

Nepal in the Belt and Road: New Vista on Building a China-India-Nepal Economic Corridor

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As part of its endeavor to build closer politico-strategic ties and economic integration with countries across continents, in 2013 China put forward an ambitious plan to revive the ancient Silk Road. China termed this brainchild of Chinese President Xi Jinping the “Belt and Road Initiative” (BRI), which consists of the Silk Road Economic Belt and the 21st-Century Maritime Silk Road. Geopolitically, the South Asian region can be seen as comprising important links between the parts of the project, a fact reflected in Beijing’s primary commitment to the China–Pakistan Economic Corridor (CPEC) linking Xinjiang’s Kashgar with Pakistan’s deep-water port of Gwadar, and its renewed interest in the Bangladesh–China–India–Myanmar (BCIM) Economic Corridor.¹

For a long time, Nepal has been advocating for a trilateral cooperation between China, India and Nepal (CIN) as a means to enhance economic development and connectivity at the regional level. However, this idea gained momentum only after China put forward the idea of BRI. Since then, both Nepal and China have been vigorously pushing this idea of a trilateral economic corridor at various regional forums. On May 12, 2017, Nepal signed the framework agreement of the Belt and Road Initiative. This was an important development towards building a CIN economic corridor. Given this backdrop, it is predicable that Nepal and China together will increase

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1 “Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road”, National Development and Reform Commission, March 28, 2015, http://en.ndrc.gov.cn/newsrelease/201503/t20150330_669367.html.

their efforts to bring India on board and move forward the trilateral corridor project in order to serve the interests of the three states.

Nepal's Inclusion in the Belt and Road

China's policy in South Asia has moved beyond conceptualizing the sub-region as merely a peripheral area and towards a commitment to safeguard the stability and development of China's southwest frontier region, the stable supply of strategic resources, the security of energy trade and sea lane of communication (SLOC), and South Asian stability with a view to avoid direct involvement into any regional strategic conflicts.² Thus, China places a lot of emphasis on those initiatives that attempt to enhance the inter-connectivity of roads and railways as the basis of economic belts and corridors. The vital strategy adopted by the Chinese government is to "connect China's foreign policy with other countries, particularly its neighbors, through economic cooperation."³ China insists that its investment in regional infrastructure is economically motivated and argues that it will bring economic benefits to host countries. Related to this thesis, Chinese scholars have emphasized that the BRI should focus on bilateral projects in a reciprocal manner, promote better provision of public goods, downplay the so-called security strategic quest, and highlight attributes of economic cooperation.⁴

Since the BRI's launch, Nepal, as one of China's important neighbors, has manifested greater enthusiasm to be part of the Belt and Road's "grand" project. However, Nepal has been struggling to find a pragmatic and balanced way to integrate with it. Due to lack of domestic political consensus, and its geographic and diplomatic limitations as a small state, Nepal was in quandary for a long time. The Nepalese government received some criticism for dragging their feet on the issue. Still, there is strong

2 Hu Shisheng, "Role of SAARC Observers: A Chinese Perspective," in S. D. Muni, *The Emerging Dimensions of SAARC*, New Delhi: Cambridge University Press India, 2010.

3 Xi Jinping, *The Governance of China*, Foreign Language Press, 2014, pp.315-319.

4 Ye Hailin, "India's South Asia Policy and Its Impact on OBOR," *Indian Ocean Economic and Political Review*, 2016. 02, pp. 4-15.

support for the BRI in Nepal from across the political spectrum and from the Nepali public.

During former Nepalese Prime Minister K. P. Sharma Oli's visit to China in March 2016, Nepal and China inked a deal on trade and transit agreements, and principally agreed to enhance connectivity as part of the BRI project.⁵ Nepal feels that it has the right to diversify from its current trade and transit dependence on India.⁶ An agreement on transit transport signed between China and Nepal will provide Nepal with an access to a Chinese sea port for third-country trade. This landmark transit agreement theoretically ended the Indian transit monopoly over Nepal.

Despite the initial hiccups, just two days ahead of the Belt and Road Forum for International Cooperation in Beijing, Nepal officially signed a Memorandum of Understanding (MOU) on the BRI, finally on May 12, 2017.⁷ However, in a preliminary blueprint of China's *Vision and Actions on Jointly Building Silk Road Economic Belt and 21st-Century Maritime Silk Road*, Nepal was not considered a focal country, but was instead defined as a beneficiary.

In recent years, Nepal and China have held a series of high-level meetings.⁸ In the wake of the 2015 earthquakes, China's offer to Nepal is its largest ever humanitarian effort on foreign soil.⁹ Apart from being a dialogue partner with the Shanghai Cooperation Organization, Nepal is among the founding members of the China-led Asian Infrastructure Investment Bank

5 "Nepal, China Pen Transit Trade Treaty, Nine Other Pacts," *The Himalayan Times*, March 22, 2016, <http://thehimalayantimes.com/business/nepal-china-pen-transit-trade-treaty-nine-pacts>.

6 This perfection has been further fortified after India expressed unhappiness over Nepal's new Constitution promulgated in September 2015 by a sovereign Constituent Assembly through a two-third majority.

7 China had sent a draft proposal on the Belt and Road Initiative to Nepal late last year. Officials from both countries held a series of meetings. After a month-long consultation and with some revision, the Nepali side sent back the draft to Beijing.

8 In the latest episode, in March 2017, Nepalese Prime Minister Pushpa Kamal Dahal "Prachanda" visited China, and Chinese Defense Minister General Chang Wanquan visited Nepal. During the Chinese Defense Minister's Nepal visit, China pledged a grant assistance of 200 million yuan to strengthen the Nepali Army in disaster management and equip it for the United Nations peacekeeping mission. "China Pledges Rs.3b Support to Nepal Army," *The Kathmandu Post*, March 24, 2017, <http://kathmandupost.ekantipur.com/news/2017-03-24/china-pledges-rs-3b-support-to-nepal-army.html>.

9 Ram Kahrty, "China's Relief Operations to Nepal the Biggest Ever Sent to a Foreign Soil," *South Asia online*, May 9, 2015, <http://www.southasia.com.au/2015/05/09/chinas-relief-operations-to-nepal-the-biggest-ever-sent-to-a-foreign-soil>.

(AIIB). Further, Nepal and China together have concluded their maiden military drill recently. China's prioritizing of Nepal in such initiatives indicate that China's policy towards Nepal has gradually moved away from thinking of the sub-region as merely a peripheral area to viewing it as part of its neighborhood and as of strategic significance.

Significance of Historical Linkages

China has stated that a replication of the ancient Silk Road in the form of the Belt and Road Initiative is rooted in history and oriented towards the future. Ties between China, India and Nepal and the latter's connection with the ancient Silk Road date back to the 5th or 6th century BCE. The ancient southwestern Silk Road, though less known, started in the Yunnan province in China and connected Myanmar, India, Nepal and China's Tibet Autonomous Region with a loop back to Yunnan. It remained active throughout the following centuries. This route was at its peak in the 13th century under the Mongol Empire but declined after the 14th century as a result of the isolationist policies of the Ming dynasty and its emphasis on maritime routes.

Nepal had a special relationship with the ancient Silk Road. Scientific analyses of artefacts, dated 400-650 CE and collected from an archaeological site in Upper Mustang, have pointed to Nepal's connection with the Silk Road.¹⁰ The ancient Silk Road equally contributed to Nepal's prosperity many centuries ago.¹¹ The salt trade routes along the trans-Himalayan passes served as famous conduits for trade between Nepal and China's Tibet.¹² The presence of a large number of people of Nepali origin

10 Margarita Gleba, Ina Vanden berghe & Mark Aldenderfer, "Textile technology in Nepal in the 5th-7th centuries CE: the case of Samdzong," *STAR: Science & Technology of Archeological Research*, 2016, Vol. 2, No.1, pp. 25-35.

11 Nepali merchants had been travelling to Lhasa (Tibet) to get gold from Mongolia which they would sell in Kolkata. This trade behavior of Nepali merchants was tri-polar, and it gives us a sense of globalization and the international trade conducted by Nepal at that time.

12 Madhu Raman Acharya, *Silk Route: Enhancing Nepal-China Connectivity*, Institute of Foreign Affairs (IFA), Kathmandu, 2015, p.17.

residing in Lhasa and some other parts of Tibet for centuries, as well as a Nepalese mission, the only diplomatic presence in Lhasa, stresses the important role of the Silk Road in Nepal's history. During the Malla period (10th-18th century), Lhasa was not only a vibrant point for trade but also a center to develop cultural contacts among diverse people. There is a need to evaluate the historical importance of the route, explore further prospects, and recommend better ways to expand economic connectivity between China and Nepal.

At present China and Nepal have some designated routes for trade and exchange like Zhangmu-Kodari, Gyirong-Rasuwegadhi, Humla-Hilsa, Olangchung Gola-Tiptala Bhanjang, Mustang-Korala, and more. Some of the new routes between China and Nepal are not only historically important, but also carry immense prospects to develop China-India-Nepal trilateral commercial and cultural connectivity. In view of the alarming height of Nepal's trade deficit with China, the revival of the trade route can be highly instrumental in promoting Nepal's exports not only with China but also with India and beyond.

Besides economic trade, the traditional Silk Road also helped spread Buddhism from Nepal to China and Central Asia, and to the Southeast Asia. Chinese traveler Fa-Hien (also known as Faxian) used the Silk Road to come to Gandhara and northern India between 399 and 413 CE. In the 7th century (629-645 CE), another Chinese traveler Huen Tsang (also pronounced as Xuanzang) traversed the route following the footsteps of Faxian and came to Nepal and India in search of Buddhist scriptures. It is known that Buddhism initially travelled along the route to reach China, Vietnam, Japan, Korea, Thailand and other Asian nations. Hence, the corridor has a significant cultural dimension—with a huge Buddhist population in China and the rest of East Asia who can have direct and convenient access to Lumbini of Nepal, the birthplace of Gautam Buddha, and to other Buddhist shrines in India.¹³

13 Jonathan H. Ping, "China's Relations with India's Neighbors: From Threat Avoidance to Alternative Development Opportunity," *Asian Journal of Political Science*, 2013, Vol.21, No.1, pp.21-40.

Potential Trans-Himalayan Connectivity

Historically, South Asia and China were the largest political economies of critical importance to each other, but they are geographically isolated by the Himalayas. In the modern era, South Asia has been less important to China compared to other regions, and the two-way trade between South Asia and China as a percentage of China's overall trade is small. However, its importance is rising in the new century due to transshipment through South Asia along Chinese global supply chains and the overall development potential of South Asia. The prospect of China and India, both states with a population of larger than a billion, dominating the global political economy marks South Asia of particular importance to China, and renders their contemporary relations of global strategic significance.

China's engagement with South Asia in recent years is seen primarily in trade and investment as well as in improving its linkages with South Asian states through treaties and bilateral cooperation. As a result, over the last decade, China has transformed its relationships in South Asia, and is currently the largest trading partner of India, Pakistan and Bangladesh, and the second largest trading partner of Sri Lanka and Nepal. South Asian countries are therefore attracted to Chinese initiatives that aim at enhancing economic cooperation.

Physical connectivity between China and the South Asian region has lagged behind in comparison to the cooperation between China and other (neighboring) regions. There are reasons for optimism, however, as China goes forward with its plans to improve transport and trade infrastructure across Asia through the BRI. China's BRI consists of both overland and maritime infrastructure to build connections between China and the South Asian region. Successful cooperation between China and the region in infrastructure development would be a major hallmark in the ongoing power shift of international politics to "Greater Asia."¹⁴ Apart from the CPEC and

14 Bhaskar Koirala, "The Role of Infrastructure in China-SAARC Relations: Moving Towards a Partnership of Common Prosperity," *Journal of International Affairs*, 2009, Vol.1, No.1, pp. 57.

the BCIM, the BRI would involve carving out a series of new pathways across South Asia, namely via the China-India-Nepal Economic Corridor (CINEC).

The discourse about building the CINEC has been politically anchored. Nepal put forward the idea of developing itself into a land bridge between Central, South and Southeast Asia at the second South Summit in Doha in 2005. Later, in 2010, after the abolition of the monarchy, former Nepalese Prime Minister Prachanda further put forward the concept of strategic trilateral relations among China, India and Nepal, stating that all three parties should consider their respective interests and work in a collaborative manner. Likewise, on June 25, 2015, during a meeting with Indian Minister of External Affairs Susma Swaraj on the sidelines of an international conference on the earthquake reconstruction of Nepal, Chinese Foreign Minister Wang Yi raised the issue of China's interest to collaborate with India and Nepal, and carry out trilateral cooperation for Nepal's reconstruction.¹⁵ Politically, both Chinese and Nepalese leaders are optimistic about this trilateral mechanism where China and India could adopt a cooperative framework for the economic development of Nepal.

Nepal has developed several north-south road corridors, which have the potential of increasing connectivity between China and India through Nepal. What is noteworthy, a road from Shigatse to Gyirong, which had been halted for decades, has recently been reopened. This road consists of an ancient trade route that was operated until 1960. In 2014, the Gyirong port was re-established with new infrastructure and was recently upgraded to an international port. Similarly, the construction of the proposed highway connection from Gyirong (China-Nepal border) to Raxaul (Nepal-India

Successful cooperation between China and South Asia in infrastructure development would be a major hallmark in the ongoing power shift of international politics to "Greater Asia."

15 "Wang Yi: China and India Jointly Participate in the Reconstruction of Nepal, and Discuss to Build a China-Nepal-India Economic Corridor," June 25, 2015, http://www.fmprc.gov.cn/mfa_eng/wjb_663304/zjzg_663340/yzs_663350/gjlb_663354/2752_663508/2754_663512/t1276892.shtml.

border) has been expedited.

More importantly, the proposed Lhasa-Shigatse-Gyirong railway line on the China-Nepal border is expected to be complete by 2020.¹⁶ Nepal has welcomed China's efforts to bring its railway to the Nepalese border, and a further quest to extend it to Kathmandu. Subsequently, the Department of Railways was established as a separate wing under Nepal's Ministry of Transportation. While Nepal simultaneously indicates its readiness to join China's Belt and Road Initiative, the construction of the cross-border railway between China and Nepal has turned out to be the proposal of bilateral "strategic cooperation."¹⁷

In its response to Nepal's quest to extend the Lhasa-Shigatse-Gyirong railway up to Kathmandu and Lumbini, China offered support to Nepal on conducting a Detailed Project Report (DPR).¹⁸ The report suggested that the construction railway might cost up to US\$8 billion and that it would be 550 kilometers long connecting China's western Tibet region to Nepal's capital Kathmandu. After the planned completion of this railway line, Nepal will not only get a huge infrastructure boost but will also emerge as a key "link country" for India and China to facilitate trilateral trade and exchanges.¹⁹ This is likely to contribute to reducing Nepal's trade deficit to the countries in the region. Besides, as the gateway to South Asia for China and others on the Silk Road Economic Belt, Nepal could also be established as the safest and closest transit for India and the rest of the region. With careful articulation, Nepal can map itself as a regional financial and trading hub and seize additional growth opportunities. Rail connectivity with China will spur the globalization of the Nepalese economy. Once the

16 "Chinese Tech to Make Himalayan Train Possible," *China Daily*, August 6, 2016, <http://en.people.cn/n3/2016/0805/c202936-9095559.html>.

17 "Wang Yi: to Elevate China-Nepal Cooperative Partnership to New Highs," September 7, 2017, http://www.fmprc.gov.cn/mfa_eng/zxxx_662805/t1491758.shtml.

18 The China CAMC Engineering Company and the China Railway Construction Corporation have already applied to Nepal's Railway Department for the construction of the Kathmandu-Rasuwa (Gyirong) railway and accomplished the Detailed Project Report. Their report shows a connection from Gyirong to Kathmandu is technically feasible.

19 Rupak Sapkota, "China-India-Nepal Trilateralism: An Initiative Beyond Geopolitics," *Journal of International Security Studies*, 2016, Vol.34, No.4, pp. 68-92.

connection with China is established, Nepalese goods can be exported to the international market through the Eurasian transportation networks.

China itself has a comparative advantage when it comes to infrastructure building while India's position vis-à-vis Nepal – especially given the adjacent location of the Terai plains – puts it in a better spot to push cross-border connectivity projects. Within the framework of China-India-Nepal corridor, if the trans-Himalayan railway is indeed constructed, it could become a game-changing development for trade between East and South Asia.²⁰ The entire South Asian trade can benefit immensely through that network. The path to further strategic cooperation between the three countries in the region and other fronts will then remain wide open. There are grounds for optimism as China goes forward with its plans to improve transport and trade infrastructure across Asia within the BRI. The projected railway line from Shigatse to Kathmandu is just one link in this chain, but it is a crucial one.

As mentioned above, Nepal is expected to connect to the new Silk Road project through the Tibet Autonomous Region (TAR) of China. The economic landscape between the TAR and Nepal at present is changing rapidly.²¹ In the early 1990s, the Chinese government launched a “Go West” (*xibu dakaiifa*) policy aimed at addressing the development disparity between China's coastal areas and the vast western lands, including the provinces of Xinjiang, Ningxia and Qinghai. The basic premise of that policy was that the peace, stability and development of South Asia are closely related to the stability and development of Southwest China.²²

As the gateway to South Asia for China and others on the Silk Road Economic Belt, Nepal could also be established as the safest and closest transit for India and the rest of the region.

20 Jeremy Garlick, “Through the Himalayas, a Rail Route to Prosperity,” *Global Times*, November 22, 2016, <http://www.globaltimes.cn/content/1019562.shtml>.

21 For instance, Tibet-Nepal bilateral trade account for more than 70 percent of Tibet's total foreign trade volume in 2011, http://news.xinhuanet.com/english/business/2012-07/15/c_131716978.htm.

22 Liu Zongyi, “China's Economic Relations with SAARC: Prospects and Hurdles,” *China International Studies*, September/October 2014, pp.112-13.

Now, China further intends to add a further pillar to the “Go West” policy through the BRI²³ so that it could cope with the huge potential of its ties with neighboring countries further to the west. In January 2015, at the 3rd plenary session of the 10th TAR People’s Congress, the government announced the launch of the “Himalayan Economic Rim Project,” aiming to work especially with three neighboring countries: Bhutan, India and Nepal.²⁴ The Himalaya Economic Rim refers to building ports in Tibet including Zhangmu, Gyirong and Purang which have been economically supported by Shigatse and Lhasa. The TAR plans to work with these countries to develop border trade, boost international tourism, and strengthen industries such as Tibetan medicine and animal husbandry.

The TAR itself has excellent infrastructure assiduously built up over decades by China’s central government, which would definitely bring certain advantages to the BRI. Besides roads, the TAR also has a growing network of first-class railway lines that later could play a particularly important role in the BRI in terms of transnational connectivity. There were trade routes, including branches of the ancient Silk Road across the Himalayas to connect China and India through Nepal. Therefore, Tibet will serve as a valuable gateway for Nepal to connect South Asia and the countries of Central Asia. Additionally, Tibet’s infrastructure allows it and gives it an advantage to create a new branch of the southern Silk Road.

Strategically, the construction of the BRI in South Asia has been slow—the BCIM Economic Corridor has made limited progress while China cannot underestimate the risks surrounding the construction of the China-Pakistan Economic Corridor.²⁵ In this context, it is necessary to seriously consider how to promote the China-India-Nepal Economic

23 Zhao Minghao, “The Belt and Road Initiative and its Implications for China-Europe Relations,” *The International Spectator*, 2016, DOI: 10.1080/03932729.2016.1235819.

24 “Himalaya Economic Rim Project to be Launched,” January 23, 2015, <http://eng.tibet.cn/news/1449501330103.shtml>.

25 Lin Minwang, “China-Nepal-India Economic Corridor: Its strategic Significant and Developing Model,” *Contemporary International Relations*, No.2, 2017, pp.31-39.

Corridor.

Existing Challenges on Building the CIN Economic Corridor

Political divergences

Nepal and China themselves have different political systems. Nepal is a democratic federal republic with a multiparty parliamentary system. Though now a signatory of the BRI, Nepal has not yet assessed how to receive optimal benefits from the Chinese initiative. The absence of a coherent foreign policy and the lukewarm response to China's initiative among politicians and the bureaucracy could deprive the momentum in initiating the CIN Economic Corridor. In the past years, the K. P. Oli government inked the transit agreement and the Prachanda government signed the MOU to participate in the BRI. But there has been little progress in the implementation. While the BRI is highly speculated as a further maneuver of Chinese political influence, Nepal certainly requires a broader consensus to achieve full integration into the project. The absence of a single party that holds a majority in the current parliament has created a constant source of political instability in Nepal. Moreover, the Nepali Congress, the largest party of Nepal, is regarded as pro-India, while the Nepali communists are seen as friendly to China. In addition, the weakness in policy implementation of the government, poor infrastructure and lack of consensus among political elites may pose numerous challenges to initiating the project.

Economic viability

Although Nepal and China's recent agreements under the BRI framework have highlighted the economic aspects of regional cooperation, there has been some skepticism about the feasibility or potential benefits of the recommended proposals. Through the Belt and Road Initiative, China is assisting infrastructure projects in Nepal by extending credit lines. Critics have cautioned that small countries like Nepal with struggling economies

could be burdened with Chinese loans under the project.²⁶ Some are skeptical about the proposal, and considers that China wants to use Nepal merely as a gateway to dump its goods in India.²⁷

Nepal should strategize its proactive engagement in the Chinese overture with a view to maximizing potential for connectivity, trade, transit, investment and tourism from countries in the region while minimizing any further risks that the country undertakes as its economic liability. Of course, receiving loans for infrastructure projects is not inherently bad but the main priority should be to achieve sustainable economic growth by creating more jobs/employment. Starting work on at least one medium-scale project could bring quick results, thus signaling credibility from early on. Cross-border infrastructure, especially railway connectivity between Nepal and China, can become the primary project in this context.

Geopolitical apprehension

In the backdrop of Indian opposition, building an economic corridor connecting China with India and Nepal under the BRI framework has aroused some sort of geopolitical apprehension. India's unwillingness to become part of the Chinese initiative has been closely noticed by Nepal. Similarly, the China-Nepal deal has also caused serious concerns in India, but to no avail. Notwithstanding the Indian contention, Nepal's decision to be part of China's ambitious initiative will eventually encourage a reluctant India to be part of the BRI in the future.

Transport connectivity projects include both roads and railways under the broad framework of the BRI. Therefore, they provide an important opportunity for the development of China-India-Nepal Economic Corridor. Despite significant technological progress in transport engineering and

26 Brahma Chellaney, "China's Debt-Trap Diplomacy," Project Syndicate, January 23, 2017, <https://www.project-syndicate.org/commentary/china-one-belt-one-road-loans-debt-by-brahma-chellaney-2017-01?barrier=accessreg>.

27 Hari Bansh Jha, "Corridor between China, Nepal and India: Is It Realistic?" Observer Research Foundation (India), June 6, 2017, <http://www.orfonline.org/expert-speaks/corridor-between-china-nepal-and-india-is-it-realistic>.

logistics, there is some degree of skepticism on the feasibility or potential competitiveness of the Nepal-China proposed transit route as part of the CIN Economic Corridor. In fact, the primary source of such skepticism is geopolitical sensitivity rather than technical or economic considerations. For India's strategic community, Tibetan "road and access issues are classic geopolitics" in which "roads and connectivity are crucial issues around which nations [China] develop strategic plans" but which cause "anxiety at the same time" to India.²⁸ Critics believe that the China–Nepal road connectivity can provide access [passage] to the Chinese army in case it contemplates any hostile action against India.²⁹ In March 2016, at the inaugural Raisina Dialogue in New Delhi, Subrahmanyam Jaishankar, Foreign Secretary of India, identified "connectivity" as having "emerged as a theater of present day geopolitics," but without mentioning the word China.³⁰ Previously, Jaishankar described the BRI as the "Chinese national initiative" devised and created by China and added that "it is not incumbent on other countries to necessarily buy it because national initiatives are devised with national interests," signaling about the questions of ownership.³¹ The strategic thinking of India vis-a-vis China appears to focus on relative gains which makes India increasingly skeptical regarding China-promoted greater connectivity.

In the backdrop of unresolved China-India border disputes, India, in particular, has major concerns about the potential impact of Chinese economic penetration and the security implications of creating new physical connections.³² Regarding direct connectivity between China and India, there is the much celebrated Nathula Pass, the only operational trade route between China and India over their long border, which was closed after the

28 U. Aneja and A. Kumar, "Tibet, Connectivity, Capabilities and Consequences," *Peace & Conflict*, 2006, Vol.9, No.9, pp.39&36.

29 Sangeeta Thapliyal, *Mutual Security: The Case of India-Nepal*, New Delhi: Lancar, 1998, p.14.

30 "Speech by Foreign Secretary at Raisina Dialogue in New Delhi," March 2, 2016, http://mea.gov.in/Speeches-Statements.htm?dtl/26433/Speech_by_Foreign_Secretary_at_Raisina_Dialogue_in_New_Delhi_March_2_2015.

31 Subrahmanyam Jaishankar, "India, the United States and China," The International Institute of Strategic Studies Fullerton Lecture, July 20, 2015, <https://www.youtube.com/watch?v=et2ihw8jHaY&feature=youtu.be&t=46m27s>.

32 Liu Zongyi, "China's Economic Relations with SAARC: Prospects and Hurdles," pp.112-131.

1962 war and reopened in 2006, though it still carries limited trade volume between the two countries. A direct economic corridor between China and India would demand delineation of the border at the Line of Actual Control (LAC) between the two countries in some sectors, and this seems unlikely to be achieved in the near future. The recent Doklam stand-off between China and India ended in an ambiguous way and, inevitably, caused further damage to the relations of the two countries undermining the mutual trust needed to establish direct connectivity.

Additionally, there are some Indian concerns that this proposal might lead to Chinese goods flooding the Indian market through Nepal. However, just as the old defensive mindset of deliberately not building adequate roads along the Chinese border ultimately worked to India's disadvantage, protectionist fears about being swamped by Chinese goods are likely to prove counterproductive.

Ever since China and Nepal are engaged to build the trans-Himalayan economic corridor, India's official response to this has been cautious and relatively muted, but a perusal of academic writings and news reports affirm that India has deep concerns about the implications of the economic corridor for its strategic interests.

In view of the proximity and porous border between Nepal and India, India feels nervous when it comes to the proposed Shigatse-Gyirong railway route entering Nepal and further extending to the Nepal-India border. India believes that the tunnel, road and railway links that China intends to build will pierce the natural ramparts of South Asia, the Himalayas, and end India's geographical hegemony over the rest of South Asia.³³ In an apparent countermove, India recently came out with several alternatives, such as the "Act East" policy, the BBIN initiative,³⁴ the idea of regional connectivity

33 "China-Nepal railway with tunnel under Mount Everest 'being considered'", *The Telegraph*, 09 April 2015, <http://www.telegraph.co.uk/news/worldnews/asia/mounteverest/11524428/China-Nepal-railway-with-tunnel-under-Mount-Everest-being-considered.html>.

34 BBIN consists Bangladesh, Bhutan, India and Nepal. The BBIN initiative is well placed as an important mechanism for India to reshape its regional image and realize regional connectivity and socio-economic development.

amongst member states of the Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation (BIMSTEC) etc.

In India, only a minority, consisting almost entirely of economists, has seen the Belt and Road Initiative as an opportunity to modernize India's lagging infrastructure and pave the way for rapid industrialization and employment growth. They believe that "if India chooses to stay out of the BRI it will only increase its isolation within South Asia, and hasten the end of its regional hegemony."³⁵

Due to circumstances beyond India's control, India's premise that Nepal should remain India-centric is becoming irrelevant. India's options are constrained politically especially given China's ability to invest in Nepal while India often faces economic problems.³⁶ India seems unable to play a leading role in the economic development of Nepal because it lacks financial resources. In respect of the BRI, Nepal doesn't share Indian ambivalence towards China. The Chinese model of economic engagement without political dictation is looking more effective than Indian Prime Minister Modi's "neighborhood first" policy.³⁷ Therefore, if India chooses to hinder the projects within the BRI framework for its own strategic concerns which Nepal does not share, even though India might have the power to do so, the outcome will further antagonize people in Nepal, which can be pernicious in the long term to Indian interests.

Conclusion

The overall idea behind establishing the CIN Economic Corridor as a means of fostering cooperation among China, India and Nepal for economic

35 Prem Shankar Jha, "Why India Must Embrace China's One Belt One Road Plan," *The Wire*, August 13, 2016, <http://thewire.in/58810/india-must-embrace-chinas-one-belt-one-road-plan>.

36 For instance, in Nepal Investment Summit held in Kathmandu in March 2-3, 2017, investors from China pledged to invest about US\$8.3 billion in Nepal, which represented over 61 percent of the total commitments made at the event. This amount far exceeded the commitment made by India (US\$317 million) despite India being Nepal's largest trading partner. See <https://investmentsummitnepal.com>.

37 Hannah E. Haegeland, "Nepal's Pivot to China May Be Too Late," *The National Interest*, May 20, 2016, <http://nationalinterest.org/blog/the-buzz/nepals-pivot-china-may-be-too-late-16285?page=2>.

development, connectivity and enhancement of cultural proximity, which these three countries have maintained at least for 2,000 years, shall boost up. Based on the analyses above, several suggestions could be considered by policy-makers of the relevant countries, and related multilateral organizations in facilitating the CIN Economic Corridor's implementation and its alignment in a comprehensive manner.

While China and India show less enthusiasm on direct connectivity through their common border, Nepal can bridge between the two countries without them having to resolve the border issues.

First, it is strongly suggested that the three countries strengthen partnership and policy coordination on their development visions and strategies through seeking complementary advantages and converging interests. Making full use of existing coordinating mechanisms could help identify their areas of common interests. Trilateral communication should


not only involve government bodies, but also enterprises and industries, as well as research think tanks, media, and the general public.

Second, China, India, and Nepal should think out of the box and realize the potential economic dividends of the CINEC for the entire region. As mentioned earlier, the economic landscape between China, India and Nepal has developed rapidly over the past ten years, but regional connectivity is at a low level compared to other dimensions of the relationship. The proposed China-Nepal trans-Himalayan railway project has the potential to extend up to India, which very logically connects China and the South Asian region. Therefore, this railway link from Shigatse to Kathmandu is just one link in this chain, but it is a crucial one in the process of building the China-India-Nepal Economic Corridor.

Third, Nepal should demonstrate its readiness to tap the opportunity created by the Chinese initiatives. Nepal's inclusion in the BRI will definitely spur the Nepalese economy towards globalization as well as equally inspire the region to embrace and revive the glory of the ancient Himalayan Silk Road. Historically, Nepal has insisted on playing a

balancing role between its two giant neighbors. Despite of India's opposition to the initiative, Nepal's choice to sign up for China's infrastructure project has offered it alternative development opportunities. Hence, the policy to engage in BRI further highlights the balancing act between Beijing and New Delhi, and implied it would support proposals by either country that could help the Nepalese economy globalize.

Fourth, to address the question of proper inclusion of Nepal to BRI, China can yield a different approach on integrating the so-called "non-focal" countries into the BRI. For instance, China could opt to develop a new branch of the BRI connecting China's Tibet to South Asia through Nepal. At the same time, Nepal should forge a broader national consensus on how to benefit from relevant projects. The two countries should opt to establish a joint mechanism to develop further projects and examine their economic viability to ensure Nepal does not fall into a debt trap by borrowing to invest in schemes that do not offer sufficient economic benefits.

Fifth and finally, China and India should opt to mitigate strategic competition and seek to create a win-win environment for bilateral cooperation through multilateral forums such as BRICS, the Shanghai Cooperation Organization (SCO) and the South Asian Association for Regional Cooperation (SAARC), etc. Moreover, intensive cooperation has always been an effective approach towards mitigating geopolitical rivalries in the region. In spite of the recent standoff between China and India, in the first phase, China and Nepal could bilaterally promote a trans-Himalayan economic corridor. While China and India show less enthusiasm on direct connectivity through their common border, Nepal can bridge between the two countries without them having to resolve the border issues. This is precisely why building connectivity through Nepal can avoid a "zero-sum game" between China and India. Instead, doing this would help the two countries avoid a direct confrontation and encourage them to work together. Later, when India fully converges to incorporate the BRI, China and Nepal could explore how to extend this economic corridor to India. 

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