ASSESSING TRILATERALISM FROM THE PERSPECTIVES OF ASYMMETRIC DEPENDENCE AND BRI

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Abstract: The paper assesses the proposed trilateral partnership between China, India and Nepal, and calculates whether such a partnership will bring about prosperity and development in Nepal. The paper begins by throwing light on the emergence of bridge discourse and gradually analyzes the trilateral partnership from three perspectives: geographical perspective, from the standpoint of Nepal’s asymmetric dependence on India, and from the viewpoints of China-led Belt and Road Initiatives (BRI). Concurrently, the paper also aims to discover whether Nepal has made any endeavors to materialize the project. The research concludes by stating that the proposed trilateral partnership is still an idea in making which seeks institutions and organizations to bear fruits of development and prosperity.

Keywords: bridge, trilateralism, India, China, Nepal, belt and road initiatives (BRI)

Emergence of the bridge discourse and trilateralism

In the 1970s, late King Birendra had put forward the idea of developing Nepal as a gateway between South and Central Asia. Later, in 2005, while addressing the Afro-Asian Summit in Jakarta, the former King of Nepal, Gyanendra Shah, spoke about Nepal’s readiness to be an economic transit point between the two Asian economic giants—India and China (Bhattarai, January 26, 2017). The motive behind the message was quite clear: how Nepal could be benefitted from being a transit point between India and China. In the same line, Prime Minister Pushpa Kamal Dahal, made the trilateral proposal during his official visit to India in April 2013. This was the third time since 2010 that Prachanda had raised this issue (Nayak, 2013, pp. 638-639). At that time, the concept appeared to be a modified version of his earlier ‘equidistance policy’, which was declared after he became prime minister in September 2008. He proposed trilateral cooperation for the first time in October 2010, after visiting Beijing. Prachanda reiterated it after signing a Memorandum of Understanding (MoU) with the Asia Pacific Exchange and Cooperation Foundation (APECF) for the development of Lumbini in November 2012 in Shanghai (Nayak, 2013, pp. 638-639). He proposed it again during his April 2013 visits to Beijing and New Delhi. Since then, the idea of trilateral cooperation has been understood through approaches.

Some perceive it economically, while others find it to be “an idea in the making”. While proposing trilateral cooperation, Dahal not only mentioned joint ventures
seeking Indian and Chinese investment in hydel projects in Nepal but also advocated the idea that Nepal must benefit economically from the two growing Asian economies, by being an adequate bridge between India and China. In the year 2012, Prime Minister Babu Ram Bhattarai also envisioned Nepal’s role as an ‘economic bridge’ between China and India (Bhattarai, January 26, 2017). For Baburam Bhattarai, it is important for Nepal to be a “vibrant bridge” between the two emerging economies instead of preserving the traditional view of Nepal being a “buffer zone” between India and China. During the Second Convention of China and South Asia Forum of Organizations from 14-17 September 2011 in Kathmandu, he said that the idea of trilateralism is an appropriate and necessary concept so that Nepal is not submerged by the rise of India and China, but instead able to develop as a crucial linking point for the benefit of all three nations (Adhikari, 2013).

Unlike his predecessors whose emphases on the spirit of trilateral partnership were limited to lobbies, envisions, talks, statements and speeches, the former prime minister of Nepal, K. P. Oli, moved forward by signing the Transit and Transportation treaty with China in 2016. He had signed the treaty in the wake of the 2015 Indian blockade on Nepal. Now with the signing of the treaty, Nepal is land-linked to the Chinese port of Tianjin and the Indian port of Calcutta. With its signing, Nepal is now in a favorable position to act as a “bridge” between China and India, at least geographically. Along the same lines, incumbent Prime Minister Pushpa Kamal Dahal again floated the “bridge” idea during his Goa visit, where he met the Chinese President as well as the Indian Prime Minister at the sidelines of the BRICS-BIMSTEC Outreach Summit in October 2016 (Bhattarai, January 26, 2017).

Today, Nepal lies in the competing spheres of influence of both India and China. While connections to India are stronger, China’s engagement with the country is growing. The Chinese central government’s emphasis on connecting and developing its backward regions such as Tibet, and upgrading regional relationship accords primacy to both Nepal and India. Both India and China are rising powers, spreading their influence both regionally and globally. As competitive as India and China’s drive to secure influence in Nepal appears in terms of sheer strategic interest, economic interest is inescapable, thus leading to economic cooperation (Subedi, 2016, p. 28).

To apprehend the discourse of trilateralism better, it is therefore important to look at the proposed trilateral engagement from different levels and interpretations, which this research intends to do.
Assessing proposed trilateral partnership from geographical level

Nepal’s geographical location, following the signing of the Agreement on Transit and Transportation with China in 2016, has been endowed with a good opportunity to make up for the ‘disadvantage’ of lacking direct access to the sea. China’s Tianjin port link deal has relieved Nepal of overdependence on India. Undoubtedly, it is expected to benefit Nepal but will that lead to the successful implementation of the proposed trilateralism which has been limited to discourse, or will it call for the end of Nepal’s “special relationship” with India? Trilateralism, or the Bridge Discourse, is still an idea in the making; it has not been developed into institutions. So, how is it possible for Nepal to derive prosperity through this idea in the making? Of course, trilateral partnership is the best way for China to actively seek access to South Asia, or, in other words there is a big market for China in South Asia. Similarly, it will benefit India by giving India access to Tibet, and possibly even to Xinjiang and further in Central Asia. However, Nepal needs to find convincing policies that do not favor one neighbour at the cost of the other. They need to be convinced that trilateralism is mutually advantageous to both India and China for long term strategic connectivity. But, owing to the internal political instabilities affecting Nepal’s international image and foreign policy articulations at present, does Nepal stand in the position to do that? Is Nepal’s internal political situation favorable to becoming a bridge between them?

Many scholars and academicians have postulated that the relationship between the three countries – Nepal, India and China, is reaching new heights. Economic ties between India and China are growing rapidly. Nepal needs to revive its historical position as the transit point for trade between India and China. Former Chinese Ambassador to Nepal, Yang Houlan, on 6 July 2012, while addressing the seminar on “High Growth Trajectory in China and India: Opportunities and Challenges to Harness Development Potentials in Nepal” said, “Nepal can ride on the momentum and seize opportunities to accelerate the construction of infrastructure and other aspects, and become the transit station of trade, logistics and personnel between China and India or even the whole South Asian region as soon as possible” (Houlan, 2012). Nepal’s geographical position in between the two important members of the BRICS economies, China and India, is able to provide the country with a unique opportunity of becoming the bridge between two friendly neighbors. Nepal’s tremendous hydropower potential, diverse ecological belts suitable for different agricultural and biomedical activities, attractive tourism sector, favorable laws regarding investment, and geographical location have made it a prospect for becoming a transit economy between India and China. However, is geographical positioning alone sufficient for the development and prosperity of Nepal? Can Nepal develop and be prosperous just
by being a transit between China and India? Whether the bilateral relations of Nepal with India and China are favorable to be a transit state between them? Or Nepal is entirely dependent on India for its trade and economy?

**Nepal’s asymmetric dependence on India: An impediment to trilateralism**

India and China are emerging as global economic powerhouses. Nepal can benefit from their economies and harness its potential for higher growth and economic prosperity. “Apart from attracting investment in the areas of comparative advantages such as hydropower, tourism, agriculture, medicinal herbs etc., Nepal has ample opportunities to grasp their huge, rising markets” (Adhikari, 2015, p. vi). But, is that really true? Let’s discover more facts by assessing Nepal’s bilateral relations with both the countries in economic terms.

Nepal’s economic over dependence on India has been criticized and the importance of diversifying trade relations has been emphasized. Nepali currency being pegged with Indian currency forms the foundation of Nepal-India trade relations. In the year 2015, 65.5 percent of total export and 63.5 percent of total import was with India, while 2.6 percent of total export and 12.9 percent of total import was with China. Having duty free access of Nepali manufacturing goods in India, Nepal exports woolen carpets, leather items, traditional handicrafts, jute goods, polyester yarns and a few agro-processed items to India. However, in exporting handicrafts, woolen carpets and noodles to China (which are produced in Nepal by importing goods from India itself), high transaction costs and tough competition in Chinese markets remain obstacles. More than 60 percent of the country’s imports from India pass through the Birgunj border point, which suffered the most during the Indian blockade of 2015. Besides rice and paddy, vehicles and spare parts, petroleum products comprise 20 percent of the total import from India, as it is the sole supplier to Nepal. Talking about in-land trade with China, Tatopani customs point on the northern border has been blocked since the April 25 earthquake but another customs point on the border with China, Rasuwagadhi, had been reopened just few months ago. Talking about investment, Indian investment on manufacturing and energy sectors is higher than Chinese investment on energy and service sectors. Remittance brought in by seasonal Nepali migrants from the open labour market in India has benefited households in the northern parts of the far- and mid-west and the Tarai belt. This access is absent in the case of China. It shows that in terms of proximity and cost, the Indian market appears more lucrative than the Chinese one. Except for its trade with the Tibetan Autonomous Region (TAR), Nepal’s foreign trade with third countries has to transit through India. Trade by sea route through India, even with mainland China, is more economic than trade by land (Nayak, 2016).
According to their Transit Treaty of January 1999, India has offered 15 transit points to Nepal to and from Kolkata/Haldia ports and Visakhapatnam for third-country trade. But the Visakhapatnam port was only opened officially at the end of October 2016. Although the Indian government had allowed Nepal to use Visakhapatnam Port for third-country trade during former Prime Minister KP Sharma Oli’s visit to New Delhi in February 2016, it had not formally come into operation, as banks were barred from issuing letters of credit for goods entering the country via the new trade corridor. Letters of credit are a must for valuation of cargos at customs points, because they contain information on cost of goods and Insurance and Freight (CIF) based on which customs and other duties are fixed. With the formal opening of Visakhapatnam Port, Nepal has gained access to second seaport for third-country trade. Currently, the port in Haldia, Kolkata, is the only seaport from where Nepal brings in or sends goods to third countries. Although the Visakhapatnam Port is located 1,436 km away from the country, as against the distance of 704 km between the Haldia port and Nepal, the port in Andhra Pradesh is expected to facilitate Nepal’s third-country trade, as it is a deep water port, where bigger cargo vessels can be docked. The use of bigger container ships for movement of cargo reduces ocean freight cost. On the other hand, the Haldia port is relatively shallower and cargo needs to be reloaded into smaller vessels in Singapore before they arrive in Kolkata (The Kathmandu Post, October 27, 2016) India also provides two transit routes to and from Bangladesh and three transit routes to and from Bhutan for Nepal. Further, in an effort to improve bilateral trade and facilitate Nepal’s third country trade, India has proposed to construct four integrated customs check-posts on the borders. Of these, Birgunj and Bhairawa are in operation; the others, at Nepalgunj and Biratnagar, are under construction. The two countries have also agreed to improve their border infrastructure and India has committed itself to connect Nepal’s major border cities with railway lines. Until now, Nepalese traders have been using Indian railway services up to the nearest border point for onward transport to Nepal by road. However, Nepal has often demanded extra and better transit facilities from India for trade with third countries because of some restrictive provisions in the treaty. In the view of Nepal, this has not borne any fruit. For example, the Transit Treaty was renewed in January 2013 without any changes. Nepal’s access to Bangladesh seaports via India has been limited due to security factors and poor infrastructure from India’s side. Since Nepal has been exploring possibilities of using Bangladesh seaports, it has frequently blamed poor returns from its foreign trade on poor transit facilities provided by India. Another example could be restrictions imposed by bordering
Indian provinces on Nepalese origin products. The Nepal Herbs Entrepreneurs’ Association filed a case in the Lucknow High Court of Uttar Pradesh in February 2013 against the government of that state, challenging the transit permit-related restrictions imposed on the export of herbs. Nepalese exporters have also made allegations that Nepal-bound goods are required to be security checked at the Rajauli transit point in Bihar, while the consignment is already authorised by customs officials at the Kolkata port (Acharya, 2012).

On the issue of Nepal’s request for easing procedures to send money through Indian banks, India appears firm. However, currently, Nepali people need authentication of Indian government officials to open bank accounts in India. Nepalis cannot carry more than IRs 25,000 cash while traveling to Nepal from India. Anyone having opened banks accounts there cannot send more than IRs 50,000 even through banking channels (The Kathmandu Post, June 30, 2016).

China-led BRI and prospects for trilateralism

At this period of time, when the Asian Century is on the threshold, and China and India are in the driver’s seat, it is a good opportunity for neighboring countries like Nepal to draw assorted benefits. Looking at the catastrophes in the West, exemplified by Brexit and Trump’s anti-liberal sentiments, it seems, globalization and the liberal world order are being led more by the East than the West. The China-led Belt and Road Initiative (BRI) is an apt example of how the East is championing the cause of globalization through enhanced connectivity and infrastructural development.

Generally, the China-led Belt and Road Initiative (BRI) is understood as an economic roadmap for gradual integration of global trade and finance. Since BRI believes in peaceful co-existence, and emphasizes on equality and cooperation for mutual benefits, it is expected to open more ways for Nepal to get connected with the global value chain. (Bhattarai, 2016, p. 6). China is equally eager to use Nepal as a bridge between China and South Asia. Since China does not have diplomatic ties with Bhutan, Nepal’s strategic location is a geographical advantage for the country” (Tao 2017, p. 6). Professor Hu Shisheng, Director of the Institute of South and Southeast Asian and Oceanian Studies at China Institutes of Contemporary International Relations believes that China is anxious to see a stable neighborhood. China wants to share its new prosperity to its immediate neighbors, which in turn will make its ‘periphery’ stable and prosperous. China, he said, sees Nepal as the most viable bridge between China and South Asia as the two countries share a stable border (The Kathmandu Post, 2015).
China wants the whole world to understand BRI as an endeavor to make the world more developed, harmonious, inclusive, and peaceful by connecting Asia with Europe and Africa along ancient silk routes (Bhattarai, March 7, 2017, p. 6). BRI demonstrates reverence to territorial integrity and sovereignty of partner countries. BRI clearly rejects aggression and interference in internal affairs of partner countries but emphasizes on equality and cooperation for mutual benefits.

Economically, BRI is an opportunity for Nepal to diversify her trade relations. The BRI platform is definitely advantageous for Nepal to end the asymmetric dependence on India for trade and economy. Actually, with the signing of the Transit and Transportation Agreement with China in 2016 by the erstwhile K.P. Oli-led government, Nepal has got access to the Chinese port of Tianjin. K.P. Oli had signed the treaty in the wake of the 2015 Indian blockade on Nepal. Nepal and China began a new era in 2016 in their relationship. As many as ten landmark agreements regarding transit, trade, commerce, energy, cross-border connectivity and cooperation on physical infrastructure developments were signed between the two governments, elevating age-old bilateral ties to a new level (Ghimire, March 14, 2017).

Despite the neighborly and friendly relations between Nepal and China, sufficient specific research has not been done to comprehend each other’s strategic and economic interests. It was also realized by Chen Xiaochen, Head of International Department, Chongyang Institute under Renmin University, during the Sino-Nepal Think Tank Dialogue 2017 from 17-18 January. According to Chen, from the time when the belt and road initiatives have been launched, most of the researchers have been paying heed to Nepalese culture, history and hotspots news in Nepal like earthquake and geopolitics. But the ratio of economic and trade research on Nepal, which was the most expected by Nepal, is less. Now, China needs additional endeavors to understand the economic aspirations of Nepal more clearly. The Nepalese think tank requested the same from the Chinese side during the China-Nepal Think Tank Belt and Road Initiative Dialogue held on March 22 of 2016. Firstly, China could increase the investment in transportation and building communication system. Secondly, China could also build and develop the economic corridor and multilateral economic special zones. Thirdly, China could exploit the existing comparative advantage of Nepal in the sectors like hydropower and tourism. Fourth, China could make the trade more convenient. Fifth, China could help Nepal to develop its industrial system. Sixth, China could invest more to help Nepal improving the agricultural products, and offer Chinese experience in agricultural science and technology.

The Belt and Road Initiatives are not only expected to render more economic opportunities to Nepal but also garner the strategic benefits. It could help Nepal to
move away from indo-centric approach to globalist approach. Belt and road initiative offers Nepal an advantage to convert its asymmetric dependence to systemic dependence and eventually to the web of interdependence. Equally, China needs to realize the importance of Nepal to join BCIM (Bangladesh, China, India and Myanmar) since belt and road initiative itself accommodates different economic corridors including BCIM and CPEC (China-Pakistan Economic Corridor). Moreover, the proposed China-Nepal-India Economic Corridor is also anticipated to bring significant changes in South Asia by lifting millions of people out of poverty.

Nepal is fully aware of the benefits that BRI is expected to generate. During a meeting with a 41-member belt and road initiatives delegation on February 26, 2017 Prime Minister Pushpa Kamal Dahal said Nepal expects to benefit from the opportunities that China’s belt and road project offers (Koirala, 2017). Meanwhile Nepal has also been elected to the Asian Infrastructure Investment Bank (AIIB)’s board of directors. AIIB is supposed to extend investments in building the infrastructure necessary for implementing the belt and road initiatives (Koirala, 2017).

Nepal’s endeavors to materialize trilateralism

To materialize trilateralism, there has been zero homework in Nepal on the proposed trilateral cooperation. No homework has been done both at the policy level and the political level. The foreign ministry has no such plans at present. Nor has the agenda of trilateral partnership been owned by any political party. To materialize the trilateral idea we need to have clarity on what it actually means. Does it simply means connectivity? Or it refers to Nepal as a transit state? Or it refers to India and China investing together in Nepal? Or a trading bridge between India’s UP and Bihar, and China’s Tibet Autonomous Region (TAR) since Tibet needs Indian cement and North India required cheap Chinese goods and it is where opportunity lies for Nepal. If it is so, Nepal also needs to make it clear that Nepal doesn’t view trilateral cooperation as a strategic concept but as a purely economic and social phenomenon.

There is a need of reviewing of trade treaty between Nepal and India to make it compatible with the treaty of 1996 with added provisions that discourage informal trade and other manipulative practices. Transit facility is also an area needing due consideration in the light of very open policy pursued by India with the rest of the countries. Review of problems in existing trade preferential arrangements with China is also needed for ensuring extended facilities to Nepal. Mutual steps to remove non-tariff barriers and other practices of trade distortions hurting less competitive countries like Nepal is also required. Exploration of India and china trade via Nepal should also be equally a priority area of consideration among the three countries. For
this, Nepal needs new initiatives. As studies show, development of basic infrastructure will be very helpful for promoting trade via Nepal which will add gains to both India and China. Special measures/mechanism to minimize transit cost and a mechanism to compensate the additional cost for Nepalese traders for ensuring competitiveness of both exports and imports is also necessary.

There is a lot of preparatory work that needs to be done. How to conceptualize the idea? How to develop detailed designs? Mere speeches are not sufficient. Mere wishes and statements are not sufficient. We must do our homework properly and make the country more investment-friendly and capital-friendly. So far, no declarations, agreements and policies have been made to institutionalize the idea of trilateral partnership. Questions are even being raised whether the trilateral partnership damages Nepal’s special relationship with India or it embraces the relationship in a new way. Apparently, neither the Ministry of Foreign Affairs (MoFA) has such plans at present, nor any political party has conspicuously carried the agenda of trilateral partnership. Therefore, the concept of bridge is limited to an idea or to a discourse for now. Nepal’s lack of preparedness is the main hindrance towards becoming a transit economy between India and China. We have been failing time and again to attract Chinese investment. Time has come to think why the Chinese industries are migrating to Africa but not coming to neighboring Nepal. Similarly, India has also launched ‘Make in India’ campaign. But the question why we have not been able to derive benefits out of that global value chain as well despite of being so near remains unanswered.

While it is being said that the 21st century is going to be an Asia century citing the economic rise of India and China, Nepal must be able to manage it domestic affairs and endeavor to create a stable political environment favorable to investment both from internal and external sources. The protracted transitional period that Nepal has been enduring, is the chief obstacle. India’s alleged interference or micromanagement in Nepal is another major factor to exhaust the spirit of trilateral partnership. India is also blamed for not executing practicing balanced diplomacy towards Nepal. India is openly engaged in constituting and bringing down governments. It is also said that European and American representatives too view Nepal from Indian lens. The economic blockade imposed at a time when post-quake Nepal needed all the help it could get to rebuild was for many Nepalese the height of Indian bullying. Such action often kills the spirit of trilateral partnership.

**Trilateralism: Still an idea in the making**

Trilateralism is still an idea in the making; it has not been developed into institutions. However, Nepal has shown imagination in leapfrogging from bilateral to
trilateral arrangements, and in engaging stakeholders in India and China. Materialization of Trilateralism not only requires a new order of diplomatic collaborations between India and China but Nepal also need to find a way to convince its neighbors that it does not favor one at the cost of the other. They need to be convinced that trilateralism is mutually advantageous to both India and China for long term strategic connectivity. Trilateral partnership is the best way for China to actively seek access to South Asia, or in other words there is a big market for China in South Asia. Similarly, it will benefit India by giving India access to Tibet, and possibly even to Xinjiang and further on to Central Asia. But, prior that the political and security issues among India, China and Nepal should be addressed. The three countries will have to work domestically to put this vision in a perspective. Nepal has to settle its internal problems in a more meaningful manner and forge national consensus on how to relate itself with India and China.

To make trilateralism a reality, trust deficits prevalent between them should be erased. When Nepal and China come closer, India’s discomfort has been visible. When China and India get closer, probably Nepal feels discomfort of losing its strategic space. India on its part must dare to address the Chinese sensitivities. In fact, the Asian century cannot be conceived on the premise of Sino-Indian conflict and rivalry. Although the Sino-India border dispute remains unresolved ever since the two Asian powers had a short border conflict in 1962, relations are being improved gradually. Recently, China’s initiative to establish the Asian Infrastructure Investment Bank (AIIB) has been endorsed by India, contributing 8.37 percent to this Bank. China has invested 30 percent to this Bank. Nepal is also one of the founding members with less than one percent investment. However, for a Nepal to derive economic benefits from the economic rise of India and China, Nepal will have to work through robust bilateral channels which are carefully cultivated over time. Similarly, political actors should be able to develop not a politically oriented consensus, but a policy-oriented consensus on the Nepal’s foreign policy towards the trilateral partnership.

To make trailateral cooperation a reality, firstly, we need to build a mechanism to dwell upon the concept for the sake of inclusive growth so that the benefits could be shared. That sort of development is very important as unequal development cannot be beneficial in that regards. So the establishment of mechanisms is the most important. Secondly, connectivity is very important. We want to connect the Proposed Qinghai-Tibet-Kerung railway to Nepal as well and we want to be connected through Indian railways as well. So, that kind of connectivity can pave the way for the further development. Both of our neighbours should be sensitive towards Nepal’s development perspectives and Nepal has been repeatedly saying that it will always take into account the national interest of the both neighbours. Without upgrading
roads and other physical infrastructure, trilateralism could be limited to an idea. To boost trade relations between China and India, Nepal corridor could play historic and key role. Nepal also could lure them to transfer their production bases here. Nepal needs a massive infusion of FDI to build roads and other infrastructures. A divided society with political instability, problems with laws and orders, inadequate infrastructure development, poor management of its lucrative tourism sector and labor unionism, all factors hinder the proper economic growth of our nation. Nepalese government, planners and policy makers must study how the country could ‘catch up’ with its fast growing neighbors under the given constraints. Mere wishful thinking to integrate our economy with that of our neighbors will not be utilized unless we take significant steps to correct these issues. Data show that Nepal has huge but increased and unsustainable trade deficit with both countries undermining positive spillovers effect on Nepal unlike in the context of many other countries. This is a serious issue. Therefore, a review and reorientation of trade policy with these countries linking with removal of supply side constraints and reducing of transaction cost will be essential.

More than conflict and geopolitical rivalries, the Himalayan region today presents opportunities to cooperate for economic development and prosperity. Here, India is better advised to compartmentalize her economic ambitions and geostrategic objectives. Even after the promulgation of its constitution in September 2015, Nepal is still entangled in the never-ending political debates of restructuring, federalism, and secularism. Despite of the availability of rich natural resources and human resources, lack of political stability has deprived the least developed Nepal of the opportunity to leverage its strategic location.

References

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