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Balancing on the Roof of the World: Nepal's Hedging Strategy Between Indian Engagement and Chinese Ambition

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Abstract

This paper examines how Nepal has navigated its foreign policy since the critical inflection point of 2015. Situated between rising powers India and China, Nepal's maneuvers constitute a deliberate hedging strategy designed to maximize development opportunities and safeguard national sovereignty. The analysis first examines India's 'Neighborhood First' policy and its complex historical relationship with Nepal. It then explores China's Belt and Road Initiative (BRI) and the rationale behind Kathmandu's participation. Applying Cheng-Chwee Kuik's (2008) theoretical framework, the paper argues Nepal employs a dual strategy: 'binding engagement' with India to secure traditional ties, and 'strategic diversification' through China to mitigate dependencies. The competing cross-border railway proposals—India's Raxaul-Kathmandu line versus China's Kerung-Kathmandu line—are presented as a central case study empirically demonstrating this strategy. However, this approach faces significant challenges, including debt sustainability risks, security dilemmas, and domestic political fragmentation. Ultimately, this research contributes to small state literature by demonstrating how nations like Nepal can proactively shape their strategic environment in an era of intensifying great power competition.

Keywords: *Nepal's foreign policy, hedging, India-Nepal relations, China-Nepal relations, Belt and Road Initiative, Neighborhood First policy*

I. Introduction: The Himalayan Fulcrum

In the heart of the towering Himalayas, a complex geopolitical dynamic is unfolding. Nepal, a landlocked nation nestled between the colossal states of India and China, has long had its foreign policy defined by its geography. However, to view Nepal as a passive buffer state is to misread its contemporary strategic posture. It is more accurately a dynamic geopolitical fulcrum, actively maneuvering between two regional hegemonies. This paper addresses a central research question: How does a small state like Nepal actively construct its strategic autonomy when positioned between two competing powers?

The central argument of this paper is that Nepal's foreign policy since 2015 has evolved beyond traditional non-alignment into a proactive and calculated hedging strategy. This strategy is designed to simultaneously engage India to secure historical ties and manage its proximate influence, while also leveraging Chinese investment to diversify its dependencies and create a competitive dynamic that enhances its bargaining power. This conscious effort aims to secure economic and developmental benefits from both relationships while safeguarding Nepal's strategic freedom—its ability to make sovereign decisions without undue

influence from a single dominant partner.

This strategic recalibration is driven by a fundamental **structural power asymmetry**; Kathmandu cannot escape its geography, yet it must prevent dependency from becoming submission. The adoption of hedging, as opposed to passive balancing, allows Nepal to maximize its **small-state agency** by exploiting the competitive needs of its two giant neighbors. This framing elevates the study from a mere case description to a theoretical investigation of how vulnerable states manage their security and economic development in a multipolar system characterized by regional rivalry.

The historical context for this strategy is rooted in foundational treaties. The Treaty of Sugauli in 1816 demarcated Nepal's modern borders and initiated a long-term political relationship with British India (British Government, 1816). This was followed by the 1950 Indo-Nepal Treaty of Peace and Friendship, which established the cornerstone of a post-colonial "special relationship" with India (Government of India, 1950). This treaty created deep economic and security interdependence, facilitated by an open border, but also fostered perceptions of an asymmetric relationship that often chafed against Nepali nationalism.

The year 2015 marked a critical inflection point, acting as the catalyst for

Nepal's strategic recalibration. The promulgation of a new constitution was a profound assertion of sovereign will (Government of Nepal, 2015). The subsequent border blockade, widely attributed to Indian displeasure with the constitutional process, was a traumatic event that created severe hardship and exposed the acute vulnerabilities of over-dependence on a single partner (Thapa, 2021). This was not merely a logistical crisis; it was a profound political break for Nepal's political elite and public. It fundamentally and perhaps permanently altered the risk calculus associated with the "special relationship" with India. This event created a powerful national security imperative to secure alternative transit and trade routes to prevent a future strategic strangulation. This newfound political will in Kathmandu provided China a golden opportunity to frame its Belt and Road Initiative (BRI) projects not merely as economic investments, but as a guarantee of Nepal's sovereignty and resilience—a narrative that directly counters India's historical influence (Joshi, 2018).

This paper will proceed by first establishing the theoretical framework of hedging. It will then analyze Nepal's policy of binding engagement with India under its 'Neighborhood First' policy, followed by an examination of its diversification strategy through China's

BRI. A central case study on the competing cross-border railway projects will provide empirical depth. Finally, the paper will assess the enduring challenges of this strategy and conclude with an outlook on the future of Nepal's strategic autonomy.

II. The Theoretical Lens: Hedging in Small State Foreign Policy

To accurately analyze Nepal's foreign policy, this study employs a qualitative research design with a descriptive and analytical approach, drawing on policy documents, academic literature, and credible news sources. The analytical framework is rooted in the concept of hedging, a key strategy in international relations frequently adopted by smaller states caught between major competing powers. The term "balancing act," while intuitively appealing, is insufficient. In international relations theory, "balancing" refers to aligning against a perceived threat, which Nepal is not explicitly doing. Hedging, by contrast, better captures the proactive agency and deliberate policy choices involved, moving beyond the simplistic Cold War-era binaries of alignment versus non-alignment.

Hedging is a nuanced, middle-ground strategy for states that wish to avoid a hard alignment choice with one major power over another. It differs from

balancing (aligning against a threat) and bandwagoning (aligning with a dominant power). Instead, it involves cultivating a posture of strategic ambiguity and flexibility to maximize national interests. As articulated by Cheng-Chwee Kuik (2008), hedging comprises several distinct mechanisms, three of which are particularly relevant to Nepal's contemporary foreign policy:

- **Economic Pragmatism:** This involves prioritizing economic benefits from all available partners, regardless of their geopolitical alignment. A state pursues trade, investment, and development aid from multiple sources to fuel its national growth.
- **Strategic Diversification:** This is the core mechanism for reducing dependency. A smaller state actively cultivates diplomatic, economic, and security relationships with a range of major powers to ensure that it is not overly reliant on any single patron. This is the essence of Nepal's approach towards China.
- **Binding Engagement:** This mechanism involves enmeshing a powerful, and potentially threatening, neighbor in a dense web of cooperative agreements, institutional ties, and economic interdependence. The goal is to increase predictability, moderate the larger power's behavior, and give the

smaller state a voice within the relationship. This accurately describes Nepal's strategy towards India.

By adopting this framework, Nepal's seemingly contradictory actions can be understood as coherent components of a single, sophisticated strategy. The following sections will apply this lens to analyze Nepal's policies towards India as a strategy of binding engagement and its approach to China as a strategy of diversification. This reframing contributes to a broader scholarly understanding of how smaller states navigate the complex geopolitical currents of a multipolar world.

III. The Southern Pillar: Reassessing Binding Engagement with India

India has historically prioritized close relations with its immediate neighbors, an approach formalized under the 'Neighborhood First' policy. For Nepal, which shares a long, open border and deep historical, cultural, and religious ties with India, this policy is of paramount consequence. From a hedging perspective, Nepal's long-standing relationship with India is a clear strategy of binding engagement, aimed at enmeshing its larger neighbor to ensure predictability and manage potential threats through cooperation rather than confrontation.

The 'Neighborhood First' policy's stated objectives in Nepal are to enhance connectivity, boost trade, strengthen

cultural bonds, and ensure robust security partnerships. India views Nepal not merely as a security buffer but as a vital partner in regional initiatives, particularly concerning the management of water resources and the development of hydropower potential. This policy is fundamentally a reactive strategy, re-energized in large part to reclaim influence and counter China's growing inroads across South Asia. Its implementation is driven as much by competition with Beijing as by a purely proactive vision for regional integration.

Mechanisms of Binding Engagement

Nepal's binding strategy leverages deep-rooted interdependencies that make total disengagement from India virtually impossible. This "special relationship" is institutionalized through several key mechanisms:

Open Border and People-to-People Ties: The 1,751-kilometer open border is a unique phenomenon in South Asia. It facilitates the free movement of people for employment and marriage, creating what is often termed a 'Roti-Beti' (bread and daughter) relationship. Millions of Nepalis work in India, sending back vital remittances that sustain the Nepali economy. Furthermore, the continued recruitment of Gorkha soldiers into the Indian Army creates a profound, multi-generational security bond that "binds" the two nations at a grassroots level.

Development Partnership and Hydropower: India has historically been Nepal's largest development partner. While past projects often suffered from chronic delays—leading to significant anti-Indian sentiment—recent years have seen a concerted effort by New Delhi to accelerate delivery. The 900 MW Arun-III hydropower project, currently under construction by an Indian public sector undertaking (SJVN Limited), represents a shift towards more viable, large-scale economic engagement. Successful completion of such projects is critical for India to prove its credibility as a "binding" partner against the swift execution often associated with Chinese projects.

Accelerated Project Delivery and Connectivity: Beyond the large strategic projects, India has specifically focused on improving physical connectivity in the densely populated Terai region through Integrated Check Posts (ICPs) and cross-border railway links to enhance trade efficiency. The modernization of these transit points aims to mitigate supply chain bottlenecks that exacerbate crises like the 2015 blockade. This focus on visible, tangible delivery is crucial to mitigate Nepali perceptions of Indian bureaucratic inertia and demonstrate the tangible benefits of the 'Neighborhood First' policy.

Security Cooperation and Institutional Ties: The military and security relationship

constitutes a core, non-negotiable element of binding engagement. This includes regular joint military exercises, military-to-military dialogue, and comprehensive security reviews. The Indian Army's Gorkha regiments provide a unique cultural and institutional tie, ensuring a deep-rooted security interest in Nepal's stability and sovereign integrity.

The Friction of Interdependence and the Need for Hedging

However, this deep interdependence comes with significant frictions. India is caught in a dilemma: its primary tool for influence is deep engagement, but the very depth of this engagement is what generates friction and accusations of interference, thereby creating the political space for China's diversification strategy to succeed. The risks of this binding strategy from Nepal's perspective are apparent. A persistent issue is the perception of India as a "big brother" that micromanages Nepal's internal political affairs. The 2015 border blockade remains a collective trauma in Nepal, a stark reminder that "binding" can quickly turn into "strangulation" if political relations sour. Furthermore, sensitive territorial disputes in areas like Kalapani often ignite strong nationalist sentiment, complicating bilateral ties and providing ammunition for political factions in Kathmandu that favor a northern tilt.

The core challenge to effective binding engagement is the gap between India's stated policy intent and its on-the-ground implementation. Chronic delays and cost overruns, exemplified by large projects like the Pancheshwar Multipurpose Project—which has stalled for decades—create an analytical contrast with the rapid pace often promised by Chinese state-owned enterprises. This asymmetry in delivery erodes trust and validates the strategic imperative for diversification. The friction extends into the security domain; while the cooperation in intelligence sharing and military training maintains the security bond, the political optics of such deep integration often clashes with Nepali nationalist demands for strategic autonomy. This dilemma—where the mechanisms of binding engagement necessary for security are simultaneously viewed as symbols of unequal partnership by the public—forces Nepal's leaders to engage in continuous rhetorical hedging, balancing pragmatic dependence against nationalist sentiment. These challenges underscore the strategic imperative for Nepal to complement its southern binding engagement with a robust northern strategy of diversification.

IV. The Northern Gambit: Diversification through China's BRI

While India has been the dominant historical force in Nepal's foreign policy,

China's emergence as a major economic and strategic partner provides the primary vehicle for Nepal's hedging strategy of strategic diversification. This growing influence is most clearly demonstrated through the Belt and Road Initiative (BRI), which Nepal formally joined in 2017. For Nepal, the BRI presents a historic opportunity to reduce its suffocating geographic and economic dependence on India—a goal that has animated Nepali nationalism for decades.

China's strategic objectives in Nepal extend beyond pure economics. They include improving physical connectivity to South Asia, expanding its political footprint in India's traditional sphere of influence, and crucially, securing its strategic frontier in Tibet by ensuring Nepal remains cooperative on refugee and border issues.

Instruments of Diversification

Nepal employs Chinese engagement not just for development, but as a strategic counterweight. The BRI offers a model of rapid, large-scale infrastructure development that contrasts sharply with the often bureaucratic pace of Indian-backed projects.

Trans-Himalayan Multi-Dimensional Connectivity Network: This grand vision is the centerpiece of Nepal's diversification strategy. It goes beyond just roads to encompass a holistic web of

railways, aviation routes, optical fiber links, and trade ports designed to overcome the formidable barrier of the Himalayas. The opening of Chinese optical fiber links in 2018, for instance, ended India's absolute monopoly on Nepal's internet bandwidth, a small but highly symbolic victory for strategic autonomy.

Aviation and Infrastructure: Beyond future promises, China is delivering on present-day infrastructure. The construction of the Pokhara Regional International Airport, financed by Chinese loans and built by Chinese contractors, stands as a tangible symbol of this new partnership. It represents Nepal's ambition to connect directly with the broader region, bypassing Indian transit hubs. For instance, the Pokhara Regional International Airport was financed with a \$215.96 million loan from China EXIM Bank. This loan, structured with a 2% interest rate on 75% of the principal and a 20-year repayment window, forces Nepal to bear the foreign exchange risk and raises immediate concerns about long-term fiscal health. This financing structure, while facilitating strategic diversification, ties directly into the economic vulnerabilities discussed later in the paper.

Trade and Transit Diversification: The signing of the Transit Transport Agreement (2016) and subsequent

protocols allowing Nepal access to Chinese ports (Tianjin, Shenzhen, Lianyungang, and Zhanjiang) offered a direct counter to India's monopoly on third-country trade access, providing tangible legal and logistical diversification. This diplomatic achievement is strategically symbolic; however, the long distance to Chinese ports and the high cost of transportation currently limit the practical utility of this route for bulk trade, leading to low utilization rates. This demonstrates that strategic diversification is not always immediately economically viable in the short term, but is maintained for political leverage.

Energy and Technology Cooperation: China is actively involved in Nepal's energy sector, providing technology and investment for hydropower development, often stepping into projects that Western or Indian firms found too risky or politically complex. Furthermore, China's provision of communication infrastructure and 5G technology positions it as an indispensable partner in Nepal's digital future, creating technological dependencies that act as a new vector for influence.

Soft Power and Ideological Outreach: Diversification is also occurring in the socio-cultural realm. China has significantly increased its soft power footprint through a burgeoning number of

scholarships for Nepali students, the establishment of Confucius Institutes, and increased high-level political exchanges between the Communist Party of China (CPC) and Nepal's various communist factions. This ideological engagement provides Beijing with distinct channels of influence that New Delhi lacks.

Strategic Mismatch and Future Risks

However, this diversification strategy is not without risks. There is a potential mismatch in strategic priorities. For China, Nepal is one small piece in a grand global strategy; for Nepal, the BRI is a critical lifeline for immediate survival. Should Nepal's national interests diverge from China's broader geopolitical objectives—perhaps under pressure from the West—the terms of this new relationship could be severely tested. Furthermore, the "no strings attached" narrative of Chinese investment is increasingly being scrutinized. While China does not typically condition aid on human rights or democratic reforms, it does demand strict adherence to its core security interests, particularly regarding Tibet. This creates a new form of conditionality that Nepal must navigate carefully to avoid trading one form of dependency for another. The inherent geographical difficulties, particularly the high cost and complexity of Trans-Himalayan infrastructure, mean that Nepal

must also consistently manage domestic expectations regarding the feasibility and timeline of promised Chinese connectivity.

V. A Tale of Two Railways: The Geopolitics of Connectivity

Nowhere is Nepal's hedging strategy more visibly manifested than in the competing proposals for cross-border railways. These infrastructure projects are not merely technical undertakings; they are highly charged political symbols that embody the diverging strategic visions of India and China for the Himalayan region. For Nepal, they represent the tangible mechanisms of its hedging strategy: one reinforces historical binding engagement, while the other offers unprecedented strategic diversification. By simultaneously pursuing both, Kathmandu creates a competitive dynamic that enhances its bargaining power, signaling to both neighbors that it will not remain exclusively dependent on either.

The Indian proposal for a broad-gauge railway linking the border town of Raxaul to Kathmandu is a project of consolidation. It aims to upgrade and streamline the existing, deeply entrenched trade routes upon which Nepal is currently dependent. Given that over two-thirds of Nepal's trade currently passes through the southern border, this railway represents a logical, cost-effective enhancement of established economic integration. From

New Delhi's perspective, realizing this project is crucial to maintaining its traditional sphere of influence and countering the narrative that India is a "slow" partner compared to China. The Raxaul line, traversing easier terrain from the plains into the mid-hills, is technically less demanding and financially more viable than its northern counterpart (Ministry of External Affairs, 2020).

In stark contrast, the Chinese proposal for the Kerung-Kathmandu railway is a project of transformation. As a prominent component of the Trans-Himalayan Multi-Dimensional Connectivity Network under the BRI, this railway is designed to break the "Indian monopoly" on Nepal's transit options. For Nepali nationalists, it is the ultimate strategic insurance policy—a guarantee that a future border blockade by India could never again cripple the nation. However, moving this project from rhetoric to reality has proven immensely difficult, exposing the deep challenges of Nepal's diversification strategy.

The Domestic Political Battlefield

The choice between these railways has become a proxy for broader factional battles within Nepali politics. As noted by **Adhikari (2020)**, support for these projects often aligns with the ideological leanings and constituent bases of Nepal's major political parties.

Historically, factions within the Nepali Congress and Madhes-based parties have favored stronger connectivity with India, viewing the Raxaul line as a pragmatic step that benefits the dense population centers of the Terai and ensures smooth supply chains for essential goods. These parties argue that the **immediate economic security** provided by the southern line far outweighs the theoretical, distant gains of the northern route. Conversely, Communist factions—particularly during periods of unity between the CPN-UML and Maoist Centre—have aggressively championed the Kerung line as a nationalist imperative. For leaders like K.P. Sharma Oli, who rose to power on a wave of nationalist sentiment following the 2015 blockade, the Chinese railway is a potent political symbol of resistance to Indian hegemony (Adhikari, 2020). These competing domestic interests mean that Nepal's "hedging" is often less a unified national strategy and more a **byproduct of internal political oscillation**, with project momentum shifting depending on which coalition holds power in Kathmandu.

Economic Viability and the "Debt Trap" Anxiety

While the political symbolism of the Kerung railway is powerful, its economic reality is daunting. The project has become a lightning rod for concerns

regarding "debt trap" diplomacy. Estimates for the Kerung-Kathmandu section alone have reached as high as USD 5.5 billion—a staggering sum for an economy the size of Nepal's.

The critical concern centers on the potential funding model. While the Raxaul line is framed as a development partnership (grant/soft loan), consistent with binding engagement, the Kerung line is likely structured as a commercial loan from the Chinese EXIM Bank. This distinction is crucial: Kumar and Sharma (2020) highlight that financing such a mega-project through standard commercial loans could severely compromise Nepal's long-term fiscal health. This anxiety is compounded by the financial performance of other Chinese-funded infrastructure. For instance, the Pokhara Regional International Airport, though financed by a soft loan from China, carries a significant annual interest burden, raising concerns about revenue generation and repayment. This reinforces the trade asymmetry critique: that the line is economically weak because Nepal lacks sufficient volume of exportable goods to send back to China, thereby deepening the trade deficit. This has led to a firm consensus among Nepali policymakers and bureaucrats that the Kerung line should only move forward with substantial grant funding from Beijing, a term China has been hesitant to

fully embrace (Kumar & Sharma, 2020).

Engineering Challenges as Geopolitical Constraints

The diverging feasibility of the two railways is also dictated by the formidable geography of the Himalayas. The Kerung-Kathmandu line is widely considered one of the most challenging engineering projects in the world. It must traverse the collision zone of the Indian and Eurasian tectonic plates, a region highly prone to major earthquakes and landslides.

Technical reports indicate that up to **98.5%** of the Kerung line would need to be constructed on bridges or inside tunnels to navigate the extreme altitude drops and fragile terrain (Chen, 2020). This not only escalates costs exponentially but also raises significant environmental concerns regarding the impact on fragile Himalayan

ecosystems (Thapa & Rai, 2021). In comparison, while the Raxaul-Kathmandu line faces its own challenges in ascending from the plains to the Kathmandu Valley, they are order-of-magnitude less severe than tunneling through the core of the world's highest mountain range.

Ultimately, the tale of these two railways encapsulates the central dilemma of Nepal's hedging strategy: the politically desirable option (China) is immensely difficult and risky to achieve, while the practically feasible option (India) reinforces the very dependency Nepal seeks to escape. By pursuing both projects, Nepal forces a competitive environment that could potentially accelerate implementation and secure more favorable financing terms from both sides.

Metric	India's Raxaul-Kathmandu Railway	China's Kerung-Kathmandu Railway
Proposing Nation	India	China
Strategic Objective	Consolidate existing trade/transit dominance; Reinforce "special relationship"	Create new trade/transit route; Diversify Nepal's options; Part of BRI
Estimated Cost	Significantly lower	Extremely high (billions of USD)
Funding Model	Soft loan / Grant (Development Partnership)	Likely commercial loan (Investment)
Key Challenges	Bureaucratic delays; Land acquisition	Monumental engineering (Himalayan terrain); High cost; Tunnelling
Current Status	Feasibility studies completed; Awaiting political impetus	Pre-feasibility studies underway; Technologically complex
Geopolitical Implication	Reinforces Nepal's south-facing orientation	Breaks India's geographic monopoly; Reorients Nepal northwards

Source: Compiled by the author from Chen (2020) and Ministry of External Affairs (2020).

VI. Navigating the Tightrope: Enduring Challenges to Nepal's Hedging Strategy

While Nepal's hedging strategy is a necessary and rational response to its geopolitical environment, its execution is fraught with significant and interconnected challenges. The greatest threat to this strategy is not merely external pressure from India or China in isolation, but rather the complex feedback loops where internal weaknesses are exploited by external powers, effectively hijacking Nepal's foreign policy agenda. These challenges are not distinct silos; they form a **tightly interwoven system** where a failure in one area immediately cascades into others.

The Nexus of Domestic Fragmentation and External Interference

The most critical vulnerability in Nepal's hedging strategy lies within its own borders. Achieving a durable domestic political consensus on foreign policy remains a persistent struggle in Nepal's fractious political landscape. Foreign policy in Kathmandu is frequently instrumentalized for short-term partisan gain rather than long-term national interest. Different political parties—and feuding factions within those parties—often align themselves with either New Delhi or Beijing based on ideological leanings or immediate needs for political patronage.

This internal fragmentation acts as

an open invitation for external interference. When Nepal's leaders cannot present a unified front, rival powers can easily "divide and rule," cultivating preferred factions to advance their own strategic interests. This dynamic makes maintaining a consistent hedging strategy nearly impossible, as the national policy tends to oscillate wildly depending on which coalition is currently in power. A pro-India government may pause Chinese projects to signal alignment with New Delhi, only for the next government to reverse course entirely, creating an unpredictable investment climate that frustrates both partners.

Case Study in Dysfunction: The MCC Debacle

The explosive debate over the US-led Millennium Challenge Corporation (MCC) compact serves as a paradigmatic example of these interlocking challenges. While ostensibly a development grant for electricity transmission and road maintenance, the MCC became a geopolitical lightning rod. It forced Nepal to navigate the interests of a third major power—the United States—without antagonizing its immediate neighbors, significantly complicating its binary hedging strategy.

The ratification process was paralyzed for years by acute **domestic political fragmentation**. The legal

controversy stemmed from a provision requiring the MCC compact to supersede Nepal's domestic laws in case of conflict, necessitating parliamentary ratification—an unprecedented move for a foreign aid project. Communist factions, ostensibly concerned that the MCC was part of the US "Indo-Pacific Strategy" aimed at countering China, fiercely opposed it. This domestic split was rapidly fueled by **external pressures**. Open diplomatic sparring between the US and China over the compact played out on Nepali soil, with Beijing accusing Washington of "coercive diplomacy" and Washington warning of Chinese disinformation campaigns. The ultimate ratification in February 2022 was achieved only with an "interpretive declaration" to pacify both the protesting communist parties and the protesting public.

The entire episode highlighted Nepal's acute **diplomatic fragility**. What should have been a standard procedure for accepting a development grant morphed into a crisis that threatened the ruling coalition and brought thousands of protesters onto the streets. It demonstrated how easily Nepal's strategic autonomy can be overwhelmed when great power competition intersects with volatile domestic politics (Adhikari, 2020).

Economic Vulnerabilities as Security Dilemmas

Nepal's desperate need for infrastructure investment creates economic vulnerabilities that quickly transform into hard security dilemmas for its neighbors. The core concern centers on the long-term debt sustainability of large-scale projects, particularly those financed by Chinese commercial loans under the BRI (Kumar & Sharma, 2020).

The potential for a "debt trap" is not just an economic issue; it is a premier security concern. If Nepal were to default on a major Chinese-funded project—such as a hypothetical future phase of the Pokhara International Airport or a hydropower plant—and was forced to swap debt for equity, it could lead to Chinese state-owned enterprises gaining control of critical infrastructure. For India, this is a red line. The prospect of Chinese entities controlling infrastructure near its open border with Nepal is viewed as a direct security threat. Consequently, India may respond by using its economic leverage—such as refusing to buy power from Chinese-built hydro projects—to preemptively neutralize this perceived threat. Nepal is thus caught in the middle: it needs Chinese capital for development but risks alienating its primary economic partner (India) if that capital is perceived as a security risk.

The Burden of Diplomatic Agility

Successfully managing these interlocking challenges requires an extraordinary level of diplomatic skill and institutional capacity, resources that are often scarce in a small developing state. Nepal's diplomatic corps must constantly interpret and manage the profound security sensitivities of two nuclear-armed superpowers.

The contested Sino-Indian border runs entirely along Nepal's northern frontier. Any infrastructure development in these high-altitude regions is viewed through a lens of intense suspicion by the other power. Nepal must credibly assure both neighbors that its territory will not be used against them—a "neutral security posture" that is increasingly difficult to maintain when accepting dual-use infrastructure technology, such as satellite communications or advanced digital networks. A single misstep—a poorly worded statement by a minister, or a perceived slight in protocol—can lead to disproportionate diplomatic /economic retribution from New Delhi or Beijing. Without robust, non-partisan domestic institutions to anchor its foreign policy, Nepal's hedging strategy remains precarious, liable to collapse under the combined weight of these internal divisions and external pressures.

VII. Conclusion: The Future of Nepal's Strategic Autonomy

This paper has provided a comprehensive analysis of Nepal's complex and evolving foreign policy since 2015, arguing that it is best understood as a proactive hedging strategy. Historically defined by the powerful gravitational pulls of India and China, Nepal's strategic calculus was fundamentally altered by the events of 2015, which created a political imperative to actively pursue diversification. China's Belt and Road Initiative emerged as the primary vehicle for this diversification, creating a new dynamic alongside Nepal's long-standing, if often fraught, relationship with India under its 'Neighborhood First' policy.

The central thesis has been that Nepal's foreign policy is a conscious application of hedging, designed to secure advantages from both relationships while safeguarding its strategic autonomy. This involves a dual approach: binding engagement with India to maintain stability and manage a historically deep relationship, and strategic diversification through China to mitigate dependencies and enhance leverage. The empirical case study of the competing Raxaul-Kathmandu and Kerung-Kathmandu railway projects demonstrates this strategy in practice, showcasing how Nepal leverages great power competition to its benefit.

The core contribution of this study lies in demonstrating the empirical mechanisms and inherent fragility of this dual-hedging approach. The railway case study reveals the deep chasm between the pragmatic feasibility of binding engagement (Raxaul) and the immense cost and risk of strategic diversification (Kerung), forcing policymakers into high-stakes financial gambles. Furthermore, the analysis of the MCC compact provided an essential case study of how internal political fragmentation is not merely a domestic challenge, but the crucial point of entry for external great power interference, rendering Nepal's strategic posture highly vulnerable to oscillation. Ultimately, Nepal's hedging is a continuous, high-wire act where the nation's economic vulnerabilities (debt risk) are leveraged by external partners, transforming developmental needs into complex security dilemmas that constantly test the limits of its sovereignty and diplomatic agility. This synthesis of theoretical framework and empirical evidence solidifies the paper's contribution to the literature on small state agency in an increasingly multipolar, competitive South Asia.

Looking forward, several potential trajectories for Nepal's foreign policy emerge:

- **Successful Hedging:** Nepal continues

to skillfully manage its relationships with both India and China, maximizing economic gains from connectivity projects while meticulously safeguarding its sovereignty and avoiding over-commitment to either side.

- **Strategic Tilt:** A major regional crisis, a significant shift in the Sino-Indian relationship, or a decisive change in Nepal's domestic politics leads the country to abandon its hedging strategy and align more closely with one power, accepting a more dependent role in exchange for security or economic guarantees.
- **Gridlock and Stagnation:** Domestic political infighting and institutional weakness prevent decisive action on major infrastructure projects from either side. This would leave Nepal unable to capitalize on its strategic location, stalling its development and leaving it vulnerable to the whims of its powerful neighbors.

To strengthen the viability of the hedging strategy and pursue the first, most favorable scenario, Nepali policymakers should consider the following recommendations:

- **Institutional Strengthening:** Establish a non-partisan foreign policy council or think tank within the government, staffed by career

diplomats and experts. This would ensure continuity, expertise, and a long-term strategic vision that transcends frequent changes in government.

- **Economic Prudence:** Create a rigorous, independent national body responsible for vetting all foreign-funded infrastructure projects. This body would assess projects based on economic viability, debt sustainability, and alignment with national interests before governmental approval, depoliticizing the process.
- **Public Diplomacy:** Launch a concerted public diplomacy effort to build a broad domestic consensus around a "Nepal First" foreign policy. Clearly communicating the rationale, benefits, and risks of the hedging strategy to the public can help insulate it from partisan attacks and foster national resilience.

The experience of Nepal offers critical lessons for the study of small statecraft. In an increasingly competitive multipolar world, hedging may become the default survival strategy for smaller nations seeking to preserve their autonomy. The study of cases like Nepal is therefore more critical than ever to understanding how small states can exercise agency and navigate the turbulent waters of great power rivalry.

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