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**IN SEARCH OF AUTONOMY:  
NEPAL AS A WEDGE STATE BETWEEN INDIA AND CHINA**

by

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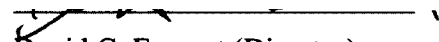
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**DOCTOR OF PHILOSOPHY**

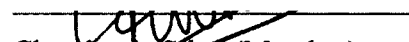
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## ABSTRACT

### IN SEARCH OF AUTONOMY: NEPAL AS A WEDGE STATE BETWEEN INDIA AND CHINA

Sagar Rijal  
Old Dominion University, 2015  
Director: Dr. David C. Earnest

Traditional International Relations (IR) theories consign small states to the reactive roles of “bargaining, bandwagoning or buffering.” Small states are deemed to be inherently vulnerable, forever concerned with their mere survival. However, the present global system of states is characterized by numerous smaller states, many of which are not only surviving but also thriving in both economically and politically spheres.

To unravel this anomaly, this study proposes a theory of wedge states as a separate category of small states, which are compelled to deep engagement with two or more rival powers simultaneously. The study analyzes a case of a typical wedge state using the interaction between Nepal and its neighbors China and India to inquire if the “wedge” situation of Nepal being located between two rival powers provides it any strategic agency or autonomy. To understand such outcomes, the study uses material gains as the proxy for strategic autonomy.

The analysis of three cases of Nepal’s tripartite interaction—policies on Tibetan exiles and refugees; competitive Chinese and Indian investments in the hydropower sector in Nepal; and environmental cooperation along the fragile ecosystem of the shared Himalayan region—finds that Nepal has often enjoyed significant agency and generated material gains due to the rivalry between its two larger neighbors. Nepal’s strategic options and material gains, especially in economic and environmental realms, contradict the conventional IR theories and point to increasing autonomy of similar cases of small wedge states in the global system.

*Dedicated to my best friend and life-partner  
Jayanti: You made this possible.*



## ACKNOWLEDGEMENTS

This dissertation is a product of my labor of more than three years. The fact that the project has come to its conclusion is testament to the guidance, encouragement and belief shown by my mentors and friends.

Foremost among them is the undying support, confidence and intellectual stimulation given to me by Dr. David Earnest, the director of my committee. For more than three years, Dr. Earnest met with me regularly, in person as well as via Skype, to answer my every question, to always boost my morale, and to keep me focused on the ultimate goal. There were periods when without his patience and inspiration I could not have carried on. I consider myself lucky to have found such a devoted mentor to set me in my academic journey. I am also grateful to the two members of my committee, Dr. Francis Adams and Dr. Chandra de Silva, both of whom gave significant feedback on my prospectus, which greatly determined the research direction. Their support continued during the entire process until the defense.

I owe my ability to attend the doctoral program at GPIS to the College of Arts and Letters and their generous scholarship. I am especially indebted to the continued support as well as belief shown to me by GPIS Director, Dr. Regina Karp. Additionally, my friends in GPIS—Tasawar Baig, Aaron Sander, Wiebke Lamer, Alessandro Shimabukuro, Lauren McKee and Renata Giannini—each inspired and encouraged me along the way. Special thanks goes to my dear friend Sara Hoff for sending me weekly emails that proved essential in keeping me motivated.

I acknowledge Nepal Electrical Authority for the use a figure published in the publically available report about major hydropower projects in Nepal.

My doctoral journey would not have begun or ended if not for my dearest friend and wife Jayanti Sharma. Her courage, patience and resilience have been vital to ensure the completion of this six-year mission. I can honestly say I would not be here today if not for Jayanti to whom this work is dedicated in love and gratitude.

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## CHAPTER I

### INTRODUCTION: WEDGE STATES IN WORLD POLITICS

One might as well begin with Thucydides' narration of the Melian Dialogue during the Peloponnesian War. For Athens, the superpower rival of Sparta, the small neutral island of Melos offered nothing more than a target to demonstrate its power and to make an example of by intimidation. The Melians resisted Athenian demands of submission and requested to remain independent from the Delian League. But the powerful Athens would not budge. Since then the fate of weak states in world politics was sealed by the response of the Athenians: "The strong do what they will, and the weak suffer what they must."<sup>1</sup> The devastating meaning derived from this episode has been that in the matters of interstate relations only the behavior and choice of great powers are decisive.

Fast-forward 2500 years and another island nation found itself in the midst of a tug-of-war between two relatively superior powers. In 2004, Taiwan and the People's Republic of China openly competed for recognition by the pacific island state of Vanuatu. Each state made competing declarations of monetary aid amounting to millions of dollars for Vanuatu's recognition and loyalty. For Vanuatu, although the stakes were not as dire as those faced by Melos, it was a delicate decision as evidenced by the vacillations and recurrent change of hearts among its leaders. After initially recognizing Taiwan as a legitimate sovereign, Vanuatu seemed to have changed its mind and then reverted to Taiwan before doing another about face. The internal dynamics of Vanuatu's competing politicians and ministers surely played a part in such open demonstration of what has been termed "bribery diplomacy."<sup>2</sup> The bidding war for recognition between China and Taiwan is not just limited to this one instance of Vanuatu but includes many

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<sup>1</sup> Thucydides, *The Peloponnesian War*, trans. Richard Crawley (New York: Modern Library, 1982), 269.

<sup>2</sup> Mark Magnier, "China, Taiwan Wooing Vanuatu in Dollar Dance," *The Los Angeles Times* (November 13 2004), <http://articles.latimes.com/print/2004/nov/13/world/fg-vanuatu13>. (accessed on April 18, 2013).

other small states in Latin America, Africa and the Pacific.<sup>3</sup> This contemporary example suggests a phenomenon different from the one of coercive bargaining involving Athens, Sparta and Melos. The weaker state seems to have accrued some choice, a form of power so that the role, function and fate of small states in international relations (IR) are in dire need of updating. Today, states that are unequal in relative power seem to have more space for negotiation and bargaining than in earlier eras when such matters would simply be decided by force alone.

In the flowering of the post-Westphalian interstate system to its present day maturity, the signal transformation has been in the calcification of the notion of statehood, sovereignty and respect for territorial boundaries. The defining notions of sovereignty and non-intervention, pioneered in Western Europe in the eighteenth and the nineteenth centuries—which spread across the world in due time by the so-called process of “globalization of the state system” by the twentieth century—have largely become the backbone of the modern state system.<sup>4</sup> In the post-War period, as decolonization progressed through the continents and as the liberal world order took root under the admittedly tenuous sanctuary of United Nations and myriad inter-state organizations, boundaries between states have been normalized to an extent that seems unprecedented in history. Wars fought strictly for empire and territory have become quite rare indeed. Although there have been major redrawing of the map—due to breakup of the USSR, for instance, or that of Yugoslavia—most states perceive high degree of certainty about their boundary relative previous eras in history. Of course, it would be premature to assume that the superpowers are automatically thwarted in their ambitions by boundaries fixed on paper—cases in point, U.S. in Iraq & Russia in Ukraine. Yet, the superpowers have also used their power to affirm the sanctity of the international boundaries to aid weak states—liberation of Kuwait being a prime example of war waged to, among many other

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<sup>3</sup> See, among others: Daniel P Erickson and Janice Chen, "China, Taiwan, and the Battle for Latin America," *The Fletcher Forum of World Affairs* 31(2007); Timothy S Rich, "Status for Sale: Taiwan and the Competition for Diplomatic Recognition," *Issues & Studies* 45, no. 4 (2009); Joel Atkinson, "China–Taiwan Diplomatic Competition and the Pacific Islands," *The Pacific Review* 23, no. 4 (2010).

<sup>4</sup> Robert H. Jackson and Georg Sorensen, *Introduction to International Relations : Theories and Approaches* (Oxford; New York: Oxford University Press, 2003), 17-18.

reasons, uphold the sovereignty of a small state. Thus, it is not erroneous to state that the emerging interstate system places a high value on the adherence to international law, observance to the norms of sovereignty and non-intervention, and allowance to self-determination. This is a qualitatively and temporally novel development.

For the subject matter of this research project—the smaller and weaker members of the state system and the factors, patterns and outcomes of their interactions with major powers—the emergent international system of states with almost-fixed boundaries is essential. If, in fact, this system is able to protect the weakest against arbitrary aggression for territory or coercion, the implications are substantial. It would fundamentally change that dictum of Thucydides so that the strong would hesitate from doing what they will, and the weak would not compliantly suffer what they must. It would mean the minnows, secure at least in the sturdiness of their borders, do not need to fear their mere survival as much as they had to in earlier eras of territorial expansionism, imperial encroachment, and recurrent modification of boundaries. Today's weak states might thus feel relatively less vulnerable, but by no means entirely secure, at least in regards to their basic survival.

In most other spheres—political, economic, social and environmental—the smaller and weaker states also face ample vulnerabilities. They may routinely buckle under political pressure to adhere to the demands of greater powers. It has become a well-established proposition that as the so-called “price takers” in the international system of behemoth economic powers, the small states are unable to compete and remain inherently vulnerable. Their voices and concerns on social and environmental issues usually fall on deaf ears of the greater powers. For the majority of small/weak states, especially those in the global South, independence and autonomy of strategic policy choices are unusual.

#### THE PUZZLE: STRATEGIC AUTONOMY OF SMALL STATES

Traditional IR theory presumes small states to be entirely structurally constrained and irrelevant to the major global issues. The major powers would rather pigeonhole small states into their traditional roles of “balancing, bandwagoning or buffering” than negotiate with them as sovereign equals. Their newfound relative freedom from existential worry stands uneasily with the continued political, economic and social

vulnerabilities of most small states vis-à-vis major powers. This offers a striking puzzle in world politics. Do small states possess “strategic autonomy” in their interactions with greater powers?

The number of small states—whatever definitional criteria is used, the variation of which we will tackle in the next chapter—has risen dramatically in the post-Cold War world. Along with the rise in numbers, there has been a small but burgeoning scholarship on the topic of small states research, which in direct contradiction to the mainstream IR theory, seek to understand and explain the myriad ways in which smaller, weaker states of the international system have managed to not just survive but thrive, economically and politically, while tangling with the structural constraints of major power politics.

This puzzle of the acutely vulnerable small states that may nonetheless exhibit the curious pattern of autonomy and resilience in varying degrees raises questions that are both theoretically interesting as well as empirically substantive. Do the weaker states now enjoy uniform autonomy of strategic action? Has their role as the pawns of the rival great powers changed significantly? Under what conditions do the weaker state benefit materially from their inherent position? How have some of them managed to overcome the presumed inherent vulnerability owing to their position in the structure of IR? In the last few decades, many bodies of literature in international relations, international political economy and related fields have addressed this puzzle of the small state problematic.

## THEORETICAL PERSPECTIVES ON SMALL STATES

Foremost, the scholarship is divided by the theoretical and practical inability to find a common and widely acceptable definition of what could be termed “small state.” Reflecting these definitional squabbles, observers have employed various objective and subjective criteria to delimit the type of state that is being discussed under such contending labels as “small states,” “small powers,” “weak states,” and “micro states,” etc., a process that has managed to further muddy the analytical waters. The next chapter begins with a section tabulating and sorting out the various definitional issues and

detailing the conceptualization of the terms to be used in this research. A brief observation of the core standoff should suffice here.

Robert Keohane, in a widely cited review article published in 1969, highlighted the empirical and conceptual difficulty in categorizing the group of small states.<sup>5</sup> He found two principal criteria: empirical based on material elements, or conceptual based on subjective, psychological criteria. Some scholars at the that time had either used strictly material criteria such as population or geographic size with somewhat arbitrary cutoff points to separate the category of small states from middle or great powers. Others favored a conceptual definition using level of perceived security and self-reliance a state could count on. Another long-time popular approach involved setting aside the superpowers and the major powers, and then treating the “residual category” as small states, which were mostly deemed unnecessary to explain a whole lot in world politics.<sup>6</sup>

Moving beyond the definitional squabbles, observers from contending traditions have grappled with the small state problematic in diverse ways. In a survey of small state scholarship, Matthew Louis Bishop identifies three competing approaches to the analysis of small state: mainstream IR theory; economic and development studies; and international political economy approaches.<sup>7</sup> To Bishop’s approaches, one could add a couple complementary perspectives: “emerging state system and norms” and “societal actors” perspectives. The former is contingent on the larger concerns of state systems suitable for the emergence and survival of small states, and the later focuses on the factors emanating from within the small states in producing their behavioral outcomes vis-à-vis greater powers. These groupings of scholarship will form the basis of the theoretical literature review in chapter two. Here I provide a brief introduction to show the scope of each approach.

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<sup>5</sup> Robert O. Keohane, "Lilliputians' Dilemmas: Small States in International Politics," *International Organization* 23, no. 2 (1969).

<sup>6</sup> Christine Ingebritsen et al., eds., *Small States in International Relations* (Seattle: University of Washington Press, 2006).

<sup>7</sup> Matthew Louis Bishop, "The Political Economy of Small States: Enduring Vulnerability?," *Review of International Political Economy* 19, no. 5 (2012).



Traditional IR theorists concerned as they are with the major powers and global issues, have given less attention to small states. Yet, their implicit position is deterministic on the structure of international system and the distribution of power, which places the small states in the system as inherently powerless and lacking agency. From the economist and developmental studies approach the core concern states has been in trying to quantify those states' levels of vulnerability to internal and external shocks and, more recently, in trying to forge ways of "nurturing resilience" against those immutable shocks. Relatedly, the recent strain of critical IPE scholarship has been concerned with the idea of "agency" that the small states possess in the face of structural constraints. By participating in niche market areas or by activating particularistic norms, many small states have been able to overcome their vulnerabilities. The societal actors approach takes a more traditional view in identifying the important unit-level, societal and individual determinants, of foreign policy behavior of small states.

However, I show that the extant theories do not sufficiently take into account the varieties of small states and the variation of the outcomes in interaction with greater powers. Rather than uniformly denying strategic autonomy and gains from interaction for all small states, I argue that we have to allow for specific contextual, temporal and issue-related consideration. The point of departure of this research is to begin and unravel the "power of the small" puzzle by enumerating the empirical ways in which small states have managed to overcome their supposed vulnerability. We can then analyze the specific assumptions of smallness, vulnerability and resilience of small states.

#### WEDGE STATES: THEORY AND APPROACH

To adjust the limitation in these theoretical perspectives, I propose, theorize and analyze a special class of small states, what I call the "wedge states." Wedge states are defined as those small states that are able to enlarge their strategic autonomy and accrue material benefits from the two rival great powers, due primarily to their geographic location, ideological inclination or strategic self-interest. With the help of the typology of small states, I distinguish wedge states as a sub-category within the population of small/weak states and differentiate them from others historical usage, such as the concept

of “buffer states.” The theoretical expectation is that wedge states are able to expand their strategic autonomy, which means ability to accrue higher gains from interaction.

As explained in detail in chapter II, the concept of wedge states denotes those small states that are forced to interact with two rival greater powers. And because of their interaction with each of the competing rival powers, there is theoretical possibility they might enlarge their space for strategic autonomy, which in practice leads to greater share of gains from interaction in any of the myriad interactions they are involved in. It is in this context that I apply the insights from the extant theoretical perspectives to the context of wedge states. The goal is to explain the dependent variable, namely “gains from interaction” in a specific case and attempt to explain the variation in gains.

In Chapter III, I present the theoretical model of the wedge state along with the specification of independent variables that might explain the variation in the level of gains. The leading variables identified are: the type of state system; extent of sovereignty norms; distribution of power; level of institutionalization; level of interdependence; type of the domestic political system; level of political stability; level of economic dependence; level of economic development. From these leading variables, I draw three relevant hypotheses to explain the behavior and outcomes of interaction by wedge states.

To test those hypotheses and to help in building the theory of wedge states, I present a qualitative research design based on a single-unit of analysis. Using the qualitative methodology of process-tracing and within-case analysis over time, I propose to study the factors that impact the level of gains from interaction accrued by a typical wedge state. The goal is theory building and generation of testable implications of the proposed theory of wedge states, in regards to the primary research question, which is the level of gains from interaction enjoyed by the wedge state in various issues areas.

## EMPIRICAL CASE AND EVIDENCE

For empirical analysis, this research will rely on the case of the small South Asian state of Nepal, which is landlocked between the rising superpowers, India and China. The historical rivalry and current competition between the regional and global players provides a perfect wedge opportunity for substantial but relatively tiny Nepal. Thus,

analyzing Nepal as my unit of analysis allows for testing the hypotheses on wedge states in its interaction with rival powers.

In presenting the evidence from this geo-political unit to analyze the theoretical issues raised, I shall examine three distinct cases to collect evidence of how this “wedge” state negotiates from a position of weakness. The three issue-areas discussed in detail, which provide the bulk of evidence in chapters IV to VI are:

1. The first case involves political, social and cultural issues. For more than half a century, the three states of Nepal, India and China have been involved in a delicate balancing act to manage each other’s expectations in dealing with the issue of Tibet and Tibetan refugees. The long-running strategic interaction between the three countries on their individual positions on this delicate issue and their actions vis-à-vis Tibetan refugees provides a suitable case to determine the degree of autonomy or independence that a weak state might possess when interacting with major powers. This case is analyzed in detail in chapter IV and provides the evolving situation of three-player strategic interaction over time.

2. The second case is of the economic interaction in foreign investment into Nepal’s hydropower sector from its rival neighbors. As one of the poorest countries of the world, Nepal has relied in economic aid and investments from outside, primarily from India and China to maintain its economic positions. Chapter V will examine the historical pattern of state investment in hydropower projects made by India and China into Nepal and interrogate if the investment decisions have exhibited any discernible patterns of strategic interactions between the three actors. Review of specific hydropower projects analyses if Nepal’s wedge is able to garner higher gains from one or both of the rival powers.

3. The third case covers the problem of global climate change and environmental cooperation in the high Himalayan region. This issue is of utmost strategic importance to all three nations under consideration. The Himalayan range, which forms the natural barrier between Nepal, China and India is the source of the major river systems in South Asia. As the global temperatures rise, the fragile ecosystems of the high Himalayas are

said to be under threat and require close coordination and cooperation between the all the national stakeholders in the region for any meaningful success in combating the dangerous effects. Chapter VI reviews the strategic interaction between the three states regarding climate change and its effects on the region and the joint efforts to mitigate the impending disaster.

The chapters on the three cases provides crucial evidence used to analyze the pertinent research questions and test hypotheses about the role, function and ability of small, wedge states to manage their affairs and interactions with their powerful partners. Chapter VII presents the comparative cases summary findings, implications and conclusions.

As for the method and process of data collection and evidence testing, this study relies on the method of “systematic process tracing” to outline the causal mechanisms of Nepal’s interaction and choices in those three issue areas of interaction with India and China. This project draws as much as possible on primary sources of data, in the form of government declarations, treaties, official agreements as well as official figures and statements collected from official sources. Significant data also come from secondary sources as well in the form of newspaper accounts of developments, journal articles, books of historical records and major international databases for data. Due to the inability of the author to travel for data collection, the research compensates by using sources available in the Internet and library research.

## CHAPTER II

### SMALL AND WEDGE STATES IN THEORY

An explosion in the number of new independent states characterized the second half of the twentieth century, and the majority of the emergent states were “small.” Lake and O’Mahony have shown that, after rising in the previous century, the average size of the states steadily shrunk in the twentieth century.<sup>1</sup> Each new state was welcomed to the community of nations as evidenced by its membership in the United Nations and other international and regional bodies. The membership in the United Nations almost quadrupled from the original 51 members in 1945 to 193 in 2011.<sup>2</sup> This phenomenon of a growing number of sovereign and formally equal, but empirically smaller and weaker states has spawned contending theoretical and policy questions.

Smaller geographic units, principalities and duchies had long been a historic feature of European state system and geopolitics. Yet, the classificatory rubric of dividing Europe into the “great powers” and the rest—made up of “middle powers” and what has been called the “*residual category*” of “small powers”—only came into usage after the Congress of Vienna, during which the five major powers began formalizing the interactions among themselves and with the rest of Europe by setting the traditional rules of the diplomatic game.<sup>3</sup> Those states that did not have a seat at the table were small powers. The period after World War I saw the breakup of the empires into smaller units; after World War II came the accelerating pace of nationalism and decolonization, creating numerous new states which joined the international system. Thus began the intellectual curiosity and a budding literature on small states in the disciplines of

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<sup>1</sup> David A Lake and Angela O'Mahony, "The Incredible Shrinking State: Explaining Change in the Territorial Size of Countries," *Journal of Conflict Resolution* (2004).

<sup>2</sup> United Nations, "Growth in United Nations Membership, 1945-Present," <http://www.un.org/en/members/growth.shtml>.

<sup>3</sup> Iver B. Neumann and Sieglinde Gstohl, "Introduction: Lilliputians in Gulliver's World?," in *Small States in International Relations*, ed. Christine Ingebritsen, et al. (Seattle: University of Washington Press, 2006), 4.

international relations, foreign policy analysis, economics and development studies, and international political economy. Enquiry on small states has centered on such research problems as: their political and economic viability and survivability; their internal circumstances and external behavior with neighboring states; and their role in the international political and economic system dominated by the Western powers.

The early scholarly concern on small states focused squarely on their economic and political “viability” and doubted their prolonged survival as independent entities. The departing empires attempted to patch together the largest configuration of territory—successful examples included multiethnic conglomerates of India and Indonesia—so that the newly independent area would have a chance at survival. Vaughan Lewis alludes to such traditional colonial view, which believed that “the construction of large-scale sovereign political entities, even of multiple ethnicities and cultures, was more likely to permit long-term stability in the modern world.”<sup>4</sup> He cites the failure of other creation attempts as the Federation of Malaysia, the Caribbean confederation, and in East Africa, which ended up creating many independent small, and thus presumably vulnerable, states around the globe.

As the Cold War intensified, many of those frail small states seemed to discard their dire vulnerability and acquire some sort of international presence. Analysis shifted focus from mere survival to investigate: their alliance decisions; their purported use (some would say abuse) of their power in numbers at the United Nations and other international organizations; and the practicability of non-alignment as their foreign policy strategy.<sup>5</sup> Cooper and Shaw classify that era’s research concerns on small states, conducted under the shadow of the bipolar world, in the “pre-globalization” group, which

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<sup>4</sup> Vaughan A. Lewis, "Foreword: Studying Small States over the Twentieth into the Twenty-First Centuries," in *The Diplomacies of Small States : Between Vulnerability and Resilience*, ed. Andrew Fenton Cooper and Timothy M. Shaw (New York: Palgrave Macmillan, 2009).

<sup>5</sup> David Vital, *The Inequality of States: A Study of the Small Power in International Relations* (Oxford: Clarendon Press, 1967). Robert L. Rothstein, *Alliances and Small Powers* (New York: Columbia University Press, 1968). Keohane, "Lilliputians' Dilemmas." Annette Baker Fox, "The Small States in the International System, 1919-1969," *International Journal* 24, no. 4 (1969).

they argue was rooted in conflictual bipolarity and is distinct from the concerns of small states in the present post-Cold War globalized era.<sup>6</sup>

In the contemporary era of globalization and complex interdependence, when it is argued that security is no longer the only or the top issue in the hierarchy of issues,<sup>7</sup> the age-old small state problematic regarding their survival and independence seems to have given way to much finer concerns. The evolving post-war international system of states has enhanced to a considerable degree the chances for small state independence and continued survival, so that there are more “small” states now in existence than ever before in history.<sup>8</sup> Most post-WWII and post-Cold War small states have survived with their independence intact. Yet, major ecological and economical vulnerabilities in a globalized world beset many small states, which seek to build resilience and nurture maturity in their diplomacies in our post-globalized era.<sup>9</sup> At the same time, contrary to early concerns, many small states, especially the Northern European ones and a few others such as Singapore or Qatar, have actually managed to thrive as well-managed units domestically, and are even able harness globalization to project economical and ideational influence externally.<sup>10</sup> Indeed, major institutional and ideational changes have given new options for small state in the international and interstate relations. No longer are they doomed just to “bandwagon” with regional and global powers or face probable extinction.

The primary research question of this research concerns the strategic autonomy, agency and influence of certain types of small states, those that I call wedge states, in

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<sup>6</sup> Andrew Fenton Cooper and Timothy M. Shaw, eds., *The Diplomacies of Small States : Between Vulnerability and Resilience* (New York: Palgrave Macmillan, 2009), 3.

<sup>7</sup> Robert Keohane and Joseph S. Nye, *Power and Interdependence* (New York: Longman, 2001).

<sup>8</sup> Lake and O'Mahony, "The Incredible Shrinking State: Explaining Change in the Territorial Size of Countries."

<sup>9</sup> Cooper and Shaw, *The Diplomacies of Small States : Between Vulnerability and Resilience*, 4.

<sup>10</sup> Alan Chong, "Small State Soft Power Strategies: Virtual Enlargement in the Cases of the Vatican City State and Singapore," *Cambridge Review of International Affairs* 23, no. 3 (2010); JE Peterson, "Qatar and the World: Branding for a Micro-State," *The Middle East Journal* (2006).

contemporary interstate relations characterized by overarching globalization. To begin to unravel that complex problem, this literature review chapter evaluates the intellectual journey on small state scholarship beginning with a critique of the interdisciplinary muddle on defining “small states,” which I show to be quite unsatisfactory. Instead I propose grouping the smaller states of the globe into typical subclasses, including the subject matter of this research, which I introduce as wedge states. The chapter then progresses by reviewing the major disciplinary and theoretical perspectives, each of which highlights specific independent causal factors to try to explain the behavior of small states’ interrelationship with greater powers.

#### WHAT ARE SMALL STATES?

Evidently, how one *defines* a small state determines largely the answers to related questions of agency or autonomy. The definition of small states, may lead us to either ascribe them autonomy or not, which, in turn, determines their role in the international political and economic interrelationships. But there are gaping differences of opinion and analytical preferences on the matter of definitions and on which values and attributes should be considered fundamental to define this category and their constituents. One such constituent subclass of small states is wedge states. Therefore, I begin by reviewing the definitional heterogeneity of “small states” to show their inadequacy and the need for disparate subclasses, after which we can delve into the disparate theoretical perspectives on their behavior.

In order to delimit “small states” as a discrete category one must begin with a classification scheme of all the states of the world based on certain defining criteria and using specific principles of categorization. Aristotle pioneered comparative studies by classifying the city-states of Greece using the defining criteria of the states’ political system as either true or deviant types based on their commitment to the common good. In the modern disciplines of political science, international studies and development economics the complexity in classifying states in general, and the ostensible lack of a commonly agreed-upon definition of “small states” in particular, even after decades of



enterprise, have been duly and periodically noted in the literature.<sup>11</sup> Most books and articles on small states begin by first discussing the lack of definitional consensus.

Surveying the literature yields that the classification schemes of all states can be grouped into two varieties: Material (or Quantitative) and Conceptual (or Qualitative).<sup>12</sup> Material schemes are based on such objective defining criteria as size (of landmass, population or economy) or relative capabilities and power. Conceptual schemes, on the other hand, favor such defining criteria as a state's level of systemic influence or role, or ability to provide self-help and security. A sub-class of conceptual definitions is based entirely on a psychological categorizing principle by which "perceptual" notions of "smallness" as perceived by a state or others, defines it as such.<sup>13</sup>

Material classification schemes using quantitative defining criteria, such as geographic size, population, and the size of the economy, singly or in combination, seem to make intuitive sense and have been the most prevalent method of states classification. In his pioneering research on small states in IR, David Vital used a strictly quantitative criteria, famously stating that small states are those states that have "a) a population of 10–15 million in the case of economically advanced countries; and (b) a population of 20–30 million in the case of underdeveloped countries."<sup>14</sup> When many thinly populated former colonies, mostly islands in the Pacific or the Caribbean, gained and survived independence by the 1970s, observers of international politics used population size to delimit what they called "micro" (population less than 100,000) or "mini" (population less than 300,000) states, and questioned if these polities could participate in the international diplomacy adequately and whether they might pose a problem in the

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<sup>11</sup> Matthias Maass, "The Elusive Definition of the Small State," *International Politics* 46, no. 1 (2009); Tom Crowards, "Defining the Category of 'Small' States," *Journal of International Development* 14, no. 2 (2002).

<sup>12</sup> This distinction is adapted from Keohane, "Lilliputians' Dilemmas," 292-97.

<sup>13</sup> Jeanne A. K. Hey, ed. *Small States in World Politics: Explaining Foreign Policy Behavior* (Boulder, Co.: Lynne Rienner Publishers, 2003), 3.

<sup>14</sup> Vital, *The Inequality of States*, 8.

efficient function of international fora such as the UN.<sup>15</sup> Quantitative classification schemes have been especially pervasive in economics and development studies. In 1957, the International Economics Association held a conference to discuss the “Economic Consequences of the Size of Nations,” where Simon Kuznets suggested that small states are those with less than 10 million population<sup>16</sup>—many others have carried on research in that line of inquiry.<sup>17</sup> Subsequently economists, and primarily development economists, have attempted a variety of statistical techniques and methodological approaches to arrive at a scientifically valid classification scheme using distinct cut-off points to classify states in terms of population, the size of arable landmass, and GNP.<sup>18</sup>

These studies suffered from the bane of all material-quantitative classification schemes—where to set the *cut-off points* to categorize states? As Tom Crowards incisively points out, the cut-off population threshold for small states have “varied, very generally, from around 10 million or 15 million in the 1950s and 1960s, to 5 million in the 1970s and 1980s, and to around 1 million or 1.5 million in the 1990s.”<sup>19</sup> As a corrective, Crowards combined the variation in population, land area and total income of the 190 states in the world to derive a classification scheme based on “non-hierarchical cluster analysis,” which generated “four clusters (micro, small, medium, large and very large states) from equally spaced initial cluster-centers” out of which 79 countries were classified in the “small and micro” category.<sup>20</sup>

The Commonwealth Secretariat, an association of the former British colonies based in London, has successfully led the most widespread policy and academic application of the term “small states,” which is based on strictly material-quantitative criteria. In 1985, the Commonwealth published a pioneering report, which classified

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<sup>15</sup> Tony Thorndike, “Review of ‘Microstates in World Affairs: Policy Problems and Options.’” By Elmer Plischke; “Mini-Nations and Macro-Cooperation: The Caribbean and the South Pacific.” By Herbert Corkran,,” *International Affairs* 54, no. 1 (1978).

<sup>16</sup> Quoted in Paul Sutton, “The Concept of Small States in the International Political Economy,” *Round Table* 100, no. 413 (2011): 142.

<sup>17</sup> A recent review is provided in Alberto Alesina, “The Size of Countries: Does It Matter?,” *Journal of the European Economic Association* 1, no. 2 - 3 (2003).

<sup>18</sup> Sutton, “The Concept of Small States in the International Political Economy,” 143.

<sup>19</sup> Crowards, “Defining the Category of ‘Small’ States,” 145.

<sup>20</sup> *Ibid.*, 162-70.

states with population less than 1 million as “small states.”<sup>21</sup> Researchers working on this framework argued that population size correlated well with other material size-descriptors and could be used as proxy of all quantitative criteria.<sup>22</sup> In 1997, the Commonwealth updated and revised the criteria in a new report so that the upper population limit of “small states” was raised to 1.5 million.<sup>23</sup> Some states with more than the threshold population—Jamaica, Lesotho, Namibia, etc.—were included into the group as exceptions. These definitions have been accepted to a large degree by the policy advocacy networks and international organizations in that area including the World Bank. Thus, in this institutional policy-area, the definition of small states and its implications have largely been institutionalized across policy and academic worlds to mean states with population of 1.5 million or less (a cut-off point or criteria that might have used for to group “micro-states” in an earlier era), an admittedly arbitrary, and sometimes even political, decision, according to one of the authors of the 1997 report.<sup>24</sup>

Scholars in other disciplinary and theoretical traditions have qualms about classification schemes based on entirely absolutist and arbitrary cut-off points of the quantitative criteria such as the one promoted by the Commonwealth. Those scholars concerned with the *relative* positioning of states in the international hierarchy argue that a superior classifying scheme is the use of “relative capabilities,” using composite measures of the states’ economic resources and level of development, population and human capital, and military power including possession of nuclear weapons. In the field of international relations (IR), Michael Handel employed such material-capabilities approach in his classic study *Weak States in the International System* (1981), in which he categorizes the states of the world into three groups: great powers, middle powers, and weak states (not *weak powers*), explaining the salient implication that the latter are

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<sup>21</sup> Commonwealth Secretariat, “Vulnerability: Small States in the Global Society. Report of a Commonwealth Consultative Group,” (London: Commonwealth Secretariat, 1985).

<sup>22</sup> *Ibid.*, 8.

<sup>23</sup> “A Future for Small States : Overcoming Vulnerability : Report by a Commonwealth Advisory Group,” (London: Commonwealth Secretariat, 1997).

<sup>24</sup> Sutton, “The Concept of Small States in the International Political Economy,” 141-42.

characterized by their need to be “continually preoccupied with their survival.”<sup>25</sup> Handel uses the defining criteria of “relative capabilities” to classify weak states into that category.

In contrast to these material-quantitative classification schemes, the other variety of classification schemes uses “conceptual” terms, often paired with “perceptual” metrics. What function is served by conceptual definitions that cannot be provided by merely material-quantitative ones, which are after all more intuitive? In a trenchant critique against strictly material-based definitions, Keohane argued in favor of “precise analytical definitions,” which could “facilitate behavioral comparison.”<sup>26</sup> Thus conceptual definitions and classificatory systems might provide more leverage for analytical and comparative analysis of small states based on their characteristic behavior in the international system, rather than the merely descriptive purposes of strictly quantitative-based classifications.

The conceptual definitions of small states have been extended to ascribe those states with group-specific behavior, which separate them from other states. While great powers have global impacts and aspirations, the small states are expected to have limited, local and regional foreign policy footprint; they are seen to be more reliant on international institutions and international law and economically and politically dependent on great and regional powers; they exhibit more communal behavior and make decisions identified with the group as a whole; finally, their internal behaviors are also constrained by the structure to seek “domestic strategies such as consociational democracy, corporatism, or federalism,” all behaviors consistent with the desire of small states as a group to “mitigate the effects of structural constraints.”<sup>27</sup> However, this line of reasoning has been challenged because scholars disagree if these unique behaviors are

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<sup>25</sup> Michael Handel, *Weak States in the International System*, 3rd ed. (London: Frank Cass, 2005 (1981)), 10-11.

<sup>26</sup> Keohane, "Lilliputians' Dilemmas," 294.

<sup>27</sup> Neumann and Gstohl, "Introduction: Lilliputians in Gulliver's World?," 10-12.

inherent causes of these states' "smallness" or if they are indeed the effects, causing problems of circular reasoning.<sup>28</sup>

Keohane himself provided an example of a "conceptual" definition when he categorized the states of the world based on the defining criteria of their "systemic role," based on which states can range from "system-determining," "system-influencing," "system-affecting" and "system-ineffectual" states. Adding a component of the level of perception of a state's systemic role by its leaders, he then proposed four groups of states: great powers, secondary powers, middle powers and small powers, which show variance in their behavior in international affairs based on the perception of their ability to effect the system.<sup>29</sup>

The pioneering scholar of small states in IR, Annette Baker Fox in her 1959 book, *The Power of Small States: Diplomacy in World War II*, used conceptual groups of "great powers" and "small powers" based on the simple criteria of which states were engaged in struggle for dominance and which merely wanted to get out of the way to survive. Fox's evidence included such "*small states*" during WWII as Spain, Turkey, Switzerland, Sweden, Ireland and Portugal, which endeavored to remain uninvolved in the destructive path of war to varying degrees of success.<sup>30</sup> Reflecting the post-war era concerns of alliance behavior of small states, Robert Rothstein used the conceptual-perceptive defining criteria of the "self-sufficiency to provide for one's own security" and categorized states into groups of those that are able to provide their own security, and others that aren't able to and are forced to rely on others through alliances.<sup>31</sup>

Other scholars have extended the conceptual definitions to imbue them with purely psychological notions of "perception of smallness" held by a particular state and others in the system. The most prominent example of this position is Jeanne A.K. Hey, who dismisses attempts to categorize small states on quantitative attributes such as geographic size, population or GNP, as "rigid definitions," which necessitate

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<sup>28</sup> Maass, "The Elusive Definition of the Small State," 78.

<sup>29</sup> Keohane, "Lilliputians' Dilemmas," 295-96.

<sup>30</sup> Annette Baker Fox, *The Power of Small States: Diplomacy in World War Two* (University of Chicago Press, 1959).

<sup>31</sup> Rothstein, *Alliances and Small Powers*.

“exceptions”; instead, she and the authors in her edited volume of small state foreign policy analysis rely on the conceptual notion of the perception of smallness—so that “if a state’s people and institutions generally perceive themselves to be small, or if other states’ people and institutions perceive that state as small, it shall be so considered.”<sup>32</sup> Thus, the case studies found in that volume on small states’ foreign policy analysis include countries ranging from Luxembourg, Caribbean islands, Paraguay, Gambia, Jordan and Laos. Hey’s approach has been criticized as problematic because there ample chances for ambiguity on perceptions about “smallness” based on differing empirical criteria, and also possibility of “skewed” self-classification, such as that leaders of South Korea, which despite its military and economic power, perceive their country as a “small” state based on its sensitive geographic location and existential qualms.<sup>33</sup>

In international political economy (IPE), the most notable application of the small state label and its domestic and structural implications is Peter Katzenstein’s study of the industrial policy of the “seven small European states” published in 1985 in *Small States in World Markets*.<sup>34</sup> In that pioneering volume Katzenstein treats advanced European states, such as Sweden, Switzerland, Austria and Netherlands as representative small states, a classification that would be in direct contradiction to a number of criteria of some of the material definitions reviewed above. In a 2003 retrospective review of his research on small states, Katzenstein argued that the most important factor in his consideration of those states was that “small size was a code for something more important,” namely their “perception of vulnerability, economic and otherwise.”<sup>35</sup> He found that a myriad of behavioral outcomes in the European small states, including social cohesion and economic corporatism characterized by flexibility, derived directly from this *perception of external vulnerability*, which was the “first and most important

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<sup>32</sup> Hey, *Small States in World Politics*, 2-3.

<sup>33</sup> Maass, “The Elusive Definition of the Small State,” 79.

<sup>34</sup> Peter J. Katzenstein, *Small States in World Markets: Industrial Policy in Europe* (Ithaca, N.Y.: Cornell University Press, 1985).

<sup>35</sup> Peter Katzenstein, “Small States and Small States Revisited,” *New Political Economy* 8, no. 1 (2003): 11.

explanatory variable.”<sup>36</sup> Definitions and implications of small states based on perceptions should thus be accorded needed attention.

#### VARIETIES OF SMALL STATES AND WEDGE STATES

The study of “small states” suffers from a fundamental lack of consensus on the matter of definition. Acknowledging the clutter on this topic and the empirical reality of numerous “small states,” one reviewer has called for definitional and conceptual “flexibility” in studying small states.<sup>37</sup> The preceding section attests to the need for flexibility amid the varieties of definitions, classifications and approaches to the study of what are all termed “small states.” The best possible solution of the analytical tangle might be to accept that there are varieties of small states and to acknowledge the definitional flexibility among researchers.

This relative view of “small states” is not novel. Jeanne Hey suggests that it might be useful to consider the fact that when scholars in the various disciplines speak of “small states,” they are talking about three specific groups of mutually exclusive states: 1) The group of states, many of them islands in the Caribbean and the Pacific, with a population of less than 1 million (or 1.5 million according the updated Commonwealth criteria); 2) The group of small, advanced and wealthy small states in Europe, varying in size from the Netherlands to Luxembourg; 3) The group of the small states in the rest of the world, in Africa, Asia and Latin America, most of which are larger in size relative to the other two groups and also economically backwards.<sup>38</sup> The first and the last group includes a majority of states that have also generated sustained research interest under the rubric of the least developed countries (LDCs) by the international aid communities.

The thriving research program on European small states is contextual of the roles and functions those states play in the European Union integration processes, and the resulting problems and prospects.<sup>39</sup> As noted in the previous section, the Commonwealth

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<sup>36</sup> Ibid.

<sup>37</sup> Maass, “The Elusive Definition of the Small State,” 65-66.

<sup>38</sup> Hey, *Small States in World Politics*, 2.

<sup>39</sup> See *inter alia*: Laurent Goetschel, *Small States inside and Outside the European Union Interests and Policies* (Springer, 1998); Kenneth Hanf and Ben Soetendorp, *Adapting to*

Secretariat has led the academic and policy research on those small states with populations less than 1.5 million, based on that criteria, small states comprised a third of the Commonwealth member nations, many of them island states.<sup>40</sup> In terms of outward material features, such as GDP or population size, there is not a whole lot that is in common between Nauru and Netherlands. Yet, different scholars study both as part of “small states” in their particular context.

One approach to analytically contextualize similar small states into a group is shown by two scholars working on the European small states. To characterize small states in EU, Thorhallsson and Wivel propose using the “relational definition of small states,” which stresses the value of the “spatio-temporal context” of small state behavior.<sup>41</sup> This approach basically suggests that “being a small state is tied to a specific spatio-temporal context, not a general characteristic of the state; a state may be weak in one relation, but simultaneously powerful in another,” so that we are compelled to “change our focus from the possession of power to the exercise of influence.”<sup>42</sup> Using this flexible and contextual definitional approach, the authors are able to show that the differences in foreign policy behavior of different small European states towards EU integration processes could be explained by the various systemic, domestic and ideational spatio-temporal contexts in which those states found themselves. This contextual definitional approach, although European-centric in their application, might be applied fruitfully in analyzing other varieties of small states in other parts of the world.

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*European Integration: Small States and the European Union* (New York: Longman, 1998); Baldur Thorhallsson, *The Role of Small States in the European Union* (Aldershot: Ashgate, 2000); Robert Steinmetz and Anders Wivel, eds., *Small States in Europe: Challenges and Opportunities* (Burlington, VT: Ashgate, 2010).

<sup>40</sup> Commonwealth Secretariat, “A Future for Small States : Overcoming Vulnerability : Report by a Commonwealth Advisory Group.”

<sup>41</sup> Baldur Thorhallsson and Anders Wivel, “Small States in the European Union: What Do We Know and What Would We Like to Know?,” *Cambridge Review of International Affairs* 19, no. 4 (2006): 654. Thorhallsson and Wivel adapt this concept from Anders Wivel and Hans Mouritzen, *The Geopolitics of Euro-Atlantic Integration* (London: Routledge, 2005).

<sup>42</sup> Thorhallsson and Wivel, “Small States in the European Union: What Do We Know and What Would We Like to Know?,” 654-55.



### ***Wedge States***

Such flexibility of classification and the consideration of “spatio-temporal context” is one of the goals of this present study as well, which attempts to bypass the “imprecision” and conceptual mess to argue for a categorization of small states based on the latent understanding of their real power relations. The point of departure here is that there is an undeniable gap in material capabilities, power and influence between the major powers and many smaller states that they regularly interact with. I argue that we can fruitfully study groups of those smaller states that share common concerns in their interrelations with greater powers.

The specific group that this study analyzes is comprised of those small states, which exist in the sphere of influence of two competing major powers. I propose this sub-class of small states be called “wedge states.” Having solved the dilemma of survival because of the emergent international system of calcified sovereignty (which I review in the next section), this sub-class of small states, theoretically, could seek benefits and influence from their competing benefactors. Let me briefly outline the working definition, assumptions, and the predicted interstate strategies of wedge states.

Wedge states are defined as those smaller and weaker members of the current global system of states, which are characterized by their practically equal affinity with two major, competitive powers. In the “spatio-temporal context,” the wedge states are so ideally situated—geographically, ideologically, influentially—that they must navigate between the diplomatic, security and economic pull from the two rival power patrons. In other words, these states are “wedged” between two the rival powers. It is easy to understand that many major powers are in a state of competition if not in conflict. For the wedge states, the motivation of trying to play coy between two immeasurably powerful powers is evidently self-interest in the form of monetary transfers, economic aid, and diplomatic prestige, in addition to survival. For the rival powers, the motivation of bargaining for access and influence may be strategic, material or simply related to prestige, influence and recognition, as is the case of PRC, Taiwan and Vanuatu. In that case, then, Vanuatu would be the “wedge state” and the relatively powerful states of PRC and Taiwan are the rival powers.

The main assumptions for the wedge states to exist as I propose them are as follows. First, by definition the power differential between the wedge state and the two rival powers is assumed insurmountable and readily visible. There is no prospect of the power gap being bridged; the wedge state always remains relatively less powerful than either of the rival powers. The second assumption is that the overarching system of states allows for predictable norms of “sovereign equality” to all states in the system and there are functioning interstate institutions for coordination and cooperation. This assumption allows for the mere independent survival of the weak wedge state among major powers that could as easily annex the wedge but do not. The third assumption is lack of actual war between the two or more rival powers, which just means that it is assumed that the existence of wedge state as an independent, non-aligned state would signify periods of peace between the powers. During periods of all out war, most if not all small and weak states are forced to either choose sides of the warring powers or to be gobbled up by them. Therefore, in a specific “spatio-temporal” context of an international system of formal, sovereign equality among states of all power levels, and during times of peace, I argue that wedge states are expected to formally maintain interstate relations with two rival powers to generate benefits from each power.

In the current international state system, there are many avenues for weaker states to receive benefits and ensure their survival and well-being. Different theoretical perspectives, as I shall review them below, have identified many different paths: 1. Joining an international organization, where even the least powerful states generally have some rights. 2. Banding together to form supra-state bodies. 3. Join an alliance with the hegemon. 4. Bandwagon with a protector to receive security guarantee in exchange for loyalty. However, in the proposed theoretical model of the “wedge states,” certain weak states under specific conditions might pursue any of the above paths in conjunction with “wedging strategies” to receive benefits from two rival powers.

When it comes to the strategy of “wedging,” similar strategies might be used by greater powers in their interaction with other powers. Actually, major powers have historically been able to wedge between other powers to accrue gains. But the way wedging is used in this study is specifically applied to small or weak states because they

do not have many other avenues of accruing gains. In short, greater powers have other choices if the wedging strategies fail, while the small states might be inherently reliant on gains from wedging to realize strategic autonomy. As such wedging is the relatively exclusive strategy of the powerless.

Historically, weak states caught between the competitive forces of rival powers—“wedge states”—have used a variety of wedging strategies. Of course, the original strategy was the one tried by the Melians, which was to attempt to persuade the Athenians to let them remain “neutral.” The fact that Melos’ dilemma presented itself during an all-out war, which happens to be an unyielding security realm and not peacetime economic and social competition, made the offer of neutrality not a successful wedging strategy. Subsequent weaker states in history have tried to play the neutrality strategy. Neutrality as a diplomatic tool has a long and deep history.<sup>43</sup> Switzerland in modern European history and other states, microstates and principalities (for example, Luxembourg, Liechtenstein) have been successful in maintaining their precarious independence by remaining neutral against all powerful forces. But mere declaration of neutrality doesn’t guarantee safe passage, especially through a period of major power war, as many of the weaker European states found out during the 20<sup>th</sup> century world wars.

When great powers are not engaged in war, such peacetime situation offers wedge states better alternatives to uncertain, unsafe neutrality. One such strategy employed by the weaker, wedge states caught between rival superior powers is what is termed “pendulum politics.”<sup>44</sup> This term has been used to describe behaviors of smaller South American states in their relationship to Brazil and Argentina, when a new leader might sway country’s loyalty and closeness to one side or the other. During peacetime or during periods of cold war, the wedge states might pursue another policy, which can be referred to “equidistance.” In this strategy, the wedge state maintains cordial relationship with both rival powers while seeking to remain in the good graces of both. This strategy is different than the neutrality option in that the wedge state endeavors to receive benefits,

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<sup>43</sup> Efraim Karsh, *Neutrality and Small States* (London: Routledge, 2010 (1988)).

<sup>44</sup> Frank O. Mara, “Paraguay: From the Stronato to the Democratic Transition,” in *Small States in World Politics : Explaining Foreign Policy Behavior*, ed. Jeanne A. K. Hey (Boulder, Co.: Lynne Rienner Publishers, 2003).

which necessarily entangles them in the interactions between the powers. Of course, when the rival powers actually begin wars, they suffer no waffling and demand loyalty, one-way or the other, from the wedge states.

Some empirical cases of small states that behave in patterns close to that of the proposed wedge state model might now be specified. It is well known that many “non-aligned” small states during the Cold War exploited both sides for economic gain.<sup>45</sup> In the post-Cold War era, many Eastern European states have tried to apply wedging strategies between the rival powers of Russia and the United States or the European Union. In that particular area, for example, Ukraine seemed to be a prime candidate to find itself between the powers. However, more recently the success of its approach has come increasingly under question. In South America, Uruguay, a natural and geographical wedge state, and other smaller states such as Paraguay and Bolivia, have historically tried to play the wedging role between the regional rival powers of Argentina and Brazil. In Southeast Asia in the last decade, relatively weaker states such as Myanmar, and others to a lesser degree, have responded to China’s rise with possible wedging against the United States or India. The country of Laos seemed wedged between the local powers of China and Vietnam. Even a significant economic power such as Australia, increasingly finds itself to maintain equal distance between both China and the US for the foreseeable future. Countries in South Asia, either bandwagon with one of the regional powers, Pakistan with China or Bhutan with India, or seem to attempt a wedging strategy.

The empirical case study of this study, Nepal, forms a natural and geographical wedge, between the rival powers of China and India. Nepal has historically maintained close relationship with both its rival neighbors; the power gap between Nepal and either China or India is so huge as to be never surmountable; both India and China have treaties recognizing Nepal’s independence, hence obviating the problematic of mere survival; and both China and India seem to be historical and natural rivals in security, economic and global sphere, considerations of which might spill over into their relationship with their immediate neighbors, including Nepal. So there is ample room to test the proposed theory

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<sup>45</sup> Fox, “The Small States in the International System, 1919-1969.”

of wedge state in this tripartite relation, especially when the analysis proceeds into specific cases where possibility of Nepal's use of wedging strategies might be anticipated. The next chapter presents the design of the research to investigate those questions.

It would be a fair criticism, at this point, to question if the above definitional discussion and empirical examples warrant the proposed theoretical category of wedge states as a sub-class from the considerable number of smaller and weaker states in the global system, and also if those states actually are able to use wedging strategies to accomplish any of their foreign policy goals. With an eye towards answering those concerns and setting the context of the theoretical discussion, the next section of this chapter presents the literature on the nature, role and behavior of small states in the international system. The review shows that there are significant disagreements and gaps in extant theoretical perspectives on small states. For now, let us note that the notion of "wedge states" might fruitfully solve some of the disagreements and attempt to fill the analytical gaps apparent in the literature.

## THEORETICAL PERSPECTIVES ON SMALL STATES

From issues of classification, definition and the varieties of small states, let us now discuss the matters of "implications" of being a small state as viewed from various theoretical lenses. We find that many of the smaller members of the international political and economic system experience similar constraints and opportunities across regions and definitional groupings. Analysts have used different theoretical perspectives to analyze and explain the behavioral actions and outcomes of small states in international relations. I review and summarize what the major theoretical and disciplinary perspectives have to say about the implications for small states.

The first perspective view small states in the historical context of *evolving system of states perspective* and argues that the international state system has evolved to allow small states to survive, and also given rise to certain norms, which are argued as necessary to understand current small state outcomes and behavior. The second approach takes a *structural perspective* and sees small states behavior and action being inherently

circumscribed by structural, systemic forces. Another approach, which I call *societal actors perspective*, argues the opposite and sees room for internal processes and actors within small states influencing the level of autonomy and independence enjoyed by them. The fourth and final approach is the *economic and developmental perspective*, which sees unique economic features of small states resulting in their inexorable vulnerability against which they must endeavor in cultivating resilience. Each of these theoretical and disciplinary angles highlights unique factors or major variables that explain the behavior of small states in world politics. These explanations are offered generally for the class of small states, such that the sub-groups and classes, including wedge states, are usually covered.

### ***Evolving System of States and Norms Perspective***

In his influential volume on weak states in the international system, Michael Handel argues that two crucial factors underlie small state outcomes: one is geographic location, and the other is the specific historical period and the international system specific to that period, which determine greatly the “position and relative security of any weak state.”<sup>46</sup> The second factor is the topic of this perspective, which emphasizes the idea that the international system of states had evolved by the second half of twentieth century to become more conducive to the emergence and survival of newly independent smaller states. Such proposition rests on the assumption that “the system of states” can be differentiated according to some intrinsic features and that it can change and evolve. In short, this view is the ultimate “spatio-temporal context,” that of the changing international system itself.

Adapting and expanding from Adam Watson’s seminal study of international state systems<sup>47</sup>, Viotti and Kauppi present the four ideal types of international state systems: independent state system; hegemonic state system; imperial state system; feudal state system.<sup>48</sup> Unlike the ancient imperial systems such as in the Roman or the Persian zenith,

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<sup>46</sup> Handel, *Weak States in the International System*, 5.

<sup>47</sup> Adam Watson, *The Evolution of International Society: A Comparative Historical Analysis* (London; New York: Routledge, 1992).

<sup>48</sup> Paul R. Viotti and Mark V. Kauppi, *International Relations Theory: Realism, Pluralism, Globalism and Beyond* (Boston: Allyn and Bacon, 2007), 44-48.

and the feudal system as was the case during the medieval dark ages in Europe, modern world politics has seen the prominence of the hegemonic state system, which began in Europe in after the Peace of Westphalia. Once rulers, such as Napoleon or Louis XIV, became the sole sovereign within their boundaries and accumulated enough power, they wanted to expand their state so that they turned into hegemons. Although not in the territorial expansion sense, the dual-hegemons of the Cold War behaved much like their predecessors from earlier centuries. The US preponderance of power remains in the present era but a semblance of the “independent state system” has come into existence, which might be argued to be more conducive to the existence and survival of small independent states.

Scholars share a consensus that The Thirty Years War and the 1648 Peace of Westphalia sowed the seeds of an independent state system—one that was based on the ideas of mutual recognition of sovereigns, non-intervention, diplomatic practice, and international law.<sup>49</sup> Early European monarchies moved away from the Hobbesian “state of nature” toward one dominated by strong, domestic authority via a process of centralizing control achieved by the economic and cultural unification of elites and increasing incorporation of the periphery to the centralized authority of national armies and bureaucracies built for and by the purposes of revenue extraction and services provisions.

Yet, even in the supposed new era of central control and sovereign recognition, the fate of the powerless smaller states remained dire in the face of unbridled territorial

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<sup>49</sup> For the extensive literature of state formation, and development and evolution of states and state systems, see Charles Tilly and Gabriel Ardant, eds., *The Formation of National States in Western Europe* (Princeton, N.J.: Princeton University Press & Social Science Research Council, Committee on Comparative Politics, 1975).; Martin Wight, *Systems of States* (Leicester Univ Pr, 1977).; Watson, *The Evolution of International Society*.; Charles Tilly, *Coercion, Capital and European States: AD 990 - 1992* (Cambridge, MA: Blackwell, 1992). Stein Rokkan, "Dimensions of State Formation and Nation Building: A Possible Paradigm for Research on Variations within Europe.," in *The Formation of National States in Western Europe*, ed. Charles Tilly (Princeton NJ: Princeton University Press, 1975). For critical perspectives on state theory, a basic review is given in C.W. Barrow, *Critical Theories of the State: Marxist, Neomarxist, Postmarxist* (University of Wisconsin Press, 1993).

expansionism. Equally salient is the fact that the valuable commodity of state sovereignty was certainly not to be shared outside of the Western European states so that the major European powers used superior arms and power to subjugate all outsiders into their imperial rule. Peace of Westphalia did not immediately (or ever) create a system of fixed boundaries respected by invaders; rather territories changed hands frequently outside Europe and within. Early Westphalian system was characterized by regular and periodic wars for territorial expansion, resource accumulation, and princely hunger for power. The sovereignty ideal was young; the sanctity of borders was routinely punctured and disregarded.

To go from such initial system of willful disregard for sovereignty to one with a modicum of restraint, European states devised various diplomatic processes, systems and traditions to moderate and restrain the powerful, which they were able to achieve in a few occasions. The most successful historical example was the “Concert of Europe” system with balance of power as the guiding principle, which was able to secure prolonged peace, at least amongst the major powers of Europe. The essential condition for balance of power was existence of the state system with independent states. By the early 1800s, Europe had achieved a defined state system encompassing the territories from the Atlantic in the west to the Urals in the east and the Mediterranean in the south. Also, unique to Europe were the proximity of powers with a common history and the feeling of shared destiny. According to Edward Gulick’s popular study of the subject, the *survival of the independent states and the state system* itself was the primary aims of the balance of power system, and *not*, as Gulick emphasizes, *securing peace*. Indeed, the statesmen believed that war was frequently necessary to stop any one actor from gaining too much power and disrupting the power equilibrium among the independent states but *the state system had to survive*.<sup>50</sup> To achieve those aims, the Concert of Europe pioneered a whole host of innovative interstate diplomatic traditions in behavior, expectations and norms. Though it was narrowly applied among the great powers of the time, the concept of sovereignty found nurturing environment in the experimental lab of Western Europe.

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<sup>50</sup> Edward Vose Gulick, *Europe's Classical Balance of Power; a Case History of the Theory and Practice of One of the Great Concepts of European Statecraft* (Ithaca: Cornell University Press for the American Historical Association, 1967).



Modified versions of these interrelated diplomatic concepts eventually traveled with the Europeans via their colonial adventures to the rest of the world. In the twentieth century, the emergent notions of “collective security” organizations replaced the balance-of-power system of the earlier century. Interstate institutions were formed that eventually enshrined the notions of sovereignty and formal equality of different states.

For our concern of small states, another significant innovation among the rapidly codifying standards of conduct was the idea of “neutrality.” The major European powers accorded the tiny state of Switzerland neutrality that has never ever been entirely breached.<sup>51</sup> It can be assumed that of the many determined, militaristic and powerful European sovereigns, one could easily have annexed Switzerland despite the geographic fortress of the Alps. The fact that such outcome never occurred and Switzerland to this day enjoys unblemished neutrality has major implications regarding the effects of particular forms of interstate codes of conduct and the survival of small states. There were other less fortunate “neutrals” in history, such as Norway or Finland, and other successful ones, including a few that were effectual in keeping their states from harm’s way during the Second World War, including Sweden, Spain, and Ireland.<sup>52</sup> Relatedly, another diplomatic and geopolitical innovation concerning small states is the idea and practice of “buffer states.”<sup>53</sup> When major European powers came face to face, they found it prudent to leave a strip of land as buffer. Such buffer states served an important purpose of keeping the belligerents from having to wage constant war. Although created for geopolitical strategy by outside major powers, the buffers themselves highlight the fact that small states served a purpose. Undeniably, history is littered with examples of supposedly neutral and/or buffer states periodically and repeatedly crumbling on the warpath of marauding armies. Poland, and Belgium are as prime examples from European history. The unique and long-observed Swiss neutrality may be the one exception that proves the rule of easily punctured boundaries of the weak states. However, the fact bears highlighting that the evolving diplomatic codes of conduct and

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<sup>51</sup> Karsh, *Neutrality and Small States*.

<sup>52</sup> Fox, *The Power of Small States*.

<sup>53</sup> Trygve Mathisen, *The Functions of Small States in the Strategies of the Great Powers* (Oslo: Universitetsforlaget, 1971).

norms of sovereignty has been—not always but on many situations and occasions—conducive to the existence, survival, specialized function, and autonomy of the smaller and weaker states in the evolving international system of states.

In this regard, special reference has to be made of the concept of sovereignty. In the Westphalian sense, sovereignty of states is characterized by the recognition of domestic self-determination by the community of nations.<sup>54</sup> It is with the evolution of the system of states and the norms defining it, that we see increasing legal restrictions, procedural constraints and normative principles, which have slowly begun to calcify the sanctity of state boundaries to protect real sovereignty. Seen from the constructivist perspective sovereignty is now an “international institution and an discourse,” which is constantly seen to be evolving.<sup>55</sup> In a long and tumultuous process beginning with European imperialism, and propagating in the subsequent development of nationalist awakening, to finally decolonization and independence, the institution of sovereignty was spread in the decades after the Second World War to incorporate the farthest reaches of geography—a process which has been called “the globalization of the state.”<sup>56</sup> Certainly, the number of United Nations’ current membership would indicate the expression of sovereignty at its historical peak. Nowadays, theorists actually talk about intensifying *challenges* to the notion of sovereignty from within and without, in the form of civil society and international institutions, and the malign effect of multinational corporations that control the flow of labor and capital across borders and spreading global production networks.<sup>57</sup>

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<sup>54</sup> Stephen D. Krasner, *Sovereignty: Organized Hypocrisy* (Princeton, N.J.: Princeton University Press, 1999). A basic introduction of the concept from the international society perspective is: Alan James, *Sovereign Statehood: The Basis of International Society* (London: Allen & Unwin, 1986).

<sup>55</sup> Thomas J. Biersteker and Cynthia Weber, *State Sovereignty as Social Construct* (Cambridge: Cambridge University Press, 1996), 11.

<sup>56</sup> Jackson and Sorensen, *Introduction to International Relations : Theories and Approaches*, 17-18.

<sup>57</sup> Saskia Sassen, *Losing Control? : Sovereignty in an Age of Globalization* (New York: Columbia Univ. Press, 1996). Gordon Smith and Moises Naím, *Altered States: Globalization, Sovereignty and Governance* (Ottawa: International Development Research Centre, 2000).

In summary, since its inception in Westphalia to the present day the number of formally sovereign states has skyrocketed to 191; their average relative size has decreased; and most importantly, the increasingly codified rules, laws, and norms of sovereignty in interstate interactions has become the defining feature of the current state system. This perspective argues that today's small states, in fact, can count on unprecedented levels of physical security and survivability, thus solving, to a vast extent, the major knot of the small state problematic.

### ***Structural IR Perspective***

The dominant debates in the field of international relations have been conflict and cooperation in world politics writ large. Owing to this preoccupation with global war and peace in the mainstream scholarship in IR, most of its research programs and insights focused on major powers and their interactions. The major powers were clearly important and their influence obviously predominant, which meant that the rest were consigned to the sidelines. In considering the major assumptions and considerations of the structural IR perspective, it can be seen that certain behavioral outcomes and predictions are ascribed to the smaller and the weaker members of the international system. The traditional structural perspective argues that the purposes and functions of the small states in world politics can be summarized as bandwagoning, balancing or buffering.

The anarchic structure of the international state system is argued to have decisive implications for the existence and range of behavior available for all states, including major powers as well as the smaller and weaker states, under a particular system in time. The bedrock of the structural realist perspective is that the distribution of power among the units of the structure determines the hierarchical level of autonomy and independence experienced by individual states, which are forced to seek self-help.<sup>58</sup> Lacking the ability to self-help small states, postulating from these basic structural IR assertions, would be denied all autonomy and independence and be forced to be entirely dependent economically with a more powerful benefactor and "bandwagon" with a major protector

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<sup>58</sup> Kenneth N. Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979).

power.<sup>59</sup> Additionally, their dependent and constrained nature means that the explanations for small state behavior are found in the structure and not within them. Due to their lack of capacity and influence, small states' foreign policy and behavior have necessarily narrow and local focus, unlike the more regional and global attention of the major powers.<sup>60</sup> These assumptions and considerations coalesce into the basis of the traditional structural perspective, encapsulated in the unequivocal observation by Barrington Moore: "The fact that the smaller countries depend economically and politically on big and powerful ones mean that the decisive causes of their politics lie outside their own boundaries."<sup>61</sup>

It could be argued that the strongest would not be easily constrained in *any* system, with the implication for the wedge states because wedging is merely a transient state until they are forced to bandwagon with a patron power. So structuralist theorists may argue that bandwagoning is inevitable for wedge states. However, that prediction implies that the structure of the system is qualitatively no different than basic anarchic model, despite the claims of expanding sovereignty of the emerging state system perspective. Also, the empirical observation of multitudes of independent small states engaging with more than one major power problematizes such notions of inevitability. Thus, it can be concluded that wedging does not have to necessarily be a transient state but become of tool of long-term strategy adopted by small states.

Therefore, for those with limited resources and capabilities, whether the rules of the game are conducive or not, matter greatly. A system that privileges and honors the norms of sovereignty is qualitatively different than the one that does not from the point of view of small states. For instance, an international system based on the state of nature would most certainly mean the automatic demise and dismemberment of its weaker units. On the other hand a system of strong rules, constraining procedures and, well-agreed upon laws would mean that the strong would be restrained in their wills and desires, thus limiting the chances for Melian tragedy. Changes in the structural features of the system

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<sup>59</sup> Stephen M. Walt, *The Origins of Alliances* (Ithaca: Cornell University Press, 1987).

<sup>60</sup> Handel, *Weak States in the International System*, 41.

<sup>61</sup> Barrington Moore, *Social Origins of Dictatorship and Democracy: Lord and Peasant in the Making of the Modern World* (Boston: Beacon Press, 2003 (1966)), xix.

would most definitely result in material differences in the existential conditions of small states. Echoing such sentiments, Erling Bjøl writing in 1971, in that era of Cold War competition and budding interest in the rising numbers of new small states, argued about the priority of the type of state system upon the fates of small states, thus:

“The problems, possibilities and behavior of small states vary considerably according to the types of international systems in which they operate – hegemon systems, confrontation systems, integration systems, security communities – according to the geographic parameters which condition their foreign-policy...”<sup>62</sup>

In the earlier decades of the 20<sup>th</sup> century, small states had often been viewed as nuisances of (Cooper and Shaw 2009) the international system, sometimes even held responsible, historically incorrectly, for being the causes of wars among major powers, a view that was especially prevalent in the aftermath of the First World War, given the proximate causes of that war.<sup>63</sup> The interwar period can be seen as the birthing period of the recognition of the “idea” of the viability and independence of small states. President Woodrow Wilson’s declaration of the rights of self-determination of all peoples and the establishment of the League of Nations on the basis of “one sovereign, one vote” became the watershed change that expanded “the possibilities” of fashioning the structure of the international systems in which small states could survive.<sup>64</sup> But the small state moment remained premature.

Yet, the sorry fates of the small states during the great recession and especially during the Second World War might have put a damper on notions of their viability and survival in an anarchic world. Upon annexing Austria in 1938, Hitler himself put the structural problematic of small state existence in its most basic, starkest essence, when he declared, “What can words like “independence” or “sovereignty” mean for a state of only

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<sup>62</sup> Erling Bjøl (1971) quoted by Lewis, “Foreword: Studying Small States over the Twentieth into the Twenty-First Centuries,” xiii.

<sup>63</sup> Roger MacGinty, “War Cause and Peace Aim? Small States and the First World War,” *European History Quarterly* 27, no. 1 (1997).

<sup>64</sup> Woodrow Wilson, “The Fourteen Points,” in *Classic Readings and Contemporary Debates in International Relations*, ed. Phil Williams, Donald M. Goldstein, and Jay M. Shafritz (Belmont, CA: Thomson Wadsworth, 2006 (1918)), 33-36.

6 million people?"<sup>65</sup> For any small state of the international state system contending with that basic question when demanded by a powerful adversary is existentially analogous to the familiar no-win dilemma that the Melians faced against the unyielding demands of Athenians. But Hitler's pronouncement has to be read in the context of the nature of the system that obtains during a period of total war, and the fact must be considered that there were enough states that opposed Hitler's view, which ended up saying that independence and sovereignty applied even to the smaller states.

Precisely because it takes someone like Adolf Hitler, hell-bent on his mad project, to espouse such denials about the viability, independence, and sovereignty of small states proves the unreasonableness of his argument. That a country such as Austria—or Poland, Burma, Ethiopia—might have a right to coexist as a state formally, jurisdictionally equal to major powers, even if such rights were not enshrined in the system of international states prevalent before the Second World War, in its aftermath, the world could not allow itself to deny such rights to all. The Second World War had been fought in part to uphold those fundamental rights against an indiscriminate aggressor.

For the small states, the post-war international system ushered into being was fundamentally and characteristically different than what preceded it. Formal sovereign equality of the small states was enshrined in the auspices of the United Nations and the American dominated Western state system that rose from the ashes of the World War II. So much so that by the late 1960s, observers contended that the international system had changed due to the aggregation of actions and desires by the increasingly assertive, and ever numerous small states, acting in unison at the sympathetic forum of the UN and other international bodies.<sup>66</sup> The Third World small states were seen to be attempting to fundamentally change the international regime and its post-war rules and norms by capturing the international rule-making structures themselves.<sup>67</sup>

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<sup>65</sup> Quoted in James, *Sovereign Statehood: The Basis of International Society*, 2. from Stanley A. de Smith, *Microstates and Micronesia* (New York: New York University Press, 1970), 19.

<sup>66</sup> Fox, "The Small States in the International System, 1919-1969," 756.

<sup>67</sup> Stephen D. Krasner, "Transformed International Regimes: What the Third World Wants and Why," *International Studies Quarterly* 25, no. 1 (1981): 120.

The bipolar competition of the Cold War was yet another wrinkle on that period's structural system of interstate interaction, which constrained and structured the glut of new small states that came into being. In *Alliances and Small Powers* Robert Rothstein highlights such heterogeneous system-specific influence on small state condition and choices. Concerned with small state alliance decisions resulting from Cold War bipolar competition, Rothstein showed that different types of historical balance of power systems have produced markedly different impacts and choices sets on small state survival and security.<sup>68</sup> As Keohane summarizes in his review of small state literature, Rothstein identified various balance of power arrangements during the 19<sup>th</sup> century, ranging from "conservative stability" to a "fluid and competitive" scramble for allies. Based on such schema, Rothstein theorized that small states' interest of survival is best protected in the conservative and stable balance of power system; but their autonomy and maneuverability are best maximized, albeit compromising on their security, in a balance of power system characterized by fluidity and competition and among major, hegemonic powers.<sup>69</sup> The prime application of this conceptual analysis in the Cold War era thus concerned the "alliance decisions" of small states faced with choosing between the rival superpowers. Theoretically, the research questions were, what option, in the realist sense of either bandwagoning or balancing, and which side a small state chooses or is forced to choose would depend upon what state system prevails at the point of decision. During periods when the superpowers are scrambling for allies, such as during the Cold War, some small states enjoy "bargaining advantages that may accrue from offering to dismantle a new alliance and the political and psychological advantages of allying with the prestigious and powerful state."<sup>70</sup>

Observers of small state alliance decisions cautioned that, in general, the alliance of the week with a great power is a losing hand. The fates of Eastern European communist states ostensibly allied as equals with USSR under the Warsaw Pact, serves as key evidence, which Keohane memorably termed the "Al Capone alliance," in which a

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<sup>68</sup> Rothstein, *Alliances and Small Powers*.

<sup>69</sup> Keohane, "Lilliputians' Dilemmas," 299-300.

<sup>70</sup> Quoted in *ibid.*, 301. from Rothstein, *Alliances and Small Powers*, 50.

weakling pays a powerful thug for protection against the selfsame thug.<sup>71</sup> To escape such a precarious structural situation, it was concluded that the best alliance for small states, if one has to be made, would be “mixed, multilateral alliances,” which might be further logically extrapolated to mean “multilateral institutions,” if they could be made strong enough, as the best allies of small states. Ideally, small states would prefer a system of states with strong constraining multilateral institutions committed to the norms of collective security.

For small states a seductive alternative to Cold War alliances, against the grain of the structural prescriptions of bandwagoning, was non-alignment. While the superpowers were busy carving up the globe via alliances into two conflicting camps of ideological rigidity and all-out competition, some middle powers wanted no part of that and declared a policy of “non-alignment.” In analyzing the attraction and viability of this strategy, it has to be borne in mind that the leaders and powerbrokers of the non-aligned movement (NAM) were major secondary powers, such as India and Yugoslavia, and not small or patently weak states.<sup>72</sup> In joining the movement the true small states were following and not leading, and instead of openly aligning with one of the great powers, they were hedging on the ability of middle powers to provide them with some security and economic aid. Ultimately the progressive strengthening of the multilateral institutions and the conclusion of the Cold War might have removed the need for the third way of nonalignment. Or for that matter the primary decision of alliance choice.

By the 1970s scholars began to anticipate that the anarchic structural constraint of the international system had undergone a radical transformation due to the interweaving “interconnectedness” and what was described as “complex interdependence,” a phenomenon which began to manifest in the American hegemonic Western centric states. In their path breaking work, Keohane and Nye famously argued that the three crucial characteristic of this evolving structure predicated on interdependence were the multiple channels of interactions between states, removal of military force as a tool of dispute

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<sup>71</sup> Keohane, “Lilliputians' Dilemmas,” 302.

<sup>72</sup> Sally Morphet, “Multilateralism and the Non-Aligned Movement: What Is the Global South Doing and Where Is It Going?,” *Global Governance* 10, no. 4 (2004).



resolution, and the lack of hierarchy among issue areas, meaning that states that did not possess large capabilities in terms of security could also be major players in other realms and issues.<sup>73</sup> Furthermore, in many cases states managed to compromise the impediment of anarchy and security dilemma to cooperate by creating “international regimes,” which constrained the actions of all members irrespective of their size. Soon enough the web of interdependence spread to the far reaches of the globe turbocharged by technological innovations and a novel ethos of openness, eventually embracing all states, small and large, in a phenomenon that has been called globalization.

In these early years of the 21<sup>st</sup> century, in the post-Cold War era of globalized system of states characterized by contested but well-established norms of sovereignty, increasing calcification and respect for international borders, an era that is characterized by epochal economic, political and social interdependence, small states find themselves in a system, which affords them unique opportunities and challenges along with formal security unmatched in history. However, the vulnerability inherent in the position of smallness and weakness in a still anarchic structural system persists. The fact remains true that centralized authority has not extended beyond the state’s borders, so that anarchy prevails in the international system as a whole. Concerning the existence of modern smaller, weaker states, the implication of an anarchic but rule-bound state system must be: why do the powerful states in the anarchical world allow the powerless small states to exist? Why are the small states not annexed by major neighboring powers? The only answer is that anarchy remains but has been tempered, at least in the overt expansionist sense, from the earlier, historical eras.

### ***Societal Actors Perspective***

The societal actors perspective challenges the structural view, which accords decisive primacy solely to the external, systemic factors in small state outcomes. Rather than being uniformly constrained by the structural forces, this perspective argues that states respond uniquely based on the distinct interplay among their internal actors, coalitions, institutions and processes, dependent on their level of institutional development and regime type. The level of analysis is at the unit level and individual

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<sup>73</sup> Keohane and Nye, *Power and Interdependence*, 21.

level because powerful personalities and their foreign policy apparatus are sometimes able to overcome the structural constraints placed upon small states.

In a volume of empirical case studies devoted to investigate the level-of-analysis—systemic, state or individual—which best explains small state foreign policy, Jeanne Hey concludes that in most circumstances the systemic factors play a major role. However, she argues that “although small states face a common systemic challenge, operating at a disadvantage to local hegemonic powers, they respond in a myriad of ways that reflect historical circumstance, domestic political dynamics, individual choice and of course, the behavior of the hegemonic powers.”<sup>74</sup> While state-level factors are found to be of lesser importance than systemic ones, Hey suggests two important considerations at the state-level: regime type and level of development of the state.<sup>75</sup> Whether a small state is an established democracy or a teetering dictatorship explains the form of international legitimacy that the state enjoys, hence expanding or limiting its strategic space. Level of economic development determines the number and kinds of international engagements that a small state is able to sustain. Each of these two factors would have profound impact on the policy choices available and behavioral outcomes of small states, even under the same systemic environment. The varieties of small states seen around the globe today, differing in their level of dependence and available choices from Singapore and Sweden to Bhutan and Cuba, gives empirical weight to those two state-level factors.

On the other hand, individual-level factors of leadership and personality are quite persuasive in explaining the levels of autonomy and independence that can be asserted by an otherwise systemically constrained small state. Hey argues that “the actions of often charismatic or authoritarian leaders (are) all the more forceful and independent.”<sup>76</sup> In many small states, foreign policy is the exclusive province of an individual leader or a small group of elites, unencumbered by the large foreign policy apparatus found in a major power. Such powerful leaders might use the freedom to easily respond to incentives and switch sides or policy directions and preferences. Such switches and

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<sup>74</sup> Hey, *Small States in World Politics*, 187.

<sup>75</sup> *Ibid.*, 189.

<sup>76</sup> *Ibid.*, 192.

changes of direction might be extremely important for those small states that are also wedge states. Since there is little margin for error in their interstate relations, the personal qualities and diplomatic abilities of the small state leaders in diplomatic negotiations—which have been called the “right handmaiden of the weaker states”<sup>77</sup>—would be extremely vital.

A special illustration of the power of leadership personalities to sway the direction of foreign policy in a small wedge state is the phenomenon that has been termed “pendulum politics” in the context of South American small states lurching from the lap of one regional power in Argentina to another in Brazil. Frank O. Mora discusses the classic of example this phenomenon in Paraguay under the paternalistic leadership of President Alfredo Stroessner, who personally swung the pendulum from longstanding loyalty to Argentina, the dominant economic benefactor, towards Brazil in the 1960s.<sup>78</sup> Powerful unitary leaders such as Stroessner can “drag” their foreign policy in idiosyncratic directions in response to the systemic forces acting on their countries, which scholars on South America has characterized as “dragged” foreign policy.<sup>79</sup>

The external influence factor may be necessary but not sufficient to explain how small states can react to the structural imperative. The specific question about whether the direction of change comes from the structural forces to bind the choices of small states or if internal reactions to systemic forces have intrinsic, *a priori*, salience has been of especial concern in the post-war experience of European small states. The major problem faced by all Western states, including the smaller ones, was how to respond to economic openness and liberalization of the Western economies in the second half of the twentieth century. In his authoritative work on the topic, Peter Katzenstein has cogently argued that in the case of the smaller European states, the domestic economic and political transformation proceeded from cohesive and flexible bargaining between the internal societal actors, who were responding to the demands of the systemic forces of open competition. Disputing the primarily “external influence” view of the structuralists,

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<sup>77</sup> Fox, “The Small States in the International System, 1919-1969,” 754.

<sup>78</sup> Mara, “Paraguay: From the Stronato to the Democratic Transition,” 19-21.

<sup>79</sup> *Ibid.*, 22.

Katzenstein argues that the external influence “acted as an opportunity as much as a constraint” in shaping the local societal actors to compromise in specific ways, so that in many of the smaller European states, variants of democratic corporatism emerged.<sup>80</sup>

In disputing the basic argument that systemic forces solely determine the foreign policy choices of small states, Miriam Elman finds evidence in emerging weak states. Analyzing the evidence from the state formation, institutional consolidation and military strategies of the United States during the nineteenth century, which was admittedly a weak state in that time and context, Elman argues that external influence is sufficient explanation in phase of the development of local institutions. But once institutions take hold and societal actors emerge, domestic factors take precedence in explaining subsequent foreign policy behavior of these states based on domestic institutional procedures, sectoral politics and distributional conflicts.<sup>81</sup> Structure does not automatically socialize weak states, especially if process of state formation and consolidation have completed.

In summary, the societal actors perspective questions the unqualified explanatory power of structural factors in small state foreign policy behavior. Various state and individual level factors, such as geographic location, regime type, role of national and transnational non-state actors, or the personality of a powerful leader, necessarily complicate the picture. This perspective argues that, especially for well-established small states, domestic politics seem to play equally important part in explaining behavioral and foreign policy outcomes.

### ***Economic and Developmental Studies Perspective***

The concern with small states or “small economies” in the field of economics and developmental studies began with the fundamental question of whether general economic theories hold equally and similarly in all types and sizes of states. Reality shows that there are states of different sizes and varying levels of developmental levels and

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<sup>80</sup> Katzenstein, *Small States in World Markets*, 181-86.

<sup>81</sup> Miriam Fendius Elman, "The Foreign Policies of Small States: Challenging Neorealism in Its Own Backyard," *British Journal of Political Science* 25, no. 2 (1995): 173-74.

economic complexities, which exhibit a range of economic conditions, often inconsistent with received wisdom in the mainstream economic literature. Are small states viable economically and if they are not, how do they respond? Obviously, the answer to these questions would also inform how small states interact economically with their wealthier, economically powerful, partners.

The earliest attempt to grapple with these concern was a 1957 conference organized by the International Economics Association with the theme of “Economic Consequences of the Size of Nations,” the proceedings from which was published as a edited volume under the same title in 1960.<sup>82</sup> The questions, assumptions and definitions generated by this research program dominated the discussion in this field in the subsequent decades. Subsequent scholars in this research program concluded that size of the economy does indeed matter, and small size is especially indicative of unique economic implications. According to the general economic consensus then, small states suffer from the following generalized economic problems:

1. Because of their small territorial size, most small states do not possess a large variety of natural resources or agricultural land. They can only produce one or a few primary commodities as their exports becoming “one-dimensional states,” because they have to rely on the exports of a single primary commodity.
2. Because of their smaller population, smaller labor force, and thus smaller domestic market, small states suffer from “diseconomies of scale”—the inability to produce high returns to scale in manufacturing and production of goods. They are forced to seek outside markets for their primary products and reliant on imports from foreign producers to fulfill domestic consumption.
3. Owing to these fundamentally inalterable conditions, small states exhibit high trade to GNP ratio and have no choice but to open their borders for trade. Thus,

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<sup>82</sup> E. A. G. Robinson, ed. *Economic Consequences of the Size of Nations; Proceedings of a Conference Held by the International Economics Association* (New York: St. Martin's Press, 1960). More recent attempts to explain the causes and consequences of state sizes are: Alberto Alesina and Enrico Spolaore, *On the Number and Size of Nations* (Cambridge, MA: National Bureau of Economic Research, 1995); Alesina, “The Size of Countries: Does It Matter?”

they are acutely sensitive to volatility in trade patterns and dependent on other states for market access and trade terms.

4. Also, since their primary product exports constitute a fairly small percentage of the total in world markets, they are “price-takers” and doubly vulnerable to the swings in external demands and prices.<sup>83</sup>

As the number of small states continued to climb up and their relative size continued to decline, observers questioned the economic “viability” of small states based on concerns about the “economically determinist” view of state size. Nevertheless, many small European states had managed to overcome the general economic predictions of unalterable vulnerability and dependence. Yet, many others, mainly Least Developed Countries (LDCs) and Small Island Developing States (SIDS), seemed to be indeed mired in the exact predictions made by mainstream economic theories. Ironically for these smaller economies, the orthodox models of economic development and growth, such as the Lewis Model based on large-scale industrialization, could not be applicable due to their lack of a large population base and small market size.<sup>84</sup>

However, in the last couple of decades rigorous quantitative analyses have challenged and often modified the economic consensus on small state vulnerability, volatility and dependence. In 1988 Srinivasan analyzed small states defined as those with population less than 5 million, and he found mixed evidence on each of the constituent points of small state economic consensus: the concern for economies of scale was not really warranted on goods for sale but proved true for infrastructure costs because of high cost per unit; in terms of environmental and economic vulnerabilities, many small states indeed faced catastrophic ruin due to the former but the latter could be managed better by the governments; many remote small island nations indeed faced high costs of transport and communication; but in regards to access to capital markets, macroeconomic policy

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<sup>83</sup> Handel, *Weak States in the International System*, 220-28.

<sup>84</sup> Harvey W Armstrong and Robert Read, "The Determinants of Economic Growth in Small States," *The Round Table* 92, no. 368 (2003): 102.

independence or low income levels, he did not find conclusive evidence.<sup>85</sup> In most of the cases, smallness alone was not the cause of the purported economic ills. Along the same vein, a 2000 study conducted by Easterly and Kraay analyzed a large data-set evidence to ascertain if small states (population less than 1 million) were different from other states in terms of their income, growth and volatility outcomes. The authors found that small states had higher per capita GDP due to “productivity advantage,” and comparable growth rates to other states, while they did seem to suffer from higher volatility due to trade openness and terms of trade volatility, although the openness factor resulted in a “positive net payoff for growth.”<sup>86</sup>

Such findings and some empirical examples problematize the economic consensus on small states. On the one hand, many policy and advocacy organizations continue to argue that small states, especially those with less than 1.5 million population, suffer from significant barriers to economic well being. Research continues on that vein to enumerate the specific vulnerabilities faced by those small states while recommending special policy tools, including aid and tariffs protection, to help build resilience to combat against the vulnerabilities. The institutional leadership provided by the Commonwealth has supported an extensive research program for the unique concerns of small states facing high levels of vulnerability. The creation of the Commonwealth Vulnerability Index (CVI), and measures of resilience,<sup>87</sup> continued with the publication of a joint task force report by the World Bank and the Commonwealth Secretariat in 2000.<sup>88</sup>

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<sup>85</sup> T. N. Srinivasan, "The Costs and Benefits of Being a Small, Remote, Island, Landlocked, or Ministate Economy," *The World Bank Research Observer* 1, no. 2 (1986): 211-17.

<sup>86</sup> William Easterly and Aart Kraay, "Small States, Small Problems? Income, Growth, and Volatility in Small States," *World Development* 28, no. 11 (2000): 2014.

<sup>87</sup> Jonathan P Atkins, Sonia Mazzi, and Christopher D Easter, "A Commonwealth Vulnerability Index for Developing Countries: The Position of Small States," in *Small States in the Global Economy: Background Papers Presented to the Commonwealth Secretariat, World Bank Joint Task Force on Small States*, ed. David Peretz, Rumman Faruqi, and E. J. Kisanga (London: Commonwealth Secretariat, 2000); David Peretz, Rumman Faruqi, and Eliawony J. Kisanga, eds., *Small States in the Global Economy, Background Papers Presented to the Commonwealth Secretariat, World Bank Joint Task Force on Small States* (London: Commonwealth Secretariat, 2001); Lino Briguglio et al.,

On the other hand, most less developed small states have to face the phenomenon made popular by Briguglio's phrase, the "Singapore Paradox," which is a case of a highly vulnerable small state able to achieve rapid economic growth and high levels of GDP per capita.<sup>89</sup> While there are no ready solutions to the paradox, analysts, working in this intersection of small state research, economics, international political economy and developmental studies, have generated theoretical and empirical scholarship to explain the evolving nature of vulnerabilities facing small states and novel ways that they have resorted to overcome the said vulnerabilities and build resilience. In a penetrating study, Naren Prasad shows how small island states of the Caribbean have used unique economic and political strategies to cope with their inherent vulnerability: using sovereignty to set up off-shore financial centers; relying on the traditional means of tourism, aid and remittance; such unorthodox means as "selling sovereignty" in the form of fishing rights, military bases, shipping rights, allowing "flags of convenience," selling passports, hosting internet gambling sites and domain names, etc.,<sup>90</sup> These kinds of niche economic comparative advantage might only apply for the "micro" states and island nations of the Caribbean and the Pacific, or the entrenched ones in Europe such as Luxembourg or Lichtenstein.

However, for relatively larger small states relying on the global capitalism while adjusting to its rules is inescapable. At issue again is whether the volatility and vulnerability is produced exclusively by external influence or more by internal factors. While both types of influences may be in play, their exact interplay and relative importance along with societal factors has been the theoretical contribution to the

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"Economic Vulnerability and Resilience: Concepts and Measurements," *Oxford Development Studies* 37, no. 3 (2009).

<sup>88</sup> Commonwealth Secretariat and World Bank, "Small States: Meeting Challenges in the Global Economy; Final Report Prepared for the Joint Task Force on Small States," (London/Washington, DC.: Commonwealth Secretariat / World Bank, April 2000).

<sup>89</sup> Lino Briguglio, "The Vulnerability Index and Small Island Developing States: A Review of Conceptual and Methodological Issues" (paper presented at the AIMS Regional Preparatory Meeting on the Ten Year Review of the Barbados Programme of Action: Praia, Cape Verde, 2003).

<sup>90</sup> Naren Prasad, "Small but Smart: Small States in the Global System," in *The Diplomacies of Small States : Between Vulnerability and Resilience*, ed. Andrew Fenton Cooper and Timothy M. Shaw (New York: Palgrave Macmillan, 2009), 41-64.



economic perspective by the IPE scholars. In that regard, at least in the case of small European states, Katzenstein maintained that they were forced to adopt a “preference for a reactive and flexible” economic and social policies to mitigate the external influence of global economy.<sup>91</sup> Thus, the nature of internal response—reactive but flexible—has to be paramount in considering the economic and developmental perspective, as well as the other perspectives, on small states’ interaction with their larger economic partners and the global economy as a whole. Rather than painting with a wide brush and analyzing all small states using the vulnerability paradigm, disaggregating the political, social and economic responses of sub-groups of small states, including wedge states, would be more fruitful.

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<sup>91</sup> Katzenstein, *Small States in World Markets*, 27.

## CHAPTER III

### RESEARCH DESIGN AND METHODOLOGY

The objective of this chapter is to design a research project that answers the questions of whether small wedge states can possess autonomy of strategic policy choice in their international relations with great powers, and what factors determine the likelihood of such instances of small state autonomy of strategic action. To explore these primary research questions, this chapter shall: a) Specify the theoretical model of “wedge states” and deduce crucial theoretical elements—variables and hypotheses—of the model; b) Drawing from the model specification, present a research design and methodology; c) Introduce the empirical unit of analysis of a typical wedge state of Nepal and its tripartite relationship—in three crucial cases of differing strength of preferences—with India and China. Taken in aggregate, the theory of wedge states and the selection of Nepal’s tripartite relationship with India and China form the research design foundation for the remainder of the study.

#### MODEL SPECIFICATION

The proposed model of wedge states involves one small (weak) state in a tripartite relationship between two rival powers. In terms of material power and capabilities, both the rival powers enjoy an unbridgeable gap in comparison to the wedge state. These two powers are in a mutually competitive environment but not in a declared or undeclared state of war because during wars greater powers demand absolute loyalty of the small states. The wedge state maintains cordial relations with *both* the rival powers and engages with and negotiates with each of them on a host of wide-ranging and crosscutting interactions. The wedge state may theoretically try to adopt wedging strategies to derive maximum gains from interaction with each of the rival powers because many of these interactions are coordination or collective actions problems with distributive consequences.

In the context of these interactions between the wedge state and either of the rival powers, we can speak of and investigate the space for or the extent of the foreign policy autonomy and independence afforded to the wedge states. Strategic autonomy refers to any state's ability to choose policy options based on prior consideration of national interest and distributive gains. The proposed model situates wedge states in a possible position of utility maximization based on the competitive rivalry between the two powers. Theoretically, wedge states are able to "solve" the small state problematic and create the necessary space for autonomic strategic policy choices, precisely due to their strategic position between competing rival powers in a forgiving and favorable international system of states and institutions.

A couple of caveats are in order. First, when we think of the wedge state as a small state, we do so in a relative sense compared to the rival powers between which it is wedged. Simply, in absolute geographical or other material sense the wedge state may not look "small," but in relation to either rival powers, it is definitely smaller and weaker. For example, Mongolia is not small geographically, but in relation to Russia and China, it can be seen as a small wedge state. Second, it is possible that there are more than two rival powers acting upon the wedge state at any given time. Historically, Poland or Belgium might be seen as wedge states between three or more superior powers. However, for the sake of the theoretical simplification, this research focuses on wedge states between two rival powers. The insights gleaned from such a heuristic model might be of some application to cases of more than two competing powers but extrapolating such implications is beyond the scope of the present research.

This model of a wedge state differs significantly from the extant theoretical view of a typical small state. As discussed in the literature review, extant theories, especially in the structural perspective, view small states through the lens of: "balancing, bandwagoning or buffering," in each of which the small state's relationship with a greater power is based strictly from the perspective of the great power's utility derived from using the small state. However, when there are multiple great powers in a mutually competitive mode, the small states might also accrue utility despite their gap in material power. If there were no great power competition, then there would be no existence of

wedge states, because there would be no space available for possibly taking advantage of the great power rivalry. Extant perspectives on small states highlight the vulnerabilities and external factors that circumscribe the range of action options available for small states. In contrast, the notion of wedge states views them as theoretically capable of independent action.

### ***Theoretical Variables***

In this model, the unit of analysis is a wedge state situated between two rival powers, and the subject of inquiry is the patterns of interaction among the three. Therefore, the study variable is the strategic autonomy of the wedge state in its interaction with the rival powers in various cases of tripartite interests. The study variable could vary between high and low levels of strategic autonomy acquired by the wedge state in a given case or in a certain period. In order to study “strategic autonomy,” this abstract notion is operationalized into material and political gains or losses that the wedge state might enjoy or suffer in due course of bargaining or negotiation in matters of mutual concern from either of the rival powers.

Although the concept of strategic autonomy is used here to largely correspond with national strategic policies adopted by a state, the concept of material gains is, of course, not a unified conception of national interests. We could disaggregate material gains of a small state to investigate if various sectors of the society or different stakeholders are impacted differentially by wedging strategies. In other words, there may be winners and losers from what politicians and policymakers might consider “strategic autonomy,” thus, problematizing the dependent variable (DV). However, since this study is concerned with interstate interaction between a wedge states and its rival powers, we will refer to material gains as a aggregated average of positive outcomes from wedging interactions. In various cases that are studied, multiple sectoral interests are analyzed organically whenever they arise.

Therefore, in this research I represent strategic autonomy of wedge states by the as the wedge state’s “gains from interaction” or simply “gains.” Gains might be positive or negative (loss) corresponding to the high or low levels, respectively, of the strategic

autonomy acquired by the wedge state in a given negotiation, under given conditions and in given circumstances. For example, interstate agreements in trade and foreign direct investment policies result in distributive economic gains, whereas cooperative agreements in environmental regulation might result in short term economic loss with unequal burden to be shared.

The literature on small states as covered in the previous chapter informs the generation and selection of the proposed independent variables (IVs). We begin by enumerating a number of factors that have been proposed in the bodies of literature to explain the level of gains accrued from interaction by small states with greater powers; then a couple of variables are chosen for this purposes of this study. The four theoretical perspectives discussed in the previous chapter propose the following major explanatory IVs to explain the level of gains and structural autonomy for small states.

The *emerging system of states and norms perspective* argues that the smaller members of the state system emerged and have managed to survive due to the evolution of a conducive state system itself as well as the expanding norms of sovereignty across the globe. The primary IVs identified in this perspective are: type of state system and extent of sovereignty norms prevalent in a certain system. The *structural IR perspective* focuses on the inherent distribution of power among the units of an anarchic state system as well as the institutions that have emerged to overcome the hurdle of anarchy to forge cooperation and coordination in the context of globalization, and generates the following IVs: distribution of power, level of institutionalization and level of interdependence. The *societal actors perspective* emphasizes the important roles played by the internal factors including the response-making processes and actors of the small states themselves in explaining the variation in behavioral outcomes so that the major IVs to explain the small state outcomes are: type of the domestic political system, level of political stability, and the role of non-state actors. Finally, the *economics and developmental studies perspective* highlights the economic difficulty inherent with small market size and limited economic capabilities, generating these two IVs: level of trade dependence and level of economic development.

From the extant perspectives on small states then, we have derived the following ten independent variables (IVs) each of which might explain the variation in the dependent variable (DV), the gains from interaction: type of state system; extent of sovereignty norms; distribution of power; level of institutionalization; level of interdependence; type of the domestic political system; level of political stability; role of non-state actors; level of trade dependence; level of economic development. From this potential pool of ten identified theoretical IVs, now we select three to generate test hypotheses for this research project.

### ***Test Hypotheses***

One limitation of the present research project is related to Lijphart's famous pronouncement on the limitations of case study and comparative method, namely that of "many variables, small number of cases."<sup>1</sup> For theory testing, Lijphart offers the now familiar recommendations of either increasing the number of cases or reducing the number of variables into a few "key" variables by combining two or more related variables.<sup>2</sup> Using Lijphart's criteria, from the above listed ten theoretical IVs based on extant literature, I select two for hypothesis generation. The criterion for selection is the choice of the case-study research method and the process of combining related variables.

The empirical question centers on the proposed notion of a single wedge state and its two neighboring rival major powers over a short period of time allows the study to control for larger structural IVs, namely type of the state system and extent of sovereignty norms, so those are not considered for study. Similarly, the distribution of relative power among the three states in the triad remains constant, in that the two rival powers remain more powerful than the small wedge state, so that variable isn't chosen. Another two IVs—level of political stability and level of economic development—seem equally and independently interesting, yet the short-period single-unit case study may not capture the possible variation on these long-term trends, and are thus not considered.

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<sup>1</sup> Arend Lijphart, "Comparative Politics and the Comparative Method," *The American Political Science Review* 65, no. 3 (1971): 685.

<sup>2</sup> *Ibid.*, 690.

From the theoretical orientation of societal actor perspective, the type of domestic system of governance, whether it is a democratic system or an authoritarian system—“type of the domestic political system”—is definitely observable and it is noticeable when it changes. So, this IV forms our first test hypotheses.

*Hypothesis H1: When considering wedge states, a democratic political system in the wedge state produces higher gains in its interaction with the rival powers.*

As evidenced in the literature reviewed, the societal actors perspective is not clear about the directionality of this IV, whether a democratic system or an authoritarian system produces higher material gains for the wedge state. However, this study is agnostic about the directionality of causality in this relationship. Analyzing the effect of the type of political system may show higher gains for either authoritarian or democratic system, which would add to our inventory of our theoretical tests. As the subsequent discussion of case selection shows, this hypothesis takes into account the political change in 1990, when Nepal went from a autocratic monarchical system to a democratic constitutional monarchy, which is to note that this IV, type of political system in the wedge state, varies in the unit of analysis.

Two other IVs—level of systemic institutionalization and level of interdependence—may be combined because both are related to impacts of political and economic globalization, to generate the second test IV—level of systemic globalization—and the operational hypothesis thereof. This combination may also capture the effect of another IV, the role of transnational non-state actors operating in the period of globalization.

*Hypothesis H2: When considering wedge states, their strategic autonomy vis-à-vis rival powers is higher if there is higher level of general political and economic interdependence in the state system.*

Finally, from the economic and developmental perspective the IV, level of trade dependence, captures a more of a dynamic of interaction of trade between the wedge state and the rival powers. Thus, we choose this IV to generate the third test hypothesis for this study:

*Hypothesis H3: When considering wedge states, the higher its level of trade dependence on either of the rival powers, the lower its gains from tripartite interaction.*

It is necessary here to highlight the fact that both H2 and H3 are, at least partly, concerned with issues of economic interrelationship between states. However, each of them is profoundly different in the factors that it is trying to measure. The IV “level systemic globalization” relates to global economic and political interdependence in the system, and its effect on all the states involved, the wedge as well as the rival powers. But the third IV, “level of trade dependence” is strictly looking at the measure of the wedge state’s specific trade relations with either of the rival powers. So these two IVs and the resulting hypotheses are used to capture independent factors at different levels, systemic against bilateral, that might explain the outcome on the level of material gains, which is the DV.

Now that we have three IVs under consideration and the corresponding test hypotheses, I now present the design of the research project that would allow us to test the most empirically salient implications of these hypotheses.

## RESEARCH DESIGN & METHODOLOGY

The ideal research design to investigate the behavioral outcomes for my theoretical notion of wedge states would be to test the hypotheses and implications on the empirical cases of the universe of all wedge states. That approach is not feasible here, not just for the usual caveats of finite time and resources, but also because the research problem is related to the issue of preliminary theory building on a proposed notion of wedge states, this project is indeed nearer to an initial plausibility probe of a nascent theory building rather than an exercise in testing a mature theory.

In recent decades, the disciplines of political science, international relations and comparative politics have been mired in methodological debates about qualitative against quantitative approaches to research. The leading lights of the field have concluded that, “the differences between the quantitative and qualitative traditions are only stylistic and



are methodologically and substantively unimportant.”<sup>3</sup> The important task is actually to define succinctly a research question and design the empirical research to answer that question. When the primary research goal is theory building, as it is in this research project, the usability of a single case study is indispensable. By holding many structural variables constant and by probing the plausibility of the notion of wedge states, this analysis of the single unit of study contributes to our understanding of larger population of similar units. This approach is especially useful in generating new hypotheses based on novel theoretical claims, which can subsequently be tested and built upon. By employing the discussed research design to answer my research question, this project aims to contribute such new insights to the discipline.

To that end, this research design employs the approach of a qualitative analysis over time of three cases within a single triadic unit. One of the pioneers of comparative social science research, Arend Lijphart, suggests that there are essentially four scientific methods of empirical evidence testing: experimental, statistical, case-study and comparative. He viewed the case study method as a complement to the comparative method, arguing that *inter alia*, a single case study over time approach could be hypothesis generating, theory confirming or theory infirming.<sup>4</sup> The choice of a single unit of analysis to probe the theory of wedge state behavioral outcomes is based on such theory building and testing aspirations.

Stephen Van Evera highlights five main purposes of case studies: “testing theories, creating theories, identifying antecedent conditions, testing the importance of these antecedent conditions, and explaining cases of intrinsic importance.”<sup>5</sup> One of the ways to test theories with single-unit cases is by “process tracing” in which we observe within units rather than across them. David Collier defines process tracing as “the systematic examination of diagnostic evidence selected and analyzed in light of the

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<sup>3</sup> Gary King, Robert Keohane, and Sidney Verba, *Designing Social Inquiry : Scientific Inference in Qualitative Research* (Princeton, N.J.: Princeton University Press, 1994), 4.

<sup>4</sup> Lijphart, "Comparative Politics and the Comparative Method," 682-92.

<sup>5</sup> Stephen Van Evera, *Guide to Methods for Students of Political Science* (Ithaca: Cornell University Press, 1997), 55.

research questions and hypotheses posed by the investigator.”<sup>6</sup> The evidence presented in this research, in the form of a detailed qualitative study tracing the historical and temporal processes of a wedge state interacting with two rival greater powers across three cases, provides an inductive method of theory building and testing as well as explaining necessary preconditions.

While the traditional connotation of a case study is a research design that “investigates a single phenomenon, instance or example” of the research topic, more recently John Gerring has argued for a more systematic understanding of the case study approach, which he defines as, “an intensive study of a single unit for the purposes of understanding a larger class of (similar) units.”<sup>7</sup> Gerring’s main innovation is to situate the qualitative case-study approach within the framework of an increasingly quantitative research paradigm in social sciences, especially political science. Thus, his definition allows for case studies to be designed as rigorously as necessary for meeting the essential feature of empirical research, in which “covariation is demonstrated by a single unit,” from a possible population of similar units. Gerring’s observation guides my selection of a single unit of research. The investigation of a prototypical wedge state would constitute a unit studied from the population of such units. As such my research design constitutes, analyzing in detail the processes, preferences and outcomes of negotiations between a theorized wedge state with its two rival great power neighbors. The goal of social scientific research is drawing inference, which can be either descriptive or causal in nature. Case studies are better suited to draw descriptive inferences and “enjoy a natural advantage in research of an explanatory nature.”<sup>8</sup>

I maintain a temporal boundary, the *over time* feature, of the case analysis by analyzing a period marked by changing conditions and variables. To further add to the explanatory power of the research design, I delve into the unit of analysis of a single wedge state and examine three crucial cases of interaction, each of which highlight a

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<sup>6</sup> David Collier, “Understanding Process Tracing,” *PS: Political Science & Politics* 44, no. 04 (2011): 823.

<sup>7</sup> John Gerring, “What Is a Case Study and What Is It Good For?,” *American Political Science Review* 98, no. 02 (2004): 342.

<sup>8</sup> *Ibid.*, 349.

particular perspective in the tripartite relationship. This within-unit analysis of three separate cases of interaction also allows for controlling some variables in specific areas, and provides the opportunity for within-unit comparison of evidence that might explain the variation over time of the dependent variable.<sup>9</sup>

## EMPIRICAL CASES & EVIDENCE

To explore the empirical manifestation of wedge states and their wedging strategies, and to analyze the theoretical implications of different factors determining wedge state behavioral outcomes, this study will present the evidence from one prototypical wedge state. The cases are derived from Nepal's relations with two rival powers India and China in the modern period since 1947, with the study period focused primarily between 1980 and 2010. This historical tripartite relationship provides a natural unit of study over time of a wedge state that has formal, longstanding and friendly relations with both its rival neighbors. These three states are also a good unit to study because myriad issues of local, regional as well as global significance bind them. The examination of a sample of cases from the pool of crucial issues provides variation in their relationship to explore the nature and characteristics of the Nepal's wedge position and the possibility of using wedging strategies vis-a-vis India and China. This unit is an instance of a small wedge state, which might not fit the typical behavioral patterns of typical small states, but may be seen as a distinct subclass of small states. Thus, the case also provides the necessary material for inductive theory building on wedge states.

Furthermore, by looking at one example of a small state that is wedged between two historical and current powers, the research design controls for rival variables, primarily structural variables, especially power distribution, as well as societal factors, when examined in the same time period. Since their existence as modern nation-states, the distribution of material power between these three countries has remained the same: Nepal has been and is clearly a small, weak state in contrast to both India and China. There is no question that both India and China view each other as great powers whereas Nepal is a small state in their periphery.

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<sup>9</sup> James Mahoney, "Qualitative Methodology and Comparative Politics," *Comparative Political Studies* 40, no. 2 (2007): 131-33.

However, we can observe variation in the strategic choice autonomy and independence afforded to Nepal by the rival powers in the various issues in which they are entangled. Historically, security relations between China and India have been problematic and Nepal has served as a buffer state and geographic demarcation between the two powers. Both India and China have vigorously labored to enhance their influence within Nepal at different times. But the realms of non-security issues are equally compelling and offer prime evidentiary scope for research into Nepal's successes in using a wedging strategy or lack thereof.

The intensity of interests shown by India and China on the three cases described below are strong enough historically or now to justify the selection of this unit of study. While each of the rival powers may have gone through a variation in the strength of their preferences over time, we can expect to see the impact on the material gains on the wedge state because of the changing preferences as well. Also, it is to be expected that sub-national interests in China or India might have strong economic or financial interests in cases where the central state may not exhibit strong enough preference. Ultimately, the study hopes to ascertain the strength of the preferences shown by the rival powers in the selected cases by conducting the analysis of their policies and actions, which will become visible in the course of the analysis itself.

As shall be emphasized in the following description of the three cases to be studied, this research relies in qualitative case-study evidence. The comparison of the cases introduces variation in the dependent variable, which is the strategic autonomy of small states. Analyzing the processes and political developments in the period from 1980 to 1990 and from 1990 to 2000 also allows for the domestic institutional change that occurred in Nepal in 1990, when it went from an autocratic monarchical system to a constitutional monarchy with a democratic parliamentary system. Thus, analyzing the same core of three states controls for the structural power distribution factor which did not vary, as well as the internal political structure, which remained uniform in a single period.

### ***Three Cases of Tripartite Relationship***

Within the single unit of Nepal's wedge relations with India and China, I analyze evidence from three distinct cases of their interaction from the period 1980 to 2000. The selection of the three cases introduces variation. If the nature of the international system does not change and with that the power distribution remains uniform, the wedge state might be able to negotiate differently depending on different cases. Here the notion of the "spatio-temporal context" of a small state's various interaction with larger powers, as used by Thorhallsson and Wivel and discussed in the previous chapter, proves a useful guide to specify how small states can influence outcomes against more powerful actors depending on certain temporal conditions and under certain circumstances.<sup>10</sup>

Each case features a particular social, economic, and environmental arena of interstate interaction. In each case, I shall analyze the possible existence of the wedging strategy that the wedge state tried to adopt and the result of such efforts in enhancing or reducing its strategic choice space. The presumed interests of the wedge state, the expected outcomes of the interaction in the particular case, and the process of outcome formation will generate crucial evidence to test our selected test hypotheses.

The three cases chosen for analysis are: the issue of the migration of Tibetan refugees into Nepal and India; Nepal's economic policies regarding foreign direct investments from India and China in its hydropower projects; and prospective cooperation on environmental issues related to global climate change pertaining to the high Himalayas region, which forms the boundary between the three states. Each case will show a differing intensity of interests of the three actors and highlight the possibility of the wedge state finding space for strategic choice or the powerful rivals attempting to curtail the wedge state's preferred choice.

Most interestingly, these three cases represent three different kinds of cooperation problems for the wedge state and rival powers, with distinct distributive consequences, which allows us to test and differentiate between levels of normative or material gains

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<sup>10</sup> Thorhallsson and Wivel, "Small States in the European Union: What Do We Know and What Would We Like to Know?."

from the interaction. The first case of Tibetan refugees is a classic zero-sum game where relative power should dominate. The second and third cases of hydropower investment and environmental cooperation are types of coordination problems with material distributive consequences for the three players.

### *Tibetan Refugees and Exiles*

The historical interrelationships in South Asia have been shaped by the experience of Tibet and the continuing policy reactions on this sensitive issue by the two major stakeholders, namely the People's Republic of China and the Republic of India. In such a delicate balance, Nepal's geographic, historic and cultural ties with both Tibet and India generate ample chance for interactions and reaction to the needs and demands of the rival superpowers. Although the issue of Tibetan sovereignty has been resolved *de jure*, in practice there are considerable problems outstanding. The prime concern is that since India offers the sanctuary to the spiritual leader Dalai Lama and a large population of Tibetan refugees in Dharamsala, new Tibetan refugees have to traverse Nepali territory in most cases to migrate to India. Also, large populations of Tibetans make their home in Nepal itself and are engaged in activities of Tibetan politics, which produces demands from China and India upon Nepal. Such a political, social and security issue of concern requires Nepal to continually leverage a high degree of cooperation and interaction in response to conflicting demands and requirements from both China and India.

Referring to the theoretical hypotheses, this case of the status, treatment and safe travels for refugees is not just a national or regional concern but also one that relates to international regimes and institutions of human rights. Other explanatory factors of impact are Nepal's changing domestic societal actors and institutions, which have handled the conflicting demands differently. As we shall see Nepal's gains from this interaction are not strictly material but political, social and ideational, although there have been instances of *quid pro quo* relating to certain treatment of exiles living in Nepal and refugees passing through it. Thus, the analysis of this case teases apart how the wedge state operates under the demands of its rival great power neighbors as well as the appeals of global norms in a globalized setting.

### *Competitive Hydropower Investment*

At the beginning of the millennium, both the Chinese and Indian economies are roaring so much so that they are challenging the major Western economies. While numerous domestic economic problems persist in both countries, the overall economic health is trending up. However, their common neighbor Nepal remains mired in poverty and a dearth of capital for any real investments and productivity gains. Nepal's historical economic role was that of a trading post between Tibet and India. In the modern era, that benefit has eroded but still Nepal relies on its trade relationship with its two neighbors and sees them as major sources of intergovernmental aid and investments. As a landlocked, least developed country, Nepal is quite dependent on trade with its neighbors, especially India. As such, trade interactions have produced wedging situations so that trade negotiations with favorable terms with one neighbor have followed similar agreements with the other.

In terms of capital-intensive infrastructure investment, Nepal's interest is in developing its large natural bounty of hydropower resources. To make that dream a reality, Nepal has sought the investment from both China and India. For the concern of this study, the pertinent question is if Nepal's wedge position has allowed it to accrue economic benefits from the rival economics powers on the question of capital investment in hydropower sector. Do either India or China take into account Nepal's wedge position in considering foreign direct investments into Nepal? Has Nepal been able to maximize its gains in attracting capital-intensive investments, especially in its abundant hydropower resources sector? Such evidence would point towards the heightened ability by Nepal to leverage its wedge strategy to enlarge its strategic benefit. Do Nepalese policymakers consciously use strategic competition between India and China to accrue economic benefits in the form of higher foreign direct investments in sensitive assets? Analysis of this case will provide insights into the factors such as Nepal's level of trade dependence, which would impact its ability to negotiate with autonomy and gain from the interaction.

### *Environmental Cooperation*

All three countries share the geography of the Himalayan range and the concomitant environment challenges, especially the need to mitigate and adapt to the consequences of the global climate change. In the context of the growing crisis of global climate change, the vulnerable environments and ecosystems of the high Himalayas have the possibility of profound impacts on Nepal, India and China. Environmental degradation resulting in melting glaciers, management of water resources for consumption and related trans-boundary issues would be expected to force all three stakeholders to collaborate to stanch the damage and minimize the climatic effects.

In addition to the regional environmental concerns, all three states operate under various international and global agreements and regimes regarding global climate change. As emerging economic powers, China and India have global and regional interests that may not be shared by Nepal. Additionally, various non-state actors, NGOs and INGOs, are involved in activities related to the environmental conservation in the high Himalayas, which try to generate state-based policy coordination and cooperation by the involved states. If there is one area in which common interests of all three states align, it might be that of environmental preservation under the specter of global climate change. Although due to the recent provenance of the phenomenon of climate change policy debate in the region, compared to the other two cases, it is an open question whether or not there is enough evidence to be found in this case. Simply, the tripartite interaction in this case may not be mature enough to assess the existence of wedging or of beneficial gains. It means that this may be a tough case for this study, so that if there is evidence of wedging by Nepal in this case the argument in favor the theory of wedge states is so much stronger. Analysis of the existence or lack thereof of cooperation and coordination among the three states and the possible determination of the distribution of gains or costs from cooperation would shed light on the question of the wedge states' strategic autonomy. However, it is equally possible that differing economic and social priorities will limit the wedge state's space for generating cooperation and coordination between the two rival major powers.



## CONCLUSION

This chapter developed three test hypotheses to test the identified independent variables that might explain the presence and variation of the dependent variable, which is the material gains accrued by the wedge state in its interaction with two rival powers. The dependent variable is a proxy for the ultimate question directing this study of whether small wedge states possess strategic autonomy in dealing with rival major powers.

To analyze the research question and test the hypotheses, this chapter also presented a research of a typical wedge state Nepal in its tripartite interaction with India and China. The next three chapters form the evidence base of this study, where the tripartite interactions between those three states are analyzed in three cases: the case of Tibetan refugees in Nepal, the case of competitive hydropower development in Nepal, and the possibility of environmental cooperation in the high Himalayas. We begin by analyzing the first case of Tibetans in the next chapter.

## CHAPTER IV

## THE CASE OF TIBETAN EXILES IN NEPAL

## THE OLYMPIC DIVERSION

In the six months leading up to the 2008 Beijing Olympics, the world witnessed unprecedented levels of anti-China protests around the globe. As the Olympic torch travelled the continents, in major cities from San Francisco, to London, Paris, Hong Kong and New Delhi, Tibetan exiles and free-Tibet demonstrators used the global media spotlight of the Olympics to orchestrate particularly symbolic and visible protests against the Chinese rule in Tibet.<sup>11</sup> While the activists asserted a litany of historical and recent Tibetan grievances, their urgent rallying cry was centered on the recent heavy-handed repression of the restive population in Lhasa and other towns of Tibet by the Chinese security forces. In mid-March of that year Tibet had erupted in violent riots, where it was alleged that anti-Chinese Tibetan locals had attacked Han Chinese settlers and burned their businesses leading to a security backlash of total lockdown and police action amid conflicting reports of deaths numbering from dozens to more than a hundred.<sup>12</sup> World leaders and global media reacted with predictable concern entreating restraint on both sides, and some even called for a boycott of the Olympics in solidarity.<sup>13</sup> Predictably, the Chinese authorities lay the blame for the unrest in Tibet squarely on the “Dalai Lama clique” and the “secessionists” and “separatists” followers who sought to undermine the Olympics, and they brushed aside international media reports of repression as attempts to politicize a sporting event and an example of external interference in China’s internal

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<sup>11</sup> Jenny Percival and Elizabeth Stewart, "Olympic Protests Held around the World," *The Guardian* (August 8, 2008), <http://www.theguardian.com/world/2008/aug/08/china.tibet>.

<sup>12</sup> CBS News, "Dozens Reported Killed in Tibetan Protests," *CBS News* (March 15, 2008), <http://www.cbsnews.com/news/dozens-reported-killed-in-tibetan-protests/>; Jonathan Watts, "Beijing Locks Down Lhasa as Crisis Grows," *The Observer* (*The Guardian*) (March 15, 2008), <http://www.theguardian.com/world/2008/mar/16/tibet.china#>.

<sup>13</sup> *The Economist*, "Tibet and the Beijing Olympics: A Sporting Chance," *The Economist* (March 27, 2008), <http://www.economist.com/node/10924179>.

matters.<sup>14</sup> Amid the global showdown, the situation was especially sensitive in Nepal and India, where large numbers of Tibetan exiles and refugees live.

This chapter analyzes Nepal's opportunities and successes in using wedging strategies in its interaction with the two major powers in the context of its evolving policies and treatment of Tibetan exiles and refugees. The evidentiary pattern of Nepal's evolving policies on Tibetans, those that have settled in Nepal for more than five decades as well as the regular trickle of new arrivals, can be tested against the hypothesized relationship between salient internal and external independent variables and accrual of material gains by wedge states in their interaction with greater rival powers, as described previously in the research design chapter. As the host nation of a sizeable contingent of Tibetan exiles, Nepal faces many competing demands and pressures regarding its policies on Tibetans. In the recent decades, China has strongly and consistently demanded that Nepal honor its commitment to one-China policy and stop any and all anti-China activities that may occur within Nepal's soil, even demanding that escaped Tibetans be repatriated. In reaction, global leaders and media have faulted Nepalese policy and practice regarding the rights of Tibetan exiles by underscoring Nepal's commitment to human rights and rights of refugees under international law.<sup>15</sup> Various Western donor states, multilateral organizations and NGOs have been sympathetic to the cause of the Tibetan diaspora and consistently raise the issue of their rights to political activism and expression. As usual, India views any change in Nepalese internal or external policy with keen interest. Despite these net of constraints and pressures, the puzzling situation is that Nepal has achieved greater autonomy in its policy choice and opportunity for material

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<sup>14</sup> Xinhua, "Premier: Ample Facts Prove Dalai's Role in Lhasa Riot, Door of Dialogue Still Open," *Xinhua*(March 18, 2008), [http://news.xinhuanet.com/english/2008-03/18/content\\_7813012.htm](http://news.xinhuanet.com/english/2008-03/18/content_7813012.htm); "Lhasa Riot Aimed to Undermine Beijing Olympics: Veteran Tibetan Official," *Xinhua*(March 19, 2008), [http://news.xinhuanet.com/english/2008-03/19/content\\_7819061.htm](http://news.xinhuanet.com/english/2008-03/19/content_7819061.htm).

<sup>15</sup> Gopal Sharma, "Ex-President Carter Says China Pressuring Nepal on Tibetans," *Reuters*(April 1, 2013), <http://www.reuters.com/article/2013/04/01/us-nepal-tibet-carter-idUSBRE9300BJ20130401>; Jon Krakauer, "Why Is Nepal Cracking Down on Tibetan Refugees?," *The New Yorker*(December 28, 2011 ), <http://www.newyorker.com/online/blogs/newsdesk/2011/12/why-is-nepal-cracking-down-on-tibetan-refugees.html>.

gains in the last couple of decades despite the pressure by and preferences of its Western aid donors.

The genesis, history and the current manifestation of the issue of Tibetan exiles in Nepal neither tie neatly to concerns of adherence to international human rights norms nor to capitulation in the face of direct pressures from diplomatic channels. The study below interrogates the historical context of Nepal's foreign policy with Tibet, China and India, and analyzes the effect that the current regional geostrategic context has on Nepal's recent policies towards Tibetans within its borders. It traces the many critical junctures of Nepal's internal political transformation in addition to the changing dynamics of regional diplomatic and economic pressures over the past half century. The analysis highlights the changing dynamics of Nepal's interaction with China and India, including the reasons behind the crucial fulcrum of a shift in policy in 1989 when Nepal stopped granting permanent settlement to newly arriving Tibetans. The evidentiary pattern that emerges, at least in this critical and sensitive political issue, demonstrates the limited extent of independence or autonomy that Nepal's wedging opportunities accrue in its network of interactions with China and India plus Western governments, multilateral organizations and Tibetan exile community.

The evidence as presented below helps answer the two major questions raised in the literature review and the design of this research in the previous chapters, namely: First, did Nepal's internal change in its political system from autocracy to constitutional monarchical democracy in 1990 have any affect on Nepal's policies regarding the Tibetan exiles issue? Second, does Nepal's increasing trade dependence with China and India play a decisive role in the direction of its policy evolution regarding Tibetan refugees? The analysis produces mixed results, so a quick caveat might be offered now. Unlike many other tripartite issues of economic, environmental and strategic interaction, India's progressively muted interest on Tibetan cause compared with many Western governments' normative and passionate support on behalf of the Tibetan cause muddles independent effects of the interaction between the two rival powers on Nepal's wedging opportunities. Yet, the analysis leads to the conclusion that Nepal is able to reap

maximum material, if not political, gains by the resolute application of its recent policy direction.

The ultimate cause of the current state of Tibetan situation—be it in Nepal, India or in Tibet itself—is the presently intractable nature of the larger Tibetan questions, including the ultimate status of Dalai Lama, his followers and their government-in-exile based in Dharamsala, India. China has been increasingly assertive in putting enormous pressure on Nepal to stem any Tibetan political activities within its borders. Suffering chronic instability and transition, Nepal, for its part, has been only too willing to abide the wishes of its major trading partner and economic patron. On the other hand, being the providers of sizeable foreign aid to the impoverished nation, the Western democracies and NGOs feel obliged to put moral, economic and political pressure to moderate Nepal's policies toward the Tibetan exiles. Finally, due to their long-term settlement in the Nepali society as well as their historical, cultural and religious similarity to a portion of native population, the Tibetan community itself exerts significant empathy in the Nepalese society and polity. The efforts of the exile government run from India to inform, educate and mobilize certainly influences many activists from around the world, compels worldwide journalists to highlight Nepal's behavior on the issue, and informs common folks to take interest and build pressure.

Such interactive dynamics animates the puzzle of Nepal's evolving historical policies regarding the status and treatment of Tibetan exiles. It highlights one important example of Nepal's inescapable position as a small, weak state between two burgeoning great powers in a globalized epoch. The tripartite interaction between Nepal, India and China in myriad issues in the political, social, economic and environmental dimensions can be understood not just by the internal processes inherent in those issues but also by the Nepalese strategy of trying to maintain its independence while maximizing the material and political gains from the competition and cross-cutting demands from its more powerful partners, India and China. Actually, as a sensitive geopolitical and strategic issue of utmost concern to China, and also part of one of the unresolved knots in the burgeoning China-India rivalry, the question of Tibet and the fate of Tibetan exiles

warrant ample analytical results to understand the tripartite dynamic in its crucial elements. These dynamics have roots deep in history.

The rest of this chapter proceeds as follows order: the first section gives a brief overview of the historical events leading up to the origin of the Tibetan refugee issue; the second section identifies the interests of the actors involved, including the three states as well as the Tibetan diaspora community and the Western states and the multilateral institutions; the evolution of Nepal's policies and practices regarding its Tibetan exile population is charted in the third section; based on that evidence, the fourth section analyzes Nepal's wedge prospects in the regional interaction and evaluates the factors that determine the shift of its preferences; the final section concludes the discussion.

#### CONTEXT: HISTORY AND TRANSFORMATION UNTIL 1959

To understand the tripartite relationship between China, India and Nepal and their current impact on the Tibetan exiles, one has to first understand the historical roots that have intertwined these states and peoples. Modern history of the region shows that China's capture of Tibet secured its strategic security interests in the vast Southern and Western frontier. Stunned and alarmed, India's strategic response was to establish its South Asian security perimeter extending in the north all the way to the Himalayan boundary abutting Chinese controlled Tibet. In order to maintain that security perimeter, India necessarily had to interfere into the affairs of Nepal and other mountain states. The ever-changing leadership in Nepal eventually reacted against the pressing Indian dominance by trying to play the China card as counterweight. Nevertheless, Indian primacy in the region has been such that Nepal has only been able to counterbalance using China on limited issue areas, specifically those issues, such as the policy on Tibetan exiles, on which Indian interests have long been waning.

#### ***Historical Pathways***

The common expression of Nepal's geo-strategic location is that of a 'yam between two boulders.' The metaphor is ascribed to King Prithivi Narayan Shah, who in 1769 AD united the various minor kingdoms of the time to found the modern nation of Nepal. Indeed, with the Tibetan plateau of China looming from the North beyond the

Himalayan range, and the landmass of India surrounding the small nation from the East, West and South, King Prithivi's image of Nepal remains apt. In these early years of the 21<sup>st</sup> century, the sleeping giants surrounding Nepal have almost suddenly transformed. China, the fire-breathing dragon, is on a dizzying flight to reach the economic and military mountaintop of the world, apparently razing to ground the remnants of the old world order. And like a tiger awakened from a long slumber, India has quickly discovered its footing for a fast chase. On their quests to become major powers, fiercely competitive though not currently openly adversarial, both countries seem intent to secure their influence, especially in their immediate neighborhood.

The cultural, economic and military-political interaction between Nepal and Tibet goes back more than a thousand years. Although separated by the natural boundary of the Himalayas, the peoples in the immediate vicinity on both sides have always shared many familial, cultural and linguistic commonalities and enjoyed everyday travel, movement and exchanges. Buddhism, which itself had spread from the Indian Gangetic plains via Nepal north to Tibet, formed the basis of the religious order that ruled Tibet from Lhasa.<sup>16</sup> Trade and commerce between Tibet and India flowed through Nepal via the ancient city centered in Kathmandu valley. Not long after its formation as the Kingdom of Nepal by King Prithivi Narayan Shah in 1769, the martial minded Gorkhali army set their sights to the north on Tibet to gain the upper hand in the lucrative trans-Himalayan trade relations and to acquire preferred treatment for Nepali traders. Nepal fought three major wars with Tibet, the first one in 1786, when the Nepalese forces were able to dictate the terms of Tibet's surrender in terms of favorable trade conditions and yearly payments. The second Nepalese war on Tibet in 1791 produced decidedly worse outcome because Nepal's attack brought China to the aid of Tibet's defense, when Nepal for the first time came face to face with the major but distant power of China. The final war between Nepal and Tibet in 1854 ended with the Nepal-Tibet Treaty of 1856, which established a century long position of privilege for Nepalese traders in Lhasa and practice of yearly monetary tribute. Regular trade and exchanges conducted along ancient

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<sup>16</sup> John Whelpton, *A History of Nepal* (Cambridge: Cambridge University Press, 2005), 29.

pathways settled into a pattern of long and amicable relations with Tibet, which continued until the mid-twentieth century.<sup>17</sup> And in the past five decades the same traditional pathways have been used by the fleeing Tibetans to cross the Himalayas into Nepal and beyond, in the process, entangling the modern Nepalese state in sensitive interaction of strategic, political and economic salience with China, India and the West.

On the Southern front, from the perspective of the British in India, Tibet formed a natural security buffer *in addition* to Nepal against China. The insight that the Himalayas along with the Tibetan plateau served two useful purposes, firstly, by preventing the encounter between two great civilizations and empires, and secondly, by allowing them discrete spheres of influence within their respective regions, was older than the arrival of the East India Company in the sub-continent and it survived their departure.<sup>18</sup> In Tibet, the Lamas maintained stability and control based on their own historical ruling practices; whereas in Nepal, by mid-nineteenth century, the state had officially fallen prey to the autocratic and hereditary Rana prime ministers, who received support and protection from the British. The arrangement was long able to maintain the security buffer, avoid instability, all the while conserving traditional pattern of trade and exchange relations between the Tibetans and Nepalese and beyond to the British and Indians. That historical pattern was rapidly and irrevocably broken in the middle twentieth century by the independence of India and the Communist control of China.

### ***Mid-Century Transformation***

The basic status of Tibet as well as the core pattern of the Nepal's tripartite relationship with India and China was set in motion during the years 1947 to 1959. During this juncture the entire region underwent momentous transformations in: the shape and size of the new states and the borders between them; the internal political structures of those states and the basis of interactions among them; the transformed

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<sup>17</sup> For detailed review of Nepalese history and early Nepal-Tibet relations, see Leo E Rose, *Nepal: Strategy for Survival* (Berkeley: University of California Press, 1971); S. D. Muni, *Foreign Policy of Nepal* (Delhi: National Pub. House, 1973); Whelpton, *A History of Nepal*.

<sup>18</sup> J Mohan Malik, "South Asia in China's Foreign Relations," *Pacifica Review: Peace, Security & Global Change* 13, no. 1 (2001): 76-77.



conception of their geostrategic interests and the uncertainty of ambitions between the newly minted leaders in positions of power in those states. It is safe to say that the epochal changes in that period have wrought far-reaching regional, and global, implications, which continue to this day. Although a narrow slice of the regional picture now, the issue of Tibetans in South Asia owes its endurance to that period of turmoil.

When India became independent of the British Raj in 1947, it was simultaneously partitioned giving birth to Pakistan and ushering into being a still-present dynamic of conflict, one that Beijing has found so fruitful to exploit. Leading independent India was the Indian National Congress (INC) party headed by Prime Minister Jawaharlal Nehru, committed internally to their plan of making democracy work despite the vast diversity of India. Externally, the notion of the “magnificent frontier” of the Himalayas, in Nehru’s words, persisted from the Indian perspective. In China, it was the Chinese Communist Party (CCP) that came out on top to capture central control in 1949, ending a century of instability and decline. Beijing’s power consolidated under the forceful leadership of Mao Zedong. The new regimes in India and China were intensely nationalistic, proud of their civilization and history, and both were eager to claim their places in regional and global affairs.

These transformations in India and China had critical impact on both Tibet and Nepal. In Nepal’s case, the autocratically ruling Rana clan, which had maintained hereditary control of the isolationist state for more than a hundred years, lost their prime protectors after the British left India. Educated Nepalese elites and expatriates, who began agitating for political rights and democracy had hoped to find a committed democrat in Prime Minister Nehru. But Nehru became wedded to the strategy of a “middle way,” by which he hoped to allow needed political reform and some liberty while preserving the ancient regime in Nepal, and thus limiting the chances of major upheaval in what he had always considered as India’s proper and strategic northern frontier.<sup>19</sup> Independent India formalized its “special relationship” with Nepal by signing two far-reaching treaties of “peace and friendship” and “trade and commerce,” while the

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<sup>19</sup> Rose, *Strategy for Survival*, 182.

Rana government still remained in power on July 31, 1950.<sup>20</sup> However, the decisive action of asylum to India by the heretofore figurehead King Tribhuvan as well as persistent political protest and guerilla action by the out-lawed political parties of Nepal, forced Nehru hand. On February 7, 1951, the so-called “Delhi compromise” finally brought about the ouster of the Ranas from absolute power in Nepal and restored the Shah monarchy to the throne along with the promise of political rights and democracy for the people.<sup>21</sup> In addition to Nepal and India’s historical and cultural linkages, the aftermath of the Indian independence and its role in the Nepalese revolution fashioned the continued pattern of Indian involvement in Nepal’s political and strategic developments. Nepalese political structure and historical direction was shaped with India playing the role of the advisor, mediator, guarantor and the mid-wife.

For Tibet, the transformative juncture of mid-century was all the more definitive. In October 1950, the communist military forces began the offensive into Tibetan territories, a process ultimately culminated in taking control of Lhasa. Beijing justified its actions as “liberation” of Tibet, over which it asserted controversial and disputed historical Chinese claims of suzerainty. The established autonomous rulers of Tibet under the leadership of Dalai Lama appealed to India, Nepal and Western powers to protect them against Chinese annexation. But Prime Minister Nehru was powerless to confront China militarily beyond the Himalayas, and resorted to diplomatic calls for Tibetan autonomy, which Beijing swatted as unwarranted “foreign interference” in their internal matters.<sup>22</sup>

The invasion of Tibet at the hands of the Communists was outright alarming for India. The long-held Indian belief in the buffer role of Tibet would vanish only to be replaced by the military might of the PLA overlooking the South Asian sub-continent from the Tibetan piedmont. Having apparently lost the traditional Tibetan buffer, India scrambled to limit the damage. Nehru forcefully argued that the Himalayas were India's northern frontier and sought to forestall Beijing against further ambitions, warning, “an

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<sup>20</sup> Ibid., 185-86.

<sup>21</sup> Muni, *Foreign Policy of Nepal*, 22-27; Rose, *Strategy for Survival*, 187-94.

<sup>22</sup> *Strategy for Survival*, 187.

attack on Nepal would be, in effect, an attack on India.” Nehru elucidated the swiftly changing strategic landscape in his 1950 speech to the Indian parliament:

“Our interest in the internal conditions of Nepal becomes still more acute and personal because of the developments across our borders, to be frank, especially those in China and Tibet. . . . The Himalayas lie mostly on the northern border of Nepal. We cannot allow that barrier to be penetrated because it is also the principal barrier to India. Therefore, much as we appreciate the independence of Nepal, we cannot allow anything to go wrong in Nepal or permit that barrier to be crossed or weakened, because that would be a risk to our own security.”<sup>23</sup>

In addition to its clear strategic goal of making Nepal the new buffer against China, India sought to minimize the risk of political instability in Kathmandu, as Nepal’s older political structure began to crumble. Thus, the Indian policy of deep strategic and political interference into Nepal had the perfect pretext. With Indian guidance, Nepal maintained studied silence on the matter of Tibet. The fact of Chinese military footprints so close to its borders certainly unnerved the Nepalese, especially because of the uncertainty of the extent of Chinese territorial ambitions and potential claims; after all, in 1939 Mao Dezhong had identified Nepal as one of China’s historical “tributary states.”<sup>24</sup> Mired in its political transition Nepal had ample reasons to look towards India for support and guidance, leading to long-lasting, intense and intimate Indian involvement in the internal and external matters pertaining to Nepal. The short strip of land between these two landmasses had become the battleground between the democratic India intent on security and harboring ambitions of sole influence in the sub-continent against the surging Communist China that would eventually test the limits of Indian power. In the hopes of befriending Beijing and minimizing the chance of military confrontation along the long, undefined and contested Sino-Indian border, Nehru recognized Chinese sovereignty over Tibet in 1954. Yet, a border war did break out in 1962 tumbling China-India relations to historic lows. It took another two decades, with leadership changes on both sides, for India and China to finally see eye to eye on the matter of Tibet, exactly along Chinese positions.

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<sup>23</sup> Hamilton Fish Armstrong, “Where India Faces China,” *Foreign Affairs* 37, no. 4 (July 1959): 617.

<sup>24</sup> Muni, *Foreign Policy of Nepal*, 70.

Unable to placate the maximalist control of the new Chinese rulers in Tibet, Dalai Lama ultimately escaped to seek refuge in India in 1959 amid the failure of a violent Lhasa Uprising against the Chinese rule. This was the genesis of the question of Tibetan refugees, as followers and supporters of their spiritual leader similarly chose the option to escape into India, Nepal, Bhutan and Burma. More than a hundred and ten thousand Tibetans remain in India, a majority in Dharamsala and the rest scattered in a few other refugee settlements.<sup>25</sup> Tibetans fleeing the border regions crossed over into Nepal and settled in makeshift camps in the immediate aftermath of the failed uprising; eventually, they were settled in more long-term settlements around the country. Over the decades, many more arrived in Nepal, so that by now the estimated number of Tibetans in Nepal has reached more than twenty thousand.<sup>26</sup> The population of settled resident Tibetans and the continued influx of new exiles seeking safe passage into India has given Nepal a very sensitive and crucial challenge to manage the expectation, demands and pressure from China, India, the Tibetan leaders and the international community. Successive Nepali regimes and governments have found ad hoc and strategic policies and practices to deal with the issue of Tibetan exiles.

The mid-century juncture of transformation leading to the period of Tibetan turmoil and exile is the genesis of the Tibetan issue. Exiled Tibetans have been a matter of concern for Nepal since then and this issue is the core problem of this present study. That historical juncture first set in motion their exile into Nepal and India and keeping them in a state of prolonged limbo, while the three states ascertained the boundaries of their interests and preferences. The reverberations of that critical period remains in the present moment of rising China and India when both seem to be united more by their economical interdependence and cooperative opportunities than divided on seemingly settled historical positions, especially regarding Tibet. The next section evaluates the interests and preferences of the two rival powers as well as the wedge state and the

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<sup>25</sup> United States Committee for Refugees and Immigrants, "World Refugee Survey 2009 - India," (June 17, 2009), <http://www.refugees.org/resources/refugee-warehousing/archived-world-refugee-surveys/2009-wrs-country-updates/india.html>.

<sup>26</sup> "World Refugee Survey 2009 - Nepal," (June 17, 2009), <http://www.refugees.org/resources/refugee-warehousing/archived-world-refugee-surveys/2009-wrs-country-updates/nepal.html>.

international and Tibetan communities on this issue. Specification of the interests, preferences permit their evaluation against the evidence of the outcomes presented in the later section.

#### **SPECIFICATION: TRIPARTITE INTERESTS AND PREFERENCES**

The possible wedging prospects by Nepal in its tripartite relationship with China and India can be evaluated by systematically specifying the interests of the three states involved—the wedge and the two rival powers—along with that of the Tibetan diaspora communities and Western states and multilateral organizations. The evidence of stated and observed interests of the actors will produce the specification of their preferences, which can be ordered on the basis of utility maximization. In other words, we can describe and enumerate Nepal's interests regarding specific policies for the Tibetan refugees arriving within its borders, which will inform the specification of Nepal's preferred outcomes of the issue resolution as well. Nepal's interests and preferences do not necessarily or always align with those of China and India regarding the very same issue of the policies on the Tibetans. From the interaction, we are able to identify possible decision and the final observed outcome gives us a sense of possible gains, if any, for the wedge state.

#### ***Competing Sino-Indian Interests***

The People's Republic of China (PRC) espouses the clearest and most hardened rhetoric of its interests and preferences regarding the issue of Tibet and Tibetan exiles. Stated plainly, Beijing's four top interests and preferences are: the Communist Party of China (CPC) is the highest legitimate government of the land; China's territorial integrity, incorporating all of Tibet, is paramount; the Chinese socialist model is the only one viable model of social and economic organization within all of China; to achieve its desired position of global power, China must prevent the rise of a competing actor in the region. The official white paper of Chinese State Council asserts that Tibet is and has always been an integral part of China, and what the Communist Party of China (CPC) under Mao's leadership did in "peacefully liberating" Tibet was fair and far-sighted, not

only for Chinese security interests, but more so for freeing the native Tibetans from their “feudal serfdom” under the autocratic theocracy of the Lamas.<sup>27</sup>

Observers and critics of Chinese misrule charge with the evidence in the early period of the cultural revolution and later Chinese direct rule meant an attempt to stamp out the backward Tibetan religious hierarchy, during which numerous monasteries and temples were destroyed and their nuns and monks were defrocked so as to bring the Tibet under Maoist principles of control, while countless ordinary Tibetans were sent to labor camps or prison amid large-scale migration of Han Chinese into Tibetan territories.<sup>28</sup> However, recent Chinese Tibetan policy has also involved massive capital investment in infrastructure and manpower in trying to modernize the economy and society of Tibet, which has shown undeniable effects in the last two decades. In a 2001 speech in Lhasa to mark the 50<sup>th</sup> anniversary of Chinese control of Tibet, future President Hu Jintao made the official Chinese interests and preference on Tibet perfectly clear:

“It is only under the leadership of the Communist Party of China, only in the embrace of the big family of the motherland and only by firmly taking the socialist road with Chinese characteristics that Tibet can enjoy today's prosperity and progress and an even better tomorrow. This is the most important conclusion that we have drawn from the 50 years of Tibet's development and also the fundamental principle that must be followed in building and developing Tibet in the days to come... Tibet is in the southwestern frontier of the motherland, with a vast stretch of land and a most important strategic position. The development, stability and security of Tibet have a direct bearing on the fundamental interests of people of all ethnic groups in Tibet as well as ethnic solidarity, national unity and state security.”<sup>29</sup>

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<sup>27</sup> The Information Office of the State Council: China's Cabinet, "Sixty Years since Peaceful Liberation of Tibet," (July 11, 2011), [http://english.gov.cn/official/2011-07/11/content\\_1904075.htm](http://english.gov.cn/official/2011-07/11/content_1904075.htm).

<sup>28</sup> Wang Ruowang, "The Status of Tibet: Recalling a Visit to Lhasa," in *Tibet through Dissident Chinese Eyes : Essays on Self-Determination*, ed. Cao Changqing and James D. Seymour (Armonk, N.Y.: M. E. Sharpe, 1998), 71-73; John F. Avedon, "Tibet Today: Current Conditions and Prospects," *Himalaya, the Journal of the Association of Nepal and Himalayan Studies* 7, no. 2, Article 4 (1987): 1-2.

<sup>29</sup> Hu Jintao, "Full Text of Speech by the Vice-President Hu Jintao at the Rally in Celebration of the 50th Anniversary of the Peaceful Liberation of Tibet," *Xinhua* (July 19, 2001), <http://news.xinhuanet.com/english/20010719/431559.htm>.

From Beijing's perspective, Tibetan liberation and five-decade long economic modernization effort reflects Chinese commitment to uplifting the indigenous people of the Tibetan plateau but also the undeniable fact that Tibet holds the immense geostrategic importance. In Beijing's view, those who misunderstand the sensitivity are deluded, that includes any Tibetan who is unhappy about the arrangement, who could thus be labeled a "secessionist" and a traitor to the Chinese nationalism. Or they are waylaid by the spiritual but dangerous rhetoric of the "Dalai Lama clique," who have been used by foreign political forces to destabilize China. Thus, in regards to the issue of Tibetan refugees, the official Chinese position is that there are no Tibetan refugees; the exiles, including the leadership of the government-in-exile based in India and aided by Western forces, have traitorous motives.

From these stated objectives and rhetoric, we may tease out Chinese preferences regarding the rather narrow matter of Tibetan exiles living in Nepal. Given the reality of the situation, Beijing's one non-negotiable position has been and will remain maintaining the ultimate authority in all Tibet related matters. Preserving that authority is the first interest and primary preference of Beijing, which would ideally favor that all the Tibetan exiles were repatriated to live in Tibet under Beijing's current direct rule. Inasmuch as that primary interest collides with the aspirations of Tibetan exiles and the demands of the Dalai Lama's government-in-exile, China would surely like to remove that thorn from its side, albeit only in its own terms. The least favorable outcome to Beijing is the fulfillment of the demand of true autonomy and self-rule by the exiled leadership in Tibet. Yet, even the talk of Tibetan regional autonomy is only entertained in abstract rhetoric not as a matter of practical reality. Also, despite two decades worth of intermittent direct talks between Beijing and the Dalai Lama's associates, there appears zero likelihood of true autonomy and self-rule in Tibet, especially not under the current Tibetan exile leadership.

Therefore, the status quo of more than one hundred and thirty thousand Tibetan exiles living in Nepal, India, and around the world, is at least more preferable outcome to Beijing, than giving any ground to the exile leadership in the matter of ultimate autonomy. Maybe a higher preference and the *modus operandi* of Chinese policy in the

last two decades has been to use all diplomatic and strategic tools to checkmate the activities and influence of the Tibetan exile communities and their leadership at every step of the way. The goal is no less than effective de-legitimization of the Dalai Lama and his leadership as well as the demands of the entire exile community. To that end, China has found it in its interest to apply diplomatic pressure on its neighboring states to recognize to the letter the spirit of “one-China” policy, demanding restriction of movement and political activities of the exiles in Nepal or India, using diplomatic and media channels to slander and delegitimize Dalai Lama personally and his followers in general. In pursuing these policies, China seems to have met its priorities and second-best policy preferences. Short of complete repatriation and removal of the Tibetan exile problem, Beijing accepts the state of total challenge in all the activities and the ultimate defeat of the Tibetan exiles. Also, the larger geostrategic consideration that China enjoys in Tibet helps extend its interests into South Asia and matches nicely with Tibet’s continued status quo.

The regional dynamic brings us to the interests that India harbors in relation to the issues of Tibet and Tibetan exiles. Stated sequentially in terms of preference, India’s ostensible interests are fourfold: gaining high confidence in the security of its Northern frontier; achieving greater autonomy for Tibetans in Tibet leading to lesser role for the Beijing; the continuing rise of trade and economic interaction with China coupled with the status quo on Tibetan issues; and India’s least preferred outcome, which is the redrawing of the border between China and India based on possible evidence of Tibetan claims after repatriation on Chinese terms.

As a rival and historic co-equal to China in the region, India’s interests on the Tibetan issue have certainly evolved in reaction to successive Chinese policies in the last six decades. But at its core, India has always seen, even before and after independence, the Himalayas as the ultimate barrier of its security buffer against China. Yet, due to historical—economic, religious, and cultural—reasons Indian interests extended to Tibet, which served nicely as the independent frontier for the British till the very end of their Raj in India. The view that China was too powerless or distant to ever anticipate it overturning a millennia-long Tibetan independent stability could be counted, in hindsight,



as sound policy for those times. Hence, right after Communist China's sudden and shocking assertion of historical sovereignty over Tibet in the early 1950s, independent India under the leadership of its first Prime Minister Jawaharlal Nehru, who was unable to mount a challenge to the Chinese military might encroaching on the Tibetan piedmont, resorted to a supposed *realpolitik* policy of common cause with the Communist China against the Western imperialists.<sup>30</sup> The short-lived *bonhomie* came essentially at the expense of Tibet's independence with the mistaken expectation that mere recognition by India would placate Chinese threats of total control. In a fateful move, that has been invariably described since as "naïve,"<sup>31</sup> Nehru recognized Chinese sovereignty over Tibet in 1954.

In contrast, since then India's primary interest has been to somehow hope for a reduction of China's total authority and presence over that important northern security frontier. Widespread public sentiment of support encouraged Nehru himself to favor such preference by becoming the political backer of the Dalai Lama and the autonomy of the *ancien regime* that had ruled Tibet for centuries as well as by giving shelter and settlement to the first wave of Tibetan exiles who followed their leader into India.<sup>32</sup> As the decades of Chinese rule made their definitive and perhaps perpetual control of Tibet a *fait accompli*, India has been forced to periodically revise its interests and preferences on Tibet in order to accommodate the emergent reality. After two decades of the Sino-Indian border war in 1962, India finally recognized Tibet as "an autonomous region of China" in 1984, while progressively lowering the decibel of its demands of Tibetan autonomy.<sup>33</sup> In regards to Dalai Lama and the Tibetan refugees living within its borders, India has remained a gracious host, hoping for the ideal outcome of their eventual return to form an autonomous Tibetan leadership. A less ideal but all the more realistic outcome is the

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<sup>30</sup> Dawa Norbu, "Chinese Strategic Thinking on Tibet and the Himalayan Region," *Strategic Analysis* 12, no. 4 (July 1988): 372-73.

<sup>31</sup> Parshotam Mehra, *From Conflict to Conciliation: Tibetan Polity Revisited* (Wiesbaden: Harrassowitz, 2004), 116; Prasenjit Duara, *The Global and Regional in China's Nation-Formation* (New York: Routledge, 2008), 192.

<sup>32</sup> John W. Garver, *Protracted Contest: Sino-Indian Rivalry in the Twentieth Century* (Seattle: University of Washington Press, 2001), 54, 57.

<sup>33</sup> Tsering Topgyal, "Charting the Tibet Issue in the Sino-Indian Border Dispute," *China Report* 47, no. 2 (2011): 117.

status quo. As Topgyal has cogently argued, the least preferred outcome for India is the repatriation of Tibetans after which, based on historical Tibetan claims, they make the case for disputed Indian territories on China's behalf.<sup>34</sup> Thus, the current Indian preference on this is to accommodate the Chinese until the border disputes and larger geostrategic concerns are resolved independently of the final settlement of the issue of Tibetans living within India.

The dimension of disputed borders and competing territorial claims leads us to the matter of utmost importance: the larger strategic picture of China-India rivalry and tension. Both China and India's respective interests and preferences on the matter of Tibetan exiles, which is admittedly a smaller concern among many other competing issues, is played in the context of their regional rivalry. J. Mohan Malik asserts that since both states are ancient civilizations and empires, they view their eventual roles as regional and global leaders. Thus, Malik succinctly argues that China's primary interest centers on preventing "the rise of a peer competitor," in Asia, which is evidenced by its policy of encirclement of India in the form of close relationships, based on economic aid and transfer of military hardware, to South Asian states, primarily Pakistan, but also at various degrees to Nepal, Sri Lanka and Bangladesh.<sup>35</sup> As for Tibet itself, the fact that China has amassed large number of PLA personnel along with modern military installations and infrastructure in the plateau means India certainly feels hemmed in from the North.

The two basic prongs of Indian objectives in South Asia have been to maintain geostrategic insulation in its backyards and to safeguard regional stability near its borders.<sup>36</sup> Both of these objectives had to be recalibrated periodically by events beyond India's borders. Starting with Chinese control of Tibet and the flight of the Dalai Lama, to the partition and independence of Bangladesh, to the Tamil-Sinhalese civil war in Sri Lanka, and Burmese military usurping power, the South Asian backyard has been anything but stable over the decades, allowing China perfect opportunities to extend its

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<sup>34</sup> Ibid., 127.

<sup>35</sup> Malik, "South Asia in China's Foreign Relations," 74-75, 82.

<sup>36</sup> Ibid., 74.

tentacles into the Indian orbit. In the recent decades, the Chinese-Indian rivalry has outspread to encompass their naval ambitions for supremacy in the Indian Ocean and the South China Sea. Economic interests and opportunities have provided the counter to impel both countries to pursue engagement and cooperation in South Asia and beyond.

### ***Divergent Interests: Nepal and Tibetan Community***

Dwelling under the strategic context of these two regional powers, Nepal's interests on the issue of Tibetan exiles is absolutely predicated by Indian and Chinese preferences. Historical ties dictated that Nepal's sense of security was temporarily rattled by Chinese expansionism into Tibet in the 1950s. That period also coincided with extensive intervention by India into Nepal's political transformation leading to the subsequent decade of "special relationship" between India-Nepal. However, much has changed since that period of internal and regional transformation. At the moment, we can identify four major policy objectives and interests that have guided Nepalese actions regarding the Tibetan exiles issue: continuing cordial relationship with New Delhi but preferably with less political interference internally; maintaining an across-the-spectrum friendly relationship with Beijing to achieve material gains from Chinese aid and investment; maintaining continued flow of economic aid and investment from Western donor nations, the multilateral institutions and non-governmental organizations; and finally, the least preferred option, is increasing constraints due to any external pressures, mainly from the Western actors, to accommodate the political and economic rights of the Tibetan refugees already living within Nepalese borders. The policy course that Nepal has adopted since 1989 on Tibetan exiles have been reasonably successful in meeting the objectives of the three most preferred options listed above.

Nepal's interest in allowing the first wave of Tibetan exiles to settle within its territory was purely practical based on humanitarian concerns and inability to stop them from crossing the unguarded, porous border. Beginning in the 1960s, as Nepal's internal political calculations as well as limitation of Chinese ambitions beyond Tibet made it worthwhile to pursue China as a counterbalance to Indian hegemonic influence, Nepal's interests and policies on the Tibetans also began to evolve. By the 1980s, China began to increase its diplomatic pressure on Nepal regarding Tibetans at the same time that India

downgraded its interests on Tibetans to improve its own economic relationship with China. Such changing dynamic allowed Nepal starting in 1989 to follow a new policy direction regarding the Tibetan refugees strictly based on maintaining its friendly relations with China with the attendant promise of economic aid balanced against the diffused demands of the Western-led international community.

The current status quo set in 1989 provides higher material gains to Nepal, if it remains successful in balancing Chinese demands of restriction on Tibetans' political activities while adhering to the Western governments' and international organizations' condition of non-expulsion and favorable treatment in exchange for continuing the vital source of foreign aid.<sup>37</sup> Ideally, it might seem that Nepal would prefer the ultimate resolution of the status of Tibetan exiles by peaceful repatriation. But as one of the poorest economies in the world, Nepal is reliant on external support and aid—from Western donor nations and agencies as well as from Chinese and Indian bilateral economic aid and favorable policies—not just to finance its developmental projects but also actual running of government's regular budgetary needs. Thus, managing a balance between these incompatible demands, Nepal in the past two decades has preferred a policy of suppression of political activities by Tibetans already settled in Nepal but not actual expulsion and allowing transit into India for newly arriving refugees.

Additionally, the Tibetans who have settled in Nepal for more than five decades have contributed enormously to the growth of one of the core sectors of Nepal's economy, the export-led traditional handmade carpet industry and other related handicrafts commerce.<sup>38</sup> Harnessing initial financial support and technical assistance by the Swiss international aid organizations, Tibetans used their traditional knowledge and expertise to produce "Tibetan-styled or Tibetan-made" carpets in Nepal, which fetched

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<sup>37</sup> While never publicly discussed, analysts argue that the United States and the European Union have periodically conditioned aid with humane treatment and non-expulsion of Tibetans settled in Nepal. See page 29, especially footnote 22, in Tibet Justice Center, "Tibet's Stateless Nationals: Tibetan Refugees in Nepal," (June 2002), <http://www.tibetjustice.org/reports/nepal.pdf>. For further evidence of the role of international aid see Ann Frechette, *Tibetans in Nepal: The Dynamics of International Assistance among a Community in Exile* (Berghahn Books, 2002), 123.

<sup>38</sup> *Tibetans in Nepal*, 48-51.

high global prices and became the number one source of foreign exchange and employment until the late 1990s.<sup>39</sup> Thus, concerns regarding both continuing external economic aid from the West and China, in addition to internal economic vitality in core domestic industries means that total repatriation would be a net negative, in strictly monetary sense, for the Nepalese state and economy.

Advocates of Tibetan rights have actively denounced Nepal's progressive capitulation to Chinese pressures.<sup>40</sup> Nonetheless, Nepal's policy preference on Tibetan exiles has settled on this course for more than two decades since 1989, despite roiling internal instability in this period. The fact that neither the disinterested India nor the divided international community has managed to deter Nepal's behavior shows that Nepal's calculation of economic and political gain from China is paramount. Successive leaders and governments in Kathmandu have affirmed the inviolable friendship with China and acknowledged one-China policy as the bedrock of Nepalese foreign relations, in words similar to the current Ministry of Foreign Affairs formulation, which is unequivocally clear about Nepalese position: "Nepal has always been upholding 'One China' policy and is committed not to allow Nepalese territory to be used against our friendly neighbor China's core interests."<sup>41</sup>

That leaves the interests of the final interested party, the Tibetan communities in exile and their leadership, in a very precarious position. Their appeal to the international community and Western democracies is based on the messages of the endangered cultural practices, environmental destruction and trampled human rights in Tibet; the historical fact of Tibet's independence lost by the forced and brutal Chinese annexation; and the ultimate hope for autonomy and return to the cherished *Shangri-la* for the Tibetan peoples.<sup>42</sup> To sustain worldwide attention to the Tibetan cause, the charismatic spiritual leadership of Dalai Lama has been channeled and shaped by an efficient, clever public

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<sup>39</sup> Whelpton, *A History of Nepal*, 148; Frechette, *Tibetans in Nepal*, 54.

<sup>40</sup> See the 2002 and subsequent yearly reports by International Campaign for Tibet, "Dangerous Crossing: Conditions Impacting the Flight of Tibetan Refugees," (2002), <http://www.savetibet.org/resource-center/ict-publications/publications>.

<sup>41</sup> Ministry of Foreign Affairs - Government of Nepal, "Nepal - People's Republic of China, Bilateral Relations," <http://www.mofa.gov.np/en/nepal-china-relations-78.html>.

<sup>42</sup> Frechette, *Tibetans in Nepal*, 94-99, 101-03.

relations operation started in the 1970s by the government-in-exile whose efforts have successfully generated passionate support from many Western leaders, celebrities, single-issue advocacy groups and common folks, forming the so-called global ‘friends of Tibet’ network bound together on Tibet by their liberal humanism and their concern for human rights, religious freedom and multiculturalism.<sup>43</sup> Yet, all these activities have not met any real success in their central purpose: politically isolating China on the issue to impair its stranglehold over Tibet.

The exile leadership has long held on to a “five points peace plan” as the statement of its ultimate political preferences and has used it as the basis during its intermittent negotiations with Beijing. The five points peace plan was outlined by the Dalai Lama during the apogee of his personal worldwide popularity—he won the Nobel Peace Prize in 1989—in a speech to the U.S. Congressional Human Right’s Caucus in 1987. The first four conditions of the plan include transforming Tibet into a zone of peace, abandoning Han migration into Tibet, a guarantee of basic human rights for Tibetans, and environmental conservation of Tibetan lands with discontinuation of nuclear waste dumping there.<sup>44</sup> The final point, later called the Strasbourg Proposal, after Dalai Lama’s speech elaborating his five points peace plan to the European Parliament in 1988, sought “earnest negotiations” with China with the ultimate goal being full Tibetan autonomy under a Government of Tibet responsible for all “non-political” internal and external policies, with defense and foreign policy managed by government of China.<sup>45</sup>

The five points plan is the ideal Tibetan preference, which when articulated succinctly means: full autonomy, just short of independence, under the exile leadership. Since those heady days, the developments in the last two decades have proved the

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<sup>43</sup> For a detailed analysis of the sophisticated public relations campaign behind the global visibility and the deeper meaning of the Tibetan cause, see Frechette’s penetrating chapter, “Friends of Tibet,” in *ibid.*, 92-119.

<sup>44</sup> Dalai Lama, “Five Point Peace Plan: Address to the U.S. Congressional Human Right’s Caucus,” (September 21, 1987), <http://www.dalailama.com/messages/tibet/five-point-peace-plan>.

<sup>45</sup> “Strasbourg Proposal 1988: Address to the Members of the European Parliament, Strasbourg, France,” (June 15, 1988), <http://www.dalailama.com/messages/tibet/strasbourg-proposal-1988>.

realization full Tibetan autonomy seems remote indeed. The continued economic and political rise of China has only made its hand stronger. Increasing economic ties and expanding role of China in the international system of governance means that the options for Dalai Lama's hopeless followers have reduced to such symbolic acts of protests as of horrifying cases of self-immolations by Tibetan youths and monks.<sup>46</sup> Further concerning is the fact that international pressure has progressively lost its influence on the Nepalese or Indian policies on Tibetan refugees. Their freedom of political activism and protest, maybe even their very existence, appears to be under threat of suppression by the Nepalese, which appears gradually more concerned with its interest of upholding the good graces of Beijing.

We now turn to the evidence of Nepal's evolving policies and practices in its treatment of Tibetan exiles and refugees. The narrative below explores the critical junctures where Nepal's policies shifted, bowing to the demands of shifting regional context, overt diplomatic pressures and international demands as well as, and most importantly internal political changes and shifting interests. The analysis highlights Nepal's periodic ability and inability to use the issue to further its material gains from its tripartite relationship.

#### EVIDENCE: NEPAL'S POLICY EVOLUTION ON TIBETAN EXILES

It has been more than five decades since the first Tibetan exiles crossed the border into Nepal, and their recent experiences could not be more different than in the first few decades. What was then welcoming and benign neglect by the Nepalese authorities has now become more coercive and restrictive, a just tolerant official attitude. Scrutinizing the evolution of Nepal's specific policies and treatment of Tibetan exiles shows the effect not just of internal political changes overtime but of the unalterable external reality of rising Chinese pressure coupled with Indian indifference amid sympathetic Western concern on the matter. Still, it can be argued that Nepal's internal political calculations of

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<sup>46</sup> News reports of self-immolations by Tibetans abound; for a cogent analysis of the phenomenon see Tsering Shakya, "Self-Immolation: The Changing Language of Protest in Tibet," *Revue d'Etudes Tibétaines* 25 (December 2012).

its interests are paramount. Tracing the patterns of this shift yields analytical possibility of gauging if Nepal is gaining materially or politically from its evolving policies.

### ***Before and Since 1989***

When the Dalai Lama escaped to India, many Tibetans decided to flee South as well. The situation in Tibet was dire once the PLA finally asserted full control in Lhasa, crushing violently the Tibetan Uprising of 1959. While much of the early refugees went to India, many Tibetans from the border areas moved into the Nepalese territory across the border. Those early arrivals lived in makeshift camps across the border in extreme circumstances without any aid or concern from the Nepalese state or much attention from the international aid community.

Eventually the Nepali government permitted the Red Cross to set up settlements for the burgeoning number of Tibetans in different parts of the country. Aid from the Swiss international development agencies and the UNHCR as well as the Americans began to settle the refugees, while the Nepalese government allowed legal asylum and settlement to these early refugees.<sup>47</sup> Until 1989, Nepal allowed Tibetan refugees to settle in Nepal and provided them with a refugee Registration Card (RC), which permitted basic protection and identification. Over the decades many Tibetans were able to partner with native Nepalese to open businesses; they opened schools, which taught Tibetan languages and culture; and all participated in their religious and cultural practices, so that by the 1970s, many observers felt that the refugees in Nepal would preserve Tibetan culture while integration into Nepali society.<sup>48</sup>

However, things began changing drastically in the late 1980s. On 1989, ostensibly faced with the influx of larger number of refugees escaping that year's Tibetan uprising and resulting Chinese crackdown, the government of Nepal scrapped the resettlement policy, only allowing the UNHCR to label new Tibetan arrivals as "persons of concern,"

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<sup>47</sup> Frechette, *Tibetans in Nepal*, 40-43; Tibet Justice Center, "Tibet's Stateless Nationals: Tibetan Refugees in Nepal". 33-37.

<sup>48</sup> "Tibet's Stateless Nationals: Tibetan Refugees in Nepal". 36.



who were only permitted to be sent on to India.<sup>49</sup> Since, Nepal is not a party to the international conventions on refugees, there is no formal policy in Nepal's laws regarding this shift, only a "gentlemen's agreement" between Nepal, UNHCR and the U.S. Embassy, which in practice allowed Nepal to adhere to international human rights standards.<sup>50</sup>

Currently there are more than 20,000 refugees who live in Nepal and every year additional 2500 more make the arduous journey crossing from Tibet over the dangerous mountain passes into Nepal. The experiences of Tibetan refugees as they come in contact with Nepalese state authorities begin at the border and continues throughout their stay in Nepal. Gathering field data in 2004, Dolma et al. documented the difficulty of Tibetans' journey due to the harsh terrain, lack of food, frostbite, and many such hardships due to the sheer length of time it takes for them to arrive at their destination, which in average takes more than 30 days on buses and on foot.<sup>51</sup> Their misery worsens when they encounter Nepalese border guards or militia, who were reported to mete out harsh, inhumane and illegal harassment, including physical and sexual violence, financial extortion. Despite Nepal's international obligations and responsibilities to human rights, there are reports of routine threats of *refoulement* of the refugees back into the yet more dangerous hands of Chinese authorities.<sup>52</sup>

While some of these reported abuses of the refugees might be chalked up to administrative failure or indiscipline of individual border guard or unit, it is nonetheless instructive to notice a changing pattern of Nepal's overall policy on the issue of not just of newly arriving Tibetan refugees but, more importantly, the rights and freedoms of those that have settled in Nepal since 1959. Many observers find that Nepal's faithfulness to the aforementioned "gentlemen's agreement" of 1989 has been deteriorating and there

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<sup>49</sup> UNHCR: The UN Refugee Agency, "2014 UNHCR Regional Operations Profile - South Asia," <http://www.unhcr.org/pages/49e487856.html#NEPKA>.

<sup>50</sup> Tibet Justice Center, "Tibet's Stateless Nationals: Tibetan Refugees in Nepal". 88-113.

<sup>51</sup> Sonam Dolma et al., "Dangerous Journey: Documenting the Experience of Tibetan Refugees," *American Journal of Public Health* 96, no. 11 (2006): 2062.

<sup>52</sup> *Ibid.*, 2062-64.

have been a few instances of clearly illegal *refoulements* as well as increasing number of human rights abuses of the legally settled refugees in the last two decades.<sup>53</sup>

Especially worrisome has been Nepal's suppression of and unlawful restriction of the rights of the Tibetans in Nepal to freedom of expression, assembly and movement. The scrutiny and monitoring of Tibetan's activities has extended from the overtly political demonstrations to even encompass practice and participation in religious and cultural activities. While the government officials maintain that only anti-China activities are restricted, recent reports based on fieldwork and documentation in Nepal lead to the conclusion that the arbitrary definition of the threshold of permitted activities has led towards increased suppression.<sup>54</sup>

With the Nepalese state intent on suppression of their rights of expression, political protests by Tibetans, which are not uncommon in Nepal, have become scenes of state repression. Tibetan protests and political activities have occurred periodically before the Beijing Olympics and they have continued since. When yet again protests broke out against the sensitive backdrop of the Olympics, Nepal found itself needing to negotiate between the strident demands from its giant northern neighbor to take strict action against Tibetan protestors on one side, and international pressure to allow them their basic human rights and freedom of expression and assembly. Prominent global figures and media showered attention on the rights of Tibetan refugees in Nepal to freely associate and protest, and deplored the heavy-handed, some even claimed inhumane, treatment by the Nepalese state that arrested and jailed Tibetan protestors, including monks and nuns.<sup>55</sup> Human Rights Watch (HRW), the international NGO, published a biting report

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<sup>53</sup> Krakauer, "Why Is Nepal Cracking Down on Tibetan Refugees?"

<sup>54</sup> Niharika Mandhana, "As China Squeezes Nepal, Tibetan Escape Route Narrows," *Time Magazine* (July 17, 2012), <http://world.time.com/2012/07/17/as-china-squeezes-nepal-tibetan-escape-route-narrows/>; Tibet Justice Center, "Tibet's Stateless Nationals: Tibetan Refugees in Nepal". 74.

<sup>55</sup> Andrew Buncome, "Violence in Nepal as Tibetans Protest Olympics," *The Independent (UK)* (March 31, 2008), <http://www.independent.co.uk/news/world/asia/violence-in-nepal-as-tibetans-protest-olympics-802732.html>.

meticulously documenting the systemic harassment of Tibetan refugees by the Nepali police and judiciary, denouncing the:

“violations of human rights by the Nepali authorities, particularly the police, against Tibetans involved in demonstrations in Kathmandu, Nepal. These include unnecessary and excessive use of force, arbitrary arrest, sexual assault of women during arrest, arbitrary and preventive detention, beatings in detention, unlawful threats to deport Tibetans to China, and unnecessary restrictions on freedom of movement in the Kathmandu Valley. Nepali authorities have also harassed Tibetan and foreign journalists and Nepali, Tibetan, and foreign human rights defenders.”<sup>56</sup>

Most international observers, like the HRW report, point the finger of blame directly to the immense Chinese political pressure on Nepal, and cite ample international human rights norms and conventions on refugees to pressure the Nepalese authorities to moderate the state behavior and allow peaceful protests by the Tibetans.<sup>57</sup> More than five years after the Beijing Olympics, the global attention to the Tibetan cause has receded from the headlines, but the intermittent international media stories on anti-China protests by Tibetan exiles in Nepal and the attendant opprobrium meted to the Nepalese state beholden to Beijing’s diktat continues.<sup>58</sup>

Such evidence primarily begs the question regarding Nepal's international treaty obligations and adherence to the customary laws concerning the political rights of refugees, especially since Nepalese policies were deemed sufficiently democratic and supportive before 1989. Existing Nepalese domestic law is silent or ambiguous as it portends directly to the rights of refugees although the constitution guarantees basic rights to all “persons” not just to citizens, with certain caveats. In terms of international law and regimes, although Nepal has neither ratified the 1951 Convention on the Status of Refugees nor the related 1967 Protocol, as a member of the United Nations, Nepal adheres to the Universal Declaration of Human Rights (UDHR) and it also signed the

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<sup>56</sup> Human Rights Watch, *Appeasing China: Restricting the Rights of Tibetans in Nepal* (New York: Human Rights Watch, July 2008), 4.

<sup>57</sup> *Ibid.*, 8-9.

<sup>58</sup> Edward Wong, "China Makes Inroads in Nepal, and Stanches Tibetan Influx," *The New York Times* (April 13, 2013), <http://www.nytimes.com/2013/04/14/world/asia/china-makes-inroads-in-nepal-stemming-tibetan-presence.html>.

International Covenant of Civil and Political Rights (ICCPR) in 1991. While international law provides for lawful restriction of the freedom of expression under certain strict condition, application of suitable international law that Nepal is party to leads one observer to conclude that the government of Nepal's restriction on Tibetan freedom of expression violates the customary application of "three-part test," viz. the principles of predictability and transparency, the principle of legitimacy, and the principles of necessity and proportionality.<sup>59</sup>

Single-issue Tibetan advocacy organizations have meticulously documented the increasing suppression, violence, and restriction of Tibetans' rights of expression and assembly, as well as cases of unambiguously illegal *refoulements* by the Nepalese authorities in the last two decades. Verification of such activities has also come from independent international human rights organizations and NGOs, which have periodically documented such human rights abuses and faulted the Nepalese state for flouting democratic process and the rights of Tibetans to assembly, movement and peaceful protests.<sup>60</sup> The international media, the rights organizations that work on issues of human rights, as well as the Tibetan advocacy groups have all made their verdict clear: there is evidence of increase in Nepal's suppression of Tibetan activism including the unlawful restriction of their freedom of expression, all of which is against the letter and the spirit of international law and norms.

The most relevant question is why the Nepalese state in the last twenty-five years seen is fit to change its policies towards more suppression of the rights of Tibetan refugees' rights. Contrary to the received wisdom, Nepali leaders from across the political spectrum as well as the bureaucrats and policymakers in foreign affairs have been remarkably consistent in their reasoning, which can be summed into a neat three-point argument as formulated by the Nepalese Ministry of Foreign Affairs: PRC is

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<sup>59</sup> Barun Ghimire, "Lawful Limitation or Northern Influence? Restricting the Freedom of Expression of Tibetan Refugees in Nepal" (master's thesis, University of Tromsø, Norway, 2013).

<sup>60</sup> See, *inter alia*, Human Rights Watch, *Appeasing China*; International Campaign for Tibet, "Dangerous Crossing: Conditions Impacting the Flight of Tibetan Refugees"; Tibet Justice Center, "Tibet's Stateless Nationals: Tibetan Refugees in Nepal".

Nepal's most loyal and historical friend; Nepal assiduously supports one-China policy; hence, Nepal won't allow any anti-China activities within its borders.<sup>61</sup> As described above, all leaders from the volatile and unstable rotation of political parties and policymakers in Kathmandu have used this exact three-part rationale to explain Nepal's policy on Tibetan refugees since 1989.

However, this chapter has posited that Nepalese policymakers were able to so clearly and comprehensively align their interests with the Chinese position because the third actor in the tripartite relationship, India, became effectively indifferent on this crucial issue. Thus, it may be instructive to review the evidence of India's own evolving policies regarding the Tibetan refugees, which seems to inform quite nicely how Nepal has handled the issue. Based on the analysis I argue that the reason why Nepal changed its formal recognition of Tibetan refugees in 1989 to begin to increasingly toe the harsh and demanding Chinese line on the matter is the removal of Indian wedging opportunity on this issue. Since India itself was not going to make Tibet or the rights of Tibetans a major issue of contention in the developing Sino-Indian relationship, Nepal was quite secure in its policy of aligning its interests to the specific policy position of the northern rival. Nepal's wedge had been blunted so that it could accrue benefits by following the wishes of only China due to the utter detachment of India.

### ***Mirroring India's Tibetan Policy***

In order to understand Indian interests on the issue of Tibet and Tibetans, it might be instructive to review the evidence of the status and treatment of Tibetans in India. When Dalai Lama escaped Tibet in 1959, he sought political protection and asylum for him and his followers in India. The political reception and support the early refugees received from India was noteworthy. Although, India hadn't signed on to the 1951 Convention on the Status of Refugees, that first wave of Tibetan refugees arriving in India were given formal asylum as well as material aid in the form of land and money. They were also provided with an identification document, called the Registration Card (RC), which allowed the refugees a host of rights and privileges facilitating education,

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<sup>61</sup> Ministry of Foreign Affairs - Government of Nepal, "Nepal - People's Republic of China, Bilateral Relations".

travel and other activities. However, subsequent waves of Tibetans arriving after the 1970s found the environment much challenging in India. In 1963, India stopped recognizing new arriving Tibetans as refugees and by the 1970s, they found it much harder to receive the identification and protection of the Registration Card (RC) leaving them vulnerable to legal protections and drying up of economic and other opportunities.<sup>62</sup>

It has been argued that India's abstention from the 1951 Convention on the Status of Refugees and the related 1967 Protocol on Refugees allows lack of Indian accountability regarding the proper and similar treatment of continuing Tibetan refugees arriving in India. As such, due to the lack of any international or regional legal framework, Indian domestic law and its definition of foreigners are used as the legal basis of new policy.

However, one might ask, why has there been such a change in India's policy regarding Tibetan refugees between those arriving before 1970s with those that arrived since then? The answer is surely changing national interests regarding the issue of Tibet itself and the evolution of the India-China relationship. Domestic leadership changes replacing the old-guard freedom fighters to the newer generation of Indian leaders with a new sensibility about China's claims on Tibet is surely part of the answer. That amalgam of domestic political change and evolving interests regarding China would explain why India modified its explicit policy on Tibetans. Since the 1990s, Tibetan refugees in India have found it much harder to engage in many political activities regarding Tibet and China. They have been harshly barred or discouraged from their rights of assembly and protest on many occasions, for example, during the visit of Chinese Prime Minister Li Peng in 1991, in the months before the Beijing Olympics, and later during the visit of Wen Jiabao in 2010.<sup>63</sup> The India state used strict police action as well as severe warnings against any such political activities repeatedly. It would be impossible to imagine any such qualms against anti-China protests during Nehru's heyday, when Indians joined

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<sup>62</sup> Claudia Artiles, "Tibetan Refugees' Rights and Services in India," *Human Rights & Human Welfare Working Papers*(2011), <http://www.du.edu/korbel/hrhw/researchdigest/minority/Tibetan.pdf>.

<sup>63</sup> Ibid., p. 5.

Tibetans in staging protests when Zhou En-Lai in 1956 and 1957; of course, Nehru gave asylum to the Dalai Lama against the fervent wishes of the Chinese.<sup>64</sup>

This review of India's evolving policies and interests regarding the status and treatment of Tibetan refugees sheds light on similar evolution of policy and practice by Nepal on the same issue. Nepal also went from welcoming the Tibetans in the early years and allowing them legal rights and opportunities, to the current state where they are merely tolerated and ordered to not make any trouble in deference to sensitive political calculations. Yet, compared to India, as a small wedge state, Nepal's interests and preferences are undoubtedly impacted by additional considerations. Chief among such concerns is the fact that Nepal relies much more heavily on international economic aid from Western governments and multilateral organizations, which are keen to see proper treatment of Tibetan refugees. Also, Nepal's shared and porous border with Tibet as well as the historical and traditional interaction of the peoples on two sides plays into Nepalese policy formulation. However, the most significant concern on Nepalese policy-making is Chinese diplomatic pressure and opportunities of gains from heeding such pressure, in the crucial context that India's countervailing interests is waning on this particular issue.

### ***Chinese Promises and Pressures***

Most analysts and observers attribute Chinese pressures on Nepal as the most crucial factor determining the choice of policy on Tibetan refugees by the Nepalese state. This chapter has argued that, while Chinese influence is undeniable, we must also look at Nepal's own interests as defined by Nepalese policymakers across the political spectrum to complicate the issue of first causes. The fact remains that over the last twenty-five years Nepal's policy regarding the treatment of Tibetan refugees within its borders has changed from before. And only one of the important facets of explanation comes from looking at Chinese pressures and promises. This section briefly reviews the growing Chinese influence along with the evidentiary instances of direct Chinese pressures, and traces the reasoning of Beijing's current stance.

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<sup>64</sup> Garver, *Protracted Contest*, 53-54.

It is no secret why Nepal has increasingly begun to apply stiffer suppression for Tibetans legally settled on its soil for not just their political beliefs but even, in some occasions, for their religious and cultural practices. The preservation of Nepal's friendly relations with China and the positive and negative costs of seeming to cause offence to the northern power is the overriding consideration of Nepal's recent behavior. International press and media have been frequent and adamant in their finger pointing towards China for putting the noose on Tibetan activism by pressuring the instable and pliant leadership in Nepal.

China, for its part, has not been all that coy about its specific demands on the stamping out of the Tibetan activism in Nepal. China has repeatedly and openly called on Nepal to follow the 1960 Nepal-China Treaty of Friendship to the letter, so as to not allow any anti-China political activities in Nepali soil. Also, China routinely refers to Nepal's utmost adherence of the one-China policy, which says that both Tibet and Taiwan are inalienable territorial parts of China. When there are any Tibetan protest activities in Kathmandu, swift diplomatic pressure from the Chinese embassy has been noted. Furthermore, it is alleged that Nepal changed its policy of granting "refugee" status and asylum to the Tibetans in 1989 because China impressed upon the fact that there were no human rights abuses in Tibet, which means the exiles cannot be deemed to be fleeing any sort of persecution. Thus, Nepal has since referred to newly arrived Tibetans as "persons of concern" and allowed UNHCR, the UN agency for refugees, minimal role in ensuring their safe passage onto India for long-term settlement. Due to such Chinese demands, Nepal has begun to subdue the more than 20,000 legally settled Tibetans, those who arrived before 1989 and their progeny, who had been formally given rights of resettlement.

The most blatant public show of Chinese diplomatic pressure on Nepalese authorities occurred during the period of Olympic protests, probably due to the heightened sensitivity regarding the historical event. The then Chinese ambassador to Nepal, Zhang Xiangling seemed to break diplomatic protocol when he organized a press conference to vehemently denounce "anti-China" activities carried on by the "anarchists" in Nepal, and called on the Nepalese government to use maximum force to silence them,



including not releasing protestors who weren't formally charged, which is contrary to the Nepalese law.<sup>65</sup> Furthermore, the senior-most bureaucrat of the Home Ministry during the period later admitted to a researcher that he accompanied the Chinese ambassador to the Everest base camp in a helicopter to sufficiently convince the ambassador of adequate security preparation.<sup>66</sup> However, despite the heavy-handed perception of Ambassador Xiangling's behavior, it has to be reiterated the acute instability in Nepal during that specific period as well as the fact that Nepalese authorities actually released most Tibetan protestors very quickly, which adhered to Nepalese law.

The larger Chinese position on the Tibetan exiles in Nepal has not mellowed but only toughened. The Nepalese policy also seems to be settling on the pattern of dictated by its adherence to the three-part formulation of loyal friendship with China, commitment to one-China policy, and no anti-China policy within Nepal. Thus, the report by Human Right Watch finds a remarkable consistency in Chinese concerns and Nepalese response:

"In May 2005, then Prime Minister Girija Prasad Koirala assured visiting Chinese Premier Zhu Rongji that no anti-China activities would take place in Nepal. In April 2002, Prime Minister Sher Bahadur Deuba stated the same. In 2005 the King of Nepal, who had then assumed all executive powers, said during a meeting with China's Foreign Minister Li Zhaoxing that he, too, would not allow anti-China activities in Nepal. In November 2006, Prime Minister Girija Prasad Koirala, representing the Seven Party Alliance, affirmed that there would be no anti-China activities permitted in Nepal."<sup>67</sup>

This analysis clearly shows not only the consistency of Chinese demands but also the across-the-political-spectrum consistency of Nepalese response based on the three-part formulation deployed by the Nepalese policymakers. We now analyze the presented evidence to ascertain if Nepal's prospects for wedging behavior on this issue.

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<sup>65</sup> Human Rights Watch, *Appeasing China*, 29-30, 53-56; Ujjwal Prajapati, "Influence of Foreign Policy on Nepalese Press : A Case Study on Coverage of Tibetan Protest in Nepal" (master's thesis, University of Oslo, Norway, 2011), 10.

<sup>66</sup> "Influence of Foreign Policy on Nepalese Press," 17.

<sup>67</sup> Human Rights Watch, *Appeasing China*, 53, citation # 123.

## ANALYSIS: NEPAL'S WEDGE PROSPECTS?

The evidence outlined above of Nepal's evolving policy on Tibetan exiles, within the historical context of its tripartite interaction with India and China, provides ample material for abstract analysis on the specific questions raised in the literature review chapter on small wedge states. What does the evidence of Nepal's changed policies regarding the treatment of Tibetan refugees in the last five decades, especially since the late 1980s, suggest? And how do we evaluate Nepal's position as a wedge state and the possibility of higher material gains based on the observed change in policies and events?

To restate, the pertinent theoretical questions inquired is the possibility that small weak states may enhance their gains from concurrent interactions with two rival powers; and, if so, what factors would impact a wedge state's ability to maximize the level of material gains (as proxy for strategic autonomy) from such policy interactions. In the research design chapter, it was postulated that given suitable conditions of tripartite interactions between the wedge state and two rival powers, many internal and external factors could impact the level of possible material gains for the wedge state. For the scope of this research, three independent variables (IVs) were identified for analysis: the domestic political system in the wedge state, whether it is a democracy or dictatorship; the level of interdependence or globalization in the system; and the level of its trade dependence with either of the two rival powers. The hypothesized relationship between these IVs and the wedge states' level of material gains from tripartite interactions was the core of the evidentiary analysis in this chapter.

The first hypothesis (H1) says that democracy in the wedge state is more conducive than dictatorship to realize higher gains from possible wedging opportunities. Per the review of the evolving history of Nepalese policies and tripartite interaction presented above, the succinct answer is that Nepal's major shift in its policy towards greater suppression of Tibetan activism began in the late 1980s and has progressed since, which coincides with a period of the advent of democratic system in Nepal. From 1959 to 1990, Nepal was a single-party autocracy ruled by the supreme leadership of the monarch. King Mahendra, who ruled from 1955 to 1973 initiated an avowed policy of "playing the China-card" to demand respect and concession from India in myriad

political and economic concerns. Yet, when it comes to Tibetan refugees, it was under King Mahendra's autocratic rule that they began crossing into Nepal to eventually settle in various camps around the country. The then King even found it easy to provide overt and tacit support to the early settlement process; there is evidence of him attending public functions organized by the Tibetan exiled communities, such as the inauguration of the first Tibetan handicrafts showroom in 1961.<sup>68</sup> It was in those early decades that the various international organizations—the Swiss Red Cross, UNHCR, and USAID—were allowed freedom to cater to the basic survival needs and long-term economic livelihood plans of the settled refugees.

Similar benign supportive approach continued unabated during the autocratic rule of King Birendra when he was enthroned in 1972. In the late 1980s, owing to a growing Indian impatience regarding Nepalese internal politics led to a critical diplomatic and trade tussle with India as recounted above. One element of friction was a newly signed treaty with China regarding revised Tibetan policy, which was just one of the many particulars of Nepalese desire to ingratiate itself more to Beijing. Thus, King Birendra followed his father's example to attempt to play the China card; the difference being this instance produced disastrous results when in 1990 a wave of democratic protests with tacit support by India led to the loosening of the absolute monarchical control of the political system.

The adoption in 1989 of a more repressive policy towards new Tibetans arriving in Nepal could be seen as an autocratic monarch trying to oblige the demands of one of its patrons. However, the supposed democrats, representing political parties from across the ideological spectrum, who came into leadership positions of control beginning in 1990, have all followed the repressive policies adopted in 1989. It is curious to note that of all the ostensibly democratic political parties that have rotated into central power in Kathmandu, none have veered even minutely from the policy of increasing suppression and control of Tibetan refugees in acceding to the Chinese preferences and demands. Actually, the trend as reported earlier is of greater restriction and adherence to Beijing's wishes in the last two decades of democratic political system in Nepal. While it is true

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<sup>68</sup> Frechette, *Tibetans in Nepal*, 41.

that during this period, Nepal has been constantly gripped by extreme instability and volatility, the bedrock foreign policy positions of the political parties have acknowledged “one-China” policy and the need to preserve the sanctity of Nepal’s friendship with China. Of course, left unstated is the fact that India’s massive influence and interference is always a given. So clearly, democracy by itself has not produced the observed changes in Nepal’s policy on Tibetan refugees. In this issue of strategic significance for the weaker state, indeed, external pressure seems to have been more crucial.

Impact of globalization on Nepal’s wedging prospects constitutes the second hypothesis (H2). As the evidence suggests, various foreign governments, beside the two rival powers have tried to influence Nepal’s behavior on the matter of Tibetan refugees. At many instances, the US government and European states have conditioned development aid contingent on better treatment of Tibetans and a pledge to not expel them. However, the globalization impact also shows the impact of growing economic and political interdependence between China, one of the rival powers, and the Western states, so that those pressures and influences on Tibetan rights and freedoms have slowly eroded. Thus, globalization in this aspect has strengthened Chinese position. Also, the activism and support of the transnational non-state actors has helped the material and social well being of the Tibetan refugees living in Nepal and India. However, their political influence, although not completely spent, has eroded in the last few decades.

The crucial effect of globalization, as the analysis of the growing Indian indifference to the issue of Tibet and Tibetans shows, may have been in changing of Indian strategic view regarding India-China relationship at the expense of Tibetan position. As the analysis shows, as India became greatly bound with China on economic interdependence, the thorn on the side of Tibetans has slowly been removed. The ultimate factor of Indian indifference to the issue, has guided the proximate position of Nepal in favoring Chinese demands on the treatment of Tibetan exiles in its soil.

The third independent variable (IV) that might explain the possibility and level of the wedge state’s material gains is its level of trade dependence to its two rival powers. The hypothesis (H3) says that material gains from an issue of tripartite interaction moves in the same direction as the level of trade dependence. In Nepal’s case, its trade with

China has skyrocketed since the 1990s and especially in the second half of the 2000s.<sup>69</sup> It could not be mere coincidence that Chinese demands have begun hardening during that period; however, the policy of on the Tibetan refugees was adopted a long time before Nepal became trade dependent with China. By signing the bilateral treaty with Nepal in August 1955, China had started providing economic aid and capital investments to Nepal in hopes of keeping the door ajar on future political influence and the possibility of puncturing the sphere of Indian dominance. But the volume of trade in manufactured goods spiked significantly only by the late 1990s to coincide with China's growing manufacturing prowess as well as the liberalization of economic policies in Nepal. Yet, Nepal is too small a market for China's productive industries although Chinese dry goods flood Nepalese markets. Along with rising volume of imports, Chinese government has been quite willing to provide large capital grants and aid to facilitate Nepal's development projects and budgetary needs becoming, in the past two decade, a major donor to compete with India, Japan, the Western states and various aid organizations.

The extreme caution regarding China's sensitivities and acquiescence to Chinese demands by all political elites in Nepal in the last couple of decades could not simply be mere coincidence. So the effect of trade dependence on Nepal's strategic autonomy, and hence the level of its material gains, from its wedging strategies has to be measured against the total trade value that Nepal gains from all external sources. In concrete numerical terms, the ever-rising value and proportion of Chinese aid and trade in that period makes any deviation from their demands demonstrably costly. Yet, Nepal's trade dependence on China is not supreme, given that more than thrice the trade volume is exchanged between Nepal and India.<sup>70</sup> The default mental paradigm of Nepalese leadership class, who place Beijing as a probable countervailing force to New Delhi's overwhelming influence, must also play a part.

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<sup>69</sup> Trade and Export Promotion Center; Ministry of Commerce and Supplies; Government of Nepal, "Trade Statistics: Nepal's Trade with China P.R.," <http://www.tepc.gov.np/tradestatistics/gl-25-trade-with-china.php>.

<sup>70</sup> "Compare Countries of Multiple Year for Export & Import," <http://www.efourcore.com.np/tepcdatabank/compareexportimport.php?txtmode=search>.

To summarize, in the context of the historical regional entanglements, Nepal's evolving pattern of policies on Tibetan refugees within its borders shows that the current status quo of not expelling them but restricting their rights of political activities and expression, especially anything that could be construed as "anti-China," is Nepal's best choice, especially in consideration of purely material, economic concerns. Frechette argues that upon the contending pressures from the China and various intergovernmental organizations about the treatment of Tibetan exiles within its soil, the Nepali state has routinely relied on the "weapons of the weak," including such tactics as "administrative delays, false compliance, and feigned ignorance, to maintain state sovereignty in the context of multilateral intervention."<sup>71</sup> Of course, moral, humanitarian and political considerations do not seem to be critically operant factors guiding Nepalese decision-making and actual practice on this issue.

## CONCLUSION

This chapter has set the historical and contemporary context of the regional rivalry between China and India, and analyzed the policy options and preferences available to Nepal as it has been dealing with the long-term issue of the Tibetan exiles. Based on the presented evidence, I have argued that Nepal's internal political formulation of its strategic interests, which involves calculation of costs and material benefits, has allowed it to align its policy with Chinese preferences when it comes to the activities of Tibetan exiles living in Nepal or passing through its territory. In this matter, Nepalese leadership and policymakers have to respond to the pressures from various actors including, India, the international community and the Tibetan exile community. Ultimately, I have made the argument that the recent status quo policy of increased suppression of Tibetan exiles has provided the most utility to Nepal in the form of material aid from all concerned actors, which I frame as increased "strategic autonomy" for Nepal in this crucial strategic issue of interaction.

There could be two reasonable criticism regarding the evidence and conclusions presented in this chapter. First, observers may find the mistreatment of Tibetan exiles by

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<sup>71</sup> Frechette, *Tibetans in Nepal*, 123.

Nepal in the name of material gains under unjustifiable Chinese pressure morally objectionable, which is an ethical criticism. To that, I would have to assert that this is a work of dispassionate social science research not a critical analysis of the ethical or normative content of Nepal's domestic or foreign policies. If the leadership of Nepal finds this course of policy as the most suitable for furthering the national interests of their nation, for the purposes of this research the analysis uses their baseline as valid expression of Nepal's interests. Furthermore, it has to be highlighted that Nepal has not resorted to wholesale expulsion or imprisonment of Tibetan refugees, in contravention of its own domestic laws.

The second criticism could come from an empirical or conceptual perspective, which might sensibly question if the alignment of Nepal's policy preference with China's does not prove subservience or coercion instead of strategic autonomy. While the evidence shows minor instances of Chinese strident demands, even during the periods of extreme instability and volatility, Nepalese authorities have been able to uphold domestic laws and norms in regards to the treatment of Tibetan refugees. Moreover, it can be argued alignment of policy choices between Nepal and China may be a necessary but not a sufficient condition to show Chinese coercion or Nepalese subservience. If Nepal were following the maximalist Chinese position of total repatriation of Tibetans, or if there were no issues of disagreement to Chinese wishes, or if Nepal were following Chinese positions which were contrary to Nepal's own interests, only such conditions would be sufficient to establish total coercion or subservience by Nepal. As it is, the above analysis shows considerable influence and interactive effects of India, and the Western states in addition to China, when it comes to the full picture of Nepal's strategic policymaking.

Finally, the major implication of the argument presented in this chapter is that the criticism of lack of autonomy in the part of Nepal is wrong because it ascribes all agency, and the appropriate culpability, to China. If there are moral, ethical or legal objections to the Nepalese treatment of Tibetan refugees, we might not blame China. We have to point the finger of blame strictly at the Nepalese authorities and leadership as well as Indian indifference because both have chosen these policy directions based on their calculations of their respective national interests.

## CHAPTER V

### COMPETITIVE HYDROPOWER INVESTMENTS IN NEPAL

#### THE PROMISE OF NEPAL'S WATER

In 1990, the banned political parties of Nepal were able to end three-decades long monarchic autocracy to usher in constitutional monarchy. Coming to power on the heels of surging popular demands for democracy and economic development, the new political leaders promised to unleash Nepal's vast natural potential to build the country into another Singapore or harkening to the similarity of its snow-capped mountainous terrain, the Switzerland of Asia. Their claims were indeed ambitious and reflected to a certain extent the zeal of the revolutionary moment and the combustible bursting forth of a famously poor people's long-held desire for social and economic wellbeing. In the subsequent decades, those initial hyperbolic promises have either been neglected in the mire of transitional politics or only remembered as a cynical joke, almost a pipedream. Yet, the dream of developmental riches flowing from the bountiful natural resources of Nepal has a long provenance. It is based on the sliver of possibility that the country's immense hydropower potential could indeed be harnessed for large-scale hydroelectric production, which if realized could add to the national coffers through domestic productive use as well as lucrative foreign exports.

The previous chapter analyzed the context of the Sino-Indian interaction on the political issue of Tibet, the fate of Tibetan refugees and the resulting effect on Nepal's policy autonomy on that issue. Given the regional context of Chinese and Indian economic rivalry and their contesting regional interests, the possibility that their competitive geo-economic strategy might have the effect of benefiting Nepal's hydropower quest is all the more tantalizing. In this chapter, I examine the economic interaction between the two regional powers and specifically question the possibility of economic gains for Nepal in its hydropower sector. Like in other issue-areas of tripartite interaction, in the economic realm Nepal's wedge state status might allow it to benefit



from higher gains in the form of larger capital investments particularly in foreign direct investments in hydropower projects with export potential. Analyzing the evolving policy climate in Nepal towards economic liberalization coupled with the pattern of competitive action-reaction chains of Chinese and Indian role in economic aid and capital investments highlight the extent of Nepal's wedging aspirations.

As the subsequent analysis will show, Nepal is not bandwagoning with either major player, but inasmuch as Nepal suffers for underdevelopment and lack of financial capital, the flow of capital from both India and China in the hydropower sector of Nepal shows that it is accruing positive material gains. While the evidence for explicit wedging is presently inconclusive, the evidence presented below finds that the situation is ripe for Nepal to be able to leverage enhanced gains in the economic realm generally and specifically in the sector of hydropower development. As for the three test variables, domestic political system is not directly linked to wedging gains; globalization indirectly affects Nepalese gains through Chinese and Indian global investment strategies; and trade dependence is important in that China might acquiesce to higher investment levels to offset growing trade imbalance.

The premise of Nepal's hydropower potential and the proper value of its vast water resources can easily be lost in utopian rhetoric of economic transformation, in what observers have called political "propaganda"<sup>1</sup> or "myths."<sup>2</sup> However, the facts regarding the country's hydropower production potential and the possible economic value have now been well established. In 1966, a Nepali researcher conducting his graduate research estimated that the country possessed a theoretical possibility of producing 83,000 MW of electricity.<sup>3</sup> Although that mythical figure has been repeated *ad infinitum*, subsequent analysis of commercially and technically feasible projects revised the achievable capacity

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<sup>1</sup> Dipak Gyawali, *Water in Nepal: An Interdisciplinary Look at Resource Uncertainties, Evolving Problems, and Future Prospects* (Honolulu, Hawaii: East-West Center, Environment and Policy Institute, 1989), 99.

<sup>2</sup> Prem Jung Thapa, "Water-Led Development in Nepal: Myths, Limitations and Rational Concerns," *Water Nepal* 5, no. 1 (1997).

<sup>3</sup> Reported from the Russian text of the graduate thesis by HM Shrestha, "Cadastre of Potential Water Power Resources of Less Studied High Mountainous Regions, with Special Reference to Nepal," *Moscow Power Institute, USSR, Moscow* (1966).

to about 43,000 MW, which is the current widely accepted figure.<sup>4</sup> To comprehend the immensity of such capacity, it is instructive to know that the total installed hydroelectric capacity of India, which is 22 times larger geographically and about 40 times larger in population than Nepal, is only about 40,000MW.<sup>5</sup> As of 2013, the actual current total supply of electricity in Nepal stands at only 720 MW, of which only 607 MW is domestically produced hydroelectricity, against a peak demand of 1090 MW.<sup>6</sup> In the pithy words of one analyst, current domestic supply of electricity is “insufficient, unreliable and expensive.”<sup>7</sup> No wonder Nepali politicians and policy-makers see the development of large-scale hydro-electric projects as the magic bullet to raise Nepalese living standards on its path to a developed economy. In other words, what oil had done for some Middle-eastern economies, hydropower could do for Nepal.

The manifold excuses for the absence of such dramatic economic gains from hydropower include limitations of technical knowledge, political instability, uninviting and unpredictable regulatory environment, and political and policy malfeasance. Above all else, the most important reason hindering Nepal’s hydropower development is lack of adequate capital. Major hydropower projects require major upfront costs for construction of large dams; the purchase of turbines and machinery; and construction of capital-intensive infrastructure such as roads and tunnels. For one of the poorest economies of the world, the lack of capital for investment has hindered the development of its most prized asset. Since domestic capital stock is sorely inadequate, in last several decades foreign aid agencies and donor governments have stepped in to provide much needed capital. Since the 1970s, international financial institutions such as the World Bank (WB)

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<sup>4</sup> Government of Nepal Water and Energy Commission Secretariat, "National Water Plan - Nepal," (September 2005), [http://www.moen.gov.np/pdf\\_files/national\\_water\\_plan.pdf](http://www.moen.gov.np/pdf_files/national_water_plan.pdf).

<sup>5</sup> 1 mega watt (MW) = 1000 kilo watt (kW); Population, size and hydroelectric capacity data courtesy of: Central Intelligence Agency (CIA), "The World Factbook," (n.d.), <https://www.cia.gov/library/publications/the-world-factbook/docs/guidetowfbook.html>.

<sup>6</sup> Nepal Electricity Authority, "Annual Report of Nepal Electricity Authority - Fiscal Year 2012/2013," (2013), [http://www.nea.org.np/images/supportive\\_docs/A-Year-in-Review-FY-2012-13.pdf](http://www.nea.org.np/images/supportive_docs/A-Year-in-Review-FY-2012-13.pdf).

<sup>7</sup> Madeline Bergner, "Developing Nepal’s Hydroelectric Resources: Policy Alternatives," (2013), [http://www.stimson.org/images/uploads/research-pdfs/Developing\\_Nepals\\_Hydroelectric\\_Resources\\_-\\_Policy\\_Alternatives.pdf](http://www.stimson.org/images/uploads/research-pdfs/Developing_Nepals_Hydroelectric_Resources_-_Policy_Alternatives.pdf).

and the Asian Development Bank (ADB) have been one of the primary sources of capital in Nepal's embryonic hydropower field, while donor governments such as Japan, Norway and Germany have also provided aid to the Nepal government to develop some projects.<sup>8</sup> Their efforts and aid have been necessary to develop the majority of the current hydropower plants in operation.

India, Nepal's near neighbor, has been by far the largest player in providing and offering to provide extensive capital stock to develop major hydropower projects. Similarly, Nepalese politicians pin their hopes on the economic might and largesse of the other neighbor China were they able to lure that country into becoming a major investor. One of the geographic determinants of Nepal's position is the boundary shaping Himalayas, the source of its water resources. This geographic fact directly informs Nepal's social and political discourse and practice because the national mantra has been the goal of turning the economic potential of Himalayan hydropower into reality. In its interaction with the neighbors India and China, the matter of responsibly and sustainably developing Nepal's water resources are always front and center, and in the last three decades the main objective guiding the policy debate in this arena has been to attract foreign capital to develop hydropower projects. Thus, while developmental aid from multilateral institutions has been utilized for many existing projects, the state is increasingly looking to other sources of public and private capital, especially from the two large neighboring countries to enhance funding opportunities. As the government and private sector of China and India become more capital-abundant, they also look to projects that serve their economic interests in Nepal.

There is more than pure economic rationale for most of the larger proposed hydropower projects in Nepal. Political consideration of all three actors plays an equally important factor in determining if certain projects get funding and get to the building stages or completed. The problem is one of coordination in that Nepal would like the maximum number of projects developed, which requires varied sources of foreign

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<sup>8</sup> Government of Nepal Water and Energy Commission Secretariat, Energy Sector Synopsis Report, (Kathmandu, Nepal July 2010 ), <http://www.wecs.gov.np/pdf/snyopsis.pdf>. 53.

capital. Furthermore, the problem is also of distributive gains in that Nepal needs to be able to obtain the highest negotiated rates for exports of the produced electricity from multiple large-scale projects. But neither India nor China (or any other foreign investor) can invest *ad infinitum* because the number of commercially and technically viable projects is limited so that one's profit-motivated investment in a project necessarily means lesser options for another. India's investment limits China's choices and vice-versa, if both are interested in the finite number of projects that Nepal wants to develop. Thus, we can analyze if Nepal has been or is able to leverage its wedge potential in attracting major investments and negotiating economically beneficial terms.

Furthermore, local, domestic and regional politics frequently intervene in economic and investment matters. When it comes to the larger issue of utilizing water resources various related issues are of salience: scarcity of arable land which might be used up in large-scale projects; the issues of flood control both in Nepal as well as the northern Indian plains; utilization of excess water for irrigation, especially in the dry seasons; concerns about sustainable development and environmental degradation; and quite importantly, India's desire for energy security so it can be the major beneficiary of this important resource stemming directly from its sphere of influence. We can group these concerns into issues of geopolitics of energy security, commercial and economic interests, and social or ecological concerns, each of which is duly analyzed below. The fundamental question guiding the analysis is whether the pattern of regional economic and strategic competition between India and China provides Nepal with better negotiating position and economic gains in seeking capital investments in its hydropower sector.

The rest of this chapter will proceed as follows: the first section delineates the economic and political interests of the three actors, Nepal, India and China, regarding the issue of hydropower sector development in Nepal; the second section reviews the context of hydropower sector in Nepal, including the technical and economic concerns, evolution of the hydropower policy and regulatory framework towards liberalization, and regional concerns of sustainable water resources utilization; the third section analyzes the evidence of Indian and Chinese economic roles in Nepal, highlighting the action-reaction patterns in the economic aid and investments, specifically highlighting major hydropower

projects taken up by each country; the fourth section analyzes the evidence to find patterns of economic competition resulting in gains for Nepal; and the fifth section gives concluding remarks.

## SPECIFICATION OF INTERESTS

To reiterate, as used in this research wedge states are defined as those small states that are characterized by their equal affinity with two major competitive or rival powers. One implication of the wedge state model is that, under favorable conditions of peace and issue-sensitivity, the wedge state would be able to accrue economic and other gains due to the competitive desire of rival major powers for influence. When we consider the hydropower sector, this theoretical discussion leads us to ask a few relevant questions. In the case of Nepal as a wedge state between China and India, we may inquire if Nepal's hydropower investments receive more benefits due to the interests of China and India to achieve greater influence over Nepal. In order to analyze that question, we may delineate the theoretical interests of each of the three states and then review the evidentiary patterns of the evolving interaction in the case of hydropower investments in Nepal. I proceed by highlighting the interests of China, India and that of Nepal.

### *Chinese Interests*

In the issue of capital investments in major hydropower projects in Nepal, a few interests may be anticipated for the first major power China. Being a capital rich country with a reportedly massive stock of capital, China might be expected to look for promising investment projects in Nepal. Firstly, China ought to see investment in Nepal's hydropower sector as a geostrategic choice. In the last six decades since establishing formal ties with Nepal, the Chinese Communist Party has maintained a close political and economic relationship with Nepal. China has showed its commitment to the friendship by giving aid to build various factories, roads and bridges and other infrastructure projects.

The main reason for such generous aid is to maintain friendly relations with Nepal but also to remain on par or higher with other donors of such aid, including the U.S., U.K., and international financial institutions. But principally China's ambition surely is to remain close to India and thwart attempts to solidify a preeminent position in Nepal. So even as a matter of its competitive influence against that of India, the Chinese might want

to invest in the projects that Nepal critically needs. Secondly, in addition to large aid amount, China has invested in profitable ventures in all parts of the world from Africa to South America, and in other countries in South Asia. Relatedly, Chinese banks and construction companies have the necessary expertise in constructing and financing huge dams and other large-scale infrastructure projects. Those firms may indeed look to diversify beyond their home markets into Nepal, especially if the Chinese state would sufficiently nudge them in that direction for geostrategic reasons.

Nonetheless, one may ask why China would find the investments in the hydropower projects of Nepal attractive. These projects are costlier than many other forms of direct aid. Crucially, China is unable to benefit directly from the subsequent production of electricity because of the geographical and technical challenges of transmission of Nepali electricity North into Tibet. China is not the market for Nepalese hydroelectricity that India would so naturally become. Despite this crucial limitation of actual inability of use, China would be theorized to have the other proximate interests of geopolitics and maintenance of friendly relations as reasons for investing in Nepal's hydropower sector.

### ***Indian Interests***

India, on the other hand, can derive actual and direct benefits from investing in and developing Nepal's hydropower projects. Unlike China, which may only see tangential geopolitical gains, India is interested in supplying electricity to its vast demand, while building dams in the shared rivers of Nepal could directly benefit India as a means of controlling regular floods in Bihar and Uttar Pradesh states of North India. Additionally, as the lower riparian the utilization of water resources development projects provides India with a source of irrigation during the dry seasons. Therefore, Indian interests are primarily based on direct quantifiable gains.

However, geo-strategic concerns are not far behind. India has always been hesitant to allow other foreign investments in Nepalese infrastructure, especially Chinese investments in what it considers sensitive infrastructure developments such as roads or bridges. As the only market for excess Nepalese electricity, India must surely be

interested in developing the hydroelectric projects rather than allowing Chinese or other third national investments on such critical projects. Thus, as its proximate sphere of influence, Indian interests should be in partnering with Nepal to invest and develop mutually beneficial hydropower projects.

Apart from the Indian central government, regional state governments as well as business lobbies should be expected to have high interest in developing Nepalese hydropower projects and also being concerned about how or who are allowed to invest in that sector. As the primary market for the exported electricity, Indian interests genuinely encompass the core issues of costs and pricing of produced electricity, which should further motivate India to be willing to partner with Nepal in investing in the projects from the start. As for the business interests, the Nepalese electrical and construction markets should prove attractive to Indian banking, construction and power companies, be they private or governmental.

### ***Nepalese Interests***

As a capital scarce small state, Nepal's interest in attracting foreign capital to develop its natural water resources is straightforward. The proximate motivation is of course fulfilling skyrocketing domestic demand of electricity for consumption and productivity. Nepalese policymakers and politicians are well aware of the people's demand for greater supply of electricity to fulfill the need for household use. More broadly, massive investment in hydro-projects is seen as a way to raise the living standards of the Nepalese people if it were able to export excess electricity. The ultimate interest, to reiterate, is to leverage hydro-fueled economic development.

Yet, within the Nepali state and society there are myriad interest groups that have their own motivations and preferences in seeing the kind and type of foreign investment in the Nepali hydro sector. Theoretically, we can identify the following state and societal level interests, which in amalgam work together or at cross purposes to hinder a simple synthesis of the Nepalese interests in the issue of hydropower investment by foreign governments or private companies.

At the state level, Nepal in recent decades has been characterized foremost by instability resulting in almost incoherent formulation of its national interests. Numerous governments have been installed and removed on top of radical changes on the very nature of the state from one-party monarchy to multiparty constitutional monarchy on the road via a civil war to a Republic. Yet, the Nepali state's unwavering interest in developing Nepal's water resources using foreign capital investments has remained intact. Policies have changed from full nationalization to allowing private investments and creating a business-friendly climate of investment from before and private sector or in public-private partnership models. It is the role of the state to seek and administer foreign aid and to formulate investment related policies and the negotiations thereof. In that context, Nepal has to look to both India and China in addition to the various donor governments and agencies for capital and technical transfers. The exact formula for how to succeed in such plans has been the exercise of countless reiterative policy debates and formulations. As part of the state, the hydropower bureaucracy oversees the construction of projects and infrastructure, the generation and transmission of electricity and its subsequent distribution and possibility for export. The interests and roles off the government bureaucracy is to continue being the controller of bespoke capital projects and to maintain their central position in the hydropower related societal stakeholders.

At the societal level, we can observe the role of the political parties; civil society groups including academics, technical experts, and activists; water and environment related NGOs; the business and corporate groups engaged in the hydro sector; and lastly the general population. For the political parties the question of the fruitful utilization of Nepal's water resources is not merely confined to the policy and technical details, but is also about the highly contentious issues of nationalism, ideology, financial and political power regulation, and often serve as tools of garnering general political support and political capital. Each major and minor political party has an ideological stance on how or if to attract foreign capital for hydro projects, from which sources, and at what cost to nationalist sentiments. Ever since Nepal began welcoming foreign capital to develop its water resources, there have been examples of democratic governments falling due mainly or in part to the political opposition wielding such slogans as "selling Nepal's rivers" or



not doing enough to get the best investment deals on major past projects. Civil society interest groups include academics and technical experts as well as activists and related NGOs advocating local rights or environmental sustainability. These groups and individuals spouse a wide range of interests and preferences regarding the hydro sector development and investments in Nepal. For example, technical experts disagree among themselves and cautioned against large dams in favor of small, economically feasible projects with the domestic capital for local electricity consumption. Academics and activists highlight the needs of the local population as well as preserving national interests above the profit motives of foreign investors. Many water related NGOs and activists campaign in support of the local population who may have to bear the costs of large-scale infrastructure projects as well as the environmental impact of such construction in the fragile Himalayan ecosystem. The interests of Nepali business houses, construction companies and financial institutions center around the question of granting of licenses for individual projects, the regulations limiting or granting co-ventures, and the requirement of local partners for joint ventures.

When it comes to major infrastructure projects, the concerns and voices of the general population at large and the local concerned population might also be paramount. Projects large and small have to address the demands and well-being of the local population that may be displaced due to dam construction or whose livelihoods, land and the local flora and fauna may also be affected. The local population has also demanded an equity share in the future companies that are built in their lands. Or they have demanded work during the construction of the projects in their region. All these groups press the interests and cases to the political parties, the state and its bureaucracy to recognize their concerns and to address them when formulating the policies that are the synthetic product of the national interest of Nepal. The state has to be responsive to these local, parochial and specific concerns while balancing the national need for more electricity supply to people like under the yoke of daily blackouts of up to sixteen hours. The aspiration of economic development is also a nationwide dream widely shared by the public.

Two examples may serve to highlight the contending interests as discussed above and their impact in the hydropower sector in Nepal. Indian involvement in the Mahakali

river project in the early 1990s resulted in major political upheaval in Kathmandu, causing subsequent government to fall due in part to the political protests generated by nascent water resources development deals.<sup>9</sup> Also, social and community mobilization reflecting the influence of civil-society interests groups caused many proposed hydropower projects to be shelved, abandoned or delayed due to political and social opposition creating a climate not favorable to development. The prime example of such a case is that of the large-scale Arun III project during the mid-1990s, in which the World Bank was forced to abandon the plan because of widespread community activism, both national and transnational, resulting in major political opposition.<sup>10</sup>

Channeling of Nepal's national interest when it comes to attracting foreign, specially Indian and Chinese, capital investments is a delicate balance of contending interests from all sections of state and society. However, the proposition of Nepal as a wedge state between competing rivals should suggest that it would try to gain maximum benefits in this case of hydropower development. In this context, one expects that Nepal would try to negotiate the best possible hydropower deals to placate the various internal interest groups but also to get the best possible package from India due to China's interest and from China due to India's. To further analyze such interactive dynamics, I begin by reviewing the larger context of the hydropower sector in Nepal, highlighting the actual potential as well as limitations—technical, economic, environmental and political concerns—that directly inform the negotiation process of hydropower development.

#### HYDROPOWER IN CONTEXT: POTENTIAL AND LIMITATIONS

As a landmass sitting on the lap of the Himalayas, water is Nepal's largest natural resource. More than 6000 rivers, small and large, flow from the some of the tallest peaks of the world through narrow gorges with enough force to be economically feasible to build hydroelectric plants. There are four main river basins: Karnali, Mahakali, Gandaki, and Koshi, all of which flow through Nepal to feed into the Ganges in northern India.

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<sup>9</sup> Dipak Gyawali and Ajaya Dixit, "Mahakali Impasse and Indo-Nepal Water Conflict," *Economic and Political Weekly* (1999).

<sup>10</sup> Alfred Escher, "World Bank Withdraws from Arun III Project at Inspection Panel's Recommendation," *Human Rights Brief* 3 (1)(Fall 1995), <http://www.wcl.american.edu/hrbrief/v3i1/wldbnk31.htm>.



Of the technically feasible capacity of 43,000 MW of hydro-electricity, Nepal has a current installed production of about 750 MW, or about less 1.75% of capacity.<sup>11</sup> The figure above represents the current and proposed major hydropower projects in Nepal. The consequence of such miniscule utilization of water resource is felt both in the loss of economic productivity and social well being, much less the absence of revenue from large-scale exports. Most visibly, average Nepali consumers on a daily basis feel lack of adequate electricity supply. Only about 50% of the population has actual access to electric supply in their homes.<sup>12</sup> Even those that do have access do not have reliable or adequate supply to meet their daily demands. For the last two decades, people have endured daily “load-shedding” or blackouts due to the inability of the Nepal Electrical Authority (NEA) to supply adequate electricity. During the dry seasons when the production dwindles, people in Kathmandu, the capital city face up to 16 hours of blackouts daily.<sup>13</sup> So there is tremendous unmet demand for electricity for household consumption on top of spotty coverage that leaves more than half of the population out of reach of national electric grids.

Lack of adequate supply also causes industrial loss of productivity because factories have to stop production or rely on expensive alternative sources of energy, which adds to their bottom line. Actually, this loss of productivity is spread across all the sectors of society and economy. Companies and educational institutions cannot rely on uninterrupted supply of basic electricity in the information age. In such a scenario, foreign investment into Nepal is cautious at best or turned away. Another consequence of inadequate utilization of the hydropower potential is the cost of electricity that the consumers must bear. Rising population and rapid urbanization has spiked demand of electricity, projected to increase at the rate of at least 7.5% yearly until 2028 AD from the

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<sup>11</sup> Nepal Electricity Authority, "Annual Report of Nepal Electricity Authority - Fiscal Year 2012/2013". 111.

<sup>12</sup> Bergner, "Developing Nepal's Hydroelectric Resources: Policy Alternatives". 7.

<sup>13</sup> Deepak Adhikari, "Power to the People? Nepal's Hydropower Debate," *China Dialogue* (January 24, 2011), <https://www.chinadialogue.net/article/4070-power-to-the-people->.

current demand base of about 1094 MW.<sup>14</sup> Yet, Nepali consumers already pay the highest tariff for electricity in South Asia region.<sup>15</sup> Thus, because of the lack of adequate and economical supply of electricity, more than 85% of Nepal's energy usage comes from wood burning or agricultural waste, which harms the environment while petroleum imports, which constitutes about 7% of energy usage, drains the economy of valuable foreign currency.<sup>16</sup> Yet, the dire consequences of lack of supply are exacerbated, hindering increase in production, because of a host of regulatory and policy issues; technical, economic and environmental limitations; and regional concerns.

### ***Institutional and Policy Evolution***

The first hydroelectric project built in Nepal was the Pharping power plant near Kathmandu. Constructed in 1911 for the private consumption of the ruling elites, Pharping produced 500 KW of electricity, which was transmitted to their residences in Kathmandu by 6 miles of transmission lines.<sup>17</sup> For a half-century since that pioneer project, development of hydropower projects remained largely dormant. It was only in the second half of the twentieth century that the government began to pursue the hydropower dream by creating various institutional mechanisms and agencies.

Beginning in the 1950s, the policy and regulatory framework in the realm of hydropower reflected the then Panchayat government's larger economic policies based on autarky and state-led development. The First Five-year Plan adopted in 1956 began the practice of including large and largely unmet hydropower production targets. A few small to mid-sized hydropower projects began to be built by the efforts of the Electricity Department under the then *His Majesty's Government* (HMG), and the establishment of the Nepal Electricity Corporation (NEC) in 1962 regulated the process of transmission and distribution of electricity.

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<sup>14</sup> Nepal Electricity Authority, "Annual Report of Nepal Electricity Authority - Fiscal Year 2012/2013". 8, 109.

<sup>15</sup> Bergner, "Developing Nepal's Hydroelectric Resources: Policy Alternatives". 9.

<sup>16</sup> Ibid., 9-10.

<sup>17</sup> Deepak Adhikari, "Hydropower Development in Nepal," *NRB Economic Review* 18(2006): 72-73.

In 1985, the hydropower and electricity regulatory authority was centrally consolidated by the aegis Ministry of Water Resources under the newly created NEA, which assumed sole responsibility for the generation, transmission and distribution of electricity for the entire nation.<sup>18</sup> The institutional set-up included the research and study functions carried out by the Water and Energy Commission Secretariat (WECS) as well as the Department of Electricity Development, both under the Ministry of Water Resources established in 1976 and 1981 respectively.<sup>19</sup> During the absolute hereditary Rana rule and the monarchic Panchayat system of government until the People's Movement of 1990, the hydropower sector was entirely state-based and the productive capacity was merely increased from 500KW in 1911 to about 235 MW during that period of eighty years.<sup>20</sup>

Since the restoration of constitutional democracy in 1990, successive governments have produced major policies and regulations to govern the commercial and social utilization of water resources, advancing particular incentives to create a favorable climate for hydropower development. The main policy innovation, maybe reflecting the larger economic policy trends, is the objective of attractive domestic and foreign capital in the hydropower sector and to create an investor-friendly climate. *The Electricity Act of 1992* and the *Electricity Regulation of 1993* first set up the regime of licensing for survey, generation, transmission and distribution of electricity for mid-size or higher hydroelectric projects.<sup>21</sup> The avowed aim of these evolving regulations were to invite domestic and foreign private capital for hydropower investment projects with such incentives as income tax and custom tariffs exemptions for technical inputs, five-year tax-holiday as well as mechanism for repatriation of invested capital in foreign currency.<sup>22</sup> However, the overarching frame of this, and subsequent water resources and hydropower laws were based on the doctrine of public trust that “places HMG as the

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<sup>18</sup> Ibid., 75.

<sup>19</sup> Ibid.

<sup>20</sup> Ibid., 75-76.

<sup>21</sup> WaterAid Nepal, *Water Laws in Nepal: Laws Relating to Drinking Water, Sanitation, Irrigation, Hydropower and Water Pollution*, (February 2005), <http://www.wateraid.org/~media/Publications/water-laws-in-nepal.pdf>. 52.

<sup>22</sup> Ibid., 56.

trustee of all natural resources on behalf of the Nepali people. As such the state is empowered to develop and manage natural resources, including hydropower to serve the public interest.”<sup>23</sup> Thus, for any foreign or domestic private investments in the water resources or hydropower projects, the role of the state was and remains central. The state grants licenses for feasible projects with the prospect of collecting royalties. Also, the produced electricity, especially for mid-sized to larger projects, is to be fed to the national grid managed by the only government entity entrusted by such function, the NEA.

A major formulation of the official policies specifically regarding hydropower sector came in the form of *The Hydropower Development Policy of 2001*. This policy responded to the growing need of an “open and liberal” hydropower development policy, which was “investment friendly, clear, simple and transparent” and again adhering to the age-old objective to “develop hydropower as an exportable commodity,” in addition to realizing Nepal’s potential for low-cost electricity for domestic consumption, rural electrification and economic development.”<sup>24</sup> As it relates to the large-scale projects to produce high quantities of electricity for consumption and export, the major plank of the hydropower development policy of 2001 is based on creating a favorable climate for attracting foreign and domestic private capital in conjunction with a strategy of seeking “bilateral or regional cooperation in the hydropower development sector taking into consideration the feasibility of hydropower in Nepal and the demands of electric energy in neighboring countries in view of the fact that development of hydropower in Nepal supports not only the domestic but also the regional economy.”<sup>25</sup> The policy envisages foreign investors using joint venture companies with Nepalese investors as well as public-private partnership ventures for the generation, transmission and distribution including export of electricity. In order to facilitate such joint ventures, the government pushed forwards quite liberal regulatory, taxation and industrial policies governing hydropower projects, such as: the guarantee that projects and plants would not be

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<sup>23</sup> Ibid., 58.

<sup>24</sup> His Majesty's Government of Nepal Ministry of Water Resources, *The Hydropower Development Policy*, (Singhadurbar, Kathmandu 2001), [http://www.nea.org.np/images/supportive\\_docs/hydropower\\_development\\_policy\\_2001.pdf](http://www.nea.org.np/images/supportive_docs/hydropower_development_policy_2001.pdf). 2-4.

<sup>25</sup> Ibid., 5.

nationalized during the license period; exchange facility for foreign investors to repatriate capital and profits at market rates in the form of foreign currencies; ease of worker visa for the employees of foreign firms to work in Nepal during the period of construction and operation of the plants; value added tax (VAT) holiday for machineries, equipment and spare parts for the plants; only one-percent customs duty on technical imports related to the hydro project construction, etc.<sup>26</sup>

The envisaged outcome of such economic inducements to foreign investors are the following: major hydropower projects are constructed under the concept of “Build, Operate, Own and Transfer,” in which foreign investors would seek a license to build and operate major hydropower projects, the produced electricity would be sold to the national grid or exported under a strict “power purchase agreement” signed a priori with the governmental agencies, the government received royalty sums for the use of water resources which is certain percent of the produced value of electrical energy; and finally once the license period ends, which can range from thirty to thirty-five years, the operating plants would be transferred to the ownership of the Government of Nepal.<sup>27</sup>

Along with the particular policies and regulations, the hydropower policy also mandated a thorough institutional rearrangement so as to respond efficiently to the tasks of managing the licensing processes, attract major investments as well as operate the national grid among other functions. Central to the government bodies remains NEA, which operates the hydropower plants, conducts electricity transmission through the national grid as well as distribution within the country. The hydropower policy called for the existing Department of Electricity Development, under the latterly renamed Ministry of Energy (MOEN), as the promotional body to provide a “one-window policy” to facilitate private domestic and foreign investors in the hydropower sector.<sup>28</sup>

The other major policy documents guiding the hydropower sector are the *Water Resources Strategy* adopted in 2002 and the subsequent *National Water Plan* of 2005, both of which were produced with extensive consultations with myriad domestic

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<sup>26</sup> Ibid., 13-14, 27.

<sup>27</sup> Ibid., 10, 12-13, 19, 23-26.

<sup>28</sup> Ibid., 30.



stakeholders and experts. Reflecting the vociferous domestic interests of local populations, experts and activists, these major policies address overarching national water-related concerns of fair use, equity, local-level benefits, rural electrification, pollution and sustainable development.<sup>29</sup> In the particular realm of hydropower, the policy direction of attracting private investment and large-scale development is continued with the major objective being, “cost-effective hydropower developed in a sustainable manner.”<sup>30</sup> These policy statements again contained some ambitious production targets; just one example, reaching total capacity of 2230 MW by 2017, which now is surely unattainable.

Despite the central level water resources and hydropower bodies producing plenty of policies and strategies regarding the path to develop major hydropower projects, the fact that higher level political turmoil and instability with reshuffling cabinets, changing policy directions and lack of follow-through on stated policy aims have produced less progress in the level of investments than envisioned. Such climate of political and policy instability has caused the government to consistently miss its hydropower production targets amid projects construction overruns and many more that do not move beyond the surveying state. Relatedly, another constant criticism of the governmental bureaucracy is the lack of a true “one-window” agency empowered to handle the requests and concerns of potential and current hydropower investors.<sup>31</sup>

### ***Technical, Economic and Environmental Concerns***

Conventional wisdom suggests that Nepal being a poor country, lack of capital is the most important cause hindering the proper growth its existent hydropower potential. While that may well be the case, in his pioneering work on Nepal’s water resources, Dipak Gyawali problematizes such simplistic views and seeks an interdisciplinary understanding of the complex system of decisions affecting proper human use of water

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<sup>29</sup> Government of Nepal Water and Energy Commission Secretariat, "Executive Summary: Water Resources Strategy," (January 2002), [http://www.moen.gov.np/pdf\\_files/water\\_resources\\_strategy.pdf](http://www.moen.gov.np/pdf_files/water_resources_strategy.pdf); "National Water Plan - Nepal".

<sup>30</sup> "Executive Summary: Water Resources Strategy". xv.

<sup>31</sup> Bergner, "Developing Nepal’s Hydroelectric Resources: Policy Alternatives". 15.

and the resulting policies thereof. He highlights how the historical local usage of water by farmers and villagers often comes in conflict with the grand designs of state-builders.<sup>32</sup> Furthermore, when enumerating technical issues with easy development of hydropower projects, the lack of most and accuracy of the rest of basic scientific knowledge is of great concern. For example, geological data of all the water sources; meteorological data related to the variations in waterfall in different seasons; economic data about the effects of dam construction on downstream farmers and their livelihoods; as well as environmental and ecological impact of such construction on fragile and mountainous locations are sorely lacking to the satisfaction of proper project planning as well as averting major catastrophes.<sup>33</sup> Writing in the late 1980s, Gyawali bemoaned what he called “donor derived data,” arguing that the project donors necessarily had a bias in measurement of basic scientific data about the proposed projects so that various foreign aid schemes came to differing conclusions about similar or same projects.<sup>34</sup>

Almost twenty years later, the official policy documents governing the water resources sector also highlighted the lack of good scientific data and knowledge on various issues areas, especially the need for data on flood forecasting, hydrogeology, and geo-seismology.<sup>35</sup> The solution is not to blame the donor agencies but to empower the national and local state and non-state impartial agencies to collect vital relevant data not only specific projects but also build the vital stock of domestic scientific base, which can be better utilized in formulating and implementing projects as well as negotiating the investments in those projects by foreign investors.

The technical concerns and issues regarding Nepal’s geology and topography reflect directly on the debate regarding the path of hydropower development that would be suitable for Nepal to follow. Technologically there are two major types of hydropower projects: the first type is called run-of-river (ROR) and diverts the flow of the river to a turbine to generate electricity; the second type called large-storage projects, requires

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<sup>32</sup> Gyawali, *Water in Nepal*, 6-7.

<sup>33</sup> *Ibid.*, 13-14.

<sup>34</sup> *Ibid.*

<sup>35</sup> Water and Energy Commission Secretariat, “Executive Summary: Water Resources Strategy”. v.

construction of large dams in a reservoir submerging large areas of land from which water flows into turbines.<sup>36</sup> It is established that ROR projects are less detrimental to the natural trajectory of the river and also less damaging to the landscape and topography, but the major benefit and attraction of the reservoir type dammed-construction projects is that they can boast much much higher capacity to produce electricity. There are only two currently operational reservoir-type projects in Nepal. Most of the planned projects prioritized by the official bureaucracy and all recent governments, which also the ones requiring large foreign capital inputs, are these larger, more controversial and higher capacity reservoir-type dammed plants.

These large-scale dammed or reservoir projects have been criticized by wide swathes of activists and groups. Based on Nepal's geological qualities, topographical features and seismic fault lines as well as dramatic ecological and climactic variations, Gyawali argues that construction of large dams is quite unreasonable.<sup>37</sup> Also, for the vast majority of the rural population who reside in areas far away from the national transmission grip, small or micro-scale hydropower projects built for local electricity needs are argued to be more beneficial.<sup>38</sup> Using economic analysis of the cost ratio of production of unit of electricity in a small-scale ROR project versus a large reservoir-type project leads Bergner to conclude that the ROR projects would best serve Nepal's short to medium term goal of reducing shortage of electricity leading to the crippling black-outs.<sup>39</sup> Another critique from economic perspective of the conventional policy regarding the desire and huge investments in the major hydropower projects is the question of opportunity costs: by heightening preference for capital-intensive projects built on aid or loans, what other important and necessary avenues of social development does the Nepalese state disregard?<sup>40</sup>

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<sup>36</sup> Adhikari, "Hydropower Development in Nepal," 73-74.

<sup>37</sup> Gyawali, *Water in Nepal*, 21.

<sup>38</sup> Adhikari, "Power to the People? Nepal's Hydropower Debate".

<sup>39</sup> Bergner, "Developing Nepal's Hydroelectric Resources: Policy Alternatives". 45-46.

<sup>40</sup> Thapa, "Water-Led Development in Nepal: Myths, Limitations and Rational Concerns," 34-35.

A national debate about such questions of technical, environmental and economic cost-benefit analysis has not given sufficiently definitive answer to inevitably privilege large-scale hydropower development relying on foreign capital transfusion. Thus, the national and domestic interests from all sectors of society find ample support in opposing many such projects unless the government and bureaucracy are able to sufficiently placate them. Such political and social opposition also sway the patterns of interaction seen between Nepal and its potential investment partners China and India. Those patterns of interaction over time and on two specific representative projects are analyzed in the next section.

#### EVIDENCE: ECONOMIC COMPETITION AND INVESTMENTS

Observers of the budding global game of China-India rivalry find in their competitive economic statecraft echoes of the Cold War competition between USA and USSR in their interaction vis-à-vis the Third World countries. Economic diplomacy is seen as a prime tool, and far reaches of the globe such as Africa, South America as well as Central and South Asia seem like the theater of the competitive drama. In such a scenario, in the last few years major global media have fervently analyzed the prospect of Nepal as a state ripe for swelling Chinese economic and cultural entanglements signifying increased political influence at the expense of the historically favorable position enjoyed by India.<sup>41</sup> And from the view of Indian observers, the recent trend of ever enlarging Nepal-China bilateral trade relations, record economic aid and investment in sensitive infrastructure projects from China, along with increased number of Chinese tourists and mushrooming Mandarin language schools in Kathmandu, all add to imply a certain nervousness and caution as well as a call for the New Delhi establishment to not lose the initiative.<sup>42</sup> Some recent Indian reports are downright alarmist, painting a gloomy

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<sup>41</sup> John Daly, "India and China Vie for Influence in Nepal," *Oilprice.com*(March 13, 2012), <http://oilprice.com/Geopolitics/Asia/India-and-China-Vie-for-Influence-in-Nepal.html>; Rajesh Joshi, "Why China's Influence on Nepal Worries India," *BBC.com*(May 8, 2013), <http://www.bbc.com/news/world-asia-22365488>; Wong, "China Makes Inroads in Nepal, and Stanches Tibetan Influx".

<sup>42</sup> Aditya Kaul, "Delhi Loses Initiative as Nepal Seals Power Deal with Beijing," *Daily News and Analysis*(September 19, 2012), <http://www.dnaindia.com/india/report-delhi-loses-initiative-as-nepal-seals-power-deal-with-beijing-1742574>.

zero-sum picture, one in which China is bent on fomenting “anti-India” propaganda in Nepal based on the platform of Maoist ideology and carried out on the backs of the many China study centers in Nepal as well as by the monetary support for some community radio stations in the borders town across India that are supposedly used for such propaganda and training.<sup>43</sup> Most of these reports cite the evidence of the strengthening Chinese position in the matter of Tibet and Tibetan refugees in Nepal as the result of increasing Chinese economic role paying political dividends, as was analyzed in detail in the previous chapter.

Before the liberalization of the Nepalese economy in the early 1990s, culminating with the *Foreign Investment and Technology Transfer Act of 1992*,<sup>44</sup> foreign investments were mainly limited to bilateral or multilateral aid. In the private sector, the FDI trend during the years 1988 to 2001 showed a clear bias towards Indian investment against that of the Chinese. Most foreign firms found it best to partner with Nepalese firms to establish joint ownership. There were 249 approved investment projects with Indian corporate partners totaling \$419.7 million of which 25.9% equity was held by the foreign equity partners. For the Chinese firms (including those from Hong Kong), there were 69 approved projects with the total investment amount of \$131.8 million of which approximately 32% equity was held by the foreign partners. However, the vast majority of these foreign investments approved projects never got off the ground and were made in the local service or manufacturing sectors with the intent of local consumption. Barely two hydropower projects received FDI.<sup>45</sup> The period from late 1990s to mid-2000s saw significant decline of FDI inflows in Nepal due to the civil war and the deteriorating security situation. Despite improving conditions since 2008, Nepal only received about

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<sup>43</sup> Abhishek Bhalla, "Chinese Movement in Nepal Raises Concerns for India's Security Establishment," *India Today* (November 27, 2012), <http://indiatoday.intoday.in/story/chinese-movement-nepal-cause-of-worry-india-india-today/1/234876.html>.

<sup>44</sup> There was a previous act promulgated in 1982 with the same name but that didn't lead to any meaningful FDI inflows, see, G.M. Jha et al., "Determinants of FDI in South Asia," *International Research Journal of Social Sciences* 2, no. 1 (January 2013): 4.

<sup>45</sup> Prema-chandra Athukorala and Kishor Sharma, "Foreign Investment in a Least Developed Country: The Nepalese Experience," *Transnational Corporations* 15, no. 2 (2006): 137-38.

0.8 percent of total FDI inflow into South Asia and was second to last in comparison to its South Asian neighbors in attracting FDI.<sup>46</sup> Given such low level of success in attracting private FDI, Nepal has continued rely on bilateral aid and multilateral grants for major infrastructure projects. Thus, the most visible and noteworthy evidence of growing Chinese and Indian competition over influence in Nepal is found in the strictly economic realm of bilateral aid and investments.

Nepal's quest to realize its hydropower promise by leveraging foreign capital makes it an interstate geopolitical problem of interest to both India and China. The need for foreign capital has been highlighted earlier. However, another facet of the problem is finding export markets. Due to geographical problem of long-distance transmission as well as the question of commercial feasibility, India is the only viable market for hydroelectricity exports. The vast population centers of northern India are in dire need of excess energy sources, particularly electric energy. However, the only prospect of Nepali electricity export is possible only to India means that Nepal is necessary a "captive market" and the bilateral relationship in this sphere is thus a monopsony.<sup>47</sup> The limitation of such a condition is that when we speak of a tripartite interaction between Nepal, India and China in the development of hydropower sector in Nepal, we have to question if China even holds any advantage vis-à-vis India. Yet, if we were to look from the perspective of the Nepali state and policymakers, the wish is to engage Chinese interests in the capital transfusion, construction of major projects and technical transfers.

Analyzing specifically the bilateral aid and technical transfer in the hydropower investment sector also points to possible wedging benefits being enjoyed by Nepal. To that end, the prior section reviewed the evolution of the policies formulated by Nepal to create a climate attractive for private and foreign capital in water resources and hydropower development. Here I present an overview of the Nepalese economic interaction with China and India respectively in the realm of the hydropower sector in particular. Then I analyze a representative investment project, the West Seti Hydropower Project, to review the pattern of Nepal's wedging interaction with the two rival powers.

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<sup>46</sup> Jha et al., "Determinants of FDI in South Asia," 4.

<sup>47</sup> Gyawali, *Water in Nepal*, 80.

### ***Expanding Chinese Economic Influence***

Nepalese leaders and policymakers have always counted on China to play the counterweight to the pervasive Indian economic impact. However, in the early decades in the modern era, in the years since the early 1950s, the young People's Republic seemed reluctant to directly challenge the Indian hegemonic role. While China provided not insignificant aid, ranging from cash and goods, and in helping build various factories in industries as diverse as shoes, paper products, and sugar in the 1960s. Capital grants for infrastructure projects included the highly sensitive highway linking Kathmandu to Kodari, in Tibet, as well as the ring road and a trolley bus line in Kathmandu. However, Indian unease with a big Chinese footprint was highlighted when Chinese offer to build part of a major national highway nearby Indian border had to be turned down. All in all, as John Whelpton has argued, early Chinese forays into Nepal remained rooted on the pragmatic notion of not "unduly provoking India," a reasoning that was given by the then Chinese Premiere Zhou Enlai to his Nepali counterpart B. P. Koirala in 1960 to explain why Chinese aid would be necessarily lesser than that from India.<sup>48</sup> Another important reason, of course, was the heavy presence of the American strategic and aid commitments in Nepal, which tapered off after the Sino-US rapprochement in the 1970s.

Beginning in the 1990s and particularly in the last decade, a few factors led to a growth in the Chinese private and state investments in Nepal. First of all, the Chinese liberalization policies created significant number of semi-state and private firms willing to venture abroad to find new markets, and engage in trade and investment opportunities. As Chinese firms began to take global economic proportions, some found economic reasons to venture into beyond its boundaries, including in Nepal. Thus, globalization of Chinese capital and firms played a role in expanding Chinese role in trade and economic relations with Nepal.

Trade between China and Nepal primarily occurs through Tibet and Hong Kong, and in the past decade the trade imbalance has shown worrying trends. According to the data from Trade and Export Promotion Center of the Government of Nepal, Chinese imports grew five-fold between fiscal year 2001/2002 to fiscal year 2010/2011 from

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<sup>48</sup> Whelpton, *A History of Nepal*, 133.

about Nepalese Rupees (NRs.) 8.75 billion to NRs. 45.64 billion, while the trade deficit rose from NRs. 7.7 billion to NRs. 44.89 billion. Nepalese exports during the same period hardly rose above an average of NRs. 1 billion.<sup>49</sup> This rate of burgeoning trade imbalance has rightly drawn the concern of policymakers but also suggests the level of growth in trade relations.

Secondly, as described in the previous section, Nepal's economic liberalization and the shift to market-friendly regime including in the hydropower sector made it attractive for Chinese firms in the construction and hydropower business. The desire and commitment shown by the Nepalese leaders to posit Chinese aid and investments as a "win-win" for both parties and as a symbol of Sino-Nepalese friendship has only more germane. Major Chinese construction companies and hydropower developers, such as Sinohydro, HydroChina Corporation and others have bid for survey licenses and construction contracts backed by official Chinese government loans or in joint ventures with Nepalese private companies in the Nepalese hydropower sector. Ministry of Foreign Affairs reports that as of 2012, China is the topmost investor in Nepal, with total committed investment of NRs. 7,860 million in 428 projects, which created 26,651 jobs.<sup>50</sup> Although, there were various Chinese funded hydropower and other projects, the fact was that reaching the top perch in investment in Nepal was majorly based on one gigantic project commitment in the West Seti hydropower project, which is discussed in detail as the representative case in the following section. Before that, I review the enduring and crucial role India plays in the larger Nepalese economy as well as in the aid and investments in infrastructure projects including in the hydropower sector.

### ***Enduring Indian Economic Interests***

As the traditional social, cultural and economic partner India was an early source of major aid for Nepal's infrastructure projects, including in the water resources development sector. Dating to the 1950s, independent India had its own national interest front and center in developing water-related projects in Nepal. The first couple such

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<sup>49</sup> Trade and Export Promotion Center; Ministry of Commerce and Supplies; Government of Nepal, "Trade Statistics: Nepal's Trade with China P.R.".

<sup>50</sup> Ministry of Foreign Affairs - Government of Nepal, "Nepal - People's Republic of China Relations," (2012), <http://www.mofa.gov.np/en/nepal-china-relations-78.html>.



projects involved the two major river systems in Nepal, the Sapta Koshi barrage project in 1954 and the Sapta Gandaki project in 1959, which were designed almost exclusively to provide irrigation for the northern Indian plains and to better manage the yearly floods suffered in those regions.<sup>51</sup> Because the direct benefits to Nepal from those early major projects were miniscule in terms of the amount of hydroelectricity or water for irrigation, nationalist sentiments in the country began to ally firmly against Indian “big-brotherly” method of utilizing Nepalese water resources.<sup>52</sup> In the subsequent decades, a segment of the society and political parties continued to view with suspicion any major deals agreed with India, resulting in many recent proposed water resources projects drawing political opposition and delay. However, being situated completely in the major power projection zone of India, Nepalese policymakers and leaders of every stripe are cognizant that Nepal remains the mercy of patently self-interested economic largesse of India in terms of aid, investments and trade relations. Analysts describe land-locked Nepal more properly as “India-locked,” so that despite some misgivings Indian economic role in Nepal has always remained paramount.

The early Indian economic role in Nepal in the infrastructure sector included the construction of the airport in Kathmandu and the Tribhuvan Highway linking Kathmandu to Birganj, a Nepalese border town with India, both of which were taken up in the mid 1950s. Over the decades, other Indian economic aid included infrastructure projects such as the East-West national highway, aid to establish educational institutions and provide scholarship opportunities for Nepalese students, hospitals, aid in the agricultural and irrigation projects, as well as building factories in various industries. However, the larger economic relationship also suffered from the fact that Nepal relied heavily on imports from India without the corresponding matching volume in exports there. Overwhelming trade dependence, exacerbated due to its land-locked geography requiring the use Indian ports and overland routes, warranted that Nepal has not been able to sufficiently diversify its trade relations beyond India to other third countries. In the last

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<sup>51</sup> Santa Bahadur Pun, “Hydropower Development in Nepal: Lessons from Past Models,” *Hydro Nepal: Journal of Water, Energy and Environment* 2(2008), <http://www.nepjol.info/index.php/HN/issue/view/91/showToc>.

<sup>52</sup> Whelpton, *A History of Nepal*, 132.

two decades, the increasing trade deficit amid ballooning trade figures reflect the dependent nature of such prolonged economic interaction.

In the arena of hydropower investments, India has long been the potential source of major aid and capital. The first hydroelectric project built with Indian aid was the 14 MW capacity facility built at the Trishuli River, which was completed in 1971. While India also showed interest in developing other potential major and mega-projects over the decades since, including the Karnali and Mahakali rivers, internal political and policy uncertainty as well as recurrent opposition to Indian-led proposals stalled those efforts periodically, well into the 1990s.<sup>53</sup> Beginning with the liberalization of the hydropower sector in the 1990s, many large-scale hydropower project licenses have been won by private and semi-private Indian companies. Many of these proposed Indian-built projects are export-oriented that are conceived to sell generated power to Indian grid, which include: the 900 MW Upper Karnali project to be by Indian company GMR; the 900 MW Arun 3 (which was previously shelved by the World Bank) to be built by quasi-private Indian firm Satluj Jal Vidyut Nigam Ltd.; and the 303 MW Namian, which is to be built by another private Indian firm LANCO Infratech Ltd.<sup>54</sup> Although none of these projects have begun construction yet, it is interesting to note that survey licenses for a majority of major hydropower projects have been bid for and won by Indian construction majors with the express intent of exporting to the Indian market.

When it comes to the Indian government's direct role via investments and aid in Nepal's hydropower sector, there are a few utilitarian motives and interests, and to realize them we find projects being mooted in a grander scale yet. In the last decade, the northern Indian plains of Bihar and Uttar Pradesh suffered many devastating flood seasons. Another important consideration is the growing demand of electricity in the bordering regions and the national grid itself. So one of the major planks of Indian water resources strategy is to build mega-structures at the source of the flood-prone river systems in Nepal, such as at the Sapta Koshi River and at the Mahakali (called the Sarda river in

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<sup>53</sup> Ibid., 132, 39.

<sup>54</sup> Government of Nepal Department of Electricity Development, "List of Issued Survey Licenses (above 100 MW)," (September 2014), [http://www.doed.gov.np/survey\\_license\\_for\\_generation\\_above-100mw.php](http://www.doed.gov.np/survey_license_for_generation_above-100mw.php).

India) river. It was precisely in the former river systems that India helped build earlier dams in the 1950s; however now their utility and efficiency has eroded and they have become outmoded. Thus, Indian government has proposed to replace those older structures with new mega structures such as the 3000 MW Sapta Koshi High Dam Multipurpose Project<sup>55</sup> and the approximately 6500 MW Pancheswar High Dam Project at the Mahakali river.<sup>56</sup> The express interest encompasses high level of electricity for consumption, flood control in the plains and water diverted for irrigating the land even during the dry seasons.

It has to be noted that the neither of these mega-projects have yet reached final agreement phases and the political and policy process has been stuck in the initial survey and technical study phase, while public and political opposition to the perceived “selling of rivers” to India remains a distinct reality. It bears further noting in this context that the Mahakali-Pancheswar project was the source of deep-seated political upheaval in Kathmandu in the early 1990s, when the then government entered an agreement regarding the construction of the Tanakpur dam on the Nepalese side of the trans-boundary river, as a part of that larger project. However, due in part to the widespread opposition to that “unequal” agreement, the first democratically elected majority government of Prime Minister Girija Prasad Koirala fell in July 1994.<sup>57</sup> Subsequent political instabilities and repeatedly falling governments were also blamed partially on opposition to water and rivers-related nationalism. Such political rhetoric rests on the very real upstream costs of dam construction and mega-projects, namely, the submergence of valuable land and the disputes related to just compensation to the affected locals.

However, Indian interests in developing major structures on the primary water resources of Nepal are not limited to the utilitarian needs of electricity, irrigation and

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<sup>55</sup> Deepak Gajurel, "High Dam Planned for Nepal's Sapta Koshi River," *Environment News Service* (September 20, 2004), <http://ens-newswire.com/ens/sep2004/2004-09-20-04.asp>.

<sup>56</sup> Government of Nepal Department of Electricity Development, "About Project: Pancheswar Multipurpose Project," <http://www.pmp.gov.np/about-project.php>.

<sup>57</sup> Gyawali and Dixit, "Mahakali Impasse and Indo-Nepal Water Conflict," 8-10.

flood control. It may be surmised that as an aspiring regional power, India would rather not allow a third country, namely China, to control the valuable water resource that had a direct bearing on its wellbeing and energy security. Thus, if China's forays into the hydropower sector in Nepal lead to corresponding Indian assertiveness and attention in delivering the capital and the wherewithal to actually construct and develop the mega-structures as well as strictly export-oriented major projects in Nepal, we may deduce that Nepal's wedge status has produced the desired fruits of higher material benefits from the competition of the two rivals. It is yet to be seen if and how faithfully the emerging reality matches the trending pattern of action-reaction between the two powers in Nepal's hydropower sector. The representative case of the West Seti Hydropower Project discussed below encompasses both Indian and Chinese interests in the various phases of its long-running story and useful to understand as an instance of growing Indian unease predicting reactive measures against large-scale Chinese investment commitments in Nepal.

### ***West Seti Hydropower Project***

When it was first conceived, the West Seti hydropower project seemed a perfect example of realizing Nepal's water promise: a mega-project built for lucrative exports. The genesis of West Seti goes back to the mid-1990s, when the government had adopted the policy of allowing and attracting private capital for development of hydropower projects. In 1994, the multi-national Australian construction company Snowy Mountain Engineering Corporation (SMEC) received the survey license to develop the West Seti project in the Far Western Development region. The final agreement was signed between the government of Nepal and SMEC in 2002 with the planed project construction to begin in 2004 and power generation to commence in 2008.<sup>58</sup> The West Seti hydropower plant was supposed to be the largest in Nepal's history with installed capacity of 750 MW, at a time when the country's cumulative production was less than half that. Up to 90% of the produced electricity was to be sold to India via an agreement with the Power Trading Corporation of India, Ltd. (PTC), which is the Indian government-owned public

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<sup>58</sup> "Nepal Signs West Seti Deal with SMEC," *International Water Power & Dam Construction Magazine*(November 4, 2002), <http://www.waterpowermagazine.com/news/newsnepal-signs-west-seti-deal-with-smec>.

transmission and distribution company. As royalty, Nepal would receive 10% of produced electricity free, but subsequent agreements controversially changed that provision to Nepal receiving the equivalent monetary compensation.<sup>59</sup> SMEC through its wholly owned local subsidiary called the West Seti Hydroelectric Corporation Limited (WSHL) had completed the feasibility studies and environmental impact assessments. With the help of Nepalese government, WSHL began to cobble together a consortium of financial sponsors for the project. The Asian Development Bank (ADB) joined as technical sponsor early on and agreed to provide a loan to the Nepal government towards limited part of the financing, while the China National Machinery Import and Export Corporation (CMC) was to be the main financiers for the major portion of the proposed cost of US\$ 1.2 billion.<sup>60</sup> According to a Chinese official at its embassy in Kathmandu, the ownership stake of the built plant would be held by CMC at 70% and the remaining 30% by SMEC.<sup>61</sup> As per the government's build-own-operate-transfer policy, after license period of 30 years the full ownership of the plant would revert to the government of Nepal.

That SMEC backed West Seti project never got off the ground. During the early years, a major problem was the timing; by the time the project agreement was signed in 2002, Nepal was in the deep throes of the Maoists-led civil war, while the royal massacre the year before had begun the prolonged instability in Kathmandu. The rebel Maoists party was against the project, complicating the viability of the location of which was in the remote mountainous region in the least developed part of the country.<sup>62</sup> Furthermore, local opposition towards the proposed project caused insurmountable delays. The project called for 1530 households and up to 18,000 individuals to be relocated in order to

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<sup>59</sup> Thira L Bhusal, "Lawmakers Demand Renegotiation on West Seti Hydro Project," *Republica* September 4, 2009.

<sup>60</sup> Xinhua, "China, Australia to Invest in Nepal's Biggest Hydro-Electric Project," *Xinhua* (May 17, 2005), [http://english.peopledaily.com.cn/200505/17/eng20050517\\_185331.html](http://english.peopledaily.com.cn/200505/17/eng20050517_185331.html).

<sup>61</sup> Ibid.

<sup>62</sup> Dewan Rai, "About Time: Stalled for 15 Years by Maoist Opposition, West Seti Will Now Be Built under a Maoist Government by Chinese Investors," *Nepali Times* March 9, 2012.

submerge the area to build the large-storage reservoir.<sup>63</sup> While there were provisions for compensation to the local impacted population, lack of proper communication as well as uncertainty about the impact and effects of the humongous project meant that the local residents never warmed up to the idea and periodically threatened to shut down the plans.<sup>64</sup> Their objections were amplified by national environmental and policy organizations. By the mid-2000s prominent voices in national media as well as the new legislature called for renegotiation of the contract finding the arrangement of selling all the produced electricity to India problematic and questioning the wisdom and likelihood of receiving royalties when much of the country was suffering through crippling power shortages.<sup>65</sup> A group of affected locals and water rights organizations filed a writ petition in the Supreme Court alleging that the project was “illegal” and against the “national interests” of Nepal creating further controversy and public unease, although the Court in September 2008 decided for the legality of the project and allowed the government and SMEC to proceed.<sup>66</sup> Meanwhile, ADB had quietly dropped their financial and technical backing for the project citing public opposition and lack of good governance, while CMC also seemed to have lost interest along the way. Finally, in July 2011 after a decade and a half the government revoked the construction license from SMEC, ostensibly for failing to initiate the construction of the West Seti hydropower project.<sup>67</sup>

To the surprise of observers, the West Seti project rose from the dead the very next year. On February 29 2012, the government of Nepal signed an agreement with China Three Gorges Corporation (CTGC), the state-owned builder of the well-known Three Gorges Dam, to construct the now estimated US\$ 1.6 billion West Seti

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<sup>63</sup> "Nepal Signs West Seti Deal with SMEC".

<sup>64</sup> "Doti Locals Threaten to Shut Down West Seti," *The Rising Nepal* (January 10, 2009), [http://www.gorkhapatra.org.np/rising.detail.php?article\\_id=13019&cat\\_id=27](http://www.gorkhapatra.org.np/rising.detail.php?article_id=13019&cat_id=27).

<sup>65</sup> Bhusal, "Lawmakers Demand Renegotiation on West Seti Hydro Project."

<sup>66</sup> Kishor Uprety, "Nepal's West Seti Project Imbroglio: The Supreme Court Speaks," *Beijing Law Review* 2(2011).

<sup>67</sup> "Govt Revokes License of West Seti Hydropower Project," *Nepalnews.com* (July 28, 2011), <http://www.nepalnews.com/index.php/economy/12064-govt-revokes-license-of-west-seti-hydropower-project>.

Hydropower project.<sup>68</sup> While many details of the project remained unchanged, the major differences were that the CTGC would own 75% of the constructed plant while the Nepalese state-owned electricity monopoly, Nepal Electricity Authority (NEA) would own the remaining 25%, and also, more importantly, that the produced electricity was avowedly to be used primarily to meet the skyrocketing domestic demand rather than to export to India as was the case with earlier plan.<sup>69</sup>

What had changed? The erstwhile rebels of the Communist Party of Nepal-Maoists (CPN-M) had ended their decade-long civil war, returned to mainstream politics, successfully led the efforts to end monarchy and declare Nepal a republic in 2008, won the first election to the new constitution drafting assembly, and formed the ruling government with promises of good governance and swift policies of rapid development. The major economic plank of the first CPN-Maoist led government in 2008 was the pledge in their first budget proposal to build a minimum of 10,000 MW over the next ten years, with the West Seti project a prominent contributor to the total.<sup>70</sup> It could be mere coincidence that a Chinese government owned company offered to finance the largest hydropower development project in Nepal, which was also the largest ever-single foreign direct investment vehicle to Nepal, when the Maoists were in power.

However, there were various indications that the timing was right from the perspective of both sides, which shows the interaction gaining from the wedge status of Nepal. The CPN-Maoist government that came into power in 2008 brought with it an almost revolutionary zeal to remake the Nepalese economic climate with special emphasis on aggressively seeking foreign direct investments on infrastructure and hydropower projects to meet its 10,000 MW in ten years pledge. The party's goals

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<sup>68</sup> Economic and Commercial Counsellor's Office of the Embassy of the People's Republic of China in Federal Democratic Republic of Nepal, "China Three Gorges Corporation and Ministry of Nepal Sign MoU on West-Seti," (March 9, 2012), <http://np2.mofcom.gov.cn/article/chinanews/201203/20120308005977.shtml>.

<sup>69</sup> "Govt, China Company Ink West Seti MoU," *The Kathmandu Post* (February 29, 2012), <http://www.ekantipur.com/the-kathmandu-post/2012/02/29/money/govt-china-company-ink-west-seti-mou/232132.html>.

<sup>70</sup> Hydroworld.com, "New Nepal Republic Proposes Building 10,000 MW of Hydropower," (September 26, 2008), <http://www.hydroworld.com/articles/2008/09/new-nepal-republic-proposes-building-10000-mw-of-hydropower.html>.

coalesced around Chinese largesse, among other traditional sources of capital, including that from India. Breaking traditional protocol, the Maoist Prime Minister, Pushpa Kamal Dahal went on his first official foreign visit to Beijing and not New Delhi, causing a mild concern in India.<sup>71</sup> Beginning with the first one, Dahal's foreign visits, including subsequently to New Delhi, were explicitly tied to requesting massive capital aid for the development of a "New Nepal." It can be surmised that the People's Republic would be highly sympathetic to such a gesture of equality vis-à-vis Indian position in Nepal and possibly eager to reciprocate. On the other hand, from the Indian perspective the unease at these unanticipated developments might also have sent it seeking ways to influence the trajectory of Nepalese political developments during such a fluid period. Besides many domestic reasons for the fall of that first Maoist government in May 2009, explicit lack of trust shown by New Delhi should not be discounted.

By the time of the West Seti agreement with CTGC in 2012, another CPN-Maoist government had been in place for more than six months. The Prime Minister Baburam Bhattarai was the architect of the earlier budget proposal that relied on maximizing private and foreign hydroelectric investments by cutting the red tape and delays that had been the endemic feature of such project proposals. Thus, the memorandum of understanding for West Seti was signed with the Chinese counterparts without a proper global tender and bidding process. The rushed handing over of the long-percolating project of massive proportions to the Chinese state-owned enterprise raised considerable questions, leading to an enquiry by the parliamentary panel on Natural Resources and Means Committee regarding the legality of the agreement, including many of the finer details.<sup>72</sup> Sufficient political and diplomatic pressure made sure that the committee reached to a rarely seen swift decision, in only three weeks, to allow the agreement to stand with some modifications.<sup>73</sup> Similar parliamentary enquiries and public protests had derailed a number of prior hydropower projects but the fact that CTGC and the Chinese

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<sup>71</sup> Seema Sirohi, "The Dulcet Damru," *Outlook India*(September 29, 2008), <http://www.outlookindia.com/article/The-Dulcet-Damru/238535>.

<sup>72</sup> Dewan Rai, "The Politics of Power," *The Nepali Times*(March 27, 2012), <http://www.nepalitimes.com/blogs/thebrief/2012/03/27/the-politics-of-power/>.

<sup>73</sup> Gopal Sharma, "Nepal Clears China Plan for \$1.6 Bln Hydroelectric Dam," *Reuters* April 2, 2012.



government made the deal for West Seti too sweet to derail by any segment of the political usually rambunctious opposition is significant.<sup>74</sup>

Equally instructive is the tone of the official and media coverage of the West Seti agreement with CTGC in all three countries. The Chinese ambassador to Nepal Mr. Wu Chuntai described West Seti as a “new landmark of Chinese-Nepalese friendship,” while the Chinese official and media reports proudly highlighted the fact that China-financed West Seti was the largest foreign direct investment project in Nepal while viewing the project as a sign of the growing Chinese economic influence in the rapidly changing Himalayan neighbor.<sup>75</sup> On the other hand, Indian observers found the facts of the Chinese financing of the project of such massive proportions in Nepal portentous and viewed nervously as a sign of New Delhi losing initiative in similar projects plans. The official intelligence unit of the Indian government Research and Analysis Wing (RAW) sent a report to the Prime Minister’s Office detailing the particulars of the project, while the media showed appropriate alarm in the growing “coziness” between China and Nepal at the expense of India.<sup>76</sup> For their part most of the Nepalese mainstream media projected a positive attitude towards the project, highlighting the fact that the Chinese had decided to invest in a very large project and that the produced electricity would be used for domestic consumption to alleviate the seriously unmet demand.<sup>77</sup> The usually vociferous opposition did not seem to appear uniformly, although there were plenty of technical, procedural and legal concerns regarding the actual contract minutiae, including significant details of the power purchase agreement (PPA).

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<sup>74</sup> Mukul Humagain and Ashok Thapa, “West Seti Deal Legal, Transparent: Ministry,” *The Kathmandu Post* March 21, 2012.

<sup>75</sup> Xinhua, “China Becomes Largest FDI Contributor in Nepal,” *Xinhuanet* (January 22, 2014), [http://news.xinhuanet.com/english/china/2014-01/22/c\\_133066134.htm](http://news.xinhuanet.com/english/china/2014-01/22/c_133066134.htm); “Nepal Lays Groundwork for China-Assisted Mega Hydropower Project,” (November 26, 2013), [http://www.chinadaily.com.cn/xinhua/2013-11-26/content\\_10675251.html](http://www.chinadaily.com.cn/xinhua/2013-11-26/content_10675251.html).

<sup>76</sup> Kaul, “Delhi Loses Initiative as Nepal Seals Power Deal with Beijing”.

<sup>77</sup> Yogesh Pokharel, “West Seti to Set Climate for FDI,” *GorkhapatraOnline* (n.d.), <http://trn.gorkhapatraonline.com/index.php/op-ed/7232-west-seti-to-set-climate-for-fdi-yogesh-pokharel.html>; Uttam Maharjan, “Editorial - West Seti Hydropower Project: From SMEC to CTGC,” *The Rising Nepal* March 2012.

The story of the Chinese financed West Seti is not over; the actual construction has yet to begin. Nepal's political instability means that the CPN-Maoist government that signed the agreement is no longer in power giving way to a bureaucratic government led by the Supreme Court Chief Justice in March 2013, which conducted another constituent assembly elections. The newly elected government is mandated with governing while the constitution is finally drafted. The high level political turmoil has meant that the preliminary project steps are still ongoing.

The trend of the West Seti project proceeds from one that was predicated entirely on export of generated electricity to India and also being financed partially by Indian commercial interests to an entirely new arrangement purposively to be funded by Chinese state-related firms to produce power for domestic consumption in Nepal is interesting. Also, in the process the project has become a symbol of growing Chinese economic influence in Nepal as the largest single FDI project to be carried out in Nepal. To such developments, a certain unease and desire for larger symbolic reaction can be found in the Indian media and policy circles. It is partly in such a context that a recent and urgent Indian commitment to develop the long-stalled mega-project Pancheswar High Dam Project (which would cost many times over the cost of the West Seti project) spearheaded by the new Indian Prime Minister Narendra Modi in his official visit to Nepal in August 2014, although the long-term outcomes of these recent fluid developments have to be seen in their own time.<sup>78</sup> The next section analyses the central hypothesis regarding small wedge states using wedging strategies to accrue higher material benefit by Nepal.

#### ANALYSIS: SITUATIONAL WEDGING?

The historical pattern of Nepal's interaction with the two rival powers India and China in investments in the hydropower sector lends to abstract analysis of the "small state problematic" identified earlier in the literature review. Although strictly concerned with the economic question of whether Nepal's wedge position allows it to accrue

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<sup>78</sup> Shishir Prashant, "Modi's Nepal Visit Sparks Hopes; Work on Pancheswar Dam to Start Soon," *Business Standard* (August 5 2014), [http://www.business-standard.com/article/politics/modi-s-nepal-visit-sparks-hopes-work-on-pancheshwar-dam-to-start-soon-114080501843\\_1.html](http://www.business-standard.com/article/politics/modi-s-nepal-visit-sparks-hopes-work-on-pancheshwar-dam-to-start-soon-114080501843_1.html).

material gains due to the competitive relationship between the two rival powers, this case also touches upon the structural constraints of the regional geopolitics as well as the internal dynamics of the wedge state itself. In the structural sense, Nepal was not bandwagoning with either of the larger powers but trying to engage and seek investments from both sources. While the Indian interests of energy security and material benefits in the form of electricity, flood control and irrigation is paramount, Chinese self-interest in profit-making opportunities and strategic considerations ensure that both of the rival powers show interest in investing in Nepal's hydropower sector as evidenced by the numerous infrastructure development projects highlighted above. Evolving international norms and structures of foreign development aid and foreign direct investments also ensure that Nepal is able to extract precious capital from Chinese and Indian firms as well as their state bodies as well.

In the question of whether Nepal was able to engage in wedging behavior the evidence present in the analysis above were necessary for the wedging behavior but weren't sufficient to conclusively demonstrate it. No direct evidence emerged of Nepal engaging any form of "competitive bidding." Yet, in specific projects, Nepal was able to extract maximum benefits from the competition between India and China, as we can see that even the modest change in one's rival power's action may produce a reactive counteraction in the form of other influential aid and investment packages from the other.

The fact that Chinese large-scale investment on the West Seti project was finalized during the period of Maoist government shows that the domestic political calculus mattered. Also, in subsequent Indian unease, provides further evidentiary pattern of competitive behavior, which produces beneficial wedging outcomes. As described above the evidence from the hydropower investment sector of Nepal shows, the confluence of the issue of interaction matching with the interests of the rival powers' desire for influence produces the wedging outcomes of beneficial distributive gains for the wedge state of Nepal. Thus, Nepal's beneficial outcome can be based on the evidence of competitive behavior of the rival powers.

As for the specific test variables and hypotheses generated in the research design of this project, in this case of hydropower investments, the aim is to explain the variation

in the DV, “the level of gains from the interaction.” The first hypothesis (H1) considered the effect of the form of government in producing higher gains. The analysis does not directly compare the autocratic system against democratic system, however, it does point to the importance of various domestic policy actors to realize beneficial wedging gains in the hydropower issue. The ideological orientation of the party in power is conducive to generating higher gains as is the clarity and evolution of national policy in foreign direct investments, which is ultimately based on the prerogative of certain political orientation.

The second hypothesis (H2) said that the net impact of globalization (in its institutional, interdependent and transnational guises) would be to raise the gains for the wedge state. In this case, of hydropower investments, the evidence shows that the global rise of India and China and their various state-backed agencies contribute to rising hydropower investments in Nepal. Those globalized firms require profitable ventures beyond their borders and may find the neighboring Nepal as attractive. Also, the proximate effect of the competition between India and China in Nepalese hydropower sector is played under the global context of resource security and investment opportunities.

The third hypothesis (H3) stated that highly dependent trade relation with either rival power would reduce the efficacy of wedging strategies and lower material gains from interaction. In the context of the Chinese and Indian investments in Nepalese hydropower sector, that hypothesis was refuted because despite Nepal's high trade dependence with both rival powers, it is generating beneficial gains in this sector. That supposed anomaly might be explained by either the fact that trade dependence is not decisive or that other factors are sufficient to explain the wedging behavior. Another reason may hint to Chinese interests lies in placating the Nepalese leaders and politicians concerned about the trade imbalance by promising investments and aid.

Furthermore, although these variables were not explicitly highlighted, the chapter finds that the following two factors were important. First, the evolution of Nepal's internal policy climate to create a market more attractive to foreign private and state capital, with the attendant efforts by various governments over the years to court Chinese and Indian aid and investment commitments. Secondly, the structural factor of the

competing interests of the two rivals themselves as evidenced in their action-reaction pattern seemed to be quite important as well. Both of these evidentiary factors relate to the pool of independent variables (IVs) identified in the research design.

## CONCLUSION

This chapter traced the evolution of Nepalese economic policy towards liberalization and the investment climate away from the strictly statist model based entirely on multilateral aid-dependence to a emerging free-market built on attracting private capital, foreign and domestic, especially in arena of hydropower development, which has long been the source of popular Nepali dream of economic transformation. The review of the history of Nepalese hydropower dream highlighted the importance of this particular issue but also highlighted the unique geographical, technical, political and economic limitations hindering the desired development and growth of Nepal's immense hydroelectric potential. The current reality of Nepal's lack of adequate electricity for daily consumption as well as industrial productivity juxtaposes uneasily with the dream and promise of the riches that could flow from a well-developed hydropower sector, a fact which underscored the need for vast capital infusion in the form of foreign direct investments and economic aid, especially from India and China.

Given such internal context, the aim of the chapter was to situate Nepalese economic and investment interaction with its competing rival neighbors India and China to inquire if such competition allowed the wedge state Nepal to accrue higher material benefits in the form of higher investment in the national priority hydropower sector. Enumerating the material and strategic interests of China and India revealed that although Indian material utility and strategic sense of security from developing Nepalese water resources is paramount, China might also see enough strategic benefit and opportunity for its increasingly global firms to venture into Nepal. Thus, Nepal may be able gain from the action-reaction investment decisions from China and India. The long-running saga of the West Seti hydropower project, which went from being a project aimed for exporting power to India to a completely domestic utility to be funded by solely by the Chinese as the largest single FDI project in Nepal's history, and the subsequent public and policy

concerns in New Delhi provided some support to the claim regarding higher material benefits for Nepal.

The history of economic interaction between China and India with Nepal suggests that if Nepal is able to create a climate of attractiveness and a policy coherence for investments and efficient aid, the appealing business climate itself might lead to wedging outcomes due to the competitive action of the two rival powers vying for influence and greater strategic foothold. Such situational wedging might have more room to strengthen Nepal's negotiating position and attractiveness, if the current political instability were to be resolved and if the policymakers and leaders were more attuned to exploit such a dynamic.

## CHAPTER VI

## CLIMATE COOPERATION IN THE HIGH HIMALAYAS

## A CLIMATE OF VULNERABILITY

In December 2009 Nepal's ministerial cabinet held a symbolic meeting at Kalapatthar, located near the Mount Everest Base Camp in the Himalayas. It was a costly operation involving dozens of helicopters to ferry the 21 ministers along with the prime minister and up to a 100 journalists and civil servants in addition to oxygen tanks and masks to cope with high altitude. Perhaps inspired by a similar meeting a couple of months before held entirely underwater by the cabinet in Maldives decked in scuba gear and suits to raise awareness of rising sea levels, the ostensible goal of such a theatrical stunt was to send a message regarding the degrading effects of global climate change on the fragile natural systems of glaciers and ecology in the high Himalayas. The Nepalese cabinet adopted the ten-point "Everest Declaration 2009" calling on the international community to do more to combat climate change and help Nepal deal with its long-term environmental, social and economic effects, with a view to take Nepal's appeal to an worldwide audience during the Copenhagen Climate Summit which was held the week after.<sup>1</sup>

The meeting was another reminder of the phenomenon of global climate change resulting in rising temperatures that may be causing an alarming rate of melting of the Himalayan glaciers, which in turn has long-term adverse effects on the flow of the rivers that originate from there. Unlike the prior two issues analyzed in this study—that of the policies on Tibetan exiles and of attracting foreign aid and investments in Nepal's hydropower sector—the predicament of climate change is such that a small state alone is

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<sup>1</sup> Joanna Jolly, "Nepal Cabinet Holds Meeting on Mount Everest," *BBC News* (December 4, 2009), [http://news.bbc.co.uk/2/hi/south\\_asia/8394452.stm](http://news.bbc.co.uk/2/hi/south_asia/8394452.stm); Gopal Sharma, "Nepal Cabinet Meets at Everest to Send Climate Message," *Reuters* (December 4, 2009), <http://www.reuters.com/article/2009/12/04/us-nepal-cabinet-everest-idUSTRE5B30SH20091204>.

unable to change its global course. Even if Nepal could design perfect policies in tandem with perfectly cooperative India and China, little could be achieved to halt the tide of the global process of rising temperatures. Yet, there can be resources and policies in place to build resilience and adaptive measures in one of the most vulnerable areas in earth for climate impacts. Furthermore, unlike the previous two cases that have been unfolding for many decades, this phenomenon of climate change, and especially the policy engagement with it are more recent and thus we only have about a decade's worth of evidence in domestic policy formulation and less than that of regional policy interaction to speculate how the future trend of such negotiations might unfold. As such, the limitation of examining this recent and unfolding case, that is a tough case as underscored in research design before, is that the expectation of this analysis in testing the hypothesized wedging behavior is more modest. This issue may also prove to be the difficult case in analyzing the possibility of such wedging strategies across issue areas.

While the policy engagement is relatively recent, because of scary prognosis of the impact of climate change, each of these states might be expected to take steps toward adaptation to the shared effects of climate change and work to achieve cooperation in the realm of environmental issues of conservation; reducing the runaway use of fossil fuels; and designing adaptive institutions and processes. But such an outcome is not a given because there will be economic and social costs to be borne, must likely, unequally by each of the states in trying to address processes of mitigation as well as adaptation to the effects of climate change, each of which refer to the long-term processes defined and discussed in detail below. Analyzing the arena of nascent policy evolution between the wedge state and the rival states in climate-related and environmental issues, I expect that due to wedging strategies the wedge state might benefit in the form of higher gains or lower costs of mitigation or adaptation. However, the paucity of sufficient policy advancement among the three states might mean relying on current state of quite limited interaction to speculate on future possibilities of wedging benefits or lack thereof.

This chapter analyses the case of interstate environmental cooperation in the context of global climate change to explore the small wedge state interaction with rival powers. The issue of environment cooperation is a coordination problem, such that



interaction in the response to the climate change presents a different kind of collective action problem unlike the two previous cases. In this case, the costs of melting glaciers or scarcity of water resources will have to be borne by all the states in the long-term but the relative costs might be unequally distributed. Thus, with the prospect of irreversible global climate change in the long-term, the environmental issue becomes a question regarding the “dilemma of losses,” where each of the state involved wants to incur the least amount of costs possible on their populations and economy by negotiating the best bargains in the distribution of the ever-scarcer resources such as supply of fresh water. In this case, the basic structure of the three-actor collective action problem is based on three major facts: 1) no single party can solve the problem on its own, which means cooperation is necessary, 2) none of the actors can opt out of the larger cooperative problem, and 3) the costs are not uniform such that some actors pay a higher price. The implications of such a structure of interaction means that the relative cost of agreement may be lowest for the weakest actor. As an upper-riparian state Nepal may paradoxically enjoy significant bargaining power regarding the usage of freshwater and rivers, as is analyzed in the following sections. Informed by this dynamic of the tripartite collective action problem on the environmental and climactic concerns, this chapter analyzes the emerging national and regional policies that have been initiated and avenues of bilateral cooperation.

To operationalize the tripartite interaction between Nepal, India and China in this complex realm of environmental cooperation, this chapter focuses on the particular transboundary issue of melting glaciers in the shared Himalayan region and the resulting long-term prospect of scarcity of freshwater resources on which each of the countries relies. The major theoretical concern of this study focuses on the avenues level of material gains that small wedge states might enjoy from negotiation with the rival major powers. To reiterate, a significant limitation of the current state of affairs in this interactive policy arena is that the issue of climate change is a recent historical phenomenon lacking a long period of engagement and a mature body of policies formulated or implemented in cooperative regional or bilateral mechanisms. Also, the global focus on climate change agreements and policy is centered on the discussion and

lack of agreement between the industrialized North and the developing South on steps to mitigate climate change. There is a dearth of analysis and discussion of the South-South negotiation and bargaining to generate cooperative policies addressing the impacts of climate change, which is a significant limitation of the current discourse. The dynamics of South-South cooperation are important because of the high number of developing states in the global South, the increasing contribution of greenhouse emissions by those states, their large population, and the relative lack of capacity of those states to adapt their populations to the impending changes in the environment. This research aims to fill that relative gap.

Despite the absence of long-term policy engagement, the subsequent analysis finds that there are already significant actors in both the state and non-state sector, including multitudes of national and international non-governmental organizations (NGOs), which are engaged in scientific research, policy formulation and community awareness regarding climate change in the region. Therefore, because of the necessarily in-progress nature of interstate negotiations as well as nascent domestic policy framework along with state-society activities, the following analysis expands the analysis to include the activities of non-state sector, specifically those of a regional non-governmental institution that has been able to lead the states structures into cooperative interaction on transboundary cooperation. Thus the contours of the emerging tripartite interaction over the distribution of costs or lost opportunities due to melting glaciers and other shared effects of climate change would inform the possibility or lack of wedge state policy autonomy and wedging strategies that might be generated over time.

The analysis presented below find that none of the three states have sufficiently advanced their domestic policies regarding climate change adaptation, while the mitigation efforts are bogged down in global and regional forums. As such, the analysis of evolution of the national policies and the events in the past two decades finds no evidence of Nepal engaging in explicit wedging behavior in this case. However, as evidenced by a unique case of budding tripartite cooperation in the area of transboundary conservation, it is concluded that all three states, including Nepal, benefit from significant technical, research and capacity building resources. The gains from this

budding cooperative interaction may be higher for Nepal because of its geographically determined wedge status. But it has to be admitted that these levels of current gains does not yet show the expansion of Nepal's strategic autonomy in the use of scarce and shared resources for now or in the future. So the answer to the central research question on the possibility of Nepal's wedging behavior to accumulate material gains is a cautious no.

The remainder of the chapter proceeds as follows: the first section places the issue of global climate change in context of the shared Himalayan region, summarizing the observed trends and possible adverse impacts to the three states in consideration; the second section outlines the emerging global and regional policy framework to address climate change and the role of the three states in that dialogue; the third section analyses the domestic policies on climate change and environment in each of the three states; the fourth section offers a case study of interstate environmental cooperation initiated by a regional non-state actor that offers a possible model of future cooperation; and finally the last section summarizes the conclusion of this case analysis.

#### CONTEXT: GLOBAL CLIMATE CHANGE AND SOUTH ASIA

The phenomenon of climate change resulting from the rise in average global temperatures has global proportions, causes and manifold consequences. Yet, those global climatic consequences and their implications for human beings may be varied in the different regions of the world depending on each region's unique "geography, population density and state capacity," in addition to the current or prior baseline level of environmental deterioration.<sup>2</sup> Based on such factors and the potential for large-scale devastating impacts, the South Asian region, home to one-fifth of the global population living in high density, is quite vulnerable. As such South Asia has already begun to see or is expected to face adverse effects in various areas, including "biodiversity, agriculture, water resources, rainfall patterns, seasons, coastal inhabitations, and high altitude

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<sup>2</sup> Brahma Chellaney, "Climate Change and Security in Southern Asia," *The RUSI Journal* 152, no. 2 (April 2007).

communities.”<sup>3</sup> The compounded outcomes due to these vulnerabilities may be acute in the coming decades.

To begin to understand the challenges to cooperation in this realm, we have to understand the regional ecosystem. The Himalayan mountain range extends from Pakistan in the West through India, Nepal, China and Bhutan in the East. Along with the abutting Karakorum and Hindu-Kush mountain ranges in its northwest and the Tibetan plateau in the North, the Himalayas form a unique geographical and environmental feature of the region. The Himalayas are responsible for weather events such as the monsoon as well as being the source of snow-fed and glacial major rivers in the entire region. Thus, the range of environmental, geographical and social impact of the mighty Himalayas, called the “water towers of Asia,” can hardly be overstated. The impact of global climate change on the delicate geography of the Himalayan would likely result in unexpected and unpredictable consequences. For the states that share the geography and the ecosystem of the Himalayas, Nepal, India and China, due to their unique geography, physical location and low level of state capacity, the range of potential impacts of climate change is likely be severe. A salient feature of global climate change is that it a varied and multidimensional phenomenon. Although there is budding global scientific consensus on the range of possible outcomes and effects of rising temperatures in the various regions and unique ecosystems of the earth, there are significant gaps and variability among regions.

Recent global reports by the Intergovernmental Panel on Climate Change (IPCC) highlights the extent of observed climate variability and the range of effects that South Asia and the adjacent Tibetan plateau of China could face. Observed historical data suggests that the surface to air temperatures in the entire region are rising, with India seeing a 0.68 degree Celsius rise in the past century, Nepal seeing 0.09° C rise in the Himalayas and 0.04° C in the Terai plains, while in Tibetan plateau the rise was 0.16° C annually and 0.32° C during the winter per decade. In all three regions as well as in

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<sup>3</sup> Alok Bansal and Sreeradha Datta, "The Impact of Climate Change in South Asia," in *South Asian Security: 21st Century Discourse*, ed. Sagarika Dutt and Alok Bansal (New York: Routledge, 2011), 231.

China, the rate of rise in temperature was higher during the winter seasons.<sup>4</sup> Another climatic variable with observed historical variance is that of precipitation levels, with increases in extreme rainfall recorded in the northwest of India and in the northeast region of Tibet as well as increasing rain in Western China.<sup>5</sup> Considering the regional picture, the South Asian coastal states including Maldives, Sri Lanka and Bangladesh as well as the coastal regions of India and Pakistan face the dire prospects of sea-level rise, extreme seasonal storms and inundation with the costly effects of economic and demographic degradation. Similar and related effects of cycles of massive floods and droughts; loss of freshwater sources leading to severe shortages for use or cultivation; lost economic opportunities from inoperative hydroelectricity production; adverse demographic impact faces India, Pakistan, Bhutan and Nepal. Scientific models seem to predict these climatic changes will increase during the course of the 21<sup>st</sup> century and the impact across Asia as well as in the South Asian region to continue ominously.

Such historical rises in temperature and changing patterns in precipitation across the region has led a host of experts to ascribe a multitude of adverse climate-related impacts from global climate change. In the recent decades the rise in extreme weather events such as recurring massive floods due to melting glaciers, rising sea levels and extreme storms, and cycles of heat waves and droughts have been noted; furthermore, the rise in intensity and frequency of these extreme trends point to acute human impacts caused by lowered agricultural capacity and food productivity, scarcity of freshwater, inundation in the coastal areas and adverse effects on biodiversity, all compounding to create large-scale demographic consequences on health, livelihoods and migration patterns.<sup>6</sup> Some of the projected demographic consequences include: inability to cope with the basic necessities and public health effects of recurring natural disasters causing large-scale population displacement; resource scarcity leading to increase in localized and

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<sup>4</sup> R.V. Cruz et al., "Climate Change: Impacts, Adaptation and Vulnerability - Asia," ed. M.L. Parry, et al., *Contribution of Working Group II to the Fourth Assessment Report of the Intergovernmental Panel on Climate Change* (Cambridge: Cambridge University Press, 2007), <http://www.ipcc.ch/pdf/assessment-report/ar4/wg2/ar4-wg2-chapter10.pdf>. 475.

<sup>5</sup> Ibid.

<sup>6</sup> Ibid., 475-78.

interstate violence and conflict; intrastate and interstate mass migration from the impacted areas, such as from the coastal regions to the hinterlands causing added demographic pressures in scarce resources.<sup>7</sup> Various experts and analysts believe that due to the above-mentioned perfect combination of adverse factors, South Asia might be especially vulnerable so that it may experience the worst impacts of climate change.<sup>8</sup>

From a regional perspective, then, for South Asia the impact of global climate change might be debilitating when considered in conjunction with its high level of population density, low level of baseline economic development, and relatively lower level of state capacity and resources to attend to various mitigation and adaptation strategies.<sup>9</sup> As defined by climate change experts, mitigation refers to technological and policy instruments used to reduce greenhouse gas emissions so as to decelerate the rate of climate change, whereas adaptation means those processes and activities employed by individuals and societies to adjust behavior in response to changes in the environment due to climate change.<sup>10</sup> Both mitigation and adaptation are economically costly processes with long time horizons requiring major transformations in human activities at a societal, regional and even global level. While all the states of South Asia may face some of these dire impacts and need to contribute to mitigation and adaptive measures, each one has to be prepared for specific and unique manifestations of the effects of

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<sup>7</sup> Arpita Bhattacharyya and Michael Werz, *Climate Change, Migration, and Conflict in South Asia: Rising Tensions and Policy Options across the Subcontinent*, (Center for American Progress & Heinrich Coll Stiftung, December 2012), [http://cdn.americanprogress.org/wp-content/uploads/2012/11/ClimateMigrationSubContinentReport\\_small.pdf](http://cdn.americanprogress.org/wp-content/uploads/2012/11/ClimateMigrationSubContinentReport_small.pdf).

<sup>8</sup> World Bank, "Climate Change: Why Is South Asia Vulnerable?," (2013), <http://go.worldbank.org/CVAV2OB8N0>; Mannava V.K. Sivakumar and Rober Stefanski, "Climate Change in South Asia," in *Climate Change and Food Security in South Asia*, ed. R Lal, et al. (Springer, 2011).

<sup>9</sup> For an argument that social capital is the defining variable in how societies manage natural disasters and sustain resilience, see, Daniel P. Aldrich, *Building Resilience: Social Capital in Post-Disaster Recovery* (University of Chicago Press, 2012).

<sup>10</sup> United States Environmental Protection Agency, "Glossary of Climate Change Terms," (September 9, 2013), <http://www.epa.gov/climatechange/glossary.html>; Intergovernmental Panel on Climate Change, "Glossary of Terms Used in the Ipcc Fourth Assessment Report," (n.d.), [https://www.ipcc.ch/publications\\_and\\_data/publications\\_and\\_data\\_glossary.shtml](https://www.ipcc.ch/publications_and_data/publications_and_data_glossary.shtml).

climate change, and each state needs to prepare unique efforts of mitigation and adaptation at great cost. But the policy creativity and political ability to generate needed changes seem beyond the purview of a single state and regional cooperation in finding solutions and distribution of costs are needed. This makes bargaining among states an opportunity to shift costs onto others.

### ***Impacts on Glaciers and Water Resources in the Himalayan Region***

The risk to the Himalayan glaciers and long-term effect on water resources are the two main and proximate consequences of climate change that directly impact Nepal, India and China. The shared geography of the Himalayan region means that both these manifestations of climate change will necessarily have transboundary impacts, which would mean that we can expect to see tripartite interaction to engage on this arena and maybe detect avenues of Nepal's wedging behavior. Before analyzing the interstate and national policy interaction, here I present the current extent of knowledge and possible concerns from these two climate impacts in the region.

The Himalayan region contains the world's highest concentration of glaciers outside of the two Polar Regions in the globe. Scientists have documented that rising temperature has caused accelerated melting or retreating of glaciers in the high Himalayas over the past half century, with the current rate of glacier melt being about 10 to 60 meters per year.<sup>11</sup> The primary observed consequence of melting glaciers is that they create large pools of accumulated water with the attendant risk of glacial lake outburst floods (GLOFs). Extensive scientific research in Himalayan region using site visits, GPS and satellite images and historical corroboration have documented the rising number of such lakes and noted that the lakes are indeed increasing in size, thereby raising the probability of catastrophic GLOFs in the coming years.<sup>12</sup> A long term study

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<sup>11</sup> Samjwal Ratna Bajracharya, Pradeep Kumar Mool, and Basanta Raj Shrestha, "Global Climate Change and Melting of Himalayan Glaciers," in *Melting Glaciers and Rising Sea Levels: Impacts and Implications*, ed. Prabha Shastri Ranade (India: The ICFAI University Press, 2008), 28.

<sup>12</sup> Sandeep Chamling Rai, ed. *An Overview of Glaciers, Glacier Retreat, and Its Subsequent Impacts in Nepal, India and China* (World Wildlife Fund Nepal Program, 2006); Arun B Shrestha and Raju Aryal, "Climate Change in Nepal and Its Impact on Himalayan Glaciers," *Regional Environmental Change* 11, no. 1 (2011); Samjwal Ratna

begun in the 1990s by the International Center for Integrated Mountain Development (ICIMOD), a policy and advocacy research institute working in the states from Afghanistan to Bhutan in the Hindu-Kush Himalayas, documented the baseline data which showed there were “15,000 glaciers, 9,000 lakes and 200 potentially dangerous glacial lakes including 21 GLOF events.”<sup>13</sup> Given such a geographical reality, major and recurring flooding could be a regular part of the future of Nepal, northern India and in the Tibetan plateau, causing massive infrastructure damage, siltation of farmlands, and inundation of downstream settlements. Critical infrastructures such as bridges, tunnels and hydropower plants might be washed over during such flooding, causing long-term economic and social impacts.

These varied effects of melting glaciers and glacial floods can only be addressed by increased regional cooperation coupled with national commitment to significant mitigation and adaptation efforts. Such efforts to manage the glaciers in the high Himalayan region need to include their scientific monitoring, installation of early warning systems to warn of GLOFs, construction of infrastructures and development projects in the region with GLOFs in mind, and to prepare downstream population centers with adaptive measures. The current research focuses on the scientific basis of the problem of melting glaciers but in the years ahead the economic and interstate dimensions of this climactic change will need to be researched and addressed.

The second major consequence of the global climate change on the Himalayan region is in the projected long-term insecurity of the water resources. As has been mentioned, the greater Tibetan plateau and the Himalayas are known as the “water towers of Asia” because they form the originating source of the major river systems including their tributaries in the region: the Yellow and Yangtze rivers flow into China; the Mekong, Salween, and Irrawaddy rivers flow into Southeast Asia; and the Ganges,

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Bajracharya, Pradeep Kumar Mool, and Basanta Raj Shrestha, *Impact of Climate Change on Himalayan Glaciers and Glacial Lakes: Case Studies on GLOF and Associated Hazards in Nepal and Bhutan*, (Kathmandu, Nepal: International Centre for Integrated Mountain Development (ICIMOD), June 2007), <http://lib.icimod.org/record/22442>.

<sup>13</sup> "Global Climate Change and Melting of Himalayan Glaciers," 34.



Brahmaputra, and Indus rivers that flow into South Asia.<sup>14</sup> Of these rivers, the waters from the Ganges and its tributaries—Karnali, Gandaki and Sapta Koshi—traverse from the Himalayas through Nepal into India to drain into the Bay of Bengal, whereas the Brahmaputra river travels East from Tibet via India into Bangladesh and to the Bay. These international rivers and the economic utility of their freshwaters necessarily are in the domain of interstate negotiations and as the effects of global warming put pressure on vital water resources, they likely will be the cause of increasing bargaining and possibly conflict.

In terms of long-term freshwater resources, the states in the South Asian region already deal with a myriad of issues. River water pollution is a major concern leading to public health scares; haphazard development of local infrastructure including major and minor hydropower projects takes an environmental toll on the ecosystem; recurring floods in the transboundary rivers between Nepal and India as well as between India and Bangladesh produce intense displacement and distress; and fair and proper distribution of water for irrigation and use during the dry season between the riparian states are issues of regular concern and negotiations between the states.<sup>15</sup>

Another aspect of water resources impacts, from the interstate perspective, is the possible construction of major infrastructures projects to divert waters from transboundary rivers, which could exacerbate or strain relations between Nepal, India and China. Major dams and hydropower projects in Nepal, which were analyzed in the previous chapter, cause variation of water flow and produce differing costs and benefits to downstream areas of India. Similarly, India's grand plan of linking the waters of its major rivers via canals and reservoirs to supply water to its population centers, the so-called National River Linking Project (NRLP), could produce various unintended consequences in the water relations between that country and its neighbors Nepal and Bangladesh. Finally, China's possible utilization of the Yarlung Tsangpo river (which is

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<sup>14</sup> Jayanta Bandyopadhyay, "Securing the Himalayas as the Water Tower of Asia: An Environmental Perspective," *Asia Policy* 16, no. 1 (2013).

<sup>15</sup> For an on-the-ground reportage of the myriad water crises facing the Ganges river basin, see Cheryl Colopy, *Dirty, Sacred Rivers: Confronting South Asia's Water Crisis* (Oxford University Press, USA, 2012).

called the Brahmaputra in the Indian territory) from Tibet to divert water north into its the population and agricultural centers would create possible conflict with India. These possible hotspots sometimes become fodder for alarmism or downright paranoia about impending "water wars," yet in the context of long-term climate change and shortage and variability of freshwater, the eventual negotiations about the proper utilization of transboundary river systems are bound to create avenues for cooperation or conflict.<sup>16</sup>

Thus, the regional manifestation of the global warming in the form of melting glaciers and possible freshwater scarcity could become the major arena of interstate negotiation and bargaining, even conflict, in the coming decades. For the small and least powerful among the actors, the wedge state of Nepal, the solution to the situation necessarily need to be found in negotiation under bilateral, regional and global regimes and not conflict. Yet, in the issue of threatened glaciers, the three states have yet to show concrete interest except for many formal announcements and increased bilateral scientific research to ascertain the extent of the problem. On the issue of the shared water, so far the attention and bulk of negotiation has been focused on the economic utility related to hydropower, dam building, flood control and irrigation and not on the possibility of drastic future shortages.

As discussed earlier, the lack of deep strategic policy engagement in this arena is a crucial limitation in this case because the issue is a recent, ongoing phenomenon. Therefore, the long-term consequences of global warming and the resulting evidentiary patterns of the tripartite and bilateral interaction between Nepal, India and China might be understood for now in the context of global and regional policy frameworks. Another avenue to analyze the future contours of the tripartite interaction is by examining the patterns of existing cooperation in transboundary conservation efforts, pollution reduction measures and sustainable development partnerships. The following section reviews the global and regional policy framework and the participation of the three states in them; the

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<sup>16</sup> For an argument on the possibility of regional "water wars," see Brahma Chellaney, *Water: Asia's New Battleground* (Washington, D.C.: Georgetown University Press, 2011); For a cogent caution against the "hyperbole" of "water wars," see David Katz, "Hydro-Political Hyperbole: Examining Incentives for Overemphasizing the Risks of Water Wars," *Global Environmental Politics* 11, no. 1 (2011).

subsequent sections analyze evolving national and bilateral policies regarding climate change, and the current state of the tripartite interaction.

## GLOBAL AND REGIONAL POLICY FRAMEWORKS

The global climate change debate and the emerging policy framework of responses addressing the mitigation and adaptation efforts has been riven by an acute chasm between the interests of industrialized states of the West and the developing states of the global South. In 1992, the United Nations (UN) and its member states began the global climate change framework in the form of the treaty at the Earth Summit in Rio de Janeiro. The United Nations Framework Convention on Climate Change (UNFCCC), which seeks international action on climate change, has been ratified by all UN members although binding agreements on climate actions has now ground to a halt because of the so-called “cleavage” between the West and the newly industrializing states and the underdeveloped states. When it came to the negotiations regarding the bearing of costs to reducing greenhouse gas (GHG) emissions and the matter of equitable compensation for economic, demographic and social burdens, the deep divisions between the two sides began with the Earth Summit and through the design and participation in the Kyoto Protocol framework in 1997 but the chasm has widened in the subsequent rounds of climate negotiations until present.<sup>17</sup>

Critics of the current global policy trajectory blame the wealthy Western nations of seeking to hinder the economic development path of the developing countries by using climate-related obligations, despite the fact of lower level of historically aggregate and current per-capita GHG emissions accrued by the emerging economic regions. Observers even posit that as the historical source of great amounts of GHG emissions, the developed Western states are doing gross injustice on the rest of the states in seeking comparable GHG reductions in the future.<sup>18</sup> Current estimates of GHG emissions show a sharp rise in cumulative emissions in the developing world, especially in South Asia, which has seen

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<sup>17</sup> Bansal and Datta, "The Impact of Climate Change in South Asia," 218.

<sup>18</sup> A detailed and cogent quantitatively based analysis of this idea is presented in J.T. Roberts and B.C. Parks, *A Climate of Injustice: Global Inequality, North-South Politics, and Climate Policy* (MIT Press, 2007).

3.3 percent rise in emissions per year since 1990; however, the historical GHG footprint of the emerging economic regions was low and because of high population and low energy consumption in per capita terms, South Asians still only contribute less than one-fifth carbon emissions compared to the developed nations.<sup>19</sup> The global framework under the UNFCCC does maintain the principle of “common but differentiated” responsibilities between the wealthy countries and the developing or less developed countries. However, disagreements among the major global powers and emerging economies, including the refusal by the United States to ratify the Kyoto Protocol and subsequent global standards, has meant that a durable global framework to address climate change has failed to materialize.

As far as the Least Developed Countries (LDCs), such as Nepal, and their adaptation to climate change is concerned, the articles of UNFCCC pledged support for economic and technical assistance, a process which in the last decade has begun to be set in motion. The main vehicle of the assistance process is the drafting of National Adaptation Program of Action (NAPA) by most of the LDCs, which outlines the current state of climate research and findings, reviews the crucial long-term vulnerabilities, and lists immediate and urgent climate-related vulnerabilities and possible adaptive measures in projects that could be funded. Projects that are approved are then funded through the mechanism of LDC Fund under assistance from the wealthier countries of North America and Europe, grouped under the UNFCCC Annex-I. Other goals of drafting NAPAs and LDC funding include research and administrative capacity building; creating national nodal bodies to deal with climate change issues; providing technical training as well as negotiation and languages training to better equip LDC representatives to state their unique concerns and positions to influence the global climate process.<sup>20</sup>

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<sup>19</sup> World Bank, "South Asia - Shared Views on Development and Climate Change," (2009), <http://documents.worldbank.org/curated/en/2009/01/11472620/south-asia-shared-views-development-climate-change>.

<sup>20</sup> United Nations Framework Convention on Climate Change, "Chronological Evolution of the LDC Work Programme and Introduction to the Concept of NAPA," [http://unfccc.int/adaptation/knowledge\\_resources/ldc\\_portal/items/4722.php](http://unfccc.int/adaptation/knowledge_resources/ldc_portal/items/4722.php).

On the other hand, two of the largest newly developing economies and carbon emitters, India and China, view the UNFCCC process and the goal of binding international conventions and caps on carbon emissions as a unfair hindrance to their right to economic growth. In the last decade, due to pressure from the established Western economies, global leaders and domestic scientific communities, China and India have acknowledged the need for action against climate change by embarking in a policy of adopting domestic, bilateral and regional discussions and exchanges on climate change, while still refusing to abide by any global emissions standards. Both countries have produced extensive national action plans and policies—called the National Action Plan on Climate Change (NAPCC)—to deal holistically with the issue, which is discussed in detail in the next section. In the bilateral realm, in October 2009 India hosted an India-China joint workshop to discuss their respective national action plans for climate change. The conclave produced a five-year accord between the two states, signed by Indian environmental minister Jairam Ramesh and Chinese vice minister of National Development and Reform Commission Xie Zhenhua, outlining plans to share technical, scientific and policy experiences on climate change adaptation measures.<sup>21</sup> However, the true purpose of the meeting was to present a united negotiating front in the upcoming Copenhagen Summit, where the two nations again called on rich Western nations to curb their emissions and increase funding and technology transfer to less developed nations, while also reiterating their commitment to economic development and finding local solutions to climate change risks. This negotiating strategy, *inter alia*, scuttled any mandatory global agreements in the Copenhagen climate summit, while on the sidelines China and India joined Brazil and South Africa to negotiate a much-limited and voluntary agreement with the United States.<sup>22</sup>

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<sup>21</sup> Sunil Raghu, "India, China Sign 5-Year Pact on Climate Change," *The Wall Street Journal* (October 21 2009), <http://online.wsj.com/articles/SB125610390297898449>; Gaurav Singh and John Duce, "China, India Sign Climate Change Cooperation Accord," *Bloomberg News* (October 21 2009), <http://www.bloomberg.com/apps/news?pid=newsarchive&sid=aFyFHkF6C3Fs>.

<sup>22</sup> BBC News, "Q&A: The Copenhagen Climate Summit," *BBC News* (December 21 2009), <http://news.bbc.co.uk/2/hi/8278973.stm>.

The prime focus of the global climate framework under UNFCCC is based on seeking agreements on the *mitigation* side of climate change efforts, by setting up the highly contentious binding limits on GHG emissions. Thus, in the absence of a globally binding emissions treaty, the complementary task of local and limited *adaptation* measures has fallen to the individual nation-states that are the most vulnerable or to regional efforts with economic support from the wealthy nations or international financial institutions. Regional fora in Asia, such as the Association of Southeast Asian Nations (ASEAN) and South Asian Association for Regional Cooperation (SAARC) have become venues to engage in environmental discussions and adopt common positions of the member states for global negotiations. As the pace of economic development as well as the rate of climate change accelerates, the states in the global South must certainly be obliged to begin cooperative and interactive negotiations among themselves. Such a possibility of South-South negotiations, between the emerging economies such as China, India, Brazil and others cannot be discounted as the effects of global climate change begin to impact their economies and societies.

In the South Asian region, the members of the SAARC regional body—Bangladesh, Bhutan, India, Maldives, Pakistan, Nepal and Sri Lanka, with Afghanistan joining the group later—commenced in the late 1980s a regional process of consultation and cooperation on environmental issues. During the early phase of the budding regional framework, the rhetoric of “climate change” was not prominent in the regional discourse because the SAARC member states were mainly focused on the localized environmental concerns such as degradation of the regional ecosystems, pollution, transboundary conservation and dealing with natural disasters that were transboundary in nature.<sup>23</sup> The regional policy process until recently has been focused mainly on commissioning research on regional environmental issues, setting up a technical committee with the task of gathering and sharing scientific data on regional environmental issues, and conducting periodic meetings of the environment ministers to produce repeated proclamations on the

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<sup>23</sup> South Asian Association for Regional Cooperation (SAARC) Secretariat, "Area of Cooperation: Environment," (n.d.), [http://www.saarc-sec.org/areaofcooperation/cat-detail.php?cat\\_id=54](http://www.saarc-sec.org/areaofcooperation/cat-detail.php?cat_id=54).

need for environmental cooperation rather than adopting and implementing concrete action plans.

By the mid-2000s, due to intensified global climate discourse as well as the impetus due to major regional natural disasters like the 2004 Indian Ocean Tsunami, the SAARC member states began to address the regional impacts of and adaptive measures to global climate change directly. In 2008 a ministerial level meeting specifically on climate change was held in Dhaka, which produced the “Dhaka Declaration,” and the “SAARC Action Plan on Climate Change.”<sup>24</sup> The Action Plan formed the basis of creating a common position of the SAARC members in global climate negotiations, specifically calling on the rich, western states to provide financial and technological commitments per the UNFCCC principles of “responsibility based on capabilities” to address the mitigation and adaptation measures against climate change while preserving the “right to development” of the developing states. Additionally, the member states were given the responsibility to implement the adaptation and mitigation measures including cooperation on technology transfer, sharing of best practices and information in conservation and disaster preparation, and mass-awareness and media-engagement campaigns.<sup>25</sup> Subsequently, in 2010 the Sixteenth SAARC Summit held in Thimpu, Bhutan, produced the “Thimpu Statement on Climate Change.” Like the prior declaration, this statement further served the purpose of cementing common positions of the SAARC member states on global climate negotiations based on the principles of equity and justice, while deepening the thematic cooperation of further research and policy coordination.<sup>26</sup> In addition, there have been investments in scientific exchange, coordination in nascent regional monitoring efforts, policy exchange via periodic conferences of the respective agencies dealing with environmental issues, and efforts to raise awareness on climate change and its impacts. These local efforts are reinforced by

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<sup>24</sup> Ibid.

<sup>25</sup> South Asian Association for Regional Cooperation (SAARC), “Dhaka Declaration on Climate Change,” (July 2008), available at: <http://saarc-sdmc.nic.in/pdf/publications/climate/chapter-1.pdf>.

<sup>26</sup> South Asian Association for Regional Cooperation (SAARC) Secretariat, “Thimpu Statement on Climate Change,” (April 2010), <http://www.saarc-sec.org/userfiles/ThimphuStatementonClimateChange-29April2010.pdf>.

the activities of the major international financial institutions, such as the World Bank, calling for capacity building to choose a path away from the current dependence on fossil fuels to a “low-carbon growth” strategy of regional economic development.<sup>27</sup>

However, some significant limitations of the emerging regional policy framework on environmental cooperation and climate change have been the lack of binding commitments and leaving the responsibility of implementation entirely on the individual member states. Each new round of summits and meetings produce boilerplate calls for more research, mass-awareness and sharing of best practices to enhance cooperation. In other words, the regional framework suffers the same condition as the global framework, which is lack of concrete action. The main reasons for lack of effective cooperation, argues one researcher, are “lack of mutual trust, the preference of India...for excluding bilateral environmental issues from regional discussions, and a dependence on external donors for funding in support of existing regional institutions.”<sup>28</sup> Therefore, to locate the actual policy interaction and development on environmental cooperation in the era of climate change along with implementation efforts, we have to look within the national sphere and analyze domestic and bilateral policies. To understand Nepal’s national and bilateral policy evolution on environmental cooperation with India and China, the next section analyzes the evidence of such policies.

## EVOLUTION OF NATIONAL & BILATERAL POLICIES

The three states, Nepal, India and China, began crafting strategic policies specifically regarding the impacts and consequences of climate change in the first decade of 2000s. In all three states, the bulk of the emerging policies and their implementation have been focused primarily on domestic and local levels, dealing particularly with air and water pollution, efficiency of resource management, increased scientific funding and conducting environmental reviews for development projects. The prime consideration is economic development in the age of climate risks and to pursue national development

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<sup>27</sup> World Bank, "South Asia - Shared Views on Development and Climate Change".

<sup>28</sup> Ashok Swain, "South Asia, Its Environment and Regional Institutions," in *Comparative Environmental Regionalism*, ed. Lorraine Elliott and Shaun Breslin (New York: Taylor & Francis, 2011).



projects adaptive and resilience to current and future consequences of climate change. Whatever tripartite or regional interactions have been initiated has come mostly in the realm of scientific data gathering and knowledge sharing and transboundary conservation efforts, much of which has been led by the efforts of international non-governmental sector. The review of the individual state's national strategic policies on climate change presented below highlights the current insularity of adopted measures but also presents avenues for future cooperation and interactive negotiations. Emerging national policies of Nepal, India and China respectively are analyzed below.

Although the ideas of sustainable development, pollution reduction and environmental degradation had entered the Nepali policy consciousness beginning in the 1980s, the specific use of the language of global climate change and policy response to its impacts were not adopted until the mid-2000s. This was despite the fact that Nepal had been a signatory of the Rio Earth Summit and ratified the UNFCCC and related conventions. The official Nepalese development planning policy documents paid scant notice to climate related risks in its development activities. A thorough review published in an Organization for Economic Cooperation and Development (OECD) report of the national planning policy documents until the Tenth Plan adopted by the National Planning Commission (NPC) in 2002 found that until that year climate change risk management was not an explicit national policy priority.<sup>29</sup> This lack of explicit focus on climate change impacts suggested lack of awareness but also the fact that many of the possible areas of development policy, such as in water resources management and monsoon related agricultural adaptation among others, were previously targeted under the rubric of "sustainable development." The same OECD report also commented that more than fifty percent of donor-led development projects, especially in water resources and hydropower sectors, might be vulnerable to climate related risks.<sup>30</sup> Because Nepal relies on foreign aid for more than 70% of its development budget, the increasing awareness and concern about climate related risks on donor approved and financed projects would

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<sup>29</sup> Shardul Agrawala et al., "Development and Climate Change in Nepal: Focus on Water Resources and Hydropower," *Organization for Economic Cooperation and Development, Paris* 64(2003): 20.

<sup>30</sup> *Ibid.*, 25.

mean more policy engagement regarding the various inputs of climate change in the latter half of the decade.

In the arena of hydropower development, until the mid-1990s, new projects were not legally required to conduct an environmental impact study and there was no formal governmental mechanism governing environmental concerns. Large donor-funded projects did voluntarily conduct preliminary environmental assessments and the government provided basic guidelines on environmental issues to consider without legal backing.<sup>31</sup> The passage of the Environmental Protection Act (EPA) and the Environmental Protection Regulation in 1997 finally provided firm legal requirement for the need to conduct Initial Environmental Examination as well as a detailed Environmental Impact Assessments (EIA) before being granted permission to develop infrastructure projects, including those related to water resources and hydropower.<sup>32</sup> Although the EPA does not mention “climate change,” the law reflects the guiding principles of environmental protection of the time by broadly defining “environment” as the “interaction and inter-relationship among the components of natural, cultural and social systems, economic and human activities and their components,” and “pollution” as the “activities that significantly degrade, damage the environment or harm on the beneficial or useful purpose of the environment, by changing the environment, directly or indirectly.”<sup>33</sup> Obviously, these definitions incorporate the latterly significant concerns of climate change and its impacts. Therefore, appropriate laws on environmental protection governing the hydropower and water resources development sector in Nepal, although, since the long-term climatic impacts of hydro-projects are not immediately discernible, it

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<sup>31</sup> Dilli Bahadur Singh, "Dealing with the Environment in Hydropower Development," (May 2007), [http://www.ncf.org.np/upload/files/582\\_en\\_Dealing%20with%20the%20Environmental%20Challenges%20in%20Hydropower%20Development.pdf](http://www.ncf.org.np/upload/files/582_en_Dealing%20with%20the%20Environmental%20Challenges%20in%20Hydropower%20Development.pdf).

<sup>32</sup> Ramesh Prasad Bhatt and Sanjay Nath Khanal, "Environmental Impact Assessment System in Nepal: Overview of Policy, Legal Instruments and Process," *Kathmandu University Journal of Science, Engineering and Technology* 5, no. 2 (September 2009): 162-63.

<sup>33</sup> Government of Nepal, "Environment Protection Act, 1997," (Kathmandu, Nepal 1997), 2-3.

is questionable if the EIA process can be instrumental in climate change mitigation and adaptation.

The first national policy that addressed climate change explicitly came in 2004, when the then Ministry of Population and Environment of Government of Nepal, produced an initial report on national climate change policies as part of the reporting requirements of the conference of the parties of UNFCCC.<sup>34</sup> That document was not meant to usher in major policy changes or initiatives but to establish baseline state-of-knowledge of climate change science including the possible impacts on water resources and livelihoods as well as a catalogue of the existing environmental policies in the country. Pertinently, the report highlighted the need for “comprehensive” bilateral cooperation with both India and China, above and beyond the existent sharing of information, on the hydrological impact of climate change for the rivers that flow across all three countries.<sup>35</sup>

In September 2010, Nepal’s Ministry of Environment completed the aforementioned National Adaptation Program of Action (NAPA) and submitted it to the UNFCCC. Prepared by a large group of experts after sixteen month-long multi-sector stakeholder consultative processes, the document presents nine integrated projects for funding request selected based on “urgent and immediate national adaptation priority.”<sup>36</sup> The identified priority projects of immediate vulnerability include such concerns as: adaptive measures related to: agricultural, water resources and biodiversity management; community-based disaster management; GLOF monitoring, early warning and risk reduction; forestry and ecosystem support; climate induced public health adaptation; and related issues of climate impacts.<sup>37</sup> The combined cost of the nine projects for which

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<sup>34</sup> Government of Nepal Ministry of Population and Environment, Initial National Communication to the Conference of the Parties of the United Nations Framework Convention on Climate Change, (July 2004), <http://unfccc.int/resource/docs/natc/nepnc1.pdf>.

<sup>35</sup> Ibid., 103-04.

<sup>36</sup> Government of Nepal Ministry of Environment, National Adaptation Programme of Action (NAPA) to Climate Change, (September 2010), <http://unfccc.int/resource/docs/napa/npl01.pdf>. ix.

<sup>37</sup> Ibid., 32-49.

funding is sought is listed as US \$350 million, of which about \$21 million had been disbursed by 2013 into various projects through the LDC funding mechanism.<sup>38</sup> However, maybe owing to the fact that the NAPA was drafted for UNFCCC LDC Fund and focused on “urgent and immediate adaptive measures” there was scant mention of possible bilateral cooperation with either India or China on matters of water resources or Himalayan glaciers. Various other donor-funded projects and policies are in place building on these baseline ideas of climate adaptation and resilience.<sup>39</sup> Subsequently, building on the guiding principles of NAPA, Local Adaptation Plans of Action (LAPAs) and a new Climate Change Policy were adopted in 2011.<sup>40</sup>

Yet, there are major weaknesses in the focus and direction of Nepal’s climate change institutional and policy practices. As noted in the analysis above, most climate change policy advancements are based on the global framework and domestic adaptation and localized developmental needs. Bilateral and regional policies have not been pursued as a complement to all the policy advancement in the domestic and local level; there is a pronounced, artificial and disappointing separation between the two levels of policymaking. Other weakness stem from instable institutional structure guiding climate change policy; for example, the ministry responsible as the nodal agency for international interaction on climate change, Ministry of Environment, has been reorganized and restructured a few times in the past decade. Added to institutional instability is the regular churn of personnel and lack of coordination among the many bodies, agencies and levels of administrative units, from the center to the local governments.<sup>41</sup> In such an environment of instability and lack of coordination, lots of waste, duplicated efforts and blind spots are to be expected.

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<sup>38</sup> UNFCCC, “Status of NAPA Implementation under the LDCF,” (n.d.), [http://unfccc.int/adaptation/knowledge\\_resources/ldc\\_portal/items/5632.php](http://unfccc.int/adaptation/knowledge_resources/ldc_portal/items/5632.php).

<sup>39</sup> Some of the current projects and policies at the national level include: National Climate Change Support Program (NCCSP); Pilot Program for Climate Resilience (PPCR); Second National Communication Project (SNC).

<sup>40</sup> Government of Nepal Ministry of Environment, “Climate Change Policy,” (2011), <http://www.climatenepal.org.np/main/?p=research&sp=onlinelibrary&opt=detail&id=419>

<sup>41</sup> Ryan Bartlett et al., *Climate Change Impacts and Adaptation in Nepal* (Colombo, Sri Lanka: International Water Management Institute, 2010), 19-20.

In the case of India, in June 2008, the then Prime Minister Manmohan Singh adopted that country's first National Action Plan for Climate Change (NAPCC), which set out the need for sustainable development amid the growing impact of climate change in India. In a larger picture, on principle, Indian view of global climate change hinges on the idea that the developed Western economies must share most of the responsibility for the current situation; however, Indian policy reflects the necessity of beginning to address climate mitigation and adaption to achieve sustainable economic development.<sup>42</sup> The NAPCC document called for the relevant government departments to draft long-term policy goals and implementation plans of mitigation and adaptation policies related to eight core national mission areas: solar energy, energy efficiency, sustainable habitat, expanding forests, sustainable agriculture, study of climate science as well as water resources and sustaining Himalayan ecosystem.<sup>43</sup>

The last two missions, on water resources and Himalayan ecosystem, which includes glacial retreat, ultimately require regional and tripartite interaction with Nepal and China. However, the NAPCC doesn't mention those countries by name; the major points of water mission focus primarily on the needs of greater domestic efficiency of water management but the Himalayan ecosystem mission acknowledges the need to share scientific data and expertise in studying the extent of glacial retreat among the states of South Asia which share the Himalayan ecosystem and to create a credible monitoring network of the Himalaya environment in "cooperation with neighboring countries."<sup>44</sup> In his 2009 remarks on the national mission on the Himalayan ecosystem, PM Singh reiterated the very high importance of the Himalayas for the livelihoods of millions of people, commented on the continued degradation of the fragile ecosystem of the region and called for coordinated and comprehensive climate action plan for the entire Himalayan region to be developed in cooperation with the other Himalayan states, Nepal,

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<sup>42</sup> Government of India Prime Minister's Council on Climate Change, "National Action Plan on Climate Change," (n.d.), [http://www.moef.nic.in/modules/about-the-ministry/CCD/NAP\\_E.pdf](http://www.moef.nic.in/modules/about-the-ministry/CCD/NAP_E.pdf).

<sup>43</sup> Ibid.

<sup>44</sup> Ibid., 4.

Bhutan, China and Pakistan.<sup>45</sup> To that end, in subsequent SAARC summits, India reiterated the need for regional cooperation on climate related impacts, as described in the previous section, and India also hosted a SAARC Ministers Conference in 2009 to help prepared a joint action on climate change; yet specific agreements on the Himalayan issue haven't materialized.<sup>46</sup> On the other hand, India's bilateral engagement with China on climate change was initiated with the 2009 conference held in New Delhi. As discussed above, the five-year accord signed then proposed increasing knowledge sharing and interaction on climate related activities. Another, and most important, reason for the Sino-Indian accord was to present unified bargaining position with the Western nations in global climate negotiations. So far, the latter mission has held largely intact.

A recent independent review of the India's NAPCC produced in consultation with numerous experts in the field has found myriad technical and policy limitations inherent in the formulation of such a holistic and wide-ranging plan, which requires coordination from more than five ministries and multitudes of agencies and departments of the government to progress.<sup>47</sup> One of the strategic concerns voiced by the reviewers was the competition from Chinese firms in the solar energy sector to under Indian manufacturers, thus hindering the goal of sustainable economic development.<sup>48</sup> When it comes to the mission of sustainable Himalayan ecosystem, the Indian national policy is thin in details on generating coherent policies coordination with the other states that share the ecosystem.<sup>49</sup> Similarly, on the mission of efficient water utilization, the weakness of the current iteration of the national policy is a lack of any engagement with the possible impacts of climate change on water resources, while focusing solely on domestic

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<sup>45</sup> Prime Minister's Office - Government of India, "Introductory Remarks by Prime Minister at the Meeting of Pm's Council on Climate Change on the National Mission on Sustaining the Himalayan Eco-System," (October 26, 2009), [http://www.moef.nic.in/downloads/public-information/PM\\_speech.pdf](http://www.moef.nic.in/downloads/public-information/PM_speech.pdf).

<sup>46</sup> South Asian Association for Regional Cooperation (SAARC) Secretariat, "Area of Cooperation: Environment".

<sup>47</sup> Sujatha and Rajan Byravan, Sudhir Chella,, "An Evaluation of India's National Action Plan on Climate Change," (January 3, 2013), Available at SSRN: <http://ssrn.com/abstract=2195819>.

<sup>48</sup> Ibid., 12.

<sup>49</sup> Ibid.

concerns of efficiency and coordination.<sup>50</sup> These concerns highlight the paucity of a mature Indian policy on regional solutions and interactions in addressing climate change. Such state of affairs provides little confidence that climate concerns would be prioritized in Indian strategic and economic negotiations with its neighbors, especially Nepal and China at the present time. However, it must be highlighted that this is a new domain for all states concerned to establish the expertise and best practices, and in due time cogent policies as well as strategic interests of all parties would be revealed.

When it comes to China's climate change mitigation and adaptation policies, the country has sought to remain unencumbered of global mandatory limits to continue unabated on its path of economic growth and infrastructure development. But as the world's largest emitter of GHG emissions, Chinese policymakers and leaders have for the last two decades been cognizant of the increasingly dire environmental problems produced by its breakneck pace of development and economic growth at the domestic level. In the late 1990s, Chinese official policy moved environmental degradation and climate change from a merely scientific issue to one of sustainable developmental priority establishing the National Coordination Committee on Climate Change (NCCCC), while the 10<sup>th</sup> Five Year Plan of 2001 to 2005 included a thorough research agenda to ascertain the vulnerabilities and adaptation needs of climate and environmental impacts.<sup>51</sup>

In the years leading up to the 2008 Beijing Olympics, major stories of large-scale river water pollution, smog clouds in the cities, and desertification in the Northwest began to dominate the Western and national news reports, spurring the leaders to take significant measures to address the climate vulnerability. A year before the Olympics in June 2007, the powerful central body National Development and Reform Commission unveiled China's National Climate Change Program (CNCCP), which accepts the reality of climate change's impact on China, outlines the official policies regarding mitigation and adaptation to climate change while maintaining the pace of sustainable economic

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<sup>50</sup> Ibid., 13.

<sup>51</sup> Rebecca Nadin, China: National Adaptation Programs and Strategies, (Presented at Asia Adaptation Meeting: Adapting to Climate Change in China (ACCC), 2012), <http://r4d.dfid.gov.uk/PDF/Outputs/ACCC/National-Adaptation-Programs-and-Strategies.pdf>.

development.<sup>52</sup> As a signatory to the UNFCCC and a developing economy, CNCCP called on the developed economies to bear their historical burden by funding and transferring technology to the developing nations, and by accepting binding emissions themselves while allowing the developing economies to their right of social development and poverty eradication. Thus, the plan did not include any quantifiable targets or limits on emissions.<sup>53</sup> In the years since issuing CNCCP, China has adopted widely discussed domestic regulatory, technological and economic policies to enhance environmental protection, increase the use of renewable sources such as solar and hydropower to shift its energy profile from coal dominance, with the long-term salutary effects of such efforts still being debated.<sup>54</sup> China has also stepped up engagement in regional and bilateral climate related exchange and cooperation agreements. One example of such bilateral cooperation was China's five-year climate change cooperation accord with India signed in 2009, which as discussed above was based primarily on scientific collaboration and exchange of knowledge.

China-Nepal bilateral relation on climate change has so far been limited to the scientific study of the Tibetan plateau and the entire Hindu-Kush-Himalayan region. The Chinese Academy of Sciences (CAS) launched the Third Pole Environment (TPE) program in 2009 to scientifically study the climate change's impact on the Tibetan plateau's long-term future. In 2014, CAS signed several memorandum of understanding (MOU) with various educational and research institutes in Nepal to enhance scientific exchanges and cooperation on the issue of Himalayan ecosystem and glaciers.<sup>55</sup> Similar scientific exchanges, conferences and workshops have been held regularly between China and its Third Pole neighbors, including Nepal. Other bilateral interaction between Nepal

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<sup>52</sup> Xinhua, "China Issues National Plan to Address Climate Change," (June 4, 2007), [http://news.xinhuanet.com/english/2007-06/04/content\\_6196302.htm](http://news.xinhuanet.com/english/2007-06/04/content_6196302.htm).

<sup>53</sup> "Press Conference on National Climate Change Program," (June 4, 2007), [http://news.xinhuanet.com/english/2007-06/04/content\\_6197309.htm](http://news.xinhuanet.com/english/2007-06/04/content_6197309.htm).

<sup>54</sup> Joanna Lewis, "Energy and Climate Goals of China's 12th Five-Year Plan," *Center for Climate and Energy Solutions* (March 2011), <http://www.c2es.org/international/key-country-policies/china/energy-climate-goals-twelfth-five-year-plan>.

<sup>55</sup> Xinhua, "Nepal, China Join Hands in Tackling Climate Change," *Global Times* (April 8, 2014), <http://www.globaltimes.cn/content/853123.shtml>.



and China on hydropower investment and economic aid also ties in tangentially to concerns of environment and climate changes related to specific project impacts.

The foregoing analysis of the national and emerging bilateral policies of Nepal and its rival neighbors, India and China, shows that each of the states are pursuing primarily domestic-based policies responding to global framework related to climate change and environment. The trend is noticeable even in the issues of bilateral and trilateral concerns, such as the Himalayan glacier retreat and long-term water resources. While there have been policy innovation in the regional forum such as SAARC, there is distinct lack of the expected tripartite interaction. Thus, the current state of policy does not directly allow us to test the theory of wedging and provide evidence or lack thereof in Nepal's wedging behavior. As has been stated, this maybe simply due to the fact that the issue of climate change is so recent that the structure of competition and bargaining has not been reflected in the tripartite negotiations. While we may not make bold claims on the central question of wedging, it is still possible to see signs of possible future material benefits that Nepal might enjoy from its geographical condition of being a wedge. Below I analyze one such instance of tripartite collaboration on environmental issue; however, the instigating agent of that budding interaction is none of the three states but an international non-governmental organization, a non-state actor.

#### A CASE OF TRANSBOUNDARY CONSERVATION

In the fragile and shared ecosystems of the Himalayas, various forms of governance and cooperative partnerships among different sets of actors operate. The adjoining state-level should be expected to be the primary and leading actors of transboundary cooperation in the interstate regions of the mountain ranges. And indeed many national conservation reserves and protected areas are situated in the bordering areas with the adjoining transboundary region also being conserved. In eastern Himalayas, the Kanchenjunga Landscape includes various conservation areas in Nepal, India, and Bhutan and in the central Himalayas, including the Everest region, several conservation areas cross borders between Nepal and Tibet. Yet, the state-level transboundary conservation agreements between Nepal and its Himalayan neighbors have been insufficient and insubstantial.

However, for the last several decades numerous international non-state actors engaged in local and regional, transboundary conservation efforts have occupied the policy space vacated by the states. Some of those actors include the World Wildlife Fund, World Resources Institute, International Rivers, and International Union for Conservation of Nature, among many other local NGOs as well as the interstate body United Nations Environmental Program. In the context of this study, the net accrued gains of these non-state activities has been on the whole beneficial to a developing Nepal—especially, in the form of accumulated scientific knowledge, development in technical and human resources, and financial grants and projects of various types—although they do not accrue from state-level wedging strategies but are simply the product of Nepal being the geographic wedge in the Himalayan region.

That forms of non-state governance structures have matured in one case to attract state-level support and coordination of the neighboring states. The case of International Center for Integrated Mountain Development (ICIMOD) and its Kailash Sacred Landscape (KSL) project is just such an example and is reviewed below.

### ***ICIMOD and Mt. Kailash Transboundary Conservation***

ICIMOD was founded in 1984 as an international center based in Kathmandu for research, scholarship and partnership for the wellbeing of the hill farming community in the Hindu-Kush Himalayan region. ICIMOD members include eight states, Afghanistan, Pakistan, India, China, Nepal, Bhutan and Myanmar, each represented by an official in its governing board, as well as other experts and outside representatives. Initially, the financing was donated funds by a few European donor governments but now member states provide funding as do other international funding agencies. In those early years of its existence, the mere fact that a single regional organization would be able to bring together these states despite their simmering conflicts and border disputes for the sake of the livelihoods of the Himalayan peoples seemed a tall task.<sup>56</sup> In the last three decades ICIMOD has met that challenge to become a well-established and respected policy and partnership organization in the arena of mountain ecosystem and livelihood conservation, and it has also been able to engage the governments of each of its member states,

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<sup>56</sup> Kanak Mani Dixit, "ICIMOD Searches for Its Soul," *HIMAL Southasian* May 1987.

including the initially reluctant Myanmar and China, in various conservation initiatives, conducting collaborative research projects and policy exchanges.<sup>57</sup>

In the Southwestern part of Tibet, adjoining Nepal and India, there is a mountain that has remained sacred to the Hindus, Buddhists and other regional religious traditions for centuries, called Mount Kailash. Every year thousands of pilgrims and tourists from South Asia and beyond make the arduous journey to this remote area to see the mountain and to visit the nearby holy lake called Mansarovar. The religious, cultural and ecological importance of the sacred landscape surrounding Mt. Kailash has made it been the site of large-scale conservation effort in the last half-decade. The unique fact about this conservation effort is that the Greater Kailash region conservation area spans an area of over 31 thousand square kilometers and includes territories of the three states, China, India and Nepal.<sup>58</sup> The region is a transboundary conservation area (TCA), which is defined as “an area that straddles international boundaries and is managed cooperatively for conservation purposes and may include adjacent national parks and other protected areas,” and have been in existence for a long time to meet the needs of conservation and traditional biodiversity and habitat preservation across bordering regions all over the world.<sup>59</sup>

Called the Kailash Sacred Landscape Conservation and Development Initiative (KSL), the project was spearheaded by the efforts of ICIMOD with initial funding from the United Nations Environment Program (UNEP) and the German government foreign development assistance. With the stated mission of promoting a “regional collaborative

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<sup>57</sup> Saleem H. Ali, *Ecological Cooperation in South Asia: The Way Forward* (Washington DC: New America Foundation, January 2013), [http://www.newamerica.net/sites/newamerica.net/files/policydocs/Ali\\_EcologicalCooperation\\_NAF\\_0.pdf](http://www.newamerica.net/sites/newamerica.net/files/policydocs/Ali_EcologicalCooperation_NAF_0.pdf). 7.

<sup>58</sup> United Nations Environment Programme (UNEP), "South-South Cooperation Case Study: Transboundary Biodiversity Initiative between China, India and Nepal for the Conservation of the Mount Kailash Sacred Himalayan Landscape," (n.d.), <http://www.unep.org/SOUTH-SOUTH-COOPERATION/case/casefiles.aspx?csno=49>; Press Trust of India, "India, China, Nepal Agree on Kailash Issue," (December 19, 2010), <http://ibnlive.in.com/news/india-china-nepal-agree-on-kailash-issue/137938-2.html>.

<sup>59</sup> Conservation.org, "Transboundary Conservation," [http://www.conservation.org/publications/Pages/transboundary\\_conservation.aspx](http://www.conservation.org/publications/Pages/transboundary_conservation.aspx).

program to promote transboundary cooperation for biodiversity conservation and sustainable development,” KSI led by ICIMOD’s leadership has been able to obtain the buy-in from the three states involved. ICIMOD also serves as the coordinating body of KSL-related activities as they are conducted by the governmental institutes and ministries.<sup>60</sup> The various participating governmental and educational agencies in the three member states include: GB Pant Institute of Himalayan Environment and Development (GBPIHED) under the Indian Ministry of Environment, Forests and Climate Change; the Institute of Geography Sciences and Natural Resources Research (IGSNRR), under the state body Chinese Academy of Sciences (CAS); and the Department of Forests under the Nepalese Ministry of Soil Conservation and Forests as well as the Central Department of Botany, at Nepal’s national university, Tribhuvan University.<sup>61</sup> These institutions and the national governments have begun to engage in collaborative research and policy exchanges.

The KSL conservation initiative is a long-term project, which only completed its first phase in January 2011. That phase produced a Regional Cooperation Framework with the agreement with the three member states. That phase also produced a Regional Conservation Strategy to promote the goals of biodiversity and sustainable development; and the Comprehensive Environmental Monitoring Strategic Plan, which is the long-term capacity building and research plan to study the impacts of climate change in the Kailash Landscape region.<sup>62</sup> Currently, the KSL initiative is in its second five-year phase of implementing the consolidated plans.<sup>63</sup> ICIMOD and KSL’s achievement in bringing the three states together in an enduring cooperative project plan of conservation of the shared environmental region is unique.

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<sup>60</sup> Ali, *Ecological Cooperation in South Asia: The Way Forward*

<sup>61</sup> United Nations Environment Programme (UNEP), "South-South Cooperation Case Study: Transboundary Biodiversity Initiative between China, India and Nepal for the Conservation of the Mount Kailash Sacred Himalayan Landscape".

<sup>62</sup> Ibid., 5.

<sup>63</sup> ICIMOD, Kailash Sacred Landscape: About the Programme, (n.d.), <http://www.icimod.org/?q=9457>.

## CONCLUSION

The case of environmental cooperation in the face of climate change has proven to be a tough case to demonstrate evidence of Nepal's wedging behavior. The reason for this is the fact of this phenomenon's recent emergence compared to other cases and the fact that the intractable global and regional frameworks constitute the bulk of the emerging policy framework. The foregoing analysis is unable to decisively answer the existence of Nepal's wedge state benefit, and the existing state of data is found to be insufficient to confirm or deny the validity of the two of the three test hypotheses and is refuted in the third hypothesis. Regarding the independent effects of the domestic system of government (H1) on the climate change negotiations or regional cooperation, the analysis does not find conclusive evidence either way. The third hypothesis (H3), on the negative effect of trade dependence on wedge state gains, can be refuted because the growing trade dependence has had no effect on the outcomes of the nascent policies on environmental cooperation.

We can still observe some pertinent findings for the second hypothesis (H2) regarding the positive effect of institutional, interdependent and transnational forms of globalization in the matter of interstate environmental cooperation producing wedging behavior. Based on the impact of internationally funded, transnational research organization, ICIMOD and the KSL project, a narrow argument can be made regarding the positive impact of globalization on the possibility of interstate environmental cooperation. Still, even that case doesn't provide us much evidence of wedging or material gains for the wedge state, other than Nepal's minimal gain in capacity building and research exchange, which might have been possible regardless of the wedge state status. The global climate framework, UNFCCC, and its LDC Fund, which has begun to fund a number of climate adaptation projects in Nepal, can also be seen as evidence of the effects of globalization leading to direct material benefits of Nepal. But that instance does not obtain from the tripartite interaction or the status of Nepal's wedge status, which are the core concerns of this research.

The possible contours of the regional and bilateral policies in environmental cooperation and adaptive measures to climate change effects in the Himalayan region is

yet to be seen. As this chapter has analyzed, the region and the three states are faced with long-term challenges in the form of retreating Himalayan glaciers and availability of freshwater resources, among many shared climate vulnerabilities and impacts. The negotiations in the global framework might eventually bear positive fruit. Yet, the current stance of both China and India for their right to economic and social development seems likely to preclude a grand bargain in the short to medium term. The policy negotiation in the regional forum is inherently limited by the lack of resources of the member nations and the lack of leadership by India. Finally, although the national policies are slowly beginning to take shape, they may either be too insular or are to be implemented too far in the future to provide concrete avenues of cooperation in the short-term.

The review of the official national and regional policies reflects the absence of tripartite interaction in environmental cooperation and climate change. The evidence suggests that we cannot speak of Nepal's gaining material benefits from wedging as hypothesized. However, the negotiations and bargaining in water resources might occur in an ad hoc bilateral basis when the issue of hydropower projects, dam building, irrigation and flooding arise. In future research, those negotiations could be analyzed to test if Nepal's share of benefits is higher than would be expected or its share of costs are lower having been borne by one of its richer rival power neighbors.

Finally, the case of the ongoing transboundary conservation in the KSL can be seen as an instance of a newer form of tripartite cooperation in promoting the ideas of "international environmental regimes" which may benefit all the member states. The mode of governance in these regimes might not follow the tradition state-to-state negotiations based on strategic benefits-costs analysis. These newer forms of cooperative regimes may feature non-state actors as leaders and shapers of cooperation. This development relates to the influence of societal actors and the effects of globalization in the interaction between small wedge states and rival major powers. All we can say is that if such novel forms of policy advancement continue, the metric of strategic autonomy and gains have to be thoroughly reimagined.

## CHAPTER VII

### DISCUSSION AND CONCLUSIONS

At this early period of the 21<sup>st</sup> century, the global system of states is characterized by the fact that, in sheer numerical terms, small states far outnumber larger states. The number of smaller states began swelling in the post-war years with the break-up of empires and the process of decolonization.<sup>1</sup> Despite the increase in their number, small states have not received adequate, systematic and careful scholarship in the field of international studies.<sup>2</sup> There are many reasons for the dearth of extant scholarship of small states. Foremost is the fact that most studies on small states suffer from their focus on matters of definitions and categorical comparison at the expense of analyzing their roles and functions in today's globalized world. If they are considered by the major theoretical schools of international relations at all, small states are consigned to a prescribed theoretical function of "balancing, bandwagoning or buffering" to explain away their independent existence. Additionally, most studies of major power–small state dynamics proceed from the perspective of the major power, categorically denying decisive authority to small states in interstate interactions, reminiscent of the ancient wisdom that "the strong do what they will, while the weak suffer what they must." This study shows that despite the ambiguities of definition or the dismissive inclinations of mainstream theory, small states can be fruitfully studied and analyzed to help us better understand their roles and behaviors in the interstate system, which is an important dynamic of global politics.

The primary goal of this study is to fill the analytical blind spot on small states by extending the small states scholarship from mere debates of definition and categorization to their unique and evolving roles in the distinctive system of states that is emerging today. To that end, the major contribution of this study is to theorize the existence,

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<sup>1</sup> Lake and O'Mahony, "The Incredible Shrinking State: Explaining Change in the Territorial Size of Countries."

<sup>2</sup> Ingebritsen et al., *Small States in International Relations*.

distinguishing characteristics and the range of interstate behavior of a subclass of small states, that I call wedge states. The study contributes to the process of theory building and preliminary analysis of this category of small states by systematically using theoretically derived hypotheses to conduct empirical analysis of a single unit of analysis of a wedge state in its distinctive tripartite interaction with two rival major powers. Furthermore, the design of the study and the selection of the wedge state case of Nepal in its interaction with India and China allows methodical analysis of the wedge state interaction in three distinctive cases of trilateral, as well as regional and global, salience. This concluding chapter shall briefly: review the theoretical context of the wedge states in global politics and the expectations thereof; present a synthesis of findings from the case studies; analyze the implications and rival explanations as well as limitations of the findings on the theory of wedge states; and identify avenues for future research on small and wedge states scholarship.

#### THEORY OF WEDGE STATES AND EXPECTATIONS

Contrary to much of extant scholarship in IR, the current study proceeds from the puzzle of the smaller and weaker members of the present interstate system. The point of departure is the claim that small states must possess some strategic autonomy in their interstate interactions with greater powers given the empirical reality of many smaller states that are thriving economically and politically rather than being acutely vulnerable. In this age characterized by globalization, the small states in Northern Europe are the striking example of such anomaly, but so are many other small states as diverse as Chile, Uruguay, Qatar and Singapore, which have been able to overcome their prescribed vulnerability. What explains the seeming anomaly?

Because there are regional, historical and individual circumstances inherent in the explanations of each of these cases, I argue that not all small states can be lumped into one “residual category”<sup>3</sup> as has been done in most traditional theories. That tendency has produced the theoretical muddle so that there are as many definitions of small states as there are observers. Therefore, some small states may be more systematically

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<sup>3</sup> Ibid., 4.



characterized as small wedge states, based on their geography and simultaneous interaction with two major powers that are competitive or engaged in regional or global rivalry. The proposed theory of wedge states states defines them as those small states situated in an interactive and simultaneous relation with two rival powers such that the wedge states are expected to be able to engage in “wedging strategies” with those rival powers to expand their space for strategic autonomy. Wedging strategies denote any negotiations, bargaining and statecraft vis-à-vis the two rival powers that allow a wedge state to expand its payoffs. The expected outcome of expanded strategic autonomy may be observed in the higher level of material and political gains the wedge states receive from the interaction with the rival powers.

As a subclass of small states, we may analyze wedge states by deducing what the extant IR theories imply for small states. There are two primary goals of this direction of inquiry in this study. First, we want to explain the mere existence of wedge states. Do the states situated in a wedge position between two rival, greater powers even engage in strategies to maximize their gains? Second, we want to analyze the factors that might explain the level of gains accrued by the wedge state from its tripartite interaction with the rival powers. The extant theoretical perspectives inform our analysis of wedge states, making us aware of the types of factors and conditions necessary for wedge state behavior.

Four major theoretical perspectives are used to analyze the small, or wedge, states puzzle, all of which classify the wide-ranging concerns of their existence and functions for systematic analysis. The first theoretical tradition, the structural perspective, holds a deterministic view of small states and posits that the relative power differential between major powers and small (read, weak) states means that the latter have no strategic autonomy in the state system. In contrast, the evolving system of states perspective views the historical development of the current state system as imbuing the global arena with the laws, practices and norms of sovereignty, respect for international boundaries and institutional mechanisms of redress. All of these allow the small states to feel much more secure about their borders and to engage with major powers in interstate interactions on practically equal footing. The third perspective, the societal actors perspective, views the

internal dynamics of small states, their policies, processes and personalities, to explain the varying outcomes for different small states. For instance, a visionary leader may use astute statecraft to generate strategic autonomy in a small state despite its vulnerability, or the domestic institutional development and political maturity may explain the ability of some states to overcome their seeming vulnerability. Finally, the perspective of developmental studies and economics focuses on the inherent economic vulnerability of small states due to their low population levels and production capacities. These features make them price-takers in the global market system, swinging with the global market forces with no autonomic policies. The related view of critical international political economy (IPE) centers on the methods and ways to help small states build resilience by capturing niche markets or using global norms of fairness against the impersonal, hegemonic forces of the global capitalist system.

Each of these theoretical orientations implies and privileges the importance of certain factors and expectations regarding wedge states and wedging behavior. The evolving state system perspective identifies the two independent variables: type of state system and extent of sovereignty norms. The structural IR perspective posits the following IVs: the distribution of power, level of institutionalism and level of interdependence in the system. The societal actors perspective find these IVs to be important: the type of domestic political system, level of political stability, and the role of non-state actors in the wedge state. Finally, the developmental economics perspective highlights the importance of these IVs: level of trade dependence and level of economic development in the wedge state. While each of these IVs could be intensely analyzed, heeding the methodological advice of Arend Lijphart,<sup>4</sup> this study selects the following three IVs to generate test hypotheses: the type of domestic political system, whether it is authoritarian or democratic; the level of systemic interdependence, or political and economic globalization; and the level of trade dependence of the wedge state on either or both of the rival powers. The hypotheses from these IVs posit that the direction of the level of strategic autonomy (and material gains) is positive for democracy (H1); higher systemic interdependence (H2); and lower trade dependence (H3). The design of this

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<sup>4</sup> Lijphart, "Comparative Politics and the Comparative Method."

study uses a single-unit comparative case study method<sup>5</sup> to analyze the impact of the independent variables (IVs) on the outcome of wedge state behavior.

## COMPARATIVE CASES: FINDINGS AND IMPLICATIONS

The empirical case chosen is that of Nepal, which is posited to be a typical wedge state between the two major competitive powers, India and China. These three neighboring countries share centuries of history that involves trade, social and personal exchanges, and political interaction, and Nepal has historically sought to maintain a balanced relationship with both its powerful neighbors. The system of government in Nepal changed from an autocratic monarchical system to a parliamentary constitutional democracy in 1990. Subsequently, in 2008, Nepal abolished the monarchy to become a republic; however, this study considers the entire period after 1990 as parliamentary because no new republican constitution has yet been adopted.

In Nepal's wedge interaction with India and China, three empirical cases are identified for analysis: the Tibetan refugee case; the case of competitive investment strategies in Nepal's hydropower sector; and the case of environmental policy cooperation between the three states, which share the Himalayan geography highly vulnerable to climate change impacts. The detailed findings from the individual cases have been discussed in their respective chapters. Table 7.1 below summarizes the major findings related to the three hypotheses in each of the comparative cases, which is followed by a synthesis of the findings and implications.

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<sup>5</sup> Gerring, "What Is a Case Study and What Is It Good For?."

	<b>Case 1: Tibetan Refugees</b>	<b>Case 2: Hydropower Investments</b>	<b>Case 3: Environmental Cooperation</b>
<b>Type of government (H1)</b>	<p><i>H1: Refuted</i></p> <p>Policies adopted during monarchy continued after 1990 during democracy.</p>	<p><i>H1: Affirmed</i></p> <p>Type of government did not matter; but the ideological orientation of the governing party proved quite important.</p>	<p><i>H1: Inconclusive</i></p> <p>The climate change debate began only after the 1990 change in the type of government.</p>
<b>Level of Globalization (H2)</b>	<p><i>H2: Affirmed</i></p> <p>India-China interdependence meant that India became indifferent to the Tibet issue paving the path for Nepal policy direction with the attendant material gains.</p>	<p><i>H2: Affirmed</i></p> <p>Indian and Chinese globalized firms and state organs have been aggressively pursuing foreign investments, due to which Nepal's hydropower sector benefits.</p>	<p><i>H2: Inconclusive</i></p> <p>Global and regional forums not functional but transnational non-state actors have begun tripartite conservation efforts, which benefit Nepal when India and China also participate.</p>
<b>Level of trade dependence (H3)</b>	<p><i>H3: Refuted</i></p> <p>Policy direction adopted before Nepal became trade dependent with China.</p>	<p><i>H3: Refuted</i></p> <p>The effect is reversed; amid Nepali concerns of growing trade imbalance, China tries to placate with investment and aid.</p>	<p><i>H3: Refuted</i></p> <p>No effect of trade relations in the budding conservation policies.</p>

Table 7.1: Comparative Summary of Case Findings

On the narrow question of Nepal's tripartite relationship with India and China, the complex processes of global political and economic interdependence seem to have had the most salient impact on the material gains in all three cases. This finding broadly

confirms the implication of the structural liberal theories of interdependence on small states, while the developmental economics view of their enduring vulnerability is not supported. If a small wedge state has niche areas of comparative advantage, it may be able to receive higher level of material benefits from the rival powers in an interdependent system. Furthermore, the transnational perspective about the utility of non-state actors is also supported by the example of ICIMOD in the environmental cooperation case. The important role played by transnational non-state actors also supports the expectation of the societal actors perspective, which claims independent effects of non-state actors on small state gains. Therefore, economic and political globalization may be the necessary conditions for wedge states to derive higher benefits from the rival powers, while transnational non-state actors may be the intervening variables that catalyze such outcomes.

Another broad finding is that, in comparing the three cases Nepal has been able to maximize its material gains in the case of hydropower developments. Although the aggregate of approved projects are nowhere near the country's natural potential in absolute terms, the evolution of Nepal's policies towards attracting Indian and Chinese capital as well as the heavy courting by successive political leaders to entice those sources of financing shows Nepal's wedge behavior. These types of wedging activities are forestalled by China's sensitivity in the case of Tibetans, and are still nascent and nebulous in the case of environmental cooperation, which is the one distributive problem with high costs of inaction for all the parties involved. The reason for the latter may just be the difficulty of the global problem and the unsettled nature of policies and practices of interstate interaction on climate change in general. The hydropower investment issue is an instance of the body of well-established practices of capital-poor countries using appealing terms to attract foreign direct investments, which suggests that other wedge states might be able to negotiate beneficial bargaining arrangements in their natural resources sector.

The highly sensitive issue on Tibetan refugees shows that, despite the moral objections of state and non-state international friends of Tibetans everywhere, Nepal is pursuing a policy that accrues higher material gains, at least in the short-term. The

evidence is not perfectly conclusive whether the shift in policy is a direct result of Chinese pressure or due to the indifference of India. The study finds some evidence for the latter. Thus, a critical implication may be that acquiescing to Chinese wishes does not show Nepal's expansion of strategic autonomy. That criticism assumes that the official Nepalese position on morality and national interests is strictly aligned with the interests of Tibetans. This study uses the evidence of wedging behavior to see if there are higher levels of material gains, which Nepal definitely enjoys not only from the largess of China but paradoxically also by the fact that India is not withholding benefits because of the Nepal's Tibetan policy. The structuralist position may be bolstered by this outcome in that for these cases, which really matter to the powerful states, the outcome favors their positions. Yet, to reiterate, the function of Indian indifference complicates the picture. Therefore, for wedge states generally, we may need to analyze the interests and preferences both rival powers, even in issues that are politically sensitive to one of the powers.

The one finding that contradicts the expected outcome is the case of hydropower investments in relation to the trade dependence factor, the third hypothesis. As of the present, at least, Nepal's growing dependence on Chinese exports and the resulting escalation of the trade imbalance has produced the effect that China considers the prospects of investments in Nepal as a form of compensation. The investments and aid that China has made is not close to matching the aggregate of the balance of trade for the last decade. But in the case of hydropower investments, Nepal seems to be accruing higher material gains despite increasing trade dependence. A similar dynamic governs Nepal's dependent trade relationship with the other power, India. This finding is interesting but it may not be generally applicable to small states. In the sub-set of small states, this line of analysis may be necessary to further understand these phenomena.

A single study may not be adequate to confirm the theory of wedge states or make maximalist claims, but it does find some evidence that Nepal is able to engage in wedging interactions with the two rival powers, India and China. Also, it finds that the wedging may be more pronounced in some cases, less in other cases, and maybe not

present at all in still others. Three cumulative implications from these findings on the larger theoretical questions regarding wedge and small states are noteworthy.

The first major implication of this analysis is that interdependence and globalization may have quite fundamentally changed the interstate dynamic between small and major rival powers. Curiously, the connecting thread is the possibility of interdependent relationship between the major powers themselves, which allows the wedge state to seek positions that generates better material outcomes. In other words, now when the words “rival powers” are used, it does not signify the all-encompassing nature of the rivalry prevalent between the US and USSR during the Cold War. In this age, shared economic interests interconnect both China and India, although that doesn’t prevent either of those states from pursuing its national interests vis-à-vis the wedge state.

The second broad implication is that the wedge state has the autonomy define its own national interests in order to use wedging strategies to pursue them. Be it the shifting policy on Tibetan refugees or the particular policy evolution on hydropower investments, Nepal adopted the policies in that direction, although its long-term success in accumulating high material gains is still to be seen. The final major implication is that the role of societal or non-state actors cannot be overstated, although it is difficult to quantify if they are able to affect the wedging dynamics in a consequential and sustainable way. Either way, transnational and domestic non-state actors operating in small states may be able to produce cooperative outcomes along with material gains for those states.

An important qualification regarding these findings and implications is that the variation between the three cases, which are in different realms of tripartite engagement, should alert us to a definitional problem of small states discussed earlier in the study. That qualification is the need of using relational definitions of small states in their “spatio-temporal context,” which means to allow the “contextual, temporal and issue-specific” consideration of the interaction between small states and major powers.<sup>6</sup> Small states may be able to overcome their vulnerabilities only in certain issues and under

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<sup>6</sup> These concepts are considered in detail in the theoretical discussion in chapter II, and are derived from the work of Thorhallsson and Wivel, “Small States in the European Union: What Do We Know and What Would We Like to Know?”

supportive circumstances. This qualification may seem predictable and superfluous, but as the cases of Tibetan refugees and hydropower investment show, the major powers are much more amenable to beneficial cooperation in economic, trade and technical issues while their positions are hardened on the more sensitive, political and geostrategic interests. It would not be prudent to expect maximal strategic space on the latter category of cases.

## THEORETICAL AND EMPIRICAL LIMITATIONS

In terms of research design for robust testing of the proposed theory, a limitation of this study is that whatever depth it gains by the choice of the single-unit of study is compromised by the lack of breadth that a research design with more than one unit of study would consider. For an exercise in nascent theory building, that methodological limitation is to be expected. The study sought to broaden the applicability of its claims by choosing three disparate cases for analysis, each of which highlighted a unique interactive issue between the three states upon which the external and national forces acted at different levels. Despite these correctives, the findings of this study alone are not enough to make categorical claims regarding the theory of wedge states or the factors that mitigate the interactions between small states and major powers. A subsequent section on further research avenues suggests possible extension of this research program, which may ultimately lead to claims that are more robust. Here I discuss some limitations.

Only the effects of three IVs were explicitly analyzed in this study. Certainly, there may be rival explanations that would explain the wedge state problematic more elegantly. The literature review identified seven such prospects, including the independent effects of systematic influence of the emerging global system of states; the level of political instability; and the level of development in the wedge state, among others. The comprehensive case studies also highlighted the need to consider some such possibilities. Although not tested explicitly, the other societal actor variable—the level of domestic instability—must be acknowledged in all three cases to be of salience because for the duration of the study there have been countless government changes in Nepal as well as a couple major changes to the system of government itself. Although, political



instability must have had important effects, the cases were not able to isolate those effects.

Another explanation for the behavior of Nepal in its interaction with India and China may be the rational actor model in that each of the successive governments may have been compelled by circumstantial pressures to engage with either India or China in the manner they did. Yet, that position may only bolster the case of increased strategic autonomy on the part of internal political processes and competitions of wedge states, although it may not say much about the actual phenomenon of “the power of the small” itself.

A major design concern may be that the operational metric of material gains does not really capture the essence of the concept of strategic autonomy. It can simply be said that observers need to allow the states themselves to name their strategic space of independent action. Also, the measurement unit of the concept and the actual observation of material gains against the effect of the independent factors are to a degree subjective in a qualitative study. So it would be better if in future research endeavors a quantitative research design could be applied to the operationalization of the variables to verify the validity and the robustness of the findings from this study.

Other significant limitations of this research do not have to do with such theoretical or methodological concerns. The more arresting limitations are entirely based on empirical reality. During the period of this study, political developments in the real world seemed poised to overtake the results. On the larger claim of sacrosanct norms of small state sovereignty, the events in Ukraine that began in March 2014, and slowly took shape in Crimea and Eastern Ukraine, showed the limits of the evolution of a calcified state system. The Russian power seems to have punctured, what Stephen Krasner so memorably termed, the “organized hypocrisy” of the institution of sovereignty.<sup>7</sup> Yet, the fact that Kiev remains independent and not under the thumb of the Kremlin may suggest that even a small regional state situated under the shadow of a superpower may possess a modicum of strategic autonomy, albeit at great cost. Of course, Ukraine is not going to be

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<sup>7</sup> Krasner, *Sovereignty: Organized Hypocrisy*.

able to join the European Union or NATO anytime soon, but the newly elected government in Kiev remains staunchly pro-European in the face of suffocating pressure from the Kremlin. Also, the Western condemnation and sanctions against Russian acts of “aggression” show that those principles of international laws on state boundaries are not totally a sham. Therefore, at present, the Ukrainian example is still in flux and does not completely shatter the claims of small state sovereignty and security.

In regards to the empirical cases, the Tibetan refugees issue has been stuck in an intractable state. But in the other two cases, recent developments in the political realm began to influence the tripartite dynamic from what was observed in period of this study, although the direction of change suggested more wedging dynamics and not less. In those cases, new developments will have to be considered in future studies of the tripartite interaction.

In August 2014, the new Indian Prime Minister Narendra Modi paid a state visit to Nepal, 17 years after the last time an Indian PM came to Nepal. The visit showed that Mr. Modi’s mass popularity transcends the border as he came bearing gifts and gave a highly publicized speech in the parliament. One of the most important matters on the agenda was Indian investment in large-scale hydropower projects in Nepal, many of which had been proposed more than two decades prior. These projects, including the 6500 MW jumbo-project of Pancheswor, have languished because of political distrust and instability as well as technical disagreements on the rates of sale of the produced electricity. The Indian Prime Minister gladdened the hearts of Nepali hydro-dreamers when he said, “Nepal can free India of its darkness with its electricity. But we don’t want free electricity, we want to buy it. Just by selling electricity to India, Nepal can find a place in the developed countries of the world.”<sup>8</sup> The actual material outcome of the visit was that the two states agreed to expedite the stalled power trade and power development agreements, which would govern expanded Indian investment in Nepal and allow the proposed projects to move forward. However, the breakthrough may yet be some time

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<sup>8</sup> Rama Lakshmi, “Modi’s Speech in Nepal Shows India Is Paying Attention to Its Neighbors,” *The Washington Post* (August 5, 2014), <http://www.washingtonpost.com/blogs/worldviews/wp/2014/08/05/modis-speech-in-nepal-shows-india-is-paying-attention-to-its-neighbors/>.

away. Mr. Modi also sweetened the deal by announcing to offer Nepal a \$1 billion concessional line of credit.<sup>9</sup>

If the promised projects materialize, this important visit and the aftermath may be seen as just another chapter of the two powers engaging in their rivalry to the benefit of Nepal. Clearly the subtext of the Indian promise of economic largesse was, of course, the new administration's goal of exceeding the intensified Chinese economic role in Nepal's energy and infrastructure sector in the last two decades.<sup>10</sup> Nepalese leaders sought to gain as much Indian support and financing from Mr. Modi, given the subtext that Beijing was already doing so much in the past two decades of what S. D. Muni, a famed analyst of Indian foreign policy, called "alienation between India and Nepal."<sup>11</sup> Predictably, a slightly mocking headline in the Chinese official news agency emphasized the fact that no actual hydropower deals were signed during the visit, despite glittering rhetoric from Mr. Modi.<sup>12</sup>

There were two additional regional and global developments towards the end of 2014, each of which may influence the third case of climate change cooperation. The 18<sup>th</sup> SAARC Summit was held in Kathmandu in November, and was expected to bring the member states into closer cooperation on environment. However, the summit ended without any such accord, sidetracked by the latest India-Pakistan row. Another development of note was the fact that some leaders from Pakistan and Nepal discussed granting full membership to China in the South Asian regional body to which India remained entirely unsympathetic. The calls from loyal partners for China, which has been an observer in SAARC since 2006, to be promoted to full member suggests Chinese

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<sup>9</sup> Paavan Mathema, "Narendra Modi Announces \$1 Billion Line of Credit for Nepal," *Live Mint, India* (August 3, 2014), <http://www.livemint.com/Politics/vWAKyIbE2DHu3EHxN0vU5L/Narendra-Modi-embarks-on-Nepal-visit.html>.

<sup>10</sup> Agence France-Presse (AFP), "China-India Energy Rivalry in Spotlight as Modi Visits Nepal," (August 2, 2014), <http://www.afp.com/en/news/china-india-energy-rivalry-spotlight-modi-visits-nepal>.

<sup>11</sup> Mathema, "Narendra Modi Announces \$1 Billion Line of Credit for Nepal".

<sup>12</sup> Zhou Shenping, "Modi Fails to Ink Hydropower Deal in Nepal, Hailed for Rhetoric," *Xinhua* (August 04, 2014), [http://www.shanghaidaily.com/article/article\\_xinhua.aspx?id=233452](http://www.shanghaidaily.com/article/article_xinhua.aspx?id=233452).

intentions of deeper, multi-dimensional interest in the South Asian region. Therefore, it can be surmised that the rivalry between China and India in the subcontinent has only just begun.

In the global climate change policy front, UNFCCC held the 20<sup>th</sup> Conference of Parties (COP) summit in Lima, Peru in early December 2014. Maybe owing to recent failures on achieving binding global agreements, expectations from the summit were low. Therefore, it was not that surprising that Lima COP was able to reach a global accord that is not a game-changer. States agreed to pledge to minimum voluntary emissions cuts, which is to say non-binding, so that all eyes are now trained in the next COP summit in Paris in 2015.<sup>13</sup> The upshot is that the cooperative policies on climate change are still evolving. Thus, neither the regional nor the global framework on climate change cooperation has changed enough to have any discernible effect in the tripartite dynamic in the Himalayas.

#### FURTHER RESEARCH

This study has largely been concerned with theory building to expand the scope of scholarship on small states in the fields of global politics. Subsequent studies could test the robustness of the proposed theory by applying the concept of wedge states to other states that exhibit wedging interaction with rivals that are more powerful and to historical instances of wedge states. Accumulation of a number of case studies of wedge states in their interactive behavior with their respective rival powers would help the cause of theory building. Just in the region of South Asia, states such as Bangladesh, Sri Lanka and Myanmar maybe studied in the context of their tripartite relationship with India and China. If those states, which do not directly border both the rival powers, exhibit wedging characteristics, it would also bolster the theoretical claim in that a wedge state need not necessarily be geographically located between two major powers. It may be pointed out that the case of Bhutan, which closely aligns with India would be the potential theory disconfirming case of a geographical wedge state that does not engage in wedging

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<sup>13</sup> BBC News, "Un Members Agree Deal at Lima Climate Talks," (December 14 2014), <http://www.bbc.com/news/science-environment-30468048>.

behavior. However, since Bhutan and China have outstanding unresolved border disputes, the case is dissimilar to the other natural candidates of wedging.

Other wedging case studies might expand to other continents or circumstances. It would be productive to study the case of South America, where a number of states are engaged in tripartite interaction with Brazil and Argentina. Europe is a difficult case at the moment, given the situation in Ukraine and the Russian actions, which as discussed above seem to negate the claims made by the evolving state systems perspective of respect for boundaries and sovereignty norms leading to small states feeling secure within their borders. Yet, there may be many other cases of historical and present wedge situations in Europe, which has been the cradle of the founding international institutions of sovereignty that took centuries of advancements and setbacks to emerge. The scholarship would benefit from the study of historical cases, such as Poland or Finland, of wedge states in Europe and elsewhere. Also, cases involving wedge situations where there are more than two rival powers operating on the wedge state, such as the historical case of Belgium, may be found and analyzed.

Another avenue to further research on the theory of wedge states and the topic of small states in general, is to apply a quantitative approach. It would be beneficial to further theory building as well as robust testing, if the various proposed independent variables (IVs) could be quantified and measured to explain the quantitative variance in the operational dependent variable (DV), the level of material gains from tripartite interaction, which would measure the effect of expanding strategic autonomy. In such a project, IVs other than the three used in this study could be researched for their independent effects to explain more the wedge dynamics. Ultimately, a global quantitative study of all possible small states to discern their outcomes in the measures of various IVs and the variance of their material gains and strategic autonomy would be the defining study in this research program on wedge states.

The present study is just one strand on the question of the power of small states in a system dominated by big powers that should animate IR for a long time. The additional webs of global and regional institutions, regimes and transnational actors should further complicate the small-large interaction. The increasing salience of cross-boundary arenas

of cooperation such as the environment, global finance and migration and many more, suggest expanding role and power of decisions for small states. The implications of this study of one small, wedge state indicates as much. As long as the global system of states contains both yams and boulders, they will be forced to interact resourcefully and cooperatively, just like Nepal, “a yam between two boulders,” does with its two giant neighbors.

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