

## India-Nepal-China Relations & A Development Strategy For Nepal

RAKESH SOOD

**ABSTRACT** The last quarter of a century has been a period of continuing political transition for Nepal. It began with the introduction of constitutional monarchy and multiparty democracy in 1990, and following a decade-long Maoist insurgency, has led to the promulgation of a new Constitution which, unfortunately, failed to win the acceptance of all sections of society. Meanwhile, the 250-year-old monarchy stands abolished, with Nepal declaring itself a republic. The year 2015 was a particularly difficult one for the country, with the earthquake in April and then a five-month-long trade disruption provoked by the protests in the Terai against the new Constitution. Meanwhile, relations with India deteriorated. Nepal's dysfunctional politics came into play and once again, Nepal tried to use its 'China card'. But the reality is that the India-China relationship is much broader in scope. Nepal's political leadership needs a change of mindset in order to profit from the country's strategic location between the two fastest growing economies of Asia.

### INTRODUCTION

Nepal's two neighbours – China and India – are today the world's fastest growing economies. Yet Nepal has been unable to take advantage of this strategic geographical location. Not that Nepal is being expected to play a geopolitically strategic role between India and China. But analysts say that Nepal should at least be able to accrue certain economic benefits from being located right next to these two huge, emerging economies. This paper examines the reasons for Nepal's

sluggish economic performance, and argues that the principal reason lies in the country's dysfunctional politics. This has led to a fracturing of its polity, in terms of elimination of monarchy, fragmentation of older political parties, and emergence of new political forces which have failed to come together for the exercise of drafting the new Constitution on the basis of consensus. Only for a short period in the late 1990s was Nepal able to expand its exports significantly with India. Internal

**Observer Research Foundation (ORF)** is a public policy think-tank that aims to influence formulation of policies for building a strong and prosperous India. ORF pursues these goals by providing informed and productive inputs, in-depth research and stimulating discussions. The Foundation is supported in its mission by a cross-section of India's leading public figures, academic and business leaders.



To know more about  
ORF scan this code

political instability remains a key reason, as do attempts to exploit Nepali nationalism and its intertwining with anti-Indianism.

The paper's first section discusses recent developments in Nepal and their economic consequences, foremost of which are the massive earthquake of April 2015 and the five-month-long trade disruption following the adoption of the new Constitution towards the end of last year. The second section covers Prime Minister Narendra Modi's 'Neighbourhood First' policy and India's evolving engagement with the South Asian Association for Regional Cooperation (SAARC). India's relations with China as they pertain to Nepal and South Asia are the subject of the third section, while the fourth deals with India's relations with Nepal. The paper concludes by identifying the changes needed for a new development strategy for Nepal.

## **NEPAL'S POLITICAL TRANSITION AND IMPACT OF 2015**

Political transitions often take long to mature; Nepal's own is no exception. Beginning in 1989-90 with the first Jan Aandolan, it led to the 1990 Constitution which established a multi-party democracy together with a constitutional monarchy (though with considerably reduced powers than during the Panchayati Raj). A Maoist insurgency—which erupted in the mid-1990s and gradually expanded to cover more than half the country—lasted a decade, and the gains of multi-party democracy were quickly eroded, leading to political instability. Following the peace accord with the Maoists, an Interim Constitution was introduced in 2007 to pave the way for electing a Constituent Assembly in

2008. This exercise extended beyond the original deadline of 2010, finally being concluded in 2015. Meanwhile, the 250-year-old institution of monarchy was abolished and Nepal thereafter declared itself a “federal, secular, democratic republic”.

The first Jan Aandolan a quarter of a century ago and the decade-long Maoist insurgency exposed the limitations of Nepal's existing political structures in dealing with these challenges. The Jan Aandolan was led by the Nepali Congress and also actively supported by the Left parties, the two traditional political forces. The Palace accepted the demands but then began to backtrack. The resulting disenchantment, particularly in the rural areas, led to the growth of the Maoist insurgency. The Nepal Army owed its loyalty to the Palace while the Nepal police was neither trained nor equipped to deal with the insurgency which gradually spread to two-thirds of the country. The Palace used the ineffective handling of the insurgency to discredit the political parties. The decade-long insurgency led to an assertive ideology taking root in the rural areas, among the indigenous people (Janjatis) that constituted the Maoist support base. The assertiveness found fertile ground in the Terai among the Madhesis, though without the Maoist ideology. Madhesi leaders who had been part of the mainstream political parties but had seldom enjoyed positions of authority, began to voice their discontent and form their own parties. The same phenomenon was witnessed among the Tharus, another marginalised community in western Terai. These were the new political forces which found their voice in the last decade; they were the same communities who had believed that the new Constitution would

address their grievances. However, the new Constitution has proved to be controversial and large sections of the population (Madhesis, Tharus and Janjatis) are protesting against provisions that they consider discriminatory. In 2015, some of these protests turned violent, claiming more than 50 casualties.

Political stability thus remains elusive. Indeed, the last two decades would have seen as many as 22 prime ministers; current PM KP S Oli is the eighth PM since the Interim Constitution was introduced in 2008. For nearly a quarter of a century, Nepal's political instability and the preoccupation of its governments with internal political rivalries has had a negative impact on the business climate, trapping the country into a low-growth-equilibrium. Investment in infrastructure has faltered and coupled with large-scale migration, Nepal has become a remittance-dependent economy. Despite some measure of success in poverty reduction, Nepal remains one of the poorest countries in Asia.

Owing to a large part to remittances which account for nearly 30 percent of GDP, Nepal has been able to reduce the number of people living below 'extreme poverty' level (living on less than \$ 1.25 per day) from 53 percent of the population in 2003 to just below 25 percent in 2011. Progress has also been recorded in areas of primary education, maternal and infant mortality, and gender parity in terms of female enrolment in schools. Women's participation in the labour force has gone up, primarily on account of migration of males from rural areas. Much of this progress is reflective of the resilience of the Nepali people, as well as efforts of the

international community in pursuing the Millennium Development Goals.

In 2015, Nepal suffered two major shocks that would challenge the modest progress that the country has managed to achieve. The first was the earthquake in April, which claimed nearly 9,000 lives and caused financial losses estimated at \$ 7 billion, or a massive one-third of the country's GDP. The physical damage was estimated at \$ 5.2 billion and economic losses at \$1.9 billion. Needless to say, the disaster pushed down an estimated one million citizens back into poverty. Not long after, the political unrest provoked by the drafting of the new Constitution led to a major trade disruption for nearly five months, causing further economic slowdown and shortages of goods, especially fuel. The political squabbling also hampered post-earthquake recovery efforts and the institutional recovery mechanisms came into existence only in early 2016. Both these shocks have depressed the estimated growth figures for 2016 to a mere 1.5 percent. The political environment continues to be unstable, prolonging the quarter-century-long political transition even as Nepal seeks to meet the challenges of establishing a new federal structure which remains disputed by significant sections of the population.

## **MODI'S 'NEIGHBOURHOOD FIRST' POLICY**

Since assuming power in 2014, Prime Minister Modi has sought to impart a new momentum to India's ties with its immediate neighbours. In what is regarded as a strong statement of this policy, Modi invited political leaders of all the neighbouring countries to his

swearing in ceremony in May 2014. Two years later, however, the impact of the 'neighbourhood first' policy has been mixed, certainly in the case of Nepal.

In seeking to focus on the neighbourhood, the Modi government has been guided by geographical imperatives, the consequent need for connectivity in the region, geo-economics, and security concerns. For example, with the Bangladesh, Bhutan, India, Nepal (BBIN) initiative, the Modi government seeks to recreate the economic spaces that had been lost due to the old politics of boundaries and the Cold War. Such is also the intent of various other projects including the BIMSTEC (Bay of Bengal Initiative for Multi-Sectoral Technical and Economic Cooperation), the setting up of bus services between India and Bangladesh, a Bangladesh-India-Bhutan bus service, the Turkmenistan-Afghanistan-Pakistan-India (TAPI) pipeline, and India's involvement with the Chabahar port in Iran. While some of these projects were begun before Modi took office, his government is working to accelerate them. Not all these efforts have yielded positive outcomes. Still, it is clear that as India becomes the fastest growing economy in the region, it will push to enhance connectivity within the SAARC bloc, which remains the world's least interconnected region today. (Consider, for example, the fact that only five percent of trade in South Asia is intra-regional.)

India's development cooperation has emerged as a major pillar of its foreign policy in the 21st century. Consisting of a mix of development projects and soft loans in the form of Lines of Credit and grant assistance, it now extends beyond the traditional partners – Bhutan, Nepal and Afghanistan. From a total

\$200 million in 2000, India's aid budget has gone up nearly sevenfold to \$1.4 billion in 2015. A large part of this assistance is used for capacity-building and the training of foreign nationals in Indian educational and skills-building institutions. Given its lower costs, the effective Indian assistance in PPP terms has been estimated at \$ 5.3 billion, higher than the aid budgets of Norway or Australia. The concessional elements of LOCs would pull up this figure by over a billion dollars; the Modi government is using this in a focused manner, in an attempt to shape a narrative of shared prosperity.

A key reason underlying PM Modi's 'neighbourhood first' policy is the security imperative. Following conflict transitions in Sri Lanka and Nepal, the rise of jihadi extremism not only in Pakistan but also in Bangladesh and Maldives, and open and porous borders have led to enhanced security concerns with the neighbours. Pakistan and the issue of cross-border terrorism originating from there is a singular challenge that requires a different tool-kit. With other countries, however, there has been a welcome upswing in security cooperation. With Afghanistan and Maldives, for instance, it has taken the form of increased training; with Bangladesh and Myanmar, meanwhile, the focus is on border management and maritime security. Further, the India-China dialogue on counter-terrorism now covers developments in Afghanistan.

India's approach to SAARC has evolved over time, partly reflecting the post-Cold War changes of policy, the opening up of the Indian economy and its consequent transformation, the growing importance of both 'look East' and now 'act East' policies, looking for linkages

to Central Asia, and the changing regional and global situation. In the process, two significant policy shifts have occurred. The first was a willingness on India's part to make unilateral concessions to its neighbours without seeking reciprocity, which has been encapsulated as the Gujral Doctrine. The second shift was an active promotion of, and participation in regional connectivity and development projects in a SAARC framework—or failing that, in sub-regional frameworks in order to bypass Pakistan's veto. For SAARC members that are willing to join, the incentive is the opportunity to tap into the billion-strong Indian market and the fast-growing \$ 2-trillion Indian economy. BBIN is a modest outcome reflecting these shifts. In India's federal structure, the sub-regional approach also helps in bilateral diplomacy which has often faltered because Delhi could not persuade state governments in Chennai or Kolkata to lend their support to certain policy initiatives.

## INDIA - CHINA RELATIONS

India's immediate neighbours are not the only subjects of the Modi government's outreach; there is also China, and other major powers. As Chief Minister of Gujarat from 2000 to 2014, Modi had visited China three times, in the process, developing a personal rapport with President Xi Jinping. This convivial relationship was most evident when Modi received President Xi in Gujarat in 2014, and the gesture was reciprocated when PM Modi visited China the following year, and he and President Xi spent a day in Xian. China is India's most significant neighbour with an economy that is five times larger. In both the economic and geopolitical contexts, there is considerable asymmetry between India and

China though both countries have, over the last two decades, kept the bilateral relationship moving in a positive direction. The singular achievement of this process is that the boundary dispute is no longer the defining feature of the relationship. Trade has grown rapidly as have cultural and academic exchanges. Nearly 40 inter-governmental dialogues have been established to deal with the multi-dimensional relationship between the two countries.

Though both countries are engaged in a so-called 'strategic partnership', this term remains unconvincing given the thorns on the relationship. These issues include the unresolved boundary dispute, the issue of the China-Pakistan nexus, as well as the presence of the Dalai Lama and the issue of the Tibetan government-in-exile. Nevertheless, what is important is that just as India refuses to get seduced by the talk of playing the role of a 'swing state' in a US-China equation, China too realises the importance of developing a more cooperative relationship with India to achieve the long-term objective of Asian stability and resurgence. Both countries have found avenues of cooperation in multilateral fora and these opportunities are likely to expand as they work together in various channels such as the Shanghai Cooperation Organization (SCO), the Brazil-Russia-India-China-South Africa (BRICS) bloc, the Asian Infrastructure Investment Bank (AIIB) and the New Development Bank (NDB).

As the largest trading nation, the second largest recipient of foreign direct investment and the third largest source of investment abroad after US and Japan, China has embarked on the One Belt One Road (OBOR) initiative to develop a combination of railroad

and maritime connectivity across the Eurasian landmass. South Asian countries are a part of OBOR, particularly Pakistan as part of the China Pakistan Economic Corridor. This has generated security concerns in India as some of the projects are located in Pakistani Occupied Kashmir and the Northern Areas.

China's trade with SAARC has grown to nearly \$ 80 billion, 90 percent of which is accounted for by its trade with India. Like India, all of India's neighbours run trade deficits with China. In addition to OBOR, China is also seeking investment opportunities in the region. During his visit to India in 2014, President Xi had indicated that China would invest \$ 20 billion in India over a five-year period. In Sri Lanka, China has already emerged as the largest investor. In Bangladesh and Myanmar, China is undertaking port development and railroad projects, and in Nepal, airport and rail connectivity projects are among the agreements signed during PM Oli's recent visit. Various issues have been raised in connection with some of these projects, including the use of Chinese labour, economic viability to ensure repayment of loans, and environmental concerns. There is no denying, however, the need for investment in infrastructure in the SAARC community.

There is an erroneous notion that Nepal should be able to play off India and China against each other. However, as explained in the following section, such efforts have inevitably had the result of casting a shadow on India-Nepal relations and China quietly telling the Nepali authorities to repair their ties with India. In sum, managing the India-China relationship is far more important for both India and China and so far, neither has

allowed Nepal to play an influence on it, despite Nepal's sense of exaggerated importance in this regard.

## **INDIA – NEPAL RELATIONS**

Perhaps no two countries share as close and as complex a relationship as India and Nepal. The ties of a shared religion, culture and language have been cemented over centuries with ties of kinship. At a political level it found expression in the 1950 Treaty of Peace and Friendship which is today resented by large sections of the Nepali population for being “an unequal treaty”. However, Most Nepalis are unaware that it was Nepal's rulers who had pushed for this treaty in order to maintain the special ties with independent India that they had enjoyed with British India. A key driver was that Nepal's security concerns had been heightened by the Communist revolution in China in 1949 and its subsequent takeover of Tibet.

This treaty provides for an open border between India and Nepal and allows Nepali nationals to work in India without a work permit and enjoy 'national treatment' with regard to engaging in commercial and economic activities such as purchase of property and opening of bank accounts, on a non-reciprocal basis. The provisions of the 'secret' side letters to the treaty—which required Nepal to consult India on its defence requirements, a provision perceived as unfair by Nepalis and is often used by politicians to whip up anti-India sentiment—are no longer secret, much less observed. Today, the open border is used by Pakistan to infiltrate terrorists and pump in significant amounts of fake Indian currency. Although India has repeatedly agreed to review and update the

treaty, Nepal has sidestepped the issue at every opportunity. Clearly, a better political climate is necessary in dealing with the issue, which has become a convenient lightning rod in Nepal to whip up anti-Indian emotions.

Democratic forces in Nepal have often looked to India for help in their struggle; however, Indian involvement has also led to criticism about what is called 'Indian interventionism'. In 1950, the monarchy whose powers had been eroded by the Rana regime found asylum in India just as it was for the Maoist leaders in the 1990s. During the height of the Panchayat days, banned political parties often used Indian territory as a base to organise and launch their struggles for multi-party democracy. During this period, the Left movement was frequently infiltrated by the Palace to create tactical alliances by creating and manipulating its factions in the name of Nepali nationalism, by projecting Nepali Congress as a pro-Indian party with strong links to the Indian Congress. In this process, the original Communist Party of Nepal went through more than a dozen fractures, beginning in the 1960s and continuing into the 1990s. The machinations of the Palace of projecting Nepali nationalism with strong undercurrents of anti-Indianism were largely ignored by the Indian establishment. One reason was that the Palace was adept at making sure that its connections with Indian elites (with the Embassy in Kathmandu and the political leadership in Delhi) remained intact. This led to a relationship at the level of elites where Indian interests continued to be protected. However, an adverse public narrative began to take root. A consequence of this development was that this narrative became an integral part of the ideology of virtually all the Left parties as they competed

for political space with the Nepali Congress over the last four decades. In the interest of political pragmatism, the Left parties would put it aside when seeking power but often revive it in the form of Nepali nationalism when in opposition, to criticise the government of the day for being excessively 'pro-India'.

From the 1960s, the Palace also began to use the China card in its dealings with India. However, for China, its primary concern has remained the movement of the Tibetan refugees into Nepal and the activities of the Tibetan community in Nepal. To address these, the Chinese authorities maintained close ties with the Palace while links with Nepal's political parties were relatively low-key. During the decade-long Maoist insurgency, China was strongly supportive of the Palace, even providing military assistance to the Army when India and the rest of the international community was nudging the Palace to lift the Emergency rule and re-open political dialogue. None of the Maoist leaders received support from Beijing; on the contrary, many of them sought refuge in India, using the open border and the provisions of the 1950 Treaty to open bank accounts and rent properties. After the abolition of the monarchy in 2008, China moved to set up linkages with Nepal's political parties. However, China has consistently advised Nepali political leaders to manage their differences with India, in view of the close economic and cultural ties dictated by geography.

India's engagement with Nepal's politics tends to increase whenever there is growing political instability. The peace process with the Maoists that began in 2005 with their

coming into the political mainstream was no exception. India facilitated the dialogue between the political parties and the Maoists, as well as that between the Madhesis and the Nepali authorities following the 2007 Aandolan in the Terai. Nevertheless, it consciously refrained from offering any advice on the Constitution drafting exercise this time, though there were suggestions by Nepali politicians and opinion-makers inviting closer Indian engagement, as they grew impatient with the prolonged exercise. Eventually, it was a Nepali process that ended the first CA and prepared the ground for a fresh CA election in 2013 that led to the adoption of the new Constitution last year.

Notwithstanding the political ups and downs, economic ties between India and Nepal have grown in recent decades. Two-thirds of Nepal's foreign trade is with India, which also accounts for half of foreign direct investment into Nepal. Except for just two percent of Nepal's exports to China, the balance goes through Indian roads, railways and ports. The Nepali currency is pegged to the Indian Rupee. India's economic cooperation programme in Nepal has been extensive and has included building highways, optical fibre links, medical colleges, trauma centre, polytechnics, schools, health centres, and bridges, among other infrastructure. For flood protection and embankment construction in Nepal, for instance, India provides more than \$ 10 million annually. To facilitate the movement of goods and people, India is providing \$ 45 million to build four Integrated Check Posts on the border, \$ 100 million for extending two railway links out of the five under consideration, and \$ 110 million for rebuilding old postal roads in the Terai region. During Prime Minister Modi's

visit in August 2014, a \$ 1-billion concessional Line of Credit was announced and after the earthquake in April 2015, India pledged \$ 1 billion for Nepal's reconstruction (40 percent of which is grant component). About \$ 200 million is disbursed annually to the 125,000 Indian Army ex-servicemen as pensions, medical and social welfare schemes. The provision of iodised salt, conducting cataract and trachoma camps, gifting of ambulances and school buses in the remotest of Nepal's villages are some of the additional initiatives that have made a substantive difference to life in rural Nepal.

India's contribution in human resource development is significant; it provides 3,000 scholarships annually and more than 200 Nepali professionals undergo short-term training courses. Capacity-building also covers courses for Nepal Police and the Nepal Armed Police in addition to provision of transport and communication equipment. India has recently undertaken to construct the Nepal Police Academy. With the Nepal army, the ties cover joint exercises, equipment support and educational exchanges.

Potentially, the greatest advantage for both countries lies in the area of hydro power development. Nepal has a huge potential for hydel generation and India is a ready next-door consumer. At present, Nepal generates less than one percent of its potential and as a result, suffers from year-round shortages that lead to more than 12 hours a day of power cuts during the dry season, rendering industries uneconomical as they have to rely on diesel-generated power. Hydel generation could provide for energy security, help revive and create industry, generate employment, and address Nepal's current account deficit.



Ecologically, too, it would help in reducing Nepal's dependence on fossil fuels. Improving the prospects for river basin management would raise agricultural productivity. Yet this potential, though well documented, has remained hostage to the anti-Indian narrative and instead, Nepal is forced to import electricity from India. Following PM Modi's visits, two project development agreements were signed though it remains to be seen whether these will be implemented or instead fall victim to politics.

Despite such close ties, many analysts find it difficult to comprehend the reasons for the strong anti-Indian sentiment in sections of Nepali society. The reasons are complex – related to Nepal's small Bahun-Chettri elite, its ability to have good relations with the Indian elite even when taking an anti-Indian stance, by passing it off as something that needed to be done to serve narrow local political interests, and Indian elites' willingness to play along with this charade. The redemption is in the strong people-to-people connect, and while a Nepali politician may come to power on the plank of Nepali nationalism couched in anti-Indianism, such position can hardly be sustained once in power. Those who have sought to do so have often lost political power, sooner rather than later. However, in today's age dominated by electronic connectivity, this often generates negative fallout as has been seen during the last 12 months. This remains the biggest challenge for policymakers on both sides.

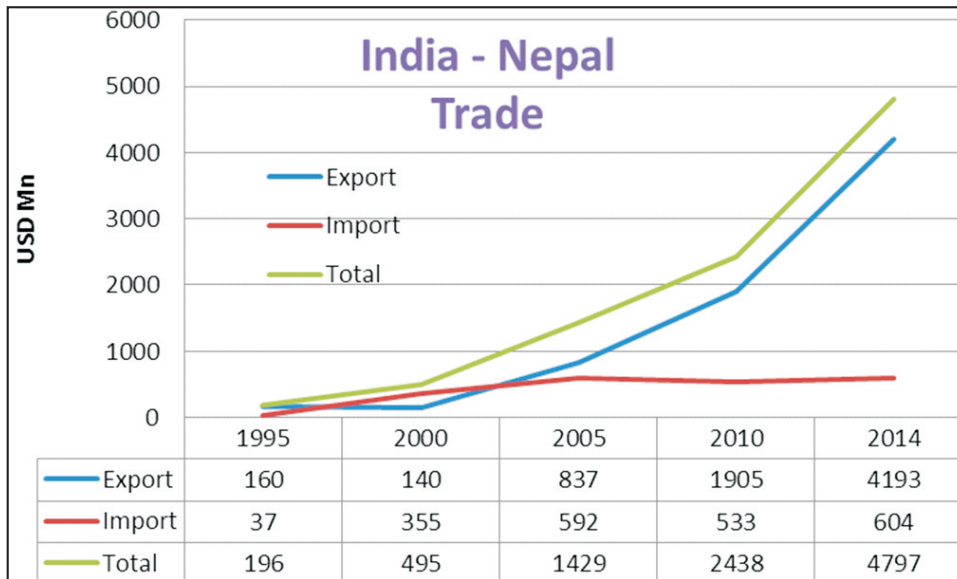
### **REPLACING 'YAM' BY 'BRIDGE' MINDSET**

More than 250 years ago, Prithvi Narayan Shah laid the foundations for the unified state of Nepal and also set out certain principles

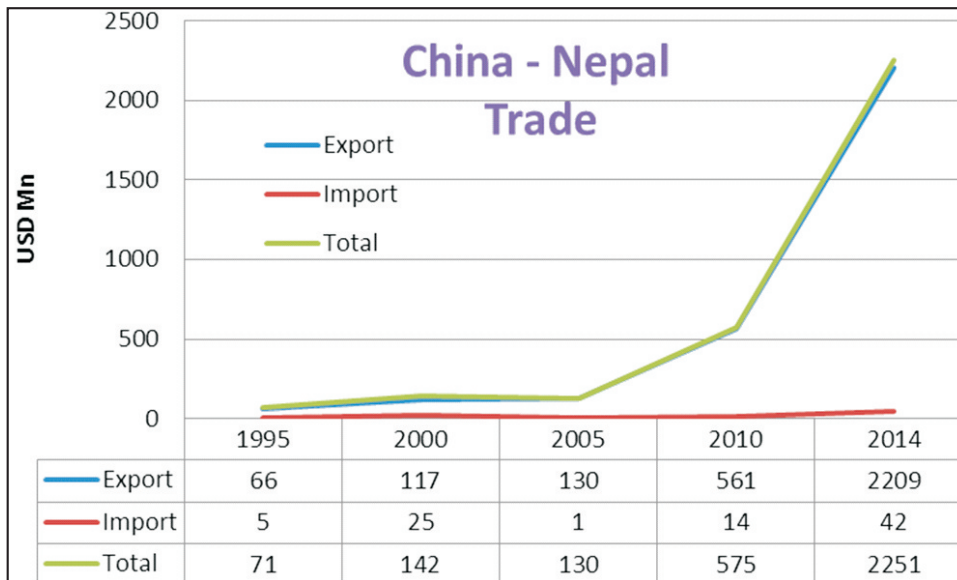
intended to guide the policies of Nepal in his Divya Upadesh. In it, he described Nepal as 'a yam between two boulders'. Prithvi Narayan Shah's world in the 18th century was a very different world. In the south, India was coming under increasing British influence after the Battle of Plassey in 1757 eventually leading to British rule after 1857. In the north, Tibet was an empire in its own right. During King Tribhuvan's years, Nepal's surroundings changed with India becoming independent in 1947 and the Maoist revolution establishing the People's Republic of China in 1949. Yet, this phrase, 'a yam between two boulders', which describes a geography, continues to be used today by Nepali leaders to describe a policy that a small country like Nepal needs to employ to play off its larger neighbours. Nothing could be farther from the ground reality; as discussed earlier, this policy has hardly served Nepal well.

Even a cursory look at the bilateral trade figures of India, China and Nepal reveals the economic reality of the evolving relationships. Figures 1, 2 and 3 show the growth in trade over a 20-year period covering 1995-2014. During this period, Nepal-China trade, starting from a low of \$ 70 million recorded a growth of over 3,000 percent – largely on account of growing Chinese imports from \$ 117 million to \$ 2.3 billion. Nepal's exports to China, meanwhile, have barely grown from \$ 25 million in 2000 to \$ 42 million (70 percent) in 2014. In comparison, India-Nepal trade has grown from \$ 196 million in 1995 to \$ 4.8 billion in 2014, registering a growth of more than 2,400 percent. In this instance, however, Nepal's exports to India grew rapidly with the new provisions of duty free access during the late 1990s, jumping from \$ 37 million in 1995 to over \$ 600 million (1,550 percent) in a

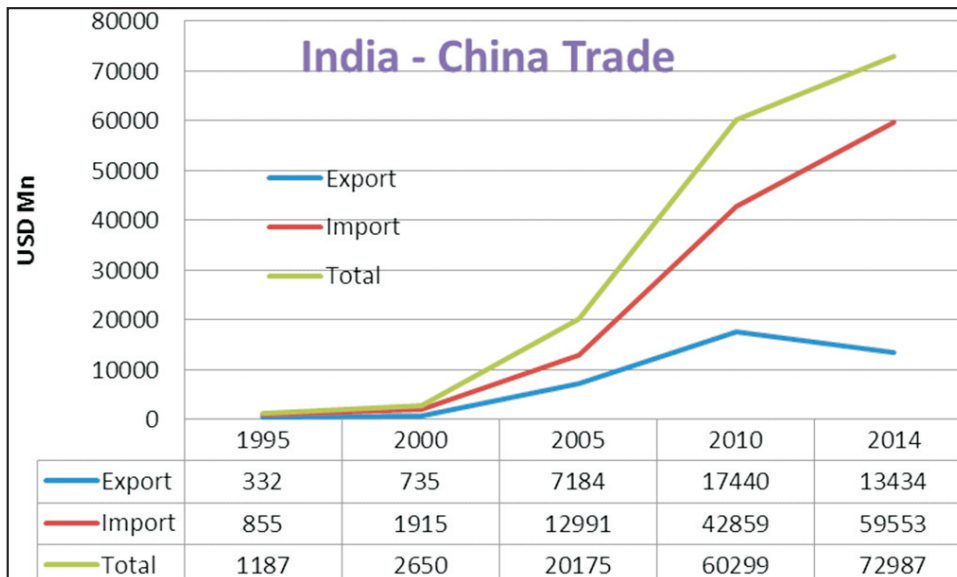
**Figure 1**



**Figure 2**



**Figure 3**




(Source: World Bank)

decade but have stagnated since because of absence of new investment. Perhaps the most startling is the growth in India-China trade: from \$1.18 billion in 1995 to nearly \$ 73 billion in 2014, or an increase of more than 6000%. Clearly, the economic relationship between India and China has become a far more significant factor than what the purveyors of the 'yam theory' realise.

In today's world, economic issues preoccupy the leadership in both India and China, and Nepali leaders have to jettison this outdated theory if Nepal has to benefit and exploit the opportunities arising from economic growth in its two large neighbours. China can certainly play a significant role in Nepal's economic development by supporting infrastructure growth but Nepal's geography ties it more closely to the SAARC markets. Just as China's 'peaceful rise' requires that it maintains a cooperative relationship with India, SAARC can only move forward with Indian lead.

From an academic perspective, a number of incremental proposals could be put forward though from the perspective of a practitioner, these might be illusory. The most recent example is the first visit by Modi in 2014 which had such a positive impact across the board but in less than 18 months, the gains were eroded. During his second visit, when Modi wanted to visit Janakpur and Lumbini,

Nepali authorities rejected the request, citing logistical and security issues; out of sensitivity to his Nepali hosts, Modi cancelled those visits. A large number of inter-governmental mechanisms exist between the two countries and in addition, business groups, think tanks, media and cultural groups have set up their own dialogue channels. Nepali leaders have to be weaned away from taking easy recourse to anti-Indianism for domestic politics and Indian elites have to understand that inter-state relations cannot be run on the basis of high-level personal assurances.

In the final analysis, therefore, Nepal has to resolve its dysfunctional politics and conclude its quarter-century-long political transition. The new Constitution, which should have been an occasion for celebration, has been overshadowed with a regression into polarised politics. If Nepal can overcome its domestic challenges it will find that 'bridge diplomacy' can better serve its interests. Modi had gotten off to a splendid start when he visited Nepal in 2014 and laid out the contours of the relationship that he wanted to see develop. To make a success of its 'neighbourhood first' policy, India needs to introspect and Modi needs to find a Nepal policy that can resurrect the image of India that he had successfully presented – of a friendly and caring India, sensitive to Nepal's concerns, and generous in seeking mutually beneficial partnerships. 

*(An earlier version of this paper was delivered by the author at a conference organised by SAIM (Nepal), IIDS (Nepal) and NTU (Singapore) in Kathmandu, on 19-20 May 2016.)*

ABOUT THE AUTHOR

**Rakesh Sood** served various positions in his 38-year-long diplomatic career — as Ambassador to the Conference on Disarmament (2000-2003), to Afghanistan (2005-2008), to Nepal (2008-2011), and to France (2011-2013), and as Prime Minister's Special Envoy for Disarmament and Non-Proliferation (2013-2014).



**Ideas • Forums • Leadership • Impact**

---

20, Rouse Avenue Institutional Area, New Delhi - 110 002, INDIA  
Ph. : +91-11-43520020, 30220020. Fax : +91-11-43520003, 23210773.  
E-mail: [contactus@orfonline.org](mailto:contactus@orfonline.org)  
Website: [www.orfonline.org](http://www.orfonline.org)