

The Strategic Hedging of Nepal under the Competition of China and India

Wang Chong^{1,a,*}

¹Graduate Department of International Relations, University of International Relations, Beijing,
100091, China

a. sssaharaw@163.com

*corresponding author

Abstract: Generally speaking, hedging strategy is used to describe the choice of Southeast Asian countries in the strategic competition between China and the United States. With the intensification of competition between China and India, this concept has also been extended to the strategic choice of South Asian secondary countries. This paper defines hedging as a complex strategic situation and chooses Nepal, which is very special in its geographical location and has a deep dependence on China and India, as the research object of hedging in the secondary countries in South Asia to explore the reasons for its choice of hedging, as well as the benefits of the Nepal Belt under the hedging strategy and the domestic factor h dilemma of Nepal.

Keywords: strategic hedging, Nepal, China

1. The Background of the Competition between China and India

For a long time, China and India have maintained a relatively harmonious neighborhood relationship despite little friction. However, in recent years, the relationship between China and India has declined, which has had a series of impacts on the geopolitics of South Asia and other countries in South Asia. The development of Sino-Indian relations can be attributed to the following:

First, South Asia has always been a relatively isolated region due to its location. Since the end of British colonial domination, great powers have not paid much attention to the region. As a country with an absolute power advantage in South Asia, India naturally regards secondary countries as its sphere of influence and adopts an authoritative model to treat these countries. Therefore, it is also highly vigilant to the forces entering this region. With the implementation and advancement of the Belt and Road initiative, China has made significant progress in its relations with Pakistanis, Sri Lanka, and other countries in South Asia and established close diplomatic and economic relations, which has plunged India into fear of being deprived of its central position in South Asia. In addition, in the first decade of the 21st century, China's maritime power has been growing, and its military presence has been enhanced in the waters of the Indian Ocean region. Its participation in the financing and construction of commercial and military ports such as Gwadar Port has created a security dilemma for India, where China is trying to fill the strategic gap in the Indian Ocean region [1]. Therefore, India's attitude towards China has become more cautious and vigilant.

Secondly, by the year 2014, when Narendra Modi was inaugurated as prime minister, it remolded

and publicized Hindu nationalism, taking Hindu nationalism as a political tool to bridge social caste and class contradictions with an ideological form covering the largest population in India, and earn votes for itself and maintain and stabilize its political foundation. The Modi government adopts a way of making enemies to promote Hindu nationalist sentiment. Under exaggeration, India picks up the great power's country's dream of reviving India. Under this goal, China becomes India's most significant obstacle to dominating Asia and becoming a world power. Therefore, China is regarded as the primary competitor of India. Guided by the characteristics of Hindutva, the Modi government's policy towards China is very tough and opportunistic. As a result, the Indian people's goodwill towards China has also significantly declined, which brings excellent uncertainty to China-India relations.

Thirdly, the turning point of Sino-Indian relations in the 21st century began with the Ladakh Union Territory in 2019 and the Galway clash in 2020. Although the Donglang Incident also occurred in 2017, the two countries tried their best to remain rational, and It soon cooled down. The Sino-Indian border conflict in 2020 not only occurred clashes and casualties but, more importantly, China and India's relations declined after the incident. India sees this as an important opportunity to eliminate dependence on China and vigorously develop Indian manufacturing. For this reason, the Modi government banned more than 100 Chinese APPs, restricted the development of Chinese companies such as Xiaomi in India, and tried to decouple the economy from China unilaterally. In addition, India took the opportunity of strategic competition between China and the United States to exchange investment, military assistance, and other benefits from the United States by deteriorating its relations with China, which brought new challenges to restoring China-India relations.

In summary, I believe Sino-Indian relations have reached the lowest point since establishing diplomatic ties. As a result, there is reason to believe that China-India relations have entered an era of strategic competition.

2. Hedging Strategy in South Asia States

The decline of Sino-Indian relations has brought new challenges to secondary countries in South Asia.

Initially, as a regional power in South Asia for a long time, India had an exclusive leading power there. However, since 2013, when the strategy of prioritizing surrounding countries was established, China's influence in South Asia has continued to rise. On the one hand, China has taken the initiative to bring about the success of the construction of the Belt and Road. However, on the other hand, South Asian countries have taken the initiative to introduce other regional powers -- China, for their consideration, to form a dynamic and balanced relationship with India; under this balance, secondary countries in South Asia generally choose the strategic means of hedging to handle their relations with the two countries [2].

Hedging, originally a financial term, was later introduced into international relations, especially after the rise of China. However, it was more applied to the strategic choices of Southeast Asian countries in the strategic competition between China and the United States. It was also applied to secondary South Asian countries to handle relations with China and India.

However, from a deeper perspective, there is a clear difference between the hedging of South Asian countries and the hedging of Southeast Asian countries. First, South Asian countries suffer more external pressure because of the fragmentation of geopolitics. Compared with Southeast Asian countries, South Asian countries have sharp and diverse ethnic, religious, border, and internal conflicts; In addition, with the introduction of the U.S. Indo-Pacific strategy, the strategic position of the Indian Ocean region in the United States has been enhanced, which forced South Asian countries to be involved in the strategic conflict between China and the United States. With the decline of relations after the border conflict between China and India, secondary South Asian

countries have simultaneously fallen into two groups of conflicts, which has increased the situation's complexity. Therefore, secondary countries in South Asia are participating in two groups of hedging at the same time.

Back to hedging itself, the definition of hedging is still relatively vague in the academic circle. Most scholars believe that hedging is the middle position between counterbalance and following. Some also believe that hedging is a combination of counterbalance and contacts, that is, betting on both sides, and some scholars believe that hedging is a very complex concept [3]. However, the purpose of hedging is not very controversial in the academic circle; the American scholar's Brock Tasman and Wotek Wolf summarized it clearly: strategic hedging can prevent a country from falling into two situations; one is that the relationship between the hedging country and the leading country deteriorates, leading to a military crisis; the other is that the leading country stops providing public goods related to the interests of the hedging country [4].

I agree that hedging is a complex concept, which cannot be briefly summarized as the relationship between counterbalance and following [5]. Because the degree of cooperation and confrontation of foreign policies in the process of hedging includes five strategies: contact, restraint, prevention, containment, and counterbalance [6]. Countries use different strategic combinations, so their hedging forms are not the same [7]. However, its strategic purpose is nothing more than two points: one is to realize the strategy of risk management, which is not a direct threat but more a prevention of the possibility of falling into risk; the other is to maximize their interests, that is, to obtain resources and assistance from great powers as much as possible to achieve their development [8,9].

3. Hedging Strategy of Nepal

This paper chooses Nepal as an example in studying the hedging behavior of secondary countries in South Asia between China and India because compared with Maldives' China policy dominated by counterbalance and Pakistan's China policy dominated by following, Nepal and Sri Lanka are the two most apparent countries in South Asia using hedging to treat China and India, and Nepal is more intuitive geographically.

3.1. Reasons and Ways of Hedging in Nepal

The main reason why Nepal chose hedging is that it is sandwiched between China and India. This is also why Nepal established its security concept during former King Prithvi Narayan Shah; that is, Nepal is a potato between the two pebbles of China and India. Therefore, Nepal's foreign policy has always been a fundamental problem maintaining the same distance from China and India [10].

Secondly, because high mountains block Nepal and China, China had minimal influence on Nepal before the 20th century due to its development and technological constraints. So, before that, Nepal's foreign trade heavily depended on India. India also hoped to take Nepal as its strategic depth. Therefore, India has been actively developing relations with Nepal. In particular, Modi's assumption of leadership has brought a short honeymoon period to bilateral relations, after which the cooperation between the two countries at multiple levels, such as inland waterway connectivity and road transportation [11]. In addition, India has been providing Nepal with military equipment and training. Therefore, India has always had considerable influence in Nepal, and the two sides have maintained close cooperation. However, India has been trying to interfere in Nepal's internal affairs, which has also caused Nepal to worry about its autonomy.

With the implementation of China's Belt and Road initiative, China pays more attention to its relations with neighboring countries. Nepal also takes this as an opportunity to gain practical benefits, eliminate India's dependence, and develop relations with China. In recent years, China has

become Nepal's second-largest trading partner and most significant source of FDI. India's relations with Nepal declined after the Madhesi incident in 2015, while China has further strengthened its influence in Nepal through a series of humanitarian assistance in Nepal.

Nepal has been practicing hedging between China and India to maintain a dynamic balance. Out of concern about India's attempts to interfere in its internal affairs, Nepal has taken the initiative to introduce China, another great power in this area, to achieve a dynamic balance of influence with India in Nepal. Through hedging, Nepal maintains its autonomy and increases its bargaining chips with India [12]. Furthermore, Nepal has actively responded to and joined the "Belt and Road" initiative. At the same time, it is also a founding member of the Asian infrastructure investment bank. Nepal takes these crucial measures to eliminate its single dependence on India.

Because of its unique geographical location between China and India, Nepal should maintain the contact distance between them as far as possible; otherwise, too close to either party will be regarded as a threat by the other party and put itself at risk. However, at the same time, Nepal will also appropriately break the balance and release signals to increase the sense of crisis of the other party to seek benefits for itself; the competition between India and China in investment and assistance in Nepal in recent years is the best example.

However, for small countries, the balance of such contacts is often challenging to master. Nepal will effectively maximize hedging by taking advantage of the constraints existing among its big countries. For example, in terms of infrastructure investment, India and China have made relevant investments in Nepal. China's construction of the Belt and Road has brought tangible economic benefits to Nepal, but it is still affected by geographical force majeure and transportation costs. Therefore, Nepal actively cooperates with India on oil and natural gas, allowing India to dilute the influence of the Belt and Road.

3.2. Benefits and Dilemmas of Nepal under Hedging Strategy

Under the hedging strategy, Nepal has made a series of substantial benefits, the most intuitive of which is in the economic aspect. China's direct investment in Nepal has been expanding in recent years. The total investment growth data shows that in the 2020-2021 fiscal year ending in the middle of July this year, Chinese Mainland committed to investing 22.5 billion Nepalese rupees in Nepal; it accounted for about 70% of the total investment committed by foreign investors in Nepal in the fiscal year, ranking first for six consecutive years; India's assistance to Nepal has soared by 73% in response to the rapid progress of China's infrastructure construction [13]. It is reported that the central government of India has decided to significantly increase its assistance to Nepal from this fiscal year in April, reaching 6.5 billion rupees, which has brought development opportunities to Nepal, which has a weak economic foundation, especially China and India has invested in infrastructure in Nepal [14]. In addition, there is military assistance from both countries; Nepal's stability is of great strategic significance to the stability of China's Tibet region; China and Nepal have signed military assistance agreements to strengthen Nepal's defense capabilities. China-Nepal military and security exchanges have maintained sound momentum recently; India and Nepal also have strong military ties. Recently, the Chief of Staff of the Indian Army also visited the Chief of Staff of the Nepal Army and handed over military assistance. The military assistance of the two countries is of great value to Nepal's stability. In addition, the game between China and India in Nepal has also improved Nepal's status, which has brought tangible benefits to Nepal. However, Nepal's hedging behavior still has incredible difficulties.

On the one hand, Nepal may have difficulties affecting its hedging behavior. On the other hand, Nepal has always been a politically unstable country. The struggle between parties and the struggle for power within the party has never stopped. Moreover, the constant domestic protests and the intensification of social conflicts have made the government spend much energy on political

struggle and stability, which seriously affects Nepal's foreign policy [15]. Therefore, Nepal's hedging strategy may also be forced to be interrupted or changed due to domestic political factors.

On the other hand, hedging will bring difficulties to Nepal. First, the factors of major cooperative countries should not be ignored. This can be divided into three situations. The first is that the relationship between China and India remains the status quo, so Nepal can continue to use hedging to achieve risk prevention and maximize its interests; The second is that the relationship between China and India has warmed up and improved, and the trilateral relationship between China, India, and Nepal has developed in-depth and achieved win-win cooperation; The third is the deterioration of China India relations, so Nepal, as the center of the storm, will have to face the pressure of side selection. Therefore, to some extent, Nepal's strategic choice also lacks autonomy.

Second, it is due to the intervention of the third party. In the current form, this factor is the United States. Nepal and the United States officially signed the Millennium Challenge Corporation Agreement this year. The assistance projects under the agreement are concentrated in the south of Nepal and the border with India. There are contents in the agreement that override the national sovereignty of Nepal, which reflects that the United States hopes to unite with India and bring small South Asian countries into the Indo-Pacific Strategy of the United States; this also has a noticeable impact on Nepal's policies [16].

Therefore, we need to be highly cautious about Nepal's future strategic choice and hedging between China and India.

4. Conclusion

In the context of the strategic competition between big countries, it is a complex problem for small countries to achieve their development while achieving balance among great powers. Nepal, as a country sandwiched between two great powers in the competition, is exposed to more significant pressure regarding geographical location. However, it also skillfully realizes risk prevention by taking advantage of hedging and the strategic combination of contact, prevention, and counterbalances involved in hedging, which has not brought about development for itself; however, due to the vulnerability of secondary countries and the instability of relations between major countries, Nepal will lack autonomy, so it is necessary to keep a high degree of vigilance and be careful about the relationship and distance between them.

References

- [1] Sayantan H . *The Indian Ocean as a new political and security region*[J]. *International Affairs*, 2022(3):3.
- [2] Yang Xiaoping. *Security Order in South Asia and India's Regional Strategic Choices* [J]. *Academic Exploration*, 2021 (04): 44-52
- [3] Gu Jiawei, Su Changhe. *Hedging Path, System Pressure and Strategic Effectiveness of Hedging in Korea since the 21st Century* [J]. *Northeast Asia Forum*, 2021,30 (06): 106-121+126. DOI: 10.13654/j.cnki.naf.2021.06.007
- [4] Tessman B , Wolfe W . *Great Powers and Strategic Hedging: The Case of Chinese Energy Security Strategy*[J]. *International Studies Review*, 2011, 13(2):214-240.
- [5] H Jürgen. *The concept of hedging and its application to Southeast Asia: a critique and a proposal for a modified conceptual and methodological framework*[J]. *International Relations of the Asia-Pacific*, 2019(3):3.
- [6] Cheng-Chwee K . *The Essence of Hedging: Malaysia and Singapore\'s Response to a Rising China*[J]. *Contemporary Southeast Asia*, 2008, 30(2):159-185.
- [7] Wang Dong. *Research on Hedging Behavior in International Relations -- Taking Asia Pacific Countries as an Example* [J]. *World Economy and Politics*, 2018 (10): 21-49+157
- [8] Sayantan H . *The Indian Ocean as a new political and security region*[J]. *International Affairs*, 2022(3):3.
- [9] Yuan Miao. *Risk in South Asia and Sri Lanka's Diplomatic Strategy from the Perspective of Hedging* [J]. *South Asia Research Quarterly*, 2021(04):37-55+157-158.DOI:10.13252/j.cnki.sasq.2021.04.03; Cheng-Chwee K . *The Essence of Hedging: Malaysia and Singapore\'s Response to a Rising China*[J]. *Contemporary Southeast Asia*, 2008, 30(2):159-185.

- [10] Rupak Sapkota, Zhao Xuedan, Wang Wenhua *China India Nepal Trilateralism: An Initiative Beyond Geopolitics* [J] *International Security Research*, 2016.
- [11] Lou Chunhao, Ma Zongxu. *Under the principle of "neighboring countries first", India is constantly consolidating its "South Asian backyard"?* [J] *World Knowledge*, 2022 (13): 18-21.
- [12] Feng Libing, Lian Changhui. *Strategic Hedging of Small South Asian Countries and China's Policy Choices in South Asia* [J]. *Foreign Affairs Review (Journal of Foreign Affairs University)*, 2022,39 (04): 87-109+6-7. DOI: 10.13569/j.cnki.far.2022.04.087.
- [13] <http://www.ccpit-henan.org/gbyj/20917.jhtml>
- [14] <https://www.hindustantimes.com/india-news/general-pande-gives-artillery-gear-mine-protected-vehicles-to-nepal-101662403292265.html>
- [15] Huang Zhengduo, Wang Wei. *Causes and Effects of the Intense Political Turbulence in Nepal in 2020* [J]. *Contemporary World Socialist Issues*, 2020 (04): 160-167. DOI: 10.16012/j.cnki.88375471.2020.04.016.
- [16] Dai Yonghong, Ji Guangli. *The U.S. Millennium Challenge Corporation's Assistance to South Asian Countries: Progress, Impact and Countermeasures* [J]. *Journal of Sichuan Normal University (Social Science Edition)*, 2021,48 (05): 65-75. DOI: 10.13734/j.cnki.1000-5315.2021.05.009.