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DEEPENING INDIA-NEPAL RELATIONS:
ASSESSING THE OUTCOMES OF PRACHANDA'S VISIT TO INDIA

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JUNE 10, 2023

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June 10, 2023
Hyderabad, India

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Deepening India-Nepal Relations: Assessing the Outcomes of Prachanda's Visit to India

by *Mohit Musaddi* and *Sanjay Pulipaka*

The India-Nepal relationship stands unique in many ways. It is characterised by an open border and easy movement of people, with an almost citizen-like treatment of each other's nationals. Such proximity and intense engagement generate opportunities but also come with their own set of challenges. Nepal Prime Minister Pushpa Kamal Dahal's (Prachanda) visit to India from May 31 to June 03 sought to address some of these challenges and intensify their multi-sectoral cooperation.

This is Prachanda's first bilateral foreign visit after assuming office in December last year. The visit is in tune with the long-standing tradition of Nepalese PMs choosing India as their first foreign visit. While Prachanda chose India as his first international visit when he was PM in 2016,[1] he had broken the tradition in 2008 by visiting Beijing before New Delhi. Then Chinese President Hu Jintao welcoming Prachanda noted, "Prime Minister has come to the Beijing Olympics' closing ceremony within a week after being sworn in... We highly appreciate that"[2]. PM Dahal again choosing India as his first bilateral trip this time, five months after assuming office, conveys that Kathmandu values and places a considerable premium on its relationship with Delhi. Beyond symbolism, despite the many challenges, this visit was aimed at deepening India-Nepal relations by facilitating talks, which focused on cooperation in connectivity and energy, under the broad ambit of increasing bilateral trade.

Connectivity

The easy movement of people and goods between the two countries implies that there will always be a need for quality infrastructure. Over the decades, India has been at the forefront of developing connectivity infrastructure in Nepal, and the East-West highway is a prime example. As the economic interactions have increased, there is now a need for an even larger connectivity infrastructure. PM Dahal and PM Modi jointly inaugurated a new cargo rail service from Bathnaha (India) to the Integrated Check Post (ICP) in Biratnagar (Nepal), which is an eight-kilometre route constructed by the Indian Railway Construction Company (IRCON) under a grant funded by the Indian government[3]. The project is part of an 18.6km long cross-border broad gauge railway line connecting eastern Nepal to India. Both passenger and freight trains are expected to run on this track in the future.

The two leaders also unveiled the e-plaque of the Kurtha-Bijalpura section of the passenger train service, which is the second phase built under the Jaynagar-Bardibas Rail Line Project. The service was opened for trains on May 01 this year. In addition to new railway lines and infrastructure, India will also provide training to enhance the capacity building of Nepalese railway personnel. The Janakpur-Jaynagar railway line has experienced a shortage of trained workforce in Nepal in the past. To overcome this challenge, 26 Indian railway officers were deputed to Nepal to train technicians on operating the new railway line in 2020[4]. Given that the density of railway interactions is bound to increase, the recent agreement on capacity building is forward-looking and factors in soft aspects of connectivity.

Further, through a virtual ceremony, both prime ministers inaugurated an ICP between Rupaidiha (Uttar Pradesh, India) and Nepalgunj (Banke, Nepal). Rupaidiha has good connectivity with important urban centres such as Lucknow[5],and the ICP will further spureconomic activity. They also laid the groundwork for another ICP at the Sunauli-Bhairahawa border, which was on hold for more than a decade owing to land acquisition issues[6]. Both sides also exchanged an MoU for the development of infrastructure at the Dodhara-Chandani check post along the border[7].

During the visit, there were discussions on additional air-entry routes and operationalisation of the Instrumental Landing System (ILS) at the Gautam Buddha International Airport (GBIA) in Bhairahawa, Nepal[8]. The GBIA has been funded by the Asian Development Bank (ADB) and OPEC Fund for International Development and constructed by China's Northwest Civil Aviation Airport Construction Group[9].

There is now also an increasing focus on digital financial connectivity between India and Nepal. In April 2022, Nepal became the fourth foreign country to operationalise the RuPay card, while Nepal also became the first country to adopt the unified payment interface (UPI) developed by India for digital transactions[10]. In this regard, an MoU was exchanged between the National Clearing House Limited Nepal (NCHL) and National Payment Company India Limited (NPCIL) for facilitating cross-border digital payments, which will result in "ease of payment of business transactions"[11].

Energy Cooperation

On energy connectivity, the Motihari-Amlekhganj petroleum pipeline was inaugurated in September 2019, and the two leaders reviewed its benefits. In addition, they laid the foundation stone for the Phase II of this pipeline, extending it from Amlekhganj to Chitwan (Nepal)[12]. Apart from this, an MoU was signed for a new pipeline between Siliguri (India) and Jhapa (Nepal) and the construction of two greenfield terminals in Chitwan and Jhapa under a Government of India grant[13]. The operationalisation of these pipelines will open up new industrial opportunities in Nepal. Both leaders also discussed the possibility of collaboration in establishing a fertiliser plant in Nepal[14].

Nepal's long-term strategy is to emerge as a hydro-energy hub exporting energy to regional countries, including India and Bangladesh. In the run-up to the visit, there was considerable discussion on the possibility of both countries signing a 25-year electricity deal[15]. Instead, the two countries signed a new long-term trade power agreement through which India will import 10,000 megawatts (MW) of power from Nepal in the next ten years. The agreement will enable both countries to bring predictable energy flows between India and Nepal. For a country that was importing electricity from India a few years ago[16], Nepal's emergence as an energy exporter bodes well for its economy. So far, India has been importing about 450 MW of electricity from Nepal. There were also discussions of PM Dahal seeking India's approval to export Nepal's electricity to Bangladesh. PM Dahal stated that "We have agreed that export of up to 50 MW of power from Nepal to Bangladesh via India will commence soon and the three countries will work out an agreement to this effect.[17]" Further, Kathmandu and Dhaka have reportedly agreed in principle to involve India in developing the 683 MW Sunkoshi 3 Hydropower project, making it a trilateral venture[18]. The project is located at the border of the Ramachhap and Kavrepalanchok districts of central Nepal.

The two Prime Ministers also reviewed the progress of the construction of other hydropower projects, such as the 900 MW Arun-III hydroelectric project (HEP) in Nepal. Further, a project development agreement was signed for the 669 MW Lower Arun HEP between SJVN and the Investment Board of Nepal[19]. The project site is located in the Sankhuwasabha and Bhojpur districts of Nepal and is expected to be completed within five years at a cost of INR 57.92 billion.[20] SJVN will also construct a 490 MW Arun IV HEP in a joint venture (JV) with Nepal Electricity Authority.

Contextualising the Visit

Prachanda's first foreign visit as Prime Minister had achieved several expected outcomes, if not entirely but in substantive measure. Instead of a 25-year agreement on electricity trade, both countries agreed to a ten-year agreement. While Kathmandu wanted an understanding on the air routes for inbound flights to Nepal via Mahendranagar, there was an agreement on low-level flights to use the L626 route that enters Nepal from the west over Mahendranagar. The agreement covers aircraft flying at an altitude of 15,000 to 24,000 ft, and there is an apprehension in Nepal that the altitude is low, which may prove to be uneconomical for jets.[21] Moving forward, agreements on long-term electricity trade and the use of each other's airspace along with airport development can be achieved with relative ease if there is a consultative, collaborative and integrated approach between the two countries right from the project initiation stage.

Overall, it is important to note that the visit took place in a specific political context, with Nepal being governed by a coalition government. Prachanda's Communist Party of Nepal (Maoist Centre) won only 32 seats in a 275-member House of Representatives, and yet he has been elected Prime Minister, initially in a coalition with KP Sharma Oli's Communist Party of Nepal – Unified Marxist-Leninist (CPN-UML) and now with the Sher Bahadur Deuba-led Nepali Congress. Beijing would be disappointed regarding Oli's breakup with Dahal, as an entirely communist-led government in Nepal would be in their interest. Nevertheless, the Communist Party of China (CPC) Secretary of the Sichuan Province, Wang Xiaohui, met PM Dahal at the latter's invitation in Kathmandu, a day before the PM was due to leave for India[22]. While the nature of the discussions remained unknown, a 20-member delegation from Prachanda's Party led by former Speaker Agni Sapkota was in China on the same dates, meeting senior CPC leaders[23]. A delegation of Oli's CPN-UML is also reportedly due to visit China.

Just before PM Dahal's visit, Nepal President Ram Chandra Poudel gave his assent to the Citizenship amendment legislation that would grant citizenship rights to women foreigners married to citizens of Nepal[24]. The ratification of the legislation elicited protests from the opposition CPN-UML party members[25]. While a fairly large number of women of Indian descent will benefit from the new legislation, there is an opinion that China may be upset with the development as "the law may give descendants of Tibetan refugees citizenship and property rights"[26].

More importantly, this visit must also be viewed in the context of a deepening economic crisis in Nepal. According to official figures of April 2023, the country plunged into its first recession in six decades as "economic output continued to be weighed down by inflation and political instability"[27]. Even though Nepal's gross foreign exchange reserves continue to be healthy, primarily due to overseas remittances, its domestic sector output remains a concern[28]. The agriculture sector performed poorly in the previous fiscal, while in the second quarter, the mining and quarrying sector posted a negative growth rate of 18.51 per cent compared to the first quarter growth which was 20.72 per cent[29]. According to the ADB, Nepal's expected GDP growth of 4.1 per cent in 2023 is only more than Sri Lanka and Pakistan among South Asian countries[30].

Meanwhile, its inflation rate has been forecasted at 7.4 per cent in 2023[31]. Nepal also has a debt problem, primarily from China. Major projects such as the International Airport in Pokhara and the GBIA at Bhairahawa, which were built under China's Belt and Road Initiative (BRI) have not managed to achieve the desired results[32]. The Nepalese leadership also feels that "China is reluctant to prioritise Nepal's projects"[33]. Another project, the Chobhar dry port, built with a loan from World Bank has not found the desired traffic, as "without an expressway linking it to the border, transporting goods to the Chobhar dry port is a hassle"[34].

Nevertheless, despite the serious economic crisis, the pegging of the Nepalese Rupee (NPR) to the Indian National Rupee (INR) at a flat rate of one INR to 1.6 NPR has provided a safety net. The NPR will always be dependent on the INR's value against the US Dollar. Even though the INR lost over 11 per cent in 2022, it was among the more stable currencies when compared to other emerging economies, which has also benefitted Nepal[35]. In South Asia, during the same period, the Sri Lankan Rupee depreciated by 44.8 per cent[36], while the Pakistan Rupee fell by over 27 per cent[37]. In terms of trade, Nepal ranks as the 34th largest trade partner for India and has a negative trade balance. In 2022-23, India's exports stood at over eight billion US dollars, while it imported goods worth 839.62 million US dollars[38]. However, these numbers do not capture the significant informal movement of goods and services between the two countries. These export-import statistics also do not fully reflect the people-to-people ties between the two countries.

During the India visit, PM Dahal took a two-day tour to Madhya Pradesh to visit urban management projects in Indore and the Mahakaleshwar temple in Ujjain. The visiting PM performed rituals at the temple dedicated to Lord Shiva[39]. There are several Shiva temples in Nepal, the most famous being the Pashupatinath Temple in Kathmandu, dedicated to Lord Pashupati, an incarnation of Lord Shiva. The temple visit reinforced the deep cultural and religious ties between the two countries.

The visit will be seen as a success by both Delhi and Kathmandu. Even though Prachanda's outreach to India before Beijing was largely along expected lines, it nevertheless indicates a positive start by a new government. Border issues were also raised in a cordial manner, and both sides agree that a diplomatic solution is the right way to move forward. There is also a need for mutual respect regarding security concerns, while people-to-people relations must continue to form the bedrock of the bilateral relationship. While the spectre of political instability continues to haunt Nepal, a stable government in Kathmandu this time will go a long way in further solidifying India-Nepal cooperation.

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A Sample List of Projects Discussed during Prachanda's Visit to India (May 31 to June 03, 2023). Map not to scale.

- Integrated Check Posts (ICP)
- Railways
- Petroleum Pipelines
- Hydro-Electric Projects

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