



Geopolitics, Infrastructure and Development in Nepal

Event Summary

Thursday, July 20, 2023

- The Centre for Social and Economic Progress (CSEP) hosted the **6th Sambandh Policy Dialogue on Regional Connectivity** with **Dr. Swarnim Waglé**, Chair, Institute for Integrated Development Studies, and **Mr. Vijay Gokhale**, former Foreign Secretary of India, as the guest speakers on **Geopolitics, Infrastructure and Development in Nepal**. The discussion was hosted and moderated by **Dr. Constantino Xavier**, Fellow, CSEP.
- The discussion focussed on how Nepal is navigating geopolitics and making its strategic choices. It examined Kathmandu's approach to regional connectivity and how India is reaffirming its commitment to supporting Nepal's development through various connectivity initiatives. The discussion also delved into the role of the United States, China, Japan, Europe, and other actors in Nepal.
- Held as a closed-door event, in Track 1.5 format, this Sambandh Policy Dialogue included participation from approximately 40 experts and decision-makers, including senior representatives from the governments of India and Nepal, scholars from across the region (including Sri Lanka, and Bangladesh), and from other countries and regions (Europe, United States, Singapore, Indonesia), institutions (including the United Nations Development Programme), diplomats, and the private sector.
- The Sambandh Policy Dialogue (SPD) is a part of the Sambandh: Regional Connectivity Initiative at the Centre for Social and Economic Progress (CSEP), New Delhi. The SPD is a closed-door policy forum for decision-makers and experts to exchange informal perspectives on connectivity issues in South and Southeast Asia, the Bay of Bengal and the Indo-Pacific regions. Participation is by invitation only, requiring prior registration.

Geopolitical and geoeconomic underpinnings of Nepal's external relations

A speaker emphasised on the different dynamics of India-Nepal and China-Nepal relations. While Nepal's external relations with China have been historically based, India's relations with Nepal are more opportunistic. However, India cannot play an exclusive role in Nepal. Globalization has led to the end of an exclusive backyard and now all spaces are contested and shared. The goal of Indian diplomacy should be to preserve its security and economic interests in these contested and overlapping spheres of influence.

India should study the implications of this evolving engagement and adjust to the new reality while preserving its strategic interests in the Himalayan belt. A speaker highlighted that there is a persistent Chinese narrative that India's development assistance efforts in Nepal are in collusion with Western efforts to thwart Chinese assistance. However, countries like Nepal, Bangladesh, Sri Lanka, and Bhutan should make informed decisions about India's role in the region separately from global dynamics.

Furthermore, a speaker highlighted that India cannot expect to become the sole caterer of Nepal's developmental needs and infrastructure requirements. There is a need for a more coordinated response, including triangulation between India and other like-minded partners. These

include the European Union Bank seeking to support power grid connections between Nepal, Bhutan, Bangladesh, and India, and the United States through the Millennium Challenge Corporation agreement. However, one participant warned that sometimes the interests of western actors like the United States and the United Kingdom do not align with India's interests in the region, and therefore, it is on Nepal to do its due diligence, determine the economic requirements, and assess the political and diplomatic motivations of other partners.

Nepal's economic crisis and connectivity with India

Nepal's plunge into its first recession of six decades in April 2023 highlighted its dependencies on external factors such as the global inflation rate and economic linkages with India. A speaker underscored that the moderation of inflation in India appears to be corresponding with the stabilization of rates in Nepal.

To overcome the economic crisis, Nepal needs higher levels of cooperation to expand economic growth. The economic dynamism of Nepal relies on factors like remittances and concessional finance coming into large infrastructure. A participant further suggested that strengthening state capacity is crucial, as weak state capacity impeding the efficient utilization of funds has been a recurring grievance from both bilateral and multi-partner sources.

In terms of cooperation, a participant elucidated that India and Nepal have made progress on power trading, especially with the announcement of a new power transmission line between India and Nepal during PM Dahal's visit in June 2023. India and Nepal are also developing a 900-MW Arun-III hydroelectric project, which is scheduled to be completed in 2024. India and Bangladesh have also agreed to involve India in the Rs. 160 billion, 683 MW hydropower project on Sunkoshi River, reflecting a growing confidence in trilateral cooperation in the region.

Both India and Nepal have shown the political will to overcome local and regional issues and develop better connectivity. The India-Nepal petroleum pipeline is an example of this, with new connectivity projects such as

two new bridges across Mahakali, the fifth Integrated Check Post (ICP), a second pipeline project, new power transmission lines, and the inauguration of a new cargo train.

Railway connectivity between India and Nepal

On railway connectivity, there is still a missing railway link between South and Southeast Asia, which includes Nepal, Bangladesh, India, Myanmar, and Thailand. India should capitalize on technological advancements, such as bridge and tunnelling technology, to expand railway connectivity between Raxaul and Kathmandu. India's technological advancements can ease the development of the Raxaul-Kathmandu railway line and pave the way for an inter-regional railway connectivity line linking Bangladesh and Nepal. A participant suggested that India and Nepal should focus on Coordinated Border Management, which focuses on information flow and physical movement of goods, as one way to streamline transport connectivity.

Furthermore, another participant warned that the Kerung-Kathmandu railway link between Nepal and China is still a distant reality, and Nepal should do its due diligence and convey its concerns about economic burden to China.

Infrastructure financing

Infrastructure financing is also crucial for India and Nepal. There is also a rising need for sustainable and bankable projects between India and Nepal. The financing of such projects can be derived through multilateral development banks (MDBs) such as the Asian Development Bank (ADB), World Bank, and Asian Infrastructure Investment Bank (AIIB). A speaker emphasised that India should leverage its G20 presidency to blend multiple financial sources or create a consortium to fund ambitious infrastructure projects. However, engaging MDBs in financing such projects must be done cautiously, as India has reservations about the steep environmental and social yardsticks set by these MDBs. Furthermore, it is a demand of South Asian countries to implement the 267 projects identified by the BIMSTEC Masterplan on Transport Connectivity.

All content reflects the individual views of the participants. The Centre for Social and Economic Progress (CSEP) does not hold an institutional view on any subject.

*This event summary was prepared by **Anahad Kaur**, Research Analyst, CSEP.
For queries, please contact **Riya Sinha**, Associate Fellow, at rsinha@csep.org.*

Centre for Social and Economic Progress (CSEP)

6, Second Floor, Dr. Jose P. Rizal Marg, Chanakyapuri, New Delhi, India



@CSEP_Org



@csepresearch



Centre for Social
and Economic
Progress



www.csep.org