

REPAIRING THE COMPLEX INDIA-NEPAL RELATIONSHIP

Relevant for: International Relations | Topic: India - Nepal

Nepal Prime Minister Sher Bahadur Deuba flagging off the inaugural run of cross border passenger train services | Photo Credit: AFP

The Nepal Prime Minister, Sher Bahadur Deuba, paid a long-awaited visit to India last week (April 1-3). Sworn in in July 2021, this was his first bilateral visit abroad, in keeping with tradition. The outcome might appear modest but what is significant is that India and Nepal effectively managed to steer clear of divisive issues. At 75, Mr. Deuba is a political veteran and first became Prime Minister in 1995. Now in his fifth stint, he is no stranger to the complex relationship between the two countries.

Among the highlights was the operationalisation of the 35 kilometre cross-border rail link from Jayanagar (Bihar) to Kurtha (Nepal). Two further phases will extend it to Bijalpura and Bardibas. The 787 crore project had been ready for over a year but operationalisation was held up because of the necessary administrative requirements in Nepal to set up a company that could recruit staff. The Konkan Railway Corporation will provide the necessary technical support initially.

The second project that was inaugurated was the 90 km long 132 kV double circuit transmission line connecting Tila (Solukhumbu) to Mirchaiya (Siraha) close to the Indian border. Constructed with an Exim Bank concessional loan of 200 crore, there are a dozen hydroelectric projects planned in the Solu corridor for which the Nepal Electricity Authority has concluded PPAs of 325 MW.

In addition, agreements providing technical cooperation in the railway sector, Nepal's induction into the International Solar Alliance, and between Indian Oil Corporation and Nepal Oil Corporation on ensuring regular supplies of petroleum products were also signed.

The Mahakali Treaty, signed in 1996 during Mr. Deuba's first visit as Prime Minister, covers the Sarada and Tanakpur barrages as well as the 6,700 MW (approximately) Pancheshwar Multipurpose project. Both sides have agreed to push for an early finalisation of the detailed project report. The ambitious \$7 billion project needs political will to move it forward. The joint vision statement on power sector cooperation recognises the opportunities for joint development power generation projects together with cross border transmission linkages and coordination between the national grids; it can provide the momentum.

On February 27, Mr. Deuba pushed through the ratification of the agreement with the U.S. Millennium Challenge Corporation (MCC), despite the reservations of his coalition partners, the Maoists and the UML (Unified-Socialist). The agreement provides a grant of \$500 million for building 318 km of high voltage transmission lines along with sub-stations and the maintenance of 300 km of the East-West highway. The Chinese Embassy in Kathmandu had actively sought to sabotage the agreement by planting stories that it was part of the U.S.'s Indo-Pacific strategy aimed at containing China. The agreement had been signed in 2017, during Mr. Deuba's fourth stint as Prime Minister, and was awaiting ratification. Together with the Pancheshwar project, it provides welcome synergy.

During the monarchy, China maintained a link with the Palace and its concerns were primarily

related to keeping tabs on the Tibetan refugee community. With the abolition of the monarchy, China has shifted attention to the political parties and to institutions such as the Army and Armed Police Force and considers Nepal an important element in its growing South Asian footprint.

In recent years, India's relations with Nepal have had both 'highs' and 'lows'. Prime Minister Narendra Modi has often spoken of the "neighbourhood first" policy. He started with a highly successful visit in August 2014 but then saw the relationship take a nosedive in 2015, with India first getting blamed for interfering in the Constitution drafting process and then for an "unofficial blockade" that generated widespread resentment against India. It reinforced the notion that Nepali nationalism and anti-Indianism were two sides of the same coin that Mr. Deuba's predecessor, Mr. K.P. Sharma Oli, exploited successfully.

In 2016, Mr. Oli visited Beijing to negotiate an Agreement on Transit Transportation. Three years later, a Protocol was concluded with China providing access to four sea ports and three land ports. The first ever visit of the Chinese Defence Minister took place in March 2017, followed by joint military exercises a month later. A military grant of \$32 million was also announced.

China has overtaken India as the largest source of foreign direct investment. In 2019, China's President Xi Jinping visited Kathmandu. Annual development assistance has been hiked to \$120 million. Today, China is also engaged with airport expansion projects at Pokhara and Lumbini. Rather than compete with China, India needs to up its own game.

The growing Chinese presence means that India cannot afford to let issues linger but reach out actively to find resolution.

Over the years, a number of differences have emerged between India and Nepal that need attention. The political narrative has changed in both countries and these issues can no longer be swept under the carpet or subsumed by invoking a 'special relationship' based on ties of a shared culture, language and religion. Part of the success of Mr. Deuba's visit was that none of the differences was allowed to dominate the visit. Yet, to build upon the positive mood, it is necessary these issues be discussed, behind closed doors and at Track 2 and Track 1.5 channels.

As one of the oldest bonds, the 1950 Treaty of Peace and Friendship was originally sought by the Nepali authorities in 1949 to continue the special links they had with British India. It provides for an open border and for Nepali nationals to have the right to work in India. But today, it is viewed as a sign of an unequal relationship, and an Indian imposition. The idea of revising and updating it has found mention in Joint Statements since the mid-1990s. It has been discussed sporadically, but in a desultory manner, by the Foreign Secretaries in 1997, and even at the ministerial level at the 2014 Joint Commission.

In 2016, an eight-member Eminent Persons Group was set up to discuss it. The report is available with both governments but the perception in Kathmandu is that it should be formally presented to the two governments. As long as it is clearly understood that this is only a report by well-intentioned experts in their individual capacity and not binding on governments, it should be possible for the two Foreign Ministers to acknowledge it publicly. It could even be made public to kickstart Track 2 conversations.

Demonetisation is another irritant. In November 2016, India withdrew 15.44 trillion of high value (1,000 and 500) currency notes. Today, over 15.3 trillion has been returned in the form of fresh currency. Yet, many Nepali nationals who were legally entitled to hold 25,000 of Indian currency (given that the Nepali rupee is pegged to the Indian rupee) were left high and dry. The Nepal

Rashtra Bank, which is the central bank, holds 7 crore and estimates of public holdings are 500 crore. After more than five years, it should certainly be possible to resolve this to mutual satisfaction.

In 2019, Mr. Oli, facing domestic opposition within his party, needed a distraction and found one in the form of the Kalapani boundary issue. These boundaries had been fixed in 1816 by the British, and India inherited the areas over which the British had exercised territorial control in 1947. While 98% of the India-Nepal boundary was demarcated, two areas, Susta and Kalapani remained in limbo. In November 2019, India issued new maps following the division of the State of Jammu and Kashmir as Union Territories, Jammu and Kashmir and Ladakh. Though the new Indian map did not affect the India-Nepal boundary in any material way, Mr. Oli expanded the Kalapani area dispute. By whipping up nationalist sentiment, he got a new map of Nepal endorsed by the legislature through a constitutional amendment. While it did not alter the situation on the ground, it soured relations with India and added a new and emotive irritant.

The need today is to avoid rhetoric on territorial nationalism and lay the groundwork for quiet dialogue where both sides display sensitivity as they explore what is feasible. India needs to be a sensitive and generous partner for the “neighbourhood first” policy to take root.

Rakesh Sood is a former Ambassador to Nepal and presently Distinguished Fellow at the Observer Research Foundation

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