



China and conflict-affected states

Between principle and pragmatism

NEPAL



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Acronyms: Nepal

APECF	Asia Pacific Exchange and Cooperation Foundation	NGO	Non-governmental organisation
BRICS	Brazil, Russia, India, China and South Africa	NR	Nepal Rupees
BSOS	Building Stability Overseas Strategy	PLA	People's Liberation Army
CoAS	Chief of Army Staff	RMB	Renminbi
CPA	Comprehensive Peace Agreement	SAARC	South Asian Association for Regional Cooperation
CPC	Communist Party of China	TAR	Tibetan Autonomous Region
CPN-UML	Communist Party of Nepal-Unified Marxist Leninist	UCPN-M	United Communist Party of Nepal-Maoist
CSC	China Study Centre	UK	United Kingdom
DFID	UK Department for International Development	UNIDO	United Nations Industrial Development Organization
GoN	Government of Nepal	UNMIN	United Nations Mission in Nepal
ICG	International Crisis Group	US	United States
INGO	International non-governmental organisation		

Nepal



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Nepal case study

4.1 Introduction

THIS CASE STUDY EXAMINES China's involvement in Nepal. Nepal suffered from a decade-long war that ended in 2006. Since the end of the war China has significantly increased its engagement in the country through a variety of means. At the same time there has been considerable international investment in post-conflict peacebuilding and development. However, Nepal continues to experience political instability and low-level insecurity, so building peace and stability remains a priority.

The aim of the research was to test the hypothesis that China's increasing engagement will have a significant effect on peace and stability in Nepal, and to consider what the implications are for policy actors in China, as well as in the West. It explores how China's engagement in Nepal may affect identified conflict drivers and dynamics, both directly and indirectly. This is considered in the context of wider regional and international relations, with particular reference to the role of India.

The case study presents the findings of research and analysis conducted by Saferworld between April and October 2011. The in-country research took the form of interviews with a range of stakeholders in Kathmandu in May 2011. Interviewees included Nepali politicians, current and former diplomats, military officials, business people, journalists and non-governmental organisations (NGOs). Interviews were also conducted in Nepal with foreign embassy officials, representatives of multilateral agencies, international NGOs (INGOs) and think tanks. Interviews were complemented by desk-based information-gathering and literature review.

The case study is structured in seven sections. The Background provides a brief overview of the current context, including an assessment of conflict drivers and regional dynamics. This is followed by an examination of the extent and nature of China's involvement in Nepal, looking at a broad spectrum of engagement including economic, military and diplomatic. There is then an analysis of the mix of foreign policy principles and context-specific interests that motivate China's engagement. The role of other major international players in Nepal, notably India, is also considered. Based on this, the study explores the impact that China's increasing engagement is likely to have upon conflict issues in Nepal; both directly and as it may affect the engagement of other actors. The case study concludes with options for policy makers to respond proactively to China's growing role in Nepal.

4.2 Background

Post-war Nepal

Nepal is a small country wedged between the rising powers of China and India. It was ruled as an absolute monarchy until 1990, when it became a parliamentary democracy with the monarch as head of state. In 1996 the United Communist Party of Nepal-Maoist (UCPN-M, hereafter referred to as 'the Maoists') launched a 'People's War', fuelled by a widespread feeling of marginalisation among the rural population, which sought to replace the monarch with a communist regime. The decade of violent conflict that followed claimed the lives of between 13,000 and 17,000 Nepalis and displaced over 70,000.

The war ended in 2006 with the signing of the Comprehensive Peace Agreement (CPA) between the Maoists and the main political parties. The 2008 elections resulted in an overwhelming victory for the Maoists, who won a majority of parliamentary seats. The leader of the Maoist insurgency, Prachanda, was appointed Prime Minister and in the same year Nepal declared itself a Republic and started drafting a new Constitution.

Despite the signing of a peace agreement between the main political actors, sustainable peace has yet to be established in Nepal and insecurity and political instability persist. Prachanda was in power for less than a year, followed by a lengthy period of institutional paralysis under an unwieldy 22-party coalition. There were then seven months of political deadlock when no party was able to attain majority support and there were 16 unsuccessful votes to elect a Prime Minister. This stalemate was finally broken in February 2011 when a compromise between the Maoists and the Communist Party of Nepal-Unified Marxist Leninist (CPN-UML) paved the way for a coalition government. But this government in turn collapsed in August 2011 when the CPN-UML Prime Minister resigned, leading to the formation of a new government under a Maoist Prime Minister, Baburam Bhattarai.

When one considers the scale of change aspired to in Nepal, such political instability is not surprising. During the past five years, the country has been undergoing a profound shift as it seeks to transform itself from a Hindu monarchy to a secular, multi-party republic. There have been a number of stumbling blocks in this process and occasional outbreaks of violence, but there have also been significant achievements. These include bringing the leaders of the Maoist insurgency into Nepal's political system and holding elections that have been conducted relatively freely and peacefully.

The integration of Maoist combatants into the national army – one of the key commitments in the CPA – has been more problematic. The role and composition of the Nepalese Army is a highly contentious issue and there has been intense and protracted debate over how many Maoists would be integrated into the Nepalese Army. Some Maoists originally wanted all of the estimated 19,000 former combatants integrated, while other parties felt this was far too many. In November 2011 there was an apparent breakthrough with a cross-party agreement that about one-third of the combatants would be integrated into the security forces, with the remainder receiving a pay-off and returning to civilian life. The other key CPA commitment is to draft a new constitution. This too has proved a contentious and protracted process, especially because of the implications of the proposed federal structure.

As Nepal's political parties wrestle for control of the government, progress on these two key provisions of the CPA has largely stalled. As a consequence, it has not yet been possible to lay solid foundations for sustainable peace and development in Nepal. The country has effectively been in a transition process since 2006, and there is a fear that it may be stuck in an "endless transition period", during which it will remain vulnerable to the return of widespread violent conflict.¹

¹ Saferworld interview, Kathmandu, May 2011.

Conflict issues

In addition to the legacy of the ten-year war and chronic political instability, there are a number of other factors that fuel insecurity and compound the sense of Nepal's fragility. Poverty is the most pervasive factor since Nepal is one of the poorest countries in the world. Over half of its 30 million people live on less than US\$1.25 a day, and much of the adult population is unemployed.² Nepal also ranks very low relative to other countries in terms of human development indicators, such as life expectancy and literacy.³ The recent history of violence and instability has undermined the economy, with Western businesses apprehensive about ongoing political instability and reluctant to invest.⁴ High levels of corruption are a further disincentive, with Nepal ranked 146 out of 178 countries in the 2010 Corruption Perception Index.⁵

Nepali society is characterised by multiple identities. It is an extremely diverse country in terms of ethnicity, culture and language, with over 100 different ethnic groups.⁶ Added to this is the entrenched hierarchy of the caste system. High rates of inequality co-exist with the high level of poverty, and are linked to geographic region, gender, caste and ethnicity. These inequalities were one of the root causes of the formation and success of the Maoist insurgency and they continue to provoke low-level conflict across Nepal. As noted in a previous Saferworld conflict analysis, since the end of the war there has been an increasing focus on the reasons behind political and economic exclusion in Nepal.⁷ Some suggest that conflict drivers are now identity-based rather than ideological as diverse groups claim equal representation and access to resources from the state; although others question whether conflict in Nepal was ever really driven by ideology.⁸

The most evident regional cleavage in Nepal is between the Madhes people of the Terai – the lowlands that span the southern border with India – and the 'hill people' of Kathmandu and the middle swathe of the country. The Terai region is home to almost half of the country's population, with the Madhesi predominant.⁹ They seek autonomy for their region in reaction to perceived marginalisation from state institutions and domination by the 'hill people'. This gives added significance to the new constitution and the question of how a federal structure will address Madhesi grievances and aspirations. Inter-communal tensions in the Terai have increased in recent years, and regularly spill over into violence. A number of armed groups have emerged to promote the Madhesi cause – although the line between political and criminal violence is often blurred.¹⁰ The Madhesi communities are culturally and ethnically close to peoples of northern India, leading to suspicions that Hindu radicals may be fomenting violence in the Terai.¹¹

In terms of international profile and attention, the identity issue most associated with Nepal is that of the Tibetan people. After the Chinese annexation of Tibet in 1951, Nepal became a haven for Tibetans who refused to accept Chinese occupation. In recent decades a stream of Tibetan asylum-seekers has crossed the Himalayan mountain range to escape perceived persecution and has sought refuge in Nepal. There are currently between 20,000 and 25,000 Tibetans living in the country. They have a cultural and religious affinity with the people of Nepal and are generally well assimilated into the local population. Nepal also plays a key role as a transit point for asylum-seekers on their way to Dharamsala in India and beyond.

2 Vaughn B, *Nepal: Political developments and bilateral relations with the United States*, (Congressional Research Service, April 2011).

3 United Nations Development Program (UNDP), *Human development report 2010: Nepal country fact sheet* (2010).

4 'Nepal ranks 134th on FDI inflow index', *Kathmandu Post*, 28 July 2011, www.istockanalyst.com/business/news/5325051/nepal-ranks-134th-on-fdi-inflow-index, accessed 26 October 2011.

5 Transparency International, 'Corruption perceptions index 2010 Results', www.transparency.org/policy_research/surveys_indices/cpi/2010/results, accessed 26 October 2011.

6 *Op cit* UNDP.

7 Scawen C, *Conflict analysis of Nepal*, (Saferworld, 2008), unpublished.

8 Saferworld interviews, Kathmandu, May 2011.

9 Preliminary report of Nepal's national population census 2011, cited in: 'Nepal's population is 26,620,809', *Republica*, 27 September 2011, myrepublica.com/portal/index.php?action=news_details&news_id=36575, accessed 26 October 2011.

10 Interdisciplinary Analysts, Nepal Madhes Foundation, Small Arms Survey and Saferworld, *Armed violence in the Terai* (August 2011).

11 Saferworld interview, Kathmandu, May 2011.

Regional dynamics

Nepal's role as a bridge between China and India for Tibetan refugees highlights the country's strategic location between its two giant neighbours. The political and security situation within Nepal cannot be understood without reference to the relationship between India and China. There is an oft-quoted metaphor attributed to an 18th Century Nepali king that describes Nepal as "a delicate yam between two boulders".¹² This aptly describes the country's potentially vulnerable position between the two great regional, and increasingly global, powers of India and China.

Given Nepal's size and land-locked location, the fact that its powerful neighbours have a major interest in its affairs – potentially squeezing it between them – is no great surprise. However, the country also has geostrategic significance as a buffer between the two main power-brokers in the region. For India, the Himalayan mountains represent the principal land barrier between China and the resource-rich Ganges plain.¹³ After the Chinese occupation of Tibet, Nepal became the main Himalayan buffer-state for India. Thus New Delhi has long regarded Nepal as an integral part of India's sphere of influence, and developments in Nepal are seen as closely linked to India's own security.

Indian policy towards Nepal has focused on forging strong links in the security, political and economic arenas. This 'special relationship' was enshrined in the 1950 'Treaty of Peace and Friendship' between the two countries. This granted Nepal a range of preferential economic agreements with India in return for New Delhi achieving its security objectives, including control over Nepali arms acquisitions.¹⁴ The Treaty also granted nationals of both countries reciprocal rights with regard to residence, property and trade. Today people and goods are able to flow relatively freely across the India-Nepal border, and generations of the Nepali elite have been educated in India.¹⁵ These connections have sustained the close historical links between the people of India and Nepal, based on a shared religion, as well as ethnic, linguistic and cultural affinity.

Despite the predominant role played by India, China too has a long history of engagement with Nepal. It has been providing some degree of economic aid to Nepal since the 1950s, and in 1960 Beijing and Kathmandu signed their own 'Treaty of Peace and Friendship'. For the most part Beijing appears to have accepted that Nepal is within India's sphere of influence and has respected New Delhi's primacy. However, when tensions between the two regional powers came to the fore in the Sino-Indian war of 1962, Nepal was caught in the middle. China presented itself as a benevolent power in contrast to the superior attitude of India towards its smaller neighbours. Beijing subsequently supported Kathmandu in disputes with New Delhi on trade issues, using propaganda in Nepal to fuel nationalist feeling and anti-India sentiments.¹⁶

The limitations of China's ability to support Nepal were exposed in 1988 when the Nepali king signed an agreement for the supply of anti-aircraft guns from Beijing. This provoked a fierce response from New Delhi, which imposed an economic blockade on Nepal from 1989 to 1990 and closed down most of the transit points on the border, with devastating consequences for Nepal's economy. This highlighted the link between India's security interests and its economic relations with Nepal, as well as demonstrating that China was not then in a position to supplant India from its dominant role *vis-à-vis* Nepal.

The above episode also illustrates Kathmandu's limited room for manoeuvre in designing its foreign policy. It realised it could not afford to antagonise New Delhi by too close a friendship with Beijing, but equally to go too far the other way could jeopardise its relations with China. Hence Nepal's foreign policy has been characterised by the attempt to balance its association with both sides. As long as India and China are

¹² Jeevan J, 'Tribute to Prithvi Narayan Shah', *Gorkhalionline*, 7 January 2011, www.gorkhalionline.com/literature.php?cid=260, accessed 26 October 2011.

¹³ Dabhade M and Pant H, 'Coping with challenges to sovereignty: Sino-Indian rivalry and Nepal's foreign policy', *Contemporary South Asia* (June 2004), vol 13 no 2.

¹⁴ *Ibid.*

¹⁵ Kraemer K, 'Democratization and political parties in Nepal', paper presented at the South Asia Seminar, Harvard University, Cambridge, MA, 19 March 1999, www.nepalresearch.com/publications/harvard_9903.htm, accessed 26 October 2011.

¹⁶ *Ibid.*

locked in competition to extend their power and influence in South Asia, Kathmandu will have to tread carefully. Thus the geopolitical competition between India and China and its implications for regional security loom over Nepal.

From this summary of the post-conflict context, current conflict issues and the wider regional dynamics, it is clear that peace in Nepal cannot yet be considered as secure and sustainable. Since the end of the war in 2006, there has been considerable progress in certain areas of political development, but some key issues remain unresolved. As a consequence, the conditions for a return to violent conflict remain. It is against this backdrop that we next consider the nature and extent of China's engagement in Nepal.

4.3 China's engagement in Nepal

China has significantly increased its engagement in Nepal since the signing of the CPA in 2006, with a particularly marked increase in 2011. China's engagement in Nepal takes a variety of forms: economic investment, trade, aid, infrastructural development, military assistance, diplomatic exchanges, as well as cultural and educational initiatives.

Economic

As one would expect given its history, India is the most significant external economic actor in Nepal; however, China is rapidly increasing the level of its engagement. Historically India has been the top investor in Nepal, followed by the United States (US) and China. In 2009 India contributed about 38 percent of total foreign investment in Nepal, while China's share was around 11 percent.¹⁷ However, there are a growing number of Chinese companies seeking to do business in Nepal, evidenced by the fact that in the past two years the number of Chinese investors registering to set up new joint ventures has outstripped the number of new Indian investors.¹⁸

In terms of trade, India is Nepal's main trading partner and accounted for just over half of all of Nepal's trade in 2010.¹⁹ However, in April 2009 a Memorandum of Understanding was signed between the governments of China and Nepal in order to promote bilateral trade and investment in areas of mutual interest. Trade relations between the two countries have grown fast since then, with China's share increasing from 11 percent of all trade with Nepal in 2009²⁰ to 19.4 percent in 2010.²¹ Chinese products are now ubiquitous throughout Nepal, and are generally regarded by Nepalis as being cheap, but of good quality, in contrast to their Indian equivalents.²²

China has also dramatically increased its aid to Nepal in recent years. It is difficult to obtain comprehensive and verifiable figures, but based on official Government of Nepal (GoN) statistics, it is possible to trace a steady increase in Chinese aid to Nepal from 10 million Nepal Rupees (NR) (US\$128,200) in fiscal year 2005/6 to NR 2.55 billion (US\$32.5 million) in 2010/11.²³ The increase in 2011 is particularly notable: China had reportedly pledged loans and grants worth more than NR 10 billion (US\$127.4 million) by August 2011.²⁴ This included a sizeable concessional loan for the Trishuli hydro-

17 Sahoo P, 'China's growing clout in South Asia', *The Hindu*, 16 November 2010, www.thehindubusinessline.com/todays-paper/tp-opinion/article1009332.ece, accessed 26 October 2011.

18 Shrestha P M, 'China eyes Nepal as next investment destination', *Ekantipur*, 17 September 2010, www.ekantipur.com/2010/09/17/top-story/china-eyes-nepal-as-next-investment-destination/322345/, accessed 26 October 2011.

19 European Commission DG Trade, 'Nepal: EU bilateral trade and trade with the world', 8 June 2011, trade.ec.europa.eu/doclib/docs/2006/september/tradoc_113424.pdf, accessed 26 October 2011.

20 World Trade Organisation, 'Nepal trade profile', October 2011, www.stat.wto.org/CountryProfile/WSDBCountryPFView.aspx?Language=E&Country=NP, accessed 26 October 2011.

21 *Op cit* European Commission DG Trade.

22 Saferworld interviews, Kathmandu, May 2011.

23 Government of Nepal Ministry of Finance (MOF), 'Donor summary', *Source book for projects financed with foreign assistance FY 2005-06*, Report no 78, (MOF, 14 July 2005); GoN MOF, 'Donor summary', *Source book for projects financed with foreign assistance FY 2010-11*, Report no 78, (MOF, 19 November 2010). Conversions from NR to US\$ calculated by xe.com exchange rates on 14 October 2011.

24 Humagain M, 'Aid quantum: China the rising sun on Nepal economic horizon', *Kathmandu Post*, 17 August 2011, www.ekantipur.com/the-kathmandu-post/2011/08/17/top-story/aid-quantum-china-the-rising-sun-on-nepal-economic-horizon/225275.html, accessed 26 October 2011. Conversions from NR to US\$ calculated by xe.com exchange rates on 14 October 2011.

power construction and US\$19 million for assistance to the Nepal Army. When a high-ranking Chinese delegation visited Kathmandu in August, they signed an additional US\$50 million economic and technical co-operation agreement, including a loan for a hydropower transmission line and US\$2.5 million to strengthen the capacities of the Nepal Police.

With this huge surge in Chinese finance in 2011, China now reportedly figures in the list of Nepal's top five development partners.²⁵ This dramatic increase should be qualified however by recognition that approximately three-quarters of China's 'aid' to Nepal comes in the form of loans rather than as direct grants.²⁶ Furthermore, all Chinese aid projects are awarded to Chinese contractors. Although Chinese companies can and often do then sub-contract to local Nepali companies, most of the skilled labourers employed are Chinese, as are the materials used. As a consequence, new employment and procurement opportunities for Nepalis are limited. It is important to note however that some Western donors only recently stopped the same practice of 'tied aid', while others continue to do so.

Infrastructure

The history of Chinese road-building in Nepal goes back 40 years and has been instrumental in fostering a favourable perception of China among the Nepali people. China has the technological capability to develop high-altitude transport infrastructure, both road and rail links, in the Himalayan region, and this has made many remote and mountainous areas of Nepal more accessible. In 2008 China and Nepal announced plans to connect the Tibet Autonomous Region with Nepal through a 770 km rail-link between Lhasa and the Nepali border town of Khasa. This is an immensely costly (US\$1.9 billion) and long-term project, which is not expected to be completed before 2013. Nevertheless, the extension of the railway line from Lhasa to the Nepali border, and potentially beyond, is regarded as a real 'game-changer' in terms of trade relations and geo-politics in the region.²⁷

Historically the Himalayan wall has proved a major obstacle to trade and connectivity between China and South Asia. Nepal is land-locked and highly dependent upon Kolkata port in India for both export and import.²⁸ At present Nepal faces several bottlenecks in its trade and energy supply chains due to poor infrastructure in Nepal and the poor efficiency of Indian ports, which add to the costs of trade.²⁹ However, when completed, the Lhasa-Khasa rail-link will increase Nepal's options. It will reduce Nepal's dependence on India for its regional and international trade, while helping to boost trade with China. Nepal could also potentially become a land gateway for Chinese trade and commerce with South Asian markets. The southern expansion of China's rail networks may cause concern in Indian security circles however, given the suspicion that Chinese infrastructure projects will serve military as well as civilian purposes.³⁰ It is suggested that the new rail-link would enable the rapid deployment (within 24 hours) of Chinese forces to India's borders.³¹

Besides the construction of the railway connecting Lhasa to the Nepali border, China is involved in several other major transport projects in Nepal, such as the expansion of the Kathmandu ring road and the development of a dry port at Tatopani near the border with Tibet. China has also stated that it will support the construction of new Nepali border posts along this border. In addition, the sizeable loans in 2011 for the development of Nepal's hydropower signal China's intent to tap into this resource.

²⁵ *Op cit* Humagain.

²⁶ *Op cit* GoN MOF 2010.

²⁷ Saferworld interview, Kathmandu, May 2011.

²⁸ Pandey N, 'Developing infrastructure connectivity between India and China through Nepal', *nepalnews.com*, www.nepalnews.com/archive/2011/others/guestcolumn/jan/guest_columns_01.php, accessed 26 October 2011.

²⁹ Sakhuja V, 'China's strategic advantage in Nepal', *China Brief* (June 2011), vol 11 no 11.

³⁰ Kumar A, 'The danger from China's border infrastructure', Observer Research Foundation, March 2011, *Analysis*, 4, www.observerindia.com/cms/export/online/modules/analysis/attachments/The_danger_from_China_border_infrastructure_1267876993069.pdf, accessed 26 October 2011.

³¹ Saferworld interview, Kathmandu, May 2011.

The potential power generation from hydroelectricity in Nepal is estimated at 83,000 megawatts, although previous initiatives to develop this resource have foundered.³² Alongside official assistance for infrastructure development, Chinese companies have also made significant inroads into Nepal, especially in the area of telecommunications, where the companies ZTE and Huawei have secured major contracts from the state-controlled Nepal Telecom.

Military

Since 2006 many of Nepal's traditional institutions have either collapsed or been superseded. The Nepalese Army remains and is regarded by many as the most stable and reliable national institution in the country.³³ Historically the Indian and Nepalese armies have had a very close relationship, such that Indian officers are honorary officers in the Nepalese Army and vice-versa. India is also the biggest provider of military assistance to Nepal. However, it stopped supplying arms to the Nepalese Army after King Gyanendra seized power in 2005, which led to a cooling of relations between the two militaries. This opened some space for China to develop relations with the Nepalese Army. In recent years the Chinese People's Liberation Army (PLA) and the Nepalese Army have established a military assistance programme, including the supply of non-lethal equipment, training, infrastructure development and the exchange of high-level delegations.

The growing relationship between the armies of China and Nepal was symbolised by the visit in March 2011 of General Chen Bingde, Chief of General Staff of the PLA – the highest-level military visit from China to Nepal for over a decade. General Chen met with the Nepali Prime Minister and President, as well as with the Chief of Army Staff of the Nepalese Army (CoAS). He announced a military assistance package worth US\$17 million from the PLA to the Nepalese Army, with assurances of more support to come. This was followed by a reciprocal visit by the CoAS to Beijing in November 2011, when an initial agreement worth US\$7.7 million was signed between the two army chiefs.³⁴ The aid will mostly be used to modernise the Birendra Military Hospital. The total assistance pledged represents a substantial increase in China's military aid to Nepal, although India remains by some distance the largest provider of military assistance, pledging US\$55 million in 2009 alone.³⁵

It is notable that the military assistance deals between China and Nepal were not signed between the governments, but between the respective military chiefs. According to an analyst in Kathmandu, "Beijing would rather deal direct with the Nepalese Army than with the government", and this reflects the perceived status and stability of Nepal's army relative to the government.³⁶ It is claimed that Beijing also wanted to establish a relationship whereby Chinese and Nepali officers have reciprocal rank, akin to that between India and Nepal, but this was purportedly blocked by New Delhi.³⁷ Meanwhile, there are persistent rumours about the Chinese military also having developed links with Nepal's Maoist army.³⁸ Although these are not substantiated, seeking to build relations and confidence with both of the major armed forces in Nepal would reflect a typically pragmatic approach.

Diplomatic

The increase in Chinese economic and military engagement in Nepal has its corollary in the upgrading of diplomatic relations between the two countries. The appointment

³² World Politics Review, 'Global insider: China-Nepal relations', *World Politics Review*, 13 September 2011, www.worldpoliticsreview.com/trend-lines/9989/global-insider-china-nepal-relations, accessed 26 October 2011.

³³ Saferworld interview, Kathmandu, May 2011.

³⁴ 'China to provide \$7.7million military aid to Nepal', *Daily News and Analysis*, 6 November 2011, www.dnaindia.com/world/report_china-to-provide-7-7-million-military-aid-to-nepal_1608503, accessed 26 November 2011.

³⁵ International Crisis Group (ICG), 'Nepal's fitful peace process', *Asia Briefing* no 120, 7 April 2011.

³⁶ Saferworld interview, Kathmandu, May 2011.

³⁷ *Ibid.*

³⁸ *Ibid.*

in June 2011 of Yang Houlan as Ambassador to Nepal, a high-profile regional security expert and former Ambassador to Afghanistan, was widely viewed as a sign of Nepal's growing strategic importance for China.³⁹ Further evidence can be seen in the proliferation of diplomatic exchanges between the two countries. In 2011, a series of delegations of senior Nepali officials from the Ministries of Home Affairs and of Defence, from the Nepal Police and the Army all visited China for consultations and training. In August 2011 it was reported that there were three different delegations in China from the Home Ministry alone, amounting to a total of 50 officials on a so-called "China junket".⁴⁰

As well as government officials, Beijing has invited delegations from all of Nepal's major political parties to visit China. In June 2011, a delegation of leaders of the Maoist and the CPN-UML parties visited Beijing at the invitation of the Communist Party of China (CPC). The leadership of the Nepali Congress party was also invited to Beijing but declined the offer, claiming that it was not appropriate to leave the country at the time.⁴¹ More recently, Beijing has been trying to extend its reach to the political parties representing the Madhesi communities of the Terai.

In return, there have been an increasing number of visits by senior Chinese officials to Kathmandu. In August 2011 Zhou Yongkang travelled to Nepal at the head of a 60-strong delegation from Beijing. Zhou is a high-ranking member of the powerful Politburo Standing Committee of the CPC and is the most senior Chinese official to visit Nepal since 2006. Zhou put forward a five-point proposal to enhance ties between the two countries, which included: more high-level exchange visits; Chinese investment in a variety of sectors, including business, infrastructure, tourism and water resources; Chinese support for security in Nepal; people-to-people contacts and cultural exchanges; co-operation between political parties; and joint efforts to tackle food insecurity, climate change and the global economic recession.⁴²

Soft power

As mentioned in Zhou Yongkang's five-point proposal, there are also less tangible aspects of China's engagement in Nepal, such as cultural and educational exchanges. These aspects of China's engagement are often referred to as 'soft power' in contrast to the economic assistance, infrastructure and hardware that Beijing also provides. The significance of this aspect of China's engagement was explicitly recognised in Zhou Yongkang's proposal to boost people-to-people exchanges between the two countries in order to reinforce the foundation for bilateral friendship.⁴³ Beijing is well-aware of the deep-rooted Indian cultural influence in Nepal and it is widely perceived to be deploying soft power in an attempt to counter-balance and dilute India's influence.

There are various vehicles for this sort of people-to-people exchange. A number of China Study Centres (CSCs) have been established in Nepal in order to promote cultural and language exchange with the Nepali people. Reportedly, "thirty-three CSCs have been established in southern Nepal adjoining the Indian border".⁴⁴ In 2007 a Confucius Institute was established at Kathmandu University, where nearly 1,000 Nepali students now learn Chinese. Meanwhile, Beijing also provides scholarships to Nepalis to study in China, where there are a growing number of Nepali students.

³⁹ Pandey L, 'Security expert China's Nepal envoy', *Himalayan Times*, 28 May 2011, www.thehimalayantimes.com/fullToday.php?headline=Security+expert+China%26acute%3B+Nepal+envoy+%26amp;NewsID=289591, accessed 26 October 2011.

⁴⁰ 'Nepal home ministry sans officials: China junket in full swing', *Telegraph Nepal*, 31 August 2011, www.telegraphnepal.com/headline/2011-08-31/nepal-home-ministry-sans-officials:-china-junket-in-full-swing, accessed 26 October 2011.

⁴¹ 'A dozen Nepal communists heading to China: all roads now lead to Beijing', *Telegraph Nepal*, 19 June 2011, www.telegraphnepal.com/headline/2011-06-19/a-dozen-nepal-communists-heading-to-china-all-roads-now-lead-to-beijing, accessed 26 October 2011.

⁴² 'China warns against foreign play in Nepal, forwards five point proposal', *Telegraph Nepal*, 18 August 2011, www.telegraphnepal.com/headline/2011-08-18/china-warns-against-foreign-play-in-nepal-forwards-five-point-proposal, accessed 26 October 2011.

⁴³ 'Senior Chinese official outlines proposal to boost China-Nepal ties', *Xinhua*, 18 August 2011, www.gov.cn/english/2011-08/18/content_1927679.htm, accessed 28 October 2011.

⁴⁴ Bhattacharya A, 'China's inroads into Nepal: India's concerns', *Institute for Defence Studies and Analyses (IDSA) Comment*, 18 May 2009, www.idsa.in/idsastrategiccomments/ChinasInroadsintoNepal_ABhattacharya_180509, accessed 28 October 2011.

Another facet of China's soft power is radio broadcasting, with a branch of China Radio International set up in Kathmandu in 2010, including a Nepali service to teach the Chinese language.⁴⁵

A further dimension of soft power is tourism. China and Nepal's tourism ministries have been working together to increase tourist numbers to Nepal; for instance by Beijing designating Nepal an authorised tourist destination (the ninth country to be thus recognised), and by Kathmandu waiving visa fees for Chinese visitors. This has contributed to a rapid growth in the number of Chinese tourists, so that by 2010 there were almost as many tourists coming from China as from the US or United Kingdom (UK) (who have the second and third highest number of tourists); though it is still a long way behind the number of visitors from India.⁴⁶ With increasing Chinese investment in infrastructure and construction, there is also potential for Chinese investors to make inroads into Nepal's tourism market, which is yet to be fully tapped by the Nepali government.⁴⁷

There are limits to the efficacy of soft power however, and the controversy over the Lumbini development project may serve as a cautionary tale for Beijing. This was a vast project worth US\$3.0 billion aimed at transforming the town of Lumbini, the Buddha's birth-place, into a key pilgrimage destination for Buddhists from around the world. It was proposed to build an airport, a highway, hotels, a convention centre, temples and a Buddhist university. However, the initiative also appeared to be strategically aimed at reducing the influence of the Dalai Lama and his followers by creating a focal point for Buddhism that was free from Tibetan influence.

The Lumbini project involved a diverse cast of characters, including Prachanda and the former Crown Prince of Nepal, and it was supposedly a partnership between the Hong Kong-based Asia Pacific Exchange and Cooperation Foundation (APECF) and the United Nations Industrial Development Organization (UNIDO). It collapsed however after UNIDO and others reported to be backing the project made clear that they had no involvement. The official word from Beijing was that the Chinese Government had no hand in the initiative.⁴⁸ However, APECF is based in China and regarded as a quasi-official NGO, which suggests that the Lumbini project was at least endorsed by Beijing. As *The Economist* concludes, "If this was an exercise in Chinese 'soft power' it was a disaster".⁴⁹ Nevertheless, while this particular initiative foundered, it may signal the shape of things to come. Prachanda was due to meet with UN Secretary-General, Ban Ki-Moon, in New York regarding the development of Lumbini, and plans to develop the site as the "Buddhist equivalent to the Vatican" continue.⁵⁰

4.4 Why China engages in Nepal

Foreign policy principles

China does not have a development agenda *per se* that is comparable to that of Western donors, but its engagement in Nepal and other developing countries is based on a number of core principles. These principles reflect China's own development experience and history of engagement with other states. A central principle that guides much of China's foreign policy is that of respecting the sovereignty of all states. China's position is that it will not intervene or seek to influence the domestic affairs of any country since these are the exclusive concern of the national government. This is generally referred to as China's policy of 'non-interference'. Thus, when the current Chinese Ambassador

⁴⁵ 'China Radio International launches Confucius class in Nepali capital', *China Daily*, 30 June 2010, www.chinadaily.com.cn/china/2010-06/30/content_10042253.htm, accessed 28 October 2011.

⁴⁶ 'China eyes Nepal as next investment destination', *Ekantipur*, 17 September 2010, www.ekantipur.com/2010/09/17/top-story/china-eyes-nepal-as-next-investment-destination/322345/, accessed 28 October 2011.

⁴⁷ Saferworld interview, Kathmandu, May 2011.

⁴⁸ Saferworld interviews, Beijing, July 2011.

⁴⁹ 'At Buddha's birthplace: A Chinese development proposal causes disbelief', *The Economist*, 20 August 2011, www.economist.com/node/21526389, accessed 28 October 2011.

⁵⁰ 'Dahal-led Lumbini dev committee to visit NY', *Republica*, 26 October 2011, www.myrepublica.com/portal/index.php?action=news_details&news_id=37584, accessed 5 November 2011; see also: 'Lumbini development committee holds first meet', *The Himalayan*, 21 October 2011, www.thehimalayantimes.com/node/306512, accessed 5 November 2011.

in Kathmandu took up his post, he reassured Nepal that “China will never deviate from its policy of non-interference in the internal matters of Nepal”.⁵¹ Following from this, China’s position is that the support it gives to developing countries is not conditional on political or economic reforms, improvements in governance or the protection of human rights – a position which clearly differs from that of many Western donors.

In addition to the importance it ascribes to sovereignty and non-interference, another key principle of China’s engagement in developing countries is that of mutual benefit. China is not squeamish about advancing its economic self-interest at the same time as contributing to the development of other countries. It is open about the economic rationale for its engagement in the developing world. An important driver is the so-called ‘Going Out’ policy, which aims to sustain high levels of economic growth within China through global engagement, especially in new developing country markets such as Nepal.

In addition to these general principles that underpin China’s relations with developing countries, its engagement in Nepal is informed by a variety of context-specific interests and motives. In this section of the paper we explore three main areas of China’s interest in Nepal: stability, economic development and geopolitics.

Stability

China’s engagement with Nepal is strongly shaped by the ‘One China’ policy. This refers to China’s own sovereignty and territorial claims, which are primarily concerned with denying official recognition to Taiwan and to claiming Tibet – officially the Tibetan Autonomous Region (TAR) – as an integral part of China. Beijing considers Tibet part of its territory, and the region is also a key source of mineral and water resources for China’s development. Tibet is one of China’s so-called ‘core interests’, which essentially means that it is not open to negotiation and China will use all means necessary to protect it. Therefore any challenge to China’s sovereignty over Tibet or claims for Tibetan independence are regarded by Beijing as serious threats to China’s security and territorial integrity.

China’s occupation of Tibet in the 1950s increased the strategic importance of Nepal since it is the main country bordering Tibet. As described above, since the occupation, Nepal has been a haven for Tibetans who wished to escape Beijing’s rule and it is also a transit point for Tibetan refugees seeking asylum in India and the West. China is determined that Nepal should not become a breeding ground for activists campaigning for an independent Tibet. It fears that Tibetan refugees, who enjoy considerable sympathy and support in India and the West, will use Nepal as a base to protest against the Chinese occupation and to carry out ‘anti-China activities’. Recent events in Xinjiang, Inner Mongolia and within the TAR add to Beijing’s concerns that disturbances on its periphery could fuel unrest nearer to home.

In response to the perceived threat to China’s security and territorial integrity, Beijing pursues a policy of repression against Tibetan activists.⁵² In order to implement this policy in Nepal it requires a relatively stable regime and an ‘effective’ security apparatus. It also requires a compliant government that will co-operate in the control of Tibetan activists. Therefore Beijing’s primary objective in Nepal has been to ensure Kathmandu’s recognition of the One China policy and to secure its co-operation to suppress Tibetan activists.⁵³ There is a perception in Kathmandu that Beijing uses its diplomatic and economic leverage over the GoN to ensure that the authorities co-operate in achieving this objective.⁵⁴

⁵¹ Singh B, ‘China’s Nepal focus’, Institute of Peace and Conflict Studies, 14 July 2011, www.ipcs.org/article/india/chinas-nepal-focus-3431.html, accessed 28 October 2011.

⁵² ‘Tibet’, *GlobalSecurity.org*, www.globalsecurity.org/military/world/war/tibet.htm, accessed 28 October 2011.

⁵³ *Op cit* Dabhade and Pant.

⁵⁴ Saferworld interviews, Kathmandu, May 2011.

This was most evident in the run-up to the 2008 Beijing Olympics when for four months there were protests by Tibetans in Nepal under the slogan of 'Free Tibet' or 'Save Tibet'. The Chinese Ambassador demanded that, "the Nepali establishment take severe penal actions against those involved in anti-China activities in Nepal".⁵⁵ There followed a crackdown by the Nepali security forces against Tibetan refugees, which resulted in over 8,000 arrests between March and July 2008. The Nepali police were accused of violations of human rights, including excessive use of force, arbitrary detention and unlawful threats to deport Tibetans to China.⁵⁶

The Nepali Government's policy of clamping down on Tibetan activists appears to have strengthened in recent years, as economic and other forms of support from China have increased. According to Tibetan sources, Nepal's police now help the Chinese authorities prevent Tibetans from fleeing across the border, reducing the flow of refugees into Nepal from more than 2,000 per year before 2008 to 770 last year.⁵⁷ Nepal has also forcibly returned refugees to China, and Chinese police have reportedly entered Nepal to search for fleeing Tibetans.⁵⁸ Meanwhile, human rights monitors have criticised Nepal for arresting Tibetans who publicly celebrated the Dalai Lama's birthday and for preventing Tibetans from voting in the 2010 elections for the leader of Tibetans in exile.⁵⁹

These actions by the Nepali authorities have their corollary in the regular declarations by Chinese and Nepali officials denouncing 'anti-China activities'. Successive Nepali governments have consistently stated that such activities will not be allowed on Nepali soil and have vowed to prevent Tibetan demonstrations; a message echoed by other political party leaders. One of the first public statements by the new Chinese Ambassador in June 2011 was to express his concern about growing anti-China activities in Nepal. In response the Nepali Prime Minister reaffirmed his Government's commitment to the One China policy.⁶⁰ Likewise, Zhou Yongkang in August 2011 expressed the hope that "Nepal would continue to prevent Tibetan separatists from using Nepali soil to act against China".⁶¹ This prompted Jhala Nath Khanal, the outgoing Prime Minister, to pledge "that the Government will not allow any anti-China activities".⁶²

The words and actions of the Nepali authorities suggest that China has successfully managed to bring pressure to bear on the GoN to ensure the suppression of Tibetan activism within Nepal. Furthermore, there appears to be increasing co-operation between Kathmandu and Beijing with regard to Tibet and increased pressure on Tibetan refugees in, or aspiring to reach, Nepal. Lobsang Sangay, the political leader of Tibetans in exile, claimed that "Nepal has become almost a satellite state of China".⁶³

Western governments and human rights groups support the protection of Tibetans and their right to political freedom in Nepal, and they have condemned human rights abuses by Nepali government forces against Tibetan refugees. However, most Western governments are apparently reluctant to raise the issue directly with the GoN.⁶⁴ Certainly Beijing's insistence on a hard-line response seems to carry more weight with the GoN than Western concerns for human rights.

There is general recognition within Nepal that Kathmandu's co-operation with Beijing on the Tibet issue represents the *quid pro quo* for development assistance and other

⁵⁵ Human Rights Watch, *Appeasing China* (July 2008).

⁵⁶ *Ibid.*

⁵⁷ Tibetan Centre for Human Rights and Democracy, 'Human rights situation in Tibet: Annual report 2010' (2011), www.tchrd.org/publications/annual_reports/2010/ar_2010.pdf, accessed 26 November 2011.

⁵⁸ US Department of State, '2010 human rights report: Nepal', 8 April 2011, www.state.gov/g/drl/rls/hrrpt/2010/sca/154484.htm, accessed 28 October 2011.

⁵⁹ Amnesty International, 'Nepal', *Annual Report 2011*, www.amnesty.org/en/region/nepal/report-2011, accessed 28 October 2011.

⁶⁰ 'Anti-China activities in Nepal worry Chinese envoy', *OnlineKhabar*, 21 June 2011, www.onlinekhabar.com/2011/06/21/67042.html, accessed 28 October 2011.

⁶¹ Rupert J, 'Tibetan exile leader says Nepal curbs refugees at China's behest', *Bloomberg*, 18 August 2011, www.bloomberg.com/news/2011-08-18/tibetan-exile-leader-says-nepal-curbs-refugees-at-china-s-behest.html, accessed 28 October 2011.

⁶² 'Nepal reassures China on anti-Beijing activities', *Sino Daily*, 17 August 2011, www.sinodaily.com/reports/Nepal_reassures_China_on_anti-Beijing_activities_999.html, accessed 28 October 2011.

⁶³ *Op cit* Rupert.

⁶⁴ Saferworld interview, Kathmandu, May 2011.

forms of support from China.⁶⁵ In August 2011 it was reported that, “Nepal renewed its commitment... not to allow anti-Chinese activities on its soil, as a top-level Chinese delegation announced a US\$50 million aid package”.⁶⁶ This juxtaposition of developments is unlikely to be coincidental. It suggests that despite China’s stated policy of non-interference, it does effectively make aid to Nepal conditional on the GoN’s compliance with Beijing’s policy of suppressing Tibetan activism.

For Beijing then, stability in Nepal is first and foremost about containing the threat of Tibetan secession. However, Beijing’s expressions of concern for stability go beyond the Tibet issue.⁶⁷ It has been increasingly vocal in recent years in support of political stability in Nepal and has stressed the importance of completing key provisions of the peace agreement, such as the new constitution. When Zhou Yongkang visited Kathmandu in the immediate aftermath of the resignation of Prime Minister Khanal, he conveyed Beijing’s “sincere wish that Nepali political leaders can bring peace and stability back to their country as soon as possible”.⁶⁸ Likewise, there have been repeated exhortations to Nepal’s politicians to resolve their differences through dialogue and to complete the peace and constitutional process.⁶⁹

Contrary to the suspicions of some Western analysts when the Maoists came to power, China appears to have no interest in promoting an ideological agenda in Nepal. During the war, Beijing made clear that it had no connection with the Maoist insurgents despite their name; indeed in some Chinese quarters it was felt that Nepal’s Maoists tarnished the reputation of Mao Zedong.⁷⁰ In 2005 Beijing affirmed its support for King Gyanendra’s attempt to stabilise Nepal through a hard-line approach towards the Maoists.⁷¹ This underlines that China’s concern was, and is, to have an effective and reliable interlocutor in Kathmandu. Hence, in a previous era, it was perfectly content to do business with the Nepali monarchy, despite it being the ideological antithesis of the Chinese model. It is also linked to the non-interference principle of Chinese foreign policy, which holds that the policies of the host government should always be respected, no matter who it is or what it does.

In the post-CPA era China has been assiduous in trying to reach out to a range of Nepali political parties, as well as to different Nepali institutions. This is reflected in the official invitations to visit Beijing extended to the Nepali Congress and to the Madhes parties, as well as to the Maoists and the CPN-UML. In the uncertain environment of Nepali politics, China is regarded as “hedging its bets” by cultivating relations with a range of different parties and institutions.⁷² This highlights Beijing’s pragmatic approach towards the politics of Nepal. It prioritises stability above ideology or political system, and is willing to do business with whoever is in power.

Economic interests

As described above, Nepal and China have substantially boosted economic ties in recent years. This is evident from the increase of the trade volume by 80 percent in a single year from 2009–10 (US\$744 million).⁷³ This reflects China’s ‘Going Out’ policy, which aims to sustain high levels of domestic economic growth through external economic engagement. Since the CPC’s domestic legitimacy is based heavily on continuing the country’s high rates of growth, economic motives play a central role in Beijing’s foreign policy, including its increased engagement in Nepal. Economic

⁶⁵ *Ibid.*

⁶⁶ *Op cit* ‘Nepal reassures China on anti-Beijing activities’.

⁶⁷ ‘A stable Nepal is in China’s interests’, *AsiaOne*, 20 September 2011, news.asiaone.com/News/Latest%2BNews/Asia/Story/A1Story20110920-300420.html, accessed 28 October 2011.

⁶⁸ *Op cit* ‘Senior Chinese official outlines proposal to boost China-Nepal ties’.

⁶⁹ ‘China reiterates support to Nepal’s peace and constitutional process’, *Global Times*, 17 August 2011, www.globaltimes.cn/NEWS/tabid/99/ID/671430/China-reiterates-support-to-Nepals-peace-and-constitutional-process.aspx, accessed 28 October 2011.

⁷⁰ ‘盗用毛主席名字 尼泊尔“毛派”影响我边境安全 [Nepali Maoists threatens China’s security]’, 13 August 2002, *Southcn.com*, www.southcn.com/news/international/gjkd/200208131041.htm, accessed 28 October 2011.

⁷¹ *Ibid.*

⁷² Saferworld interview, Kathmandu, May 2011.

⁷³ *Op cit* Singh B.

engagement in Nepal facilitates the entry of Chinese firms into new markets. Nepal represents one such market, but beyond lie the larger markets of South Asia. Improving its economic relations with Nepal – as well as the local infrastructure – could potentially enable China to use Nepal as a transit country for trade with the whole of South Asia.

China's growing engagement in Nepal can, therefore, be seen to be motivated in part by its strategy of economic expansion. This is further illustrated by the close link between Chinese aid and Chinese business interests. A large proportion of Chinese aid to Nepal is provided as 'aid in kind', often the construction of infrastructure by a Chinese contractor. China's White Paper on Foreign Aid explains how in such cases "the Chinese side is responsible for the whole or part of the process... After a project is completed, China hands it over to the recipient country".⁷⁴ According to the White Paper, such projects account for 40 percent of total Chinese aid.⁷⁵

The rapidly increasing economic engagement between China and Nepal – in terms of aid, trade and investment – illustrates an important new dimension of China's interest in Nepal. While Nepal's importance for stability in Tibet has underpinned China's relations with the country since the 1950s – and this remains Beijing's predominant concern – it also offers substantial potential to fuel China's economic development. Nepal is a market for Chinese goods in its own right, but more importantly it could also be a gateway to the markets of South Asia. A senior Chinese official spoke of "developing Nepal as a transit hub between China and the larger sub-continent".⁷⁶ This demonstrates the synergy between China's security interests in Nepal *vis-à-vis* Tibet and China's economic interests. A stable Nepal is in China's interests as far as Tibet is concerned, while it also presents a more attractive opportunity for Chinese trade, investment and other forms of economic engagement.

Geopolitics

China and India have the two largest populations and fastest growing economies in the world. Relations between these two rising powers have been characterised by a "persistent mutual trust deficit".⁷⁷ At present, China is the more powerful of the two in economic and diplomatic terms at the global level, while it also threatens India's predominance in South Asia. Since 2004, China has improved trade relations with a number of India's neighbours and the volume of trade with Pakistan, Bangladesh and Sri Lanka has grown rapidly.⁷⁸ Strengthened bilateral relations between China and India's neighbours are complemented by China's admission into the South Asian Association for Regional Cooperation (SAARC), which enables China to engage in South Asia through a multilateral mechanism.

These developments have prompted references to "China's growing dominance of the South Asian landscape... and the rapidity with which New Delhi is ceding strategic space to Beijing on the sub-continent".⁷⁹ While this may be overstating the case, there is certainly an asymmetric relation between China and India, despite both being economic powerhouses. And it follows that India may be concerned about further expansion of Chinese influence into what has historically been regarded as New Delhi's sphere of influence.

Nepal's position has become more strategically significant with the rise of China. Situated between the two regional powers, it can be seen as a prize to be captured and could become the locus of geopolitical competition between an expanding China and a defensive India. This possibility is increased by the fact that Nepal is weak and internally vulnerable, and thus less able to resist foreign interference. According to

⁷⁴ *Op cit* State Council of the People's Republic of China, p 7.

⁷⁵ *Ibid.*

⁷⁶ *Op cit* 'A stable Nepal is in China's interests'.

⁷⁷ Singh S, 'Paradigm shift in India-China relations: from bilateralism to multilateralism', *Journal of International Affairs*, Spring/Summer 2011, vol 64 no 2.

⁷⁸ *Op cit* Sahoo.

⁷⁹ Pant H V, 'How China changes SAARC', *Livemint*, 28 April 2010, www.livemint.com/2010/04/28210010/How-China-changes-Saarc.html?d=1, accessed 28 October 2011.

some, “the ongoing political paralysis in Nepal... [has] created the ideal conditions for Beijing to increase its leverage and influence over Nepal”.⁸⁰ Others foresee that “the weakness and collapse of Nepal would offer an opportunity for China to engage directly in South Asia”.⁸¹

There is a counter-argument based on the fact that China and India share a strong interest in their own economic development and do not wish to jeopardise current growth trajectories, nor undermine their lucrative bilateral trade. China was India’s largest trading partner in 2008, and trade between the two countries has risen dramatically from US\$1.0 billion in 1994 to US\$61 billion in 2010.⁸² According to this view, the main driver of China – India relations is a mutual interest in economic growth and this will safeguard the region against a confrontation between the two powers. Nevertheless, the unprecedented economic growth of both powers does not yet seem to have had the effect of cementing stability in the political relationship.⁸³

Nepal’s role is also related to wider geopolitical dynamics, both within the Asian region and globally. There are many and diverse perspectives on these dynamics. Some contend that the US seeks to strengthen its alliance with India in order to contain China, a goal which underlies its engagement in Pakistan and Afghanistan and also informs US policy towards Nepal.⁸⁴ Others hold that China is supporting Pakistan to keep India tied down in South Asia, leaving Beijing free to expand its access and influence more broadly across the Asian continent, including in Nepal.⁸⁵ However, the significance of Nepal for either China or India should not be over-stated. It is questionable to what extent Nepal is regarded as a foreign policy priority in New Delhi, while equally it does not feature much in foreign policy debates in China.⁸⁶ According to one analyst “both countries have bigger fish to fry”, and more dispassionate analysis suggests that both countries will prioritise their relationship with the other over their relationship with Kathmandu.⁸⁷

In this regard, it is notable that both China and India are increasingly using multi-lateral structures to facilitate bilateral relations. Both have an interest in reforming the international diplomatic architecture, which they consider to be Western-led. Hence the emergence of new configurations of ‘rising powers’, including the China-India-Russia strategic triangle and the BRICS (Brazil, Russia, India, China and South Africa) grouping. China is also increasingly engaged in the South Asian regional structure SAARC, where India has the main voice, while India has observer status in the Shanghai Cooperation Organisation, which China dominates. These various multi-lateral frameworks may provide a framework for strengthening understanding and mutual trust, including in respect of Nepal.

What is clear is that Sino-Indian relations have a significant effect upon geopolitics in the South Asia region, and thus upon peace and stability in Nepal. Some degree of competition between the two rising powers seems inevitable; yet historical rivalries have been managed thus far, and the hope is that shared economic interests will outweigh geopolitical rivalry.

⁸⁰ *Op cit* Sakhuja.

⁸¹ Cohen S P, *India: Emerging power*, (Brookings Institution Press, 2001).

⁸² International Institute for Strategic Studies, ‘India and China eye each other warily’, *Strategic Comments*, December 2010, Vol 16, Comment 47, www.iiss.org/members-login/?ReturnUrl=/publications/strategic-comments/past-issues/volume-16-2010/december/, accessed 28 October 2011.

⁸³ Holslag J, *China and India: Prospects for peace*, (Columbia University Press, 2010).

⁸⁴ Friedman T L, ‘Containment-lite’, *New York Times*, 9 November 2010, www.nytimes.com/2010/11/10/opinion/10friedman.html, accessed 28 October 2011.

⁸⁵ Subrahmanyam K, ‘The great China-Pak nuclear nexus’, *Times of India*, 21 June 2010, articles.timesofindia.indiatimes.com/2010-06-21/india/28309082_1_nsg-exemption-china-pak-nuclear-reactors, accessed 28 October 2011.

⁸⁶ Saferworld interviews, Beijing/Shanghai, July 2011.

⁸⁷ Saferworld interview, Kathmandu, May 2011.

4.5 Other international actors

Clearly, the geopolitical drama between China and India is not played out in a vacuum, and a number of other international actors are also engaged in minor roles. Nepal receives relatively high levels of international attention and aid and it has been referred to as the “darling of Western donors”.⁸⁸ The major multilateral donors are the Asian Development Bank and the World Bank, while the largest bilateral donors are Japan (US\$105 million), the UK (US\$101 million) and the US (US\$76 million). In March 2011 the UK Department for International Development (DFID) announced that it would increase aid to Nepal from £57 million (US\$91 million) in 2010/11 to £103 million (US\$165 million) by 2014/15.⁸⁹ Meanwhile, USAID’s spending in Nepal has increased almost fourfold since 2002.⁹⁰ In comparison, the amount of grant-aid China gives to Nepal is relatively small, amounting to 150 million renminbi (RMB) (approximately US\$23 million).

The increase in Western spending in Nepal reflects in part an increasing appreciation among Western donors of the connection between security and development and of the need for higher levels of support to be provided in contexts that are fragile and conflict-affected, such as Nepal. A substantial part of Western aid to Nepal is allocated to consolidating the peace process and to helping Nepal transition out of the post-conflict phase towards becoming a more stable and democratic state. This includes support for constitutional development, integration, security sector reform, election processes and local governance. Other major areas of support from Western donors to Nepal include health, water and sanitation and climate change adaptation.

Western donors are considered to have used the leverage of their aid, and accompanying conditionalities, to good effect in helping to bring about a negotiated end to Nepal’s war in 2006.⁹¹ However, there is now a perception that the GoN takes Western aid for granted and judges it unlikely that the tap will really be turned off.⁹² Western donors have been criticised for “proposing vague conditionalities that will not be followed through”;⁹³ whereas Chinese or Indian threats to stop support are taken more seriously, informed *inter alia* by the experience of the Indian petrol blockade. Thus the implicit conditionality of support from Beijing and New Delhi appears to be more effective than the explicit conditionalities of Western donors.

These trends relate to criticisms in Nepal of Western donors’ methods of operating. Some Nepalis have expressed growing resentment in recent years about the approach taken by Western donors and their perceived proxies, INGOs. There is a perception among some in Kathmandu that much Western aid ends up in the pockets of Western NGOs and consultants, with little benefit or ownership by Nepali people.⁹⁴ This has led to concerns among Western NGOs in Nepal that such sentiments may culminate in the sort of antipathy towards Western NGOs and donors that is evident in Sri Lanka.⁹⁵ Meanwhile, according to some donor sources it is becoming harder to spend donor funds efficiently and effectively, while a lack of co-ordination between Western donors and the GoN regarding the deployment of funds has led to a souring of the relationship between the two.⁹⁶

It is important to bear in mind that for all international actors, just as for China, aid represents part of the picture of their engagement in Nepal but not the totality. The particular security concerns and strategic interests of India have already been touched upon, but Western actors too have interests in addition to the provision of development assistance through aid. These interests include commercial ties, trade, tourism

⁸⁸ *Ibid.*

⁸⁹ UK Department for International Development (DFID), *Bilateral aid review: Technical report* (March 2011).

⁹⁰ USAID Nepal, ‘USAID/Nepal budget – twelve years’, 15 February 2009, nepal.usaid.gov/about-us/overview/budget.html, accessed 28 October 2011.

⁹¹ Saferworld interview, Kathmandu, May 2011.

⁹² *Op cit* ICG.

⁹³ *Ibid.*

⁹⁴ Saferworld interviews, Kathmandu, May 2011.

⁹⁵ *Ibid.*

⁹⁶ *Ibid.*

and military co-operation. The UK Government for instance has a special relationship with Nepal through the Gurkha soldiers, 3,500 of whom currently serve in the British Army and play a full part in its operational deployments, including in Afghanistan.⁹⁷ These sorts of interests have a significant bearing on Western engagement in Nepal and potentially also on conflict dynamics.

It is furthermore recognised that for Western governments, as for Beijing, there may be a certain dissonance between stated policies of engagement in Nepal and the actual practice. One could argue that China does in fact impose conditionalities on its support to Nepal as it is effectively contingent on the GoN's support for the One China policy and on co-operation in control of Tibetan activists. But one could equally argue that concerns about human rights abuses expressed by some Western governments are mainly rhetorical, and that policies are rather shaped by realpolitik.⁹⁸

It is not within the scope of this study to examine the full range of international interests in Nepal and their implications for conflict and security. However, it does highlight the importance of understanding how the interventions of Western actors too may aggravate or mitigate conflict risks in Nepal. In this regard, it is worth mentioning a Saferworld/University of Bradford joint project that provides a framework for assessing the conflict prevention impact of external actors. In brief, the project has developed a framework and indicators for measuring the performance of a state in 'contributing to a benign global or regional context', which includes indicators relating to trade and aid policies. The aim of the project, which is currently being piloted, is to enhance knowledge and awareness of what states should do to improve conflict prevention performance and co-operation. Although the current project is oriented towards Western donors, the aspiration is to develop a framework that accommodates all states, including China and other rising powers.

4.6 Impact on peace and conflict

How does China's increasing engagement in Nepal relate to issues of peace and conflict? Clearly, different actors will view this differently, depending upon their underlying assumptions about what causes conflict and builds peace. From a Chinese perspective, the presumption is that economic development leads to peace. The general opinion is that the root cause of conflict is underdevelopment, and so by providing resources for infrastructure and economic development in Nepal, China's engagement will have a positive long-term impact on peacebuilding and conflict prevention.⁹⁹

This contrasts with the dominant view among Western donors that, in simple terms, conflicts arise from a variety of sources, including underdevelopment but also encompassing issues to do with identity, inequality and governance. It is based on a model of peacebuilding developed in the post-Cold War period referred to as a 'liberal peace'. This model includes an emphasis on political solutions; human security; the rights of minorities to self-determination; the universal importance of human rights; freedom of speech and free and fair elections; and a definition of state sovereignty that, in extreme circumstances, legitimates humanitarian intervention by external actors. As recent events in Libya illustrate, the liberal peace model is far from being universally accepted.

In Western discourse around peace and conflict, there is also increasing recognition that any external engagement in a conflict-prone context, such as Nepal, will inevitably have an impact upon the peace and conflict environment – whether directly or indirectly – and China's engagement is no exception. The consensus from a range of interviews in Kathmandu was that China's primary concern in Nepal is stability so that it can contain the threat from Tibetan dissidents; and that this desire for stability is

⁹⁷ 'Brigade of Gurkhas', British Army website, www.army.mod.uk/gurkhas/7544.aspx, accessed 5 November 2011.

⁹⁸ Saferworld interview, Kathmandu, May 2011.

⁹⁹ Saferworld interview, Beijing, July 2011.

reinforced by China's economic interests and geopolitical strategy. Based on this view, there is little to suggest that China's increasing engagement will have a directly negative impact upon the conflict drivers and risks identified in the earlier part of the paper.

Interlocutors in Nepal did however identify a number of ways in which China's increasing role and influence could potentially affect, or indirectly impact upon, conflict issues and dynamics. In the next section we consider each of these issues in turn and assess to what extent they can be considered significant threats to peace and stability in Nepal.

Stability and peace

From a Chinese perspective, the stability of a country is equated with the capacity of its government to control it. Where Nepal is concerned, the primary indicator of stability in Beijing's eyes is that the threat from Tibetan dissidents is extinguished, or at least contained. This entails the GoN affirming its commitment to the One China policy and Nepal's security forces co-operating in the repression of Tibetan dissidents. Beijing has successfully exerted its influence over the Government in Kathmandu to secure its co-operation in both respects, and Tibetan activism in Nepal has reduced as a consequence. In this sense then, China can be seen to have contributed to stability in Nepal.

However, this prompted the question among some interlocutors of what 'stability' means? China's understanding of the term may be at odds with that of Nepalis or Western actors. It would be misleading to suggest that there is a single agreed definition of stability shared by all Western actors, let alone by different branches of the same government. Clearly, stability may be understood differently if a Ministry's mandate is to protect national security rather than to reduce poverty overseas, and hence the term is the subject of much debate. The UK Government in its cross-departmental strategy for 'Building Stability Overseas' (BSOS) articulates a relatively inclusive definition of stability as follows:

"The stability we are seeking to support can be characterised in terms of political systems which are representative and legitimate, capable of managing conflict and change peacefully, and societies in which human rights and rule of law are respected, basic needs are met, security established and opportunities for social and economic development are open to all".¹⁰⁰

China's policy towards Tibetans in Nepal, as put into effect by the Nepali Government and security forces, does not reflect the BSOS definition of stability. Freedom of political expression is clearly denied to Tibetans in Nepal and there are credible allegations of human rights violations against Tibetan activists. China's understanding of stability in Nepal is thus at odds with the UK Government's definition of the term. Likewise, China's policy towards Tibetan refugees is not compatible with the concept of 'liberal peace', which prevails in Europe and is understood to include the rights of minorities, freedom of speech and the protection of human and political rights.

Clearly terms like 'peace' and 'stability' will be understood differently depending upon the norms and assumptions of the state concerned, and they may be interpreted to suit particular interests. But does China's policy towards Tibetans in Nepal have a negative impact upon the conflict environment? In particular, does the denial of the human and political rights of Tibetans threaten to cause violent conflict in Nepal? It seems unlikely as the Tibet issue is largely unrelated to the fundamental drivers of conflict in Nepal, while concern and protest about the treatment of Tibetans tends to be stronger outside the country than within. Nevertheless, from a Western perspective, China's policy towards Tibetans weakens any claims it may make to be supporting an inclusive and sustainable peace in Nepal.

¹⁰⁰ UK DFID, Foreign and Commonwealth Office and Ministry of Defence, *Building stability overseas strategy* (July 2011).

Governance

Another way in which China's engagement may affect peace in Nepal relates to governance. A common criticism in the West of China's engagement in developing countries is that its policy of non-interference undermines good governance and democratisation.¹⁰¹ This is especially the case in China's relations with regimes that are isolated by the West (such as Burma/Myanmar and Zimbabwe), but it also applies in countries going through a post-conflict transition, such as Nepal, where Western donors seek to promote 'progressive' reforms in governance and related areas. China's position on this issue is that "standards, rights and rules ... need to be worked out by [national stakeholders] and not imposed by outsiders".¹⁰² In other words, it is not for China to determine what it regards as the political choices of sovereign states.

In the case of Nepal, Beijing wants stability and is pragmatic about the means used to achieve this. As argued above, it appears to have little concern about what the governance system that delivers stability looks like, but will back the perceived favourite. Hence Beijing's previous support for Nepal's monarchy, while currently it regards the Maoists as the best bet – or the least worst – for achieving stability. However, some foresee that China will lose patience with the current peace process, predicated on multi-party politics and a democratic model of governance, as it is taking so long to deliver stability.¹⁰³ A fear was expressed that in this case Beijing may support an alternative, more authoritarian system in Nepal, which would not reflect the governance values (e.g. representation and legitimacy) that are associated with Western concepts of peace and stability.¹⁰⁴

This scenario may be possible but it seems unlikely. A return to monarchy, although it has its proponents, is highly improbable; while residual fears that Beijing would automatically favour a Maoist form of authoritarianism have little ground. Despite the apparent ideological kinship with Nepal's Maoists, Beijing has been careful not to be seen to favour one Nepali political party over another. As described above, it has reached out – not always successfully – to political actors on all sides and in 2011 invited all four of Nepal's major parties to visit Beijing. Thus China has sought to present itself as an impartial and apolitical presence in Nepal. Some consider that Beijing is simply 'hedging its bets' in light of Nepal's chronic political instability and volatility.¹⁰⁵ Nevertheless, its repeated exhortations to Nepal's politicians to resolve their differences through dialogue and to complete the peace and constitutional process seem to reflect a judgement in Beijing that fulfilling the existing peace process currently offers the best prospect for stability in Nepal.

Changing balance of local power

It is hard to argue with the view from Beijing that the benefits of Chinese aid, such as economic and infrastructural development, will improve standards of living among Nepalis and thus reduce tensions that might otherwise give rise to conflict. At the same time, the benefits of Chinese aid may also increase inequalities and divisions, both between local Nepali communities and between Nepalis and Chinese in-comers. Given the scale of Chinese investments and development in Nepal, there is considerable risk that this sizeable injection of resources will upset the balance of local power and interests, which may lead to violence.

In September 2011, there was a bomb attack on a Chinese food factory in the Narsingh district of the Terai. This was reportedly carried out by the Janatantrik Tera-Madhesi Mukti Party, an armed militia battling for the independence of the Terai, which aims to expel Chinese and 'non-indigenous' populations from the region.¹⁰⁶ It is the first

¹⁰¹ See for example: Naim M, 'Rogue aid', *Foreign Policy*, 1 March 2007, www.foreignpolicy.com/articles/2007/02/14/rogue_aid, accessed 28 October 2011.

¹⁰² Brautigam D, 'China, Africa and the international aid architecture', African Development Bank, *Working Papers Series*, 2010, no 107, p 29.

¹⁰³ Saferworld interview, Kathmandu, May 2011.

¹⁰⁴ *Ibid.*

¹⁰⁵ *Ibid.*

¹⁰⁶ 'Nepal: China: Terai, the first attack on Chinese industry', *Spero News*, 6 September 2011, www.speroforum.com/a/59803/Nepal-China--Terai-the-first-attack-on-Chinese-industry, accessed 28 October 2011.

attack against Chinese industry in the region, but it is feared there may be more to follow given the proliferation of Chinese entrepreneurs in the Terai, especially in the construction, textile and hotel industries. The risk of violence arising from the influx of Chinese companies into Nepal is likely to become a growing concern for peace and security from the perspective of Beijing, as well as from Kathmandu.

Changing balance of influence with India

Another concern expressed was that China's growing role and influence may provoke India into a response that threatens Nepal's peace. This is based on the assumption that India considers Nepal as being within its sphere of influence and so will regard China's increasing engagement as a threat. According to such views, New Delhi is apprehensive that China's expansion into Nepal is part of a wider plan to contain and encircle India.¹⁰⁷ One Indian analyst reports "a substantial amount of concern among the Indian establishment. The Chinese are making inroads across South Asia."¹⁰⁸ According to this analysis, Chinese infrastructural developments in Nepal, combined with the build-up of its military capabilities in Tibet, will enable the PLA to deploy rapidly to India's borders.

Various recent events are attributed to Indian concern about China's growing role in Nepal. The petrol shortage in Nepal in early 2011 was seen by some as engineered by New Delhi in reaction to the then Government's proximity to Beijing. India also remains closely involved in Nepal's politics and reportedly it has stepped up its micro-management of Nepali politicians to counter Chinese influence.¹⁰⁹ There was a notorious controversy in late 2010 when a recording was leaked of a man with a Chinese accent offering US\$6.9 million to a Maoist party leader to bribe 50 Nepali members of parliament to support a Maoist government. This affair was portrayed in India as evidence of China's meddling in Nepali politics. However, the recording has not been verified, nor the identity of the Chinese speaker, and it is suspected in some quarters that the whole incident was an Indian propaganda exercise.¹¹⁰ Whatever the reality, these incidents indicate increased tensions between the two powers over Nepal.

India's concerns about China's proximity to Kathmandu are compounded by its distrust of the Maoists – despite New Delhi's instrumental role in bringing them into the political process in 2005. The fact that the UCPN-M party still debates whether India should be considered as 'national enemy number one' illustrates that the distrust and antagonism between New Delhi and Nepal's Maoists is mutual. That said, different factions within the Maoist party are perceived to have different views about Nepal's neighbours. Thus Prachanda is regarded as being relatively pro-Beijing, while Baburam Bhattarai is considered to be more sympathetic to New Delhi. The appointment of Bhattarai as Nepal's Prime Minister in August 2011 was thus viewed in India as a reassuring development. Furthermore, the fact that Bhattarai made his first official visit to New Delhi rather than to Beijing, unlike his predecessor, may presage a swing back towards the traditional balance of power.¹¹¹

Another cause for concern in New Delhi has been that the Maoist regime in Nepal could lend support to Maoist rebels in India, the Naxalites.¹¹² There have been rumours of Naxalites receiving military training from Nepal's Maoists, and in 2010 the Indian Ambassador lodged a protest with the GoN over "organised training" of Naxalites in Maoist camps in Nepal.¹¹³ However, no evidence has been provided to substantiate

¹⁰⁷ Bhattacharya A, quoted in: 'India and China vie for influence in Nepal', *Defence Forum India*, 8 March 2009, defenceforumindia.com/military-strategy/441-india-china-vie-influence-nepal.html, accessed 28 October 2011.

¹⁰⁸ *Ibid.*

¹⁰⁹ Saferworld interviews, Kathmandu, May 2011.

¹¹⁰ Magnier M, 'Nepal caught between China and India', *Los Angeles Times*, 20 February 2011, articles.latimes.com/2011/feb/20/world/la-fg-nepal-china-20110220/2, accessed 28 October 2011.

¹¹¹ 'Prime Minister Bhattarai's visit to India: Renewing ties in critical transition phase', *Eurasia Review*, 25 October 2011, www.eurasiareview.com/25102011, accessed November 5, 2011.

¹¹² *Op cit* Magnier.

¹¹³ 'India protests Naxals' training on "Nepali soil"', *Ekantipur*, 5 November 2010, aa.59.78ae.static.theplanet.com/2010/11/05/top-story/india-protests-naxals--training-on-nepali-soil/324646.html, accessed 28 October 2011.

this allegation, and most analysts consider a connection between Nepal's Maoists and India's Naxalites to be far-fetched.¹¹⁴

China and India are seen to have adopted different approaches to Nepal: Beijing playing a strategic 'long-game', whereas India's approach is regarded as more tactical and short-term.¹¹⁵ India's tactics include alleged attempts to obstruct and undermine key aspects of the CPA, including the constitution and integration processes.¹¹⁶ Certainly there are suggestions that Indian manoeuvring has undermined Western attempts to support the peace process.¹¹⁷ The alleged obstructionism reflects Indian concern that the integration of Maoist combatants will weaken its special relationship with the Nepalese Army. There is a risk that such tactics – or at least the perception of them – will increase disillusionment with Nepal's peace process and may lead to its ultimate collapse. If China's growing role provokes India to intensify its involvement in Nepal's politics, this risks aggravating divisions among Nepali political leaders, destabilising the political situation and further delaying the implementation of the CPA.

Indian concerns about China's expansion into its sphere of influence, allied to its distrust of the Maoists, have the potential to provoke a response that could disrupt the peace process and destabilise Nepal. However, Beijing appears well aware of India's sensitivity given the historic privileged relationship between Delhi and Kathmandu. Thus far, it has been careful not to over-play its hand; indeed it has on occasion urged the Nepali Government to work at restoring its relationship with New Delhi. Furthermore, the preceding analysis suggests that China's increased engagement in Nepal, and the shift in the relative influence of the two powers, may lead to a net gain in terms of peace and stability. If India is seen to have a destabilising influence on Nepal's peace process while China has a broadly stabilising influence, then China's increasing engagement should have a positive effect in terms of peace and stability.

Changing balance of influence with the West

China's growing role in Nepal does not just shift the balance of power and influence *vis-à-vis* India, it also affects the role and influence of Western powers, including their ability to influence the peace process. In Nepal, as in other developing countries, China's increased support for the government means that it becomes less dependent upon Western aid. This may diminish Western leverage to persuade the Nepali Government to address some of the more difficult aspects of the conflict, which Western analysts believe must be addressed for peace to be sustainable. Such aspects include the human rights abuses carried out by all sides during the war. These are due to be addressed by a Truth and Reconciliation Commission, but this commission has yet to be set up.¹¹⁸ If human rights abuses are not dealt with, then impunity will become entrenched; and impunity is often an underlying driver of conflict.

Western policy makers need to be aware of this changing international context and of the implications for their own strategies for peace and development in Nepal. If the approach of Western donors is perceived to be overly prescriptive and/or conditional – as some contend with regard to issues like integration and security sector reform – this may push the Nepali Government to seek support from other sources.¹¹⁹ The likelihood is that the Government will turn to states like China that generally provide what the Government requests – often hardware rather than 'software' – and provide it with no strings attached. This may affect the democratic quality of the systems that emerge, and it is a particular concern in areas like the security and justice sectors, where weak governance can lead to violence and insecurity.

¹¹⁴ Saferworld interviews, Kathmandu, May 2011.

¹¹⁵ *Ibid.*

¹¹⁶ Adhikari M, 'Fault lines in Indo-Nepal relations', *Republica*, 6 July 2011, www.myrepublica.com/portal/index.php?action=news_details&news_id=33140, accessed 28 October 2011.

¹¹⁷ Saferworld interview, Kathmandu, May 2011.

¹¹⁸ *Ibid.*

¹¹⁹ Gautam K C, 'Inconvenient truths', *Nepali Times*, 22 April 2011, www.nepalitimes.com.np/issue/2011/04/22/Review/18125/print, accessed 28 October 2011.

The implication in this case is that China's growing role in Nepal is freeing the GoN from pressure to comply with Western standards of good governance and human rights. China's increased aid to the Nepali Government means that the 'donor marketplace' is expanding. By offering an alternative model of support to the traditional Western donors, China (and India) are introducing more competition into this marketplace. This weakens the bargaining position of Western donors since it means that the Nepali Government has more options regarding from whom it would like to receive development assistance and with what, if any, strings attached.¹²⁰

It is hard to predict what will be the implications for peace and conflict of an expanded donor marketplace in Nepal. It would be naïve to suggest that the agendas of Western donors are wholly benign in contrast to those of China or India. All external actors that engage in Nepal, as in other developing countries, do so based on a calculus of different interests: economic, security, developmental and geostrategic. So it does not automatically follow that a decline in the influence of Western donors will increase the prospect of conflict in Nepal.

It is also important to keep in mind the fundamental role and agency of Nepalis themselves. The focus of this study is upon external actors, notably China, and how their engagement affects peace and conflict in Nepal. The role of foreign powers in Nepal is highly significant, as this report demonstrates, especially in light of shifting balances of power and influence *vis-à-vis* the government in Kathmandu. However, ultimately it is the Nepali people who will determine whether there is a return to widespread violent conflict or if sustainable peace can be secured.

What the research findings and analysis contained in this report do suggest is that policy makers in the West, in China and in Kathmandu need to engage proactively with the changing realities; and they need to consider what it means for their policies and practice in support of peace and stability. For Western actors, the expansion of the donor marketplace means that the tools of conditionality they have used in the past to support peacebuilding will become less effective. This suggests that not just new tools, but new multi-lateral approaches, will be required if Western donors are to support peace in Nepal and in other conflict-affected states. In the final section of the report we consider what such tools and approaches might include.

4.7 Policy implications

Current situation

What are the implications for policy makers of China's increasing engagement in Nepal, especially those concerned with issues of peacebuilding and conflict prevention? While there is now broad acceptance and appreciation of the scale and significance of China's engagement in the developing world, analysts and policy makers in the West are still getting to grips with the implications of this shift in the context. In particular, little attention has been paid thus far to the implications for conflict-affected and fragile states, such as Nepal. How will China's rise affect conflict drivers and dynamics? And what opportunities may it offer to consolidate peace and stability?

These are questions that policy makers should ask as they consider how to respond to the threats and the opportunities resulting from China's rise. The final section of this report assesses the current state of play and offers some suggestions for harnessing this change positively in order to support peace and stability in Nepal. We focus primarily on the implications and options for Western governments. We pay special attention to the UK, as it is set to become the largest bilateral donor to Nepal; thus its response to China's rise will be particularly significant and may influence the approaches of other actors. The following implications are therefore relevant for all governments engaged in Nepal, insofar as they share similar interests and concerns to the UK Government.

¹²⁰ Harris D, 'Emerging donors: differentiation, ownership and harmonisation', *The Networker*, August–October 2011, www.bond.org.uk/pages/emerging-donors-differentiation-ownership-and-harmonisation.html, accessed 28 October 2011.

Donor representatives in Kathmandu suggested that Nepal illustrates a relatively good example of co-ordination and coherence among Western donors,¹²¹ and this view is corroborated by the findings of a recent European Union assessment.¹²² There are reportedly high levels of informal knowledge-sharing among donors, although formal structures and mechanisms for inter-donor co-ordination are limited. There are periodic Head of Mission-level meetings for aid co-ordination, while the United Nations convenes bi-weekly integration and rehabilitation meetings. However, there is no co-ordination structure specifically relating to conflict issues, akin to the Donor Peace Support Groups that have been established in some other countries.

It appears that Chinese officials do not generally engage in the various donor co-ordination forums in Kathmandu; one official from a major Western embassy said he had never seen Chinese representatives in any donor forum.¹²³ It was not possible within the limited scope of this research to clarify whether Chinese representatives are invited to such forums, although apparently Indian representatives are invited to some of them. There used to be a degree of engagement between Western and Chinese diplomats in meetings of representatives of the permanent five members of the UN Security Council regarding the UN Mission in Nepal (UNMIN), but this has ceased since the exit of UNMIN in January 2011.

In part, China's absence from the various donor co-ordination forums in Kathmandu reflects the very different norms and principles that underpin Chinese aid generally, and its engagement in Nepal in particular. Beijing does not regard itself as part of the Western donors' 'club' and prefers to deal directly with the Nepali Government rather than through multi-donor structures.

However, what was notable from interviews in Kathmandu is the apparent disconnect between most of the Western donor/diplomatic community in Kathmandu and Chinese officials. This disconnect reflects in part the view expressed that it is not worth engaging with Chinese officials in Kathmandu since strategy and policy decisions are made in Beijing.¹²⁴ However, this seemed to be compounded by the sense of a long-standing cultural divide between Western and Chinese officials, with reference made by Western diplomats to a 'Chinese Wall', which blocks substantive exchange regarding issues of aid, development, governance or security.

Room for improvement

The UK Government's aid review published in March 2011 makes clear that Nepal is one of a reduced number of priority countries to qualify for UK development support. Indeed, the UK is set to become the largest bilateral donor to Nepal over the next few years. Furthermore, the UK is one of the lead donors supporting critical aspects of peace and stability in Nepal, such as the Rule of Law. In light of the foregoing analysis of China's increasingly significant role in Nepal's development, it seems essential that there be some minimum level of dialogue between UK Government representatives and their Chinese counterparts. And this dialogue should be based on a solid understanding of each country's interests in Nepal, as well as the range and nature of its engagements.

No doubt Western donors are well aware of the changes in the global landscape and of China's rise, but it is not apparent that the consequences of this for Nepal have been fully analysed and factored into the development of aid strategies. DFID's Operational Plan for Nepal 2011–15 notes that "Nepal is of strategic importance to the UK as a fragile state in its own right and as a building block for stability in the region, positioned between China and India".¹²⁵ However, this awareness of the regional

¹²¹ Saferworld interviews, Kathmandu, May 2011.

¹²² European External Action Service, 'Nepal country strategy paper 2007–2013: Mid-term review document', April 2010, www.eeas.europa.eu/nepal/csp/11_13_mtr_en.pdf, accessed 26 November 2011.

¹²³ Saferworld interviews, Kathmandu, May 2011.

¹²⁴ *Ibid.*

¹²⁵ DFID, 'Operational plan 2011–2015: DFID Nepal', April 2011, www.dfid.gov.uk/Documents/publications1/op/nepal-2011.pdf, accessed 28 October 2011.

interactions does not appear to have informed UK policy priorities. Given the major investment by Western donors in Nepal's peace process, and the country's continuing fragility, it is particularly important to understand how China's increased engagement impacts upon the peace and conflict environment in Nepal.

It is acknowledged that opportunities and entry points to influence Chinese officials in Kathmandu may be limited. Furthermore, the Chinese Embassy may indeed have limited independent agency to affect Beijing's policy towards Nepal. However, the impression gained from interviews in Kathmandu is that there is scope for Western donors and diplomats to engage more proactively and systematically with their Chinese counterparts, be that bilaterally or through multi-donor co-ordination forums. Nor is this restricted to officials in Kathmandu; it may be that there is scope for improving information exchange and co-ordination between Western embassies in Beijing and Kathmandu, as well as with their respective foreign ministries.

As China's engagement and influence in Nepal grows, this should become a priority for Western diplomats and policy makers. The risk is that unless steps are taken soon to overcome the perceived Chinese Wall, the UK and other Western actors will find themselves responding to China's rise as a threat rather than as an opportunity. This relates to the risk that if Western donors are perceived by the Nepali Government to be too prescriptive or conditional regarding their support, then this may reinforce Nepali resentment about Western interference and ultimately push them further into the arms of China.

Potential entry points

In July 2011, the UK Government launched its new strategy for BSOS. In this strategy the Government affirms its intention to "incorporate [the stability] agenda into our developing relationships with the emerging powers". Obviously the UK Government does not have a monopoly on concern with stability. Other external actors have their own stability agendas, which are likely to diverge from the UK's. This may present some challenges, but could also be an opportunity for collaboration. As described above, China has its own clear and predominant stability agenda in Nepal, based on its security concerns *vis-à-vis* Tibet, its economic expansion and its geopolitical strategy.

In order to incorporate the UK's stability agenda into its developing relationship with China, the UK Government will need to deepen its understanding of China's interests in conflict-affected states like Nepal. In certain respects, notably Beijing's policy towards Tibetan activists in Nepal, China's stability agenda clearly diverges from the stability agenda of the UK and other Western governments. However, in other respects there is apparent common ground between the stability agendas of Western states and of China – for instance, the shared concern to see Nepal's peace process through to its conclusion.

Therefore as a first step it is suggested that further analysis be undertaken of points of convergence and divergence with regard to Western and Chinese stability agendas. This could serve as the basis for constructive dialogue between Western and Chinese policy makers on issues to do with peace and stability in Nepal. Where there is a shared interest in commonly agreed aspects of stability (whatever the differing norms or motivations behind it), this could be a basis for developing common policy objectives and even practical co-operation. Where there is a difference of perspective or principle – for instance regarding the Tibetan issue – this should be identified, and attempts made on both sides to appreciate the values and interests that underpin the different policy approaches.

Clearly such an approach would require a degree of receptiveness from the Chinese side. It would be a mistake to assume that the Chinese are oblivious to Western concerns about human rights or unaware of the different norms of foreign policy. A senior Chinese analyst at an influential think tank affiliated to the Ministry of Foreign Affairs

expressed the “hope that China and the West can work together much more closely on economic aid. But the obstacle is Western suspicion of China, and accusations that China’s non-interference policy means that China lacks any sense of morality in its foreign policy”.¹²⁶ However, he went on to note that there is increasing public debate within China about the policy of non-interference; and this may open space for dialogue between policy communities in China and the West about how to promote peace and stability in conflict-affected states.

The UK BSOS strategy goes on to state that the Government “will invest greater diplomatic efforts in new ‘prevention partnerships’ with these countries”. This demonstrates awareness of the growing role that China and other rising powers play in countries at risk of conflict and instability, such as Nepal. It is hoped that the findings of this research project may help to inform the development of a ‘prevention partnership’ with China based on shared objectives of peace and stability; although it is recognised that deeper and more comprehensive research will be required to establish a firm knowledge-base for such a partnership. At a minimum, this project should assist Western policy makers to appreciate the challenges and limitations to their efforts to promote peace and stability in Nepal, and thereby help ensure that policies are not counterproductive.

Looking beyond the bilateral relationship between the UK and China in respect of Nepal, it is recommended that broader international dialogue about peace and stability in Nepal should seek proactively to engage Beijing as well as New Delhi. While support for Nepal’s peace process appears relatively coherent and co-ordinated among Western donors, they should also be looking to connect with Chinese as well as Indian perspectives. This will require a more systematic attempt to build relations with Chinese officials in Kathmandu – as well as with the relevant policy makers in Beijing – and progressively to incorporate China into an inclusive dialogue.

A further area for Western policy makers to consider, and a possible entry point, relates to the notion of ‘conflict sensitivity’. This is based on the understanding that any intervention from outside – developmental, commercial or otherwise – will affect the distribution of power and resources in the local community. Interventions that do not take existing relations and dynamics into account may inadvertently provoke or sustain conflict, and end up doing more harm than good. As noted above, there is a risk that the sizeable injection of Chinese resources into Nepal will upset local interests and power balances, leading to the sort of violent attack against Chinese targets witnessed in the Terai in September 2011. This indicates the value to Chinese companies of adopting a conflict-sensitive approach.

The principle of conflict sensitivity is not new to Nepal. It is recognised that in the past “development programmes have sometimes reinforced the social and political inequalities that are at the root of the violent, armed conflict”.¹²⁷ Conflict-sensitive approaches have been adopted in a number of development sectors in Nepal, notably in the forestry sector. The UK Government has promoted and supported conflict-sensitive approaches both internationally and in Nepal. In its response to the multi-lateral aid review for instance, DFID recommends that “multilateral organisations need to improve their performance in fragile contexts... [and they] need to take a more systematic approach to developing conflict-sensitive programming”.¹²⁸

While not underestimating the challenges of making Chinese engagement in Nepal more conflict-sensitive, this may be an area where the West can collaborate with China. There are clear cost and security benefits to Chinese businesses of a conflict-sensitive approach, while it is also in the interests of Western governments, Beijing and all others concerned with stability in Nepal. Western actors could support this by raising awareness of what it means to be conflict-sensitive, and by sharing ideas and

¹²⁶ Saferworld interview, Shanghai, May 2011.

¹²⁷ Risk Management Office – Nepal, *A guidebook to safe and effective development in conflict* (2005).

¹²⁸ DFID, ‘Taking forward the findings of the UK multilateral aid review’, March 2011, www.dfid.gov.uk/Documents/publications1/mar/Taking-forward.pdf, accessed 26 November 2011.

information with Chinese companies investing and operating in Nepal about ways of putting conflict-sensitivity into practice.

More broadly, this study suggests that the UK and other Western governments would do well to consider what the implications are when they no longer 'own' the donor marketplace. While the engagement of non-Western powers in Nepal is not a new phenomenon (especially where India is concerned), the growing role of China, and the consequent shifting boundaries of what constitutes aid, are fast changing the context in which Western donors try to support development and peacebuilding in Nepal.

China is not overtly attempting to supplant the traditional donors to Nepal. However, by offering alternative options to the GoN they are weakening the bargaining position of traditional donors, with the consequence that the Western practice of linking aid to conditionalities around governance or human rights will be less effective. We should not overestimate the effectiveness of these conditionalities: some of the concern about emerging powers "overestimates the extent to which [good governance, etc.] have been furthered by direct conditionalities imposed by [Western] donors".¹²⁹ Nevertheless, conditionalities will now be less effective than they were before, so if the UK and others wish to continue to exert a positive influence upon processes of development and peacebuilding, they will need to engage proactively and imaginatively with the new reality of a multi-polar donor context.

In conclusion, this report suggests a number of ways in which Western policy makers could strengthen their engagement with China on issues of peace and stability in Nepal. This is on the basis of a preliminary and light-touch research exercise. It was not possible within the limited scope of this project to explore fully the various forms of Chinese engagement in Nepal or how they interact with conflict drivers; nor has there been a thorough analysis of all international actors. We recommend undertaking more in-depth and systematic research in some of the areas identified above, in order to generate a comprehensive evidence-base and to develop more targeted policy recommendations. However, this report has highlighted a number of key issues to consider, and we hope it will stimulate policy debate as well as practical action in response to the significant changes identified.

¹²⁹ Woods N, 'Whose aid? Whose influence? China, emerging donors and the silent revolution in development assistance', *International Affairs* (November 2008), vol 84 no 6, p 7.

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COVER PHOTO: Sindhupalchok, Nepal – A view of the China-Nepal Friendship Bridge, spanning the Koshi river to link Nepal and Tibet, March 2010

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