs and spices for trust by being respectful to both countries. Nepal is not in the situation to afford the China versus India card as pendulum diplomacy to suit their domestic political game. Now, Time to change old mindset and need to be transparent, loyal and to make a proactive approach to our regional diplomacy. When Chinese authority gives some statement regarding both countries relation than India takes it as a threat or Nepal wants to be ally with China. It's because India's monopoly in Nepal's politics will be less valuable or China is trying to marginalise its influence so that easier China to keep close eye on India. For example, in 2006 China has expressed interest in Nepali politics and by urging the king to restore democracy and peace in the country with the help of other constitutional forces.

The rise of China is major factors which influence indo-Japanese ties and US attempt to build India a major balance in the region. It has been clearly seen China's unwillingness to expand the UN Security Council to include Japan and India as permanent member. One hand Nepal want to marginalise India's influence in the Nepali politics. Other hand China is protecting to expand UN Security Council. This

conveys the message to India that both Nepal and China are trying to marginalise their influence in the regional politics as well as avoiding to expand the size of UN. China never wants to share as nuclear things to any other Asian countries. China is a rising power in Asia and wants to prevent the rise power around its periphery like India might be in near future. China attempt to increase its influence in Nepal, Bangladesh and Burma, unwillingness to support India-US nuclear pad and unwillingness to support in UN Security Council all these shows that China's motive is to take hold a leadership in South Asian region. Thus want to prevent the rise of India as a global player.

China has viewed India as a regional player and has tried to lock up India to the peripherals of global politics. There has been significant improvement in India's economy recent time. Today rise of India poses challenges in many different ways to its opponent China. Ideologically both the Asian giants are following two different political ideologies. India is democratic country and following capitalism and China is communist country and also from past few decades has adopted capitalism. That is the reason China took the membership of WTO. WTO director has expressed the words in the meeting of the working party on China's accession '*with China's membership the WTO will take a major step towards becoming a truly world organization*'.<sup>40</sup> India being multiparty democracy the development did in few decades after its independent is outstanding. It has been celebrated not only in their own country also in the west. This is very vital to challenge its rival Chinese regime.

It's very difficult in multiparty democracy to make a policy and implement it. In Nepal more than 15 times election has been done to form a government. But until now there is no progress at all. Due to this reason Nepal's constitution is in dilemma. In one interview the care taker Prime Minister Madhav Kumar Nepal has said when the reporter has asked why its delay in making the constitution in Nepal that is still not clear about which model country is going to follow to make a constitution for example Indian, British, US or the Chinese. All the small and bigger party have their own views and that creates the problem. It is supposed to be done already in the given

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<sup>40</sup> According to the press release about the WTO News, 2001, '*WTO successfully concludes negotiations on China's entry*', retrieved from [http://www.wto.org/english/news\\_e/pres01\\_e/pr243\\_e.htm](http://www.wto.org/english/news_e/pres01_e/pr243_e.htm)

time period but due to lack of coordination between the party and none of the political leaders are serious about the national interest and foreign powers got the opportunity to involve and influence. Thus it's difficult to form the government and again the constitution will be in dilemma. The consequences are Nepal's economy is going downward direction even though the government is shouting that this year economy has increased with certain percent. Every year country's skilled human resource is migrating to near by country and also abroad. During the conflict time report says every day more than 1000 Nepalese are migrating to India for the work.

Since the nuclear deal has been done between US and India the regional political scenario will have effect. This deal has its own significance. Nepal importance can be seen as vital for both countries. Especially for India which always thinks of its influence of sphere. This deal indicates India and US became an ally and hidden message given by US to India is that it's time that India has to play an active role in the South Asian region to maintain the balance of power. India's open involvement in Nepal's politics makes political instability. That is why Nepal is not able to make its new constitution until now and they still extend one year to make it possible. India clearly knows once the constitution will be written then the bilateral relation between Nepal and India will get affected. It shows leader's inefficiency and lack of political knowledge which opens the door to the foreign country to play their game. In Sri Lanka one can see Tamil Tiger were destroyed totally with the help of neighbouring country. One can not blame I mean to say other country. First own country gives the platform to the foreign country and invites for involvement in the country's internal affairs after that country never get out from the imperialism and its political situation always will be unstable and will be handicapped for long span of time. It shows none of the leaders are serious and concern to their own countries national interest. It will push the country many years back to reform its economy, it will invite unequal bilateral treaty and country will suffer and exploited by its semi periphery or the core one until the country will have the resources.

Nepal has around 20,000 Tibetan refugees which are considered as world's second largest Refugees. China is aware of this as a challenge. That is why Chinese authority has always want Nepal to follow one China policy and do not want anti china protest from the soil of Nepal. Before Maoist rebel came to the political main stream China



considers Nepal's Maoist rebel as Anti government forces. With the unpredictable victory in constitutional election China have changed its opinion towards Maoist and turned their interest in Nepal. Just after the election nine Chinese member officials and foreign ministry delegation to Nepal headed by assistant minister of foreign affairs. This means China even considers Nepal's Maoist as anti government forces. And after the election they change their policy so immediately. Nepal has to analyse this things and then without blaming to any other country and try to make a clear bilateral policy towards their both the neighbour. Analyst says China is likely to play a vital role in determining the future of Nepal. The way they showed their opinion towards Maoist and after the election turned to other way. But the thing is until and unless Nepal's political leaders realised and be serious to the national interest and security no other foreign power can get a place to determine the Nepal's future.

It's a race to grab the resource by the core and semi periphery country from the periphery country. India and China these days became more active to use the resources of Nepal. India never allow other competitor to share the resources that it has used since long time in a monopoly way. India from the history have used Nepal's water resources in monopoly way. Koshi, Gandak, Narayani and Kalapani are few examples. These rivers are of significant for India. India needs to its northern part which is connected to Nepal as irrigation as well energy. The resources have in India is not sufficient to provide entire country. That is why India has showed the interest in making the Koshi river dam. This is total in favour of India. When there will be huge flow of water India can close the dam and Nepal's most of the part could be in under water. As India has committed to compensate for the negative consequences occurred but only in the statement not in practicality.

A decade long war left Nepal in poor condition. Nepal's growth rate in 2009-10 estimated at 3-3.5% according to the World Bank report which is less than the growth rate of 2008 that is 5.3%.<sup>41</sup> Country Director of Asian Development of Nepal Barry J Hitchcock said the gross domestic product of Nepal will be below par in the fiscal year 2010. He further added because of political instability to improve agricultural and

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<sup>41</sup>According to The World Bank, '2010 Nepal Economic Update', retrieved from <http://web.worldbank.org/WBSITE/EXTERNAL/COUNTRIES/SOUTHASIAEXT/0,,contentMDK:22580832~menuPK:2246552~pagePK:2865106~piPK:2865128~theSitePK:223547,00.html>.

industrial sectors triggered low growth in Nepal. Inflation rate and unemployment rate in Nepal is very high. According to the Nepal Rastra Bank (NRB) mid of November 2009 inflation was 9.9%<sup>42</sup> and unemployment rate is 42 %. Nepal's more than a half of population is in poverty level and half of population is under illiteracy.

Nepal is poor and landlocked country. It is highly dependable with India for its economic needs. In this regards India is getting huge benefit being a Nepal's large trading partner. More than 50% remittance comes from India. Nepal's trade deficit with India is expected to rise by 53.7%. This was an imbalance of about 40% in trade with India according to the Nepal's finance minister Surendra Pandey.<sup>43</sup> Nepal and China chamber commerce and industry has said China has granted 497 Nepali products zero tariffs with the aim to minimize the trade deficit between two countries.<sup>44</sup> Due to unequal treaty between Nepal and India such unequal trade balance has occurred. Thus Maoist feel to revive the unequal 1950 treaty beside that economic and strategic reason they feel to make close tie with China and make trade balance equal on one side and other side to marginalise Nepal's dependence on economy with India. One can not deny that the ideological views of Maoist also foster to be closer to northern neighbour. These are the matters which are the worries to India and as well as challenge.

#### **4.5 INCREASED COOPERATION BETWEEN NEPAL AND CHINA BRINGS BENEFITS AND NEW CHALLENGES**

Nepal and China have very good relation from the history. Both the countries are supporting each other in many international forums such as United Nation. Nepal is always supporting one China policy. Two countries high level exchange visits has contributed to nurture Nepal and China bilateral relations. Ex king to the newly elected Maoist leaders have frequently visited China and appreciated the economic

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<sup>42</sup> According to report from Rastra Bank of Nepal, '*Inflation in Nepal*', retrieved from <http://www.scribd.com/doc/35646259/Inflation-in-Nepal>.

<sup>43</sup> According to ThaIndian News trade deficit between Nepal-India, 2009, '*Nepal's trade deficit with India to rise to 57.3 percent*', retrieved from [http://www.thaindian.com/newsportal/business/nepals-trade-deficit-with-india-to-rise-to-573-percent\\_100217836.html](http://www.thaindian.com/newsportal/business/nepals-trade-deficit-with-india-to-rise-to-573-percent_100217836.html).

<sup>44</sup> According to Nepal chamber and commerce China has granted 497 Nepal's products zero tariff with the aim of reducing trade deficit, 2010, '*NCCI optimistic on new Nepal, China Pact*', retrieved from <http://www.nepalnews.com/main/index.php/business-a-economy/6108-nccci-optimistic-on-new-nepal-china-pact.html>.

development gained by the China. In Tsinghua University Beijing, Prime Minister Madhav Kumar Nepal has delivered the speech-*'I am highly impressed by China's breathtaking development in the field of social and economic'*. He further added *'Trade and economy, agriculture and animal husbandry, tourism are the areas where both neighbour can work together'*.<sup>45</sup>

Since mid of 50s China has supported Nepal's socio-economic development. The first economic agreement has been done between both the countries in 1956. Since then to until now Nepal is getting financial and technical cooperation which can be in the field of infrastructure building, establishment of industry, sports, health sector. Besides that each year 100 Nepali students are getting scholarship to study in China. China has showed to invest in Nepal in many different fields like restaurant, electronic, ready made garment, hydro power, civil construction and many more.

Nepal chamber of commerce and industry Mr. Kush Kumar Joshi said Chinese tourist choose Nepal as a tourist destination. Until August 2010 Chinese tourist position was 4<sup>th</sup> after India. Apart from hydropower the Chinese have shown interest in agro processing industry- like herbal, yarshagumba (Viagra), tea, horticulture, fish processing, and engineering also interested in gem and jewellery sectors. From China side willingness showed to boost up Nepal's tourism industry. Recently Sunkoshi hydropower project (10 mw) has been completed with the Chinese grant assistance. 400 MW with Chinese aid for Nalsyangad is under construction in a joint venture. Sino hydropower is developing the upper Marshyangdi (50 MW) similarly upper Tamakoshi (456 MW), Chamelia (30 MW) Kulekhani III (14 MW) all these under the Chinese contractor. The increased cooperation between two countries brings benefits to Nepal in one hand and other hand if Nepal fails to make proper balance with southern neighbour then it would bring new challenge between Nepal and southern neighbour. Thus, Nepal has to think while increasing cooperation between any of the two big economic giants.

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<sup>45</sup> According to China View, 2009, Window of China: *'Nepali PM: scope for Nepal-China cooperation huge'*, retrieved from [http://news.xinhuanet.com/english/2009-12/30/content\\_12730774.htm](http://news.xinhuanet.com/english/2009-12/30/content_12730774.htm).

#### **4.6 NEPAL CAN BE AN ECONOMIC TRANSIT POINT BETWEEN INDIA AND CHINA**

Nepal is aware of the rise in economy of China and India at a global stage. In order to translate oratory into reality needs to have a strategic vision, followed by a set of policies. The economic trade between India and China is dollar 60 billion per year. It means both the countries have a trade business comparatively huge as India is doing trade with South Asian Association for Regional Cooperation (SAARC). In South Asia in terms of trade volume India has closer ties with China than with Nepal or any other country.

Gyanendra the former king of Nepal was addressing the Afro-Asian summit in Djarkata said-*'Nepal is ready for acting as an economic transit point between two Asian economic giant India and China.'* The motive behind is how Nepal could be benefitted being a transit point between these countries. To provide a transit point Nepal need to work a lot on it. India and China will extend their support to build infrastructure. There is border dispute between India and China and both countries looking for the power and want to take regional leadership in the South Asian Region. But when question comes to the trade both countries have good business ties. Nepal's position being in between of India and China have huge chances to provide a transit point this will makes the distance short and reliable and saves cost.

In recent years trade between India and China made a magnificent change in Asia. The point to understand here India and China have a border disputes and Tibetan religious leader 'Dalai Lama' is living in India. Externally people think both counties have not good bilateral relation. In fact the world is not only depends on the political bilateral relation. Economic relation is the other part which connects the countries. In the world of globalization the country is dependent on each for their support and cooperation and that is the way world is moving ahead. For example African, Latin America country have huge amount of resources as well south Asian countries also have resources but these countries belongs to the periphery because they are poor in the sense having no industry, poor in technology. Even though they have raw materials until some countries can not buy the country can not be benefitted. Thus politics now a days controlled by the economy. One can remember when there was

financial crisis in 2008 US was suffering a lot due to lack of currency and lots of big business was going in loss and even some manufacturing companies are closed due to lack of enough budgets and asking for the government. China holds the American economy and US is number one in power but in the economy China shows is number one. China have huge amount of foreign reserve. American government borrowed the money from the Chinese government to support their economy.

Thus politics and economy they have relation like meat and nail. India and China even though they have border disputes and political bilateral relation is not smooth but their economic trade relation is very good. Both are trying to influence the peripheral countries with their economy and trying to hold their stand in the regional politics. Both countries contained huge population; it means huge market for both the country. World has expected that India's largest trade partner will be China in near future. It would be huge benefit to both countries to develop the countries rural areas. The news published on 2009 China emerges India's largest trading partner in 2008. According to Mao Siwei- China's consul general in Kolkata, '*size of bilateral trade reached historic level of dollar 51.8 billion in 2008*'. In 1998 two countries trade was just 2 billion dollars. Within the 10 years time the trade between two countries have seen great achievement.<sup>46</sup>

Nepal not only could be transit point between India and China but also with Bangladesh and central Asian countries. To get more benefit Nepal's leadership has to work excessively on this issue by making appropriate economic policy. The former Indian ambassador to Bangladesh has wrote, '*transit facility would considerably save both time and money*.' Eastern side of Nepal is close to Bangladesh border which looks like a chicken neck. To cross the border Nepal has to cross the India. Thus Nepal could be the transit point for the north-eastern part of India. So, all three countries could be benefitted instead of using Calcutta port which is long distance as well costly. Nepal could be the transit country for Bangladesh for trade to Tibet. Central Asian countries Turkmenistan and Xinkiang of China region contains huge

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<sup>46</sup> News from The Consulate General of The People's of China in Kolkata, 2009, '*China emerges India's largest trading partner in 2008*', retrieved from <http://kolkata.china-consulate.org/eng/zlgxw/t533550.htm>.

amount of reserve of oil and gas in such perspectives those natural resources can be exported via Nepal to India and Bangladesh.

Chinese premier Wen Jiabo said *'we have set an objectives to increase the two way trade volume from dollar 13.6 billion to dollar 20 billion by 2008 and by 2010 to take it to dollar 30 billion Addressing Indian business leaders at New Delhi, India'*. These two countries agreed for joint bilateral free trade agreement.<sup>47</sup> India is exporting Iron ore to China which constitutes 53% of India's total exports. India's potential to China would be marine products, salt, inorganic chemicals, rubber, optical and medical equipment and diary products. Study says that there is huge potentials in knowledge trade between India and China especially in the area biotechnology, information technology, health, education and financial. At present India's north-east Mynamar, and China's Yunnan province is not in used condition. In this situation Nepal have a great opportunity to develop as transit state.

India could export Iron ore to Tibet which is very important at present time. China could import the goods from India which is expensive to be sent to Tibet due to high transport cost. Similarly, Nepal and India could be used as a transit state for the Bangladesh to export China. North eastern part of India is close to the Bangladesh and it could be viable for India as a transit for the territory for north eastern state of India like Mizoram, Assam, Nagaland and Tripura which is also connected to eastern part of Nepal called Silliguri close to Nepal border. There is short route to connect Nepal and Tibet called Kodari highway. By constructing road will help the isolated part of Nepal to be developed and creates the employment as well as to some extent help to minimize the trade deficit.

Nepal is land locked country due to that not all the part is connected by road facility. That is why Nepal's most of the part is still underdeveloped and people living there are deprived by education, medical and no employment opportunity. Nepal's government has announced every year for the construction of road to link with the main land as well as to link with India and Tibet border. Due to political instability

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<sup>47</sup> According to Free world economy report, Economy Watch: *'India China economy, Indo-China trade relation'*, retrieved from [http://www.economicwatch.com/world\\_economic/China/Indo-China-trade-relation.html](http://www.economicwatch.com/world_economic/China/Indo-China-trade-relation.html).

and lack of excessive homework policy has not been implemented. The government has proposed the idea to construct seven highways for the development of Nepal as transit point between India and China. Northern part of Nepal is Kanchanpur, Dharchula and Talakot to connect India border. Similarly, to connect Tibet by Rasuwa is hilly region. If it goes according to government plan it will help to reduce trade deficit, creates employment and helps to generate the country's economy. Besides that helps to develop the country's rural part in balanced way. In this way Nepal could be benefitted being a transit point and lots of people will get job placement.

## **CHAPTER 5**

### **5.1 CONCLUSION**

Geographically Nepal is in between two big Asian giant nations in south India and in the north China. Nepal has good relation with both its neighbours. Due to culturally, linguistically, and open border Nepal is close to its southern neighbour compare to its north neighbour China. Its geographical structure is in such situation if Nepal makes appropriate bilateral political policy and economical policy with these two Asian giant it will get lots of benefit.

Nepal's politics is deeply influenced by its southern neighbour India. The above mentioned things and most of the Nepal's political leaders get their education from India and also they took part in India's independence. Beside that Nepal is only the Hindu country in the world and most of the Indian people believe in Hinduism. In that way Nepal has of religious importance. Every year the report says position of the Indian tourist in Nepal is third after the US and other country. Now a day's Chinese tourist also choose Nepal as their tourist destination.

Being a small and landlocked country Nepal's economy is mostly depends on India. Nepal is totally dependent upon the foreign aid. Every year Nepal gets a huge amount of foreign aid for its development. The major donor country is India, China, US, England, Germany, and Scandinavian countries. Nepal is dependent on India due to unequal treaty made in 1950 by both countries. Due to this unequal treaty between Nepal and India, Nepal's politics and economy is dominated by India. This is the reason Nepal is facing political instability. Lots of government has been formed and but none of the government is able to give stable government to Nepal.

When Maoist party came to the government then both neighbours viewed have been changed. India thinks Nepal would be the sphere of influence of China and due to its ideology it could be the ally with China. Thus India perceive as a threat in the future because northern part of India is affected by Indian Maoist rebel. India and US still put the Nepal's Maoist in the category of terrorist group. In such situation one can



predict that Nepal's bilateral political relation and economic trade relation will be much affected by Indian such kind of behaviour. Being in yam of two big boulders this will affect the Nepal's development in politics, economy, trade etc. It is true that Nepal can not go long way by putting the leg in two different boats. Nepal has to make clear policy with both its neighbour that will helps to maintain sound bilateral as well as trade relation.

Nepal has to realise as soon as possible to form a stable government. National interest and security always has to be matter of concern for the country and put in the first priority rather than party's ideology. Nepal government has to work properly on cons and pros while making the policy. There are huge chances for the Nepal to be a transit point between the India and China also to the central Asian country. If Nepal will be able to make it happen in the near future Nepal will get benefitted which will helps to develop rural areas that has been ignored for the time being and create employment opportunity, minimize trade deficit, helps to make triangular relationship stronger in a balanced way. This will also helps to revive the unequal treaty made between Nepal and India. Thus Political leaders of Nepal has to think and work on it rather pulling each others leg and giving priority to their party and their ideology. Nepal's foreign policy is very limited, only focused on mainly maintaining close and friendly relation with south and north neighbours.

First Nepal needs to have a stable government then needs excessive exercise to make appropriate policy. That policy has to be in the favour of the country's national interest and security. Then needs to analyse on the unequal 1950s treaty's all the aspects. After that both the government needs to discuss on the matter in friendly environment and act accordingly without any delay. If the leaders are able to make this happen it will show the way to Nepal in future how to walk between dragon and elephant rather focusing just on their party's ideology. All the political leaders have to focus on one ideology that is national interest. In this way Nepal will be able to make a balanced and sound relation with both the south and north Asian giants.

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### **III. UNPUBLISHED ARTICLE**

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