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RUSSIAN OFFENSIVE AND IMPRESSION IN SOUTH ASIA

Perspective from Nepal

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ANALYSIS

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Abstract

The Russian invasion in Ukraine led to crises of widely diverging natures in Europe and around the world. Prime amongst these was the re-evaluation of nations' political principles. The shortages of absolute essentials revealed the challenges the global system of supply faces, the resultant inflation placing hurdles for governments in various spheres.

Being a landlocked state, Nepal has felt the impact of the crisis to a larger degree with runaway inflation and shortages of basic essentials. Nepal demonstrated adherence to international norms and risked its relationship with Russia by opposing the latter's invasion of Ukraine. The crisis led to criticism of the UN and division amongst the nations of South Asia.

Nepal maintains barely perceptible economic relations with Russia and Eastern Europe. But its relations with neighbouring India during this crisis have had a direct bearing on its economy, owing to its landlocked state. As Nepal grapples with the crisis, its increased inflation, lowered growth and the disruption to its financial markets impact the pace of its development. Recovery from the chaos, restoration of control over prices, alleviation of the shortage of supplies and resumption of exports are sure to be time-consuming endeavours.

Overseas workers' remittances have always been economically important across the region, helping Nepal brave through previous economic crises, and its workers in regions such as the Middle East helping counter domestic economic travails. The current crisis has proven to be an exception, with these overseas remittances having declined. The money sent home by an estimated 3-4 million Nepali workers around the globe totals a quarter of Nepal's GDP, making it the world's fifth-largest remittance-dependent economy. The rise in prices of food, fuel and fertilizers and bans on exports have come to threaten Nepal's food and energy security. Overall, the crisis in Ukraine has affected most of the sectors of the Nepali economy.

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Introduction

It has been almost a year since Russia exercised its might against the territorial integrity of Ukraine. The United States (US) and the European Union (EU) are involved in helping the Ukrainians end the war, ensuring a victory over Russia. The US' national security strategy in October is to outmanoeuvre geopolitical competitors China and Russia and tackle mutual challenges with the Europeans. The EU stands firmly against Russian expansionism, relying on attrition to weaken its military capabilities and creating a geostrategic advantage through diplomatic means, while addressing the toll of the conflict by the prosecution of war crimes, humanitarian assistance, economic assistance, support to Ukrainian society, support for its armed forces and its future reconstruction. EU lawmakers labelled Russia a "state sponsor" of terrorism over its actions in Ukraine¹. Engagements by the United Nations and multinational and intergovernmental organizations have been overshadowed by resolutions, decrees and promises of little credibility. Russia, despite being one of the five permanent members of the United Nations Security Council (UNSC), conducted an offensive between 23 and 24 February that is a violation of the territorial integrity and sovereignty of Ukraine and contrary to the principles of the Charter of the UN². President Putin's ambition and fear have pulverized the UN's trust and that of eminent powers with his cavalier approach to internationally recognized laws and principles. Russia chiefly dreads the West's enlargement of the North Atlantic Treaty Organization (NATO) and the loss of its own influence in the region. The dependence of Europe and other countries on Russian energy and food has been a challenge to energy and food security³. The reliance of nation-states (like those in Europe, South Asia and elsewhere) on diplomacy and posturing for survival and territorial integrity has been upended by the Russian offensive.

1 Reuters. 2022. European Parliament declares Russia a state sponsor of terrorism, 23 November. Available at: <https://www.reuters.com/world/europe/european-lawmakers-declare-russia-state-sponsor-terrorism-2022-11-23/>.

2 United Nations. 2022. The UN and the war in Ukraine: key information. Available at: <https://unric.org/en/the-un-and-the-war-in-ukraine-key-information/>.

3 OECD. 2022. The impacts and policy implications of Russia's aggression against Ukraine on agricultural markets. 5 August. Available at: <https://www.oecd.org/ukraine-hub/policy-responses/the-impacts-and-policy-implications-of-russia-s-aggression-against-ukraine-on-agricultural-markets-0030a4cd/>.

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Putin's offensive and annexation of four areas of Ukraine have reduced Russia's global influence and strategic playing field whilst increasing dependence on China and the Global South, causing a setback to the US' national security strategy. US President Biden entered office recognizing the rise of China as a geopolitical challenge, striving to persuade Russia to desist from all forms of war. The US administration sought room to focus on Beijing, rally the world's democracies against authoritarianism, reinforce rule-based international order and promote global cooperation to enhance stability and prosperity.

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Reliability of the UN and Intergovernmental Organizations

The war in Ukraine unfurled a series of summits, meetings and telephonic conversations among key global leaders. Of these summits and strategic events, it is those held by the UN, the G7, NATO, BRICS, the approaching Shanghai Cooperation Organization (SCO), the G20 and Quadrilateral Security Dialogue (QUAD) that are consequential. The likelihood of a long war with runaway inflation worldwide and an imminent food crisis calls for an immediate reformation of the economic hierarchy and restructuring of the world order.

The UN's role has been questioned before, but never with so much apprehension. The UNSC has a mandate from the UN charter to authorise military intervention. Following the invasion of Kuwait by Iraq on 2 August 1990, the UNSC passed a resolution for direct military intervention to liberate Kuwait, which led to the restoration of the latter's sovereignty. This was an instance when the UN played a role in protecting small nations.

But the invasion of Ukraine presents a different challenge, as Russia holds the power of veto as one of the permanent members of the UNSC with a strong military presence and nuclear weapons. However, this is not the first instance. A precedent can be seen in the US's invasion of Iraq in 2003. Similarly, international institutions were ignored in 2018 when the ICJ ordered the US to ensure its sanctions against Iran did not restrict humanitarian aid nor compromise civil aviation safety. The US argued that the ICJ was ineffective and politicized, withdrawing from the ICJ Optional Protocol, which establishes jurisdiction.

3 Divided South Asia in the United Nations General Assembly Resolution

In the UNGA on 2 March, 141 out of 193 member countries (including Nepal) voted in favour of UN resolution 2623 to condemn and reprimand Russia for invading Ukraine, demanding that Moscow stop fighting and withdraw its military forces, attempting to diplomatically isolate Russia on the global platform. 35 countries, including China and India (both Nepal's immediate neighbours), abstained from voting on the resolution; five of them (Belarus, Eritrea, North Korea, Russia and Syria) rejected the resolution.

The UNGA Ukraine Resolution raises the question of the relevance of the UN, particularly in South Asia. Out of the eight members of the South Asian Association for Regional Cooperation (SAARC), four abstained from voting and four supported the said resolution. States such as Nepal, Afghanistan, Bhutan and the small island nation of Maldives supported the resolution, while Bangladesh, India, Pakistan and Sri Lanka abstained. This elucidates how big states and smaller states in South Asia differ.

4 Nepal in the Midst of the Crisis

The current crisis is not new to Nepal, as it has experienced economic blockades in 1989 and 2015; however, the Ukrainian crisis has impacted its trade, tourism, economic growth, connectivity, energy security and food security. Nepal faced economic blockades from India in 1989 under Rajiv Gandhi and in 2015 under Modi. Nepal struggled through humanitarian crises with medicines running low, debilitating deficiencies of fuel that strained the country's forest resources, drastically reduced printing of books and papers (owing to shortages of ink) and the closure of schools. Following the 2015 April-May earthquake that killed 9,000 people and damaged 600,000 houses, the rebuilding process was in disarray. In November 2015, the Finance Minister stated he was lowering the growth forecast to 2% from 6% as total trade had reduced by one-third.

Nepal faces reduced foreign earnings primarily stemming from the pandemic and increased capital flight which are particularly alarming since the commodity price shock. It has led to global prices climbing to their highest in almost seven years, with increases in the prices of oil, gas and food. The implications, however, will be higher inflation, lower growth and disruption to financial markets even though Nepal has few direct economic relationships with Russia and Eastern Europe. Nonetheless, being a smaller and landlocked country, its relationship with neighbouring India will have tangible implications. As per the International Monetary Fund's Direction of trade statistics, Nepal imported goods worth USD 8.24 million and exported those of a value of USD 2.01 million in 2020 to Russia; with respect to Ukraine, Nepal's imports totalled USD 202.92 million and exports were USD 0.02 million⁴. As of July 15 2020, NPR 694 million was received as Foreign Direct Investment (FDI) from Russia, which was invested in 42 different companies, generating 1464 jobs⁵.

4 Koirala, R. P. 2022. Prolonged Russia-Ukraine War will Impact Nepal in More Ways Than One. 9 June. Available at: <https://myrepublica.nagariknetwork.com/news/prolonged-russia-ukraine-war-will-impact-nepal-in-more-ways-than-one/>.

5 OECD. 2022. International investment implications of Russia's war against Ukraine (abridged version). 4 May. Available at: <https://www.oecd.org/ukraine-hub/policy-responses/international-invest->

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Healthy foreign exchange reserves are indispensable for the payment of vital imports and to meet external debt obligations. Nepal's foreign exchange reserves fell to USD 9.75 billion by mid-February, down by 17% from mid-July last year. The existing reserves are assessed to be sufficient for sustenance imports for about six months. The trade deficit rose by 34.5% to NPR 1.16 trillion (USD 9.5 billion) in the first eight months of the fiscal year as import costs spilt over. In a bid to save foreign currency reserves, the Finance Ministry imposed restrictions on the import of luxury goods like cars, gold and cosmetics with questions as to their relevance and effectiveness.

Inflation grew to a five-year-high from 5.18% over three years to 7.1% in mid-March, which has a bearing upon the import budget (given the trade deficit and the value of the currency), stoking fears that it could lead to a crisis in the balance of payments, which happens when a nation is incapable of paying for its imports or servicing its foreign debt payment (like Sri Lanka).

The Russian invasion of Ukraine and its resultant turmoil have triggered a wave of financial upsets that will take time to counter. Adapting to this chaos will directly and indirectly hinder the pace of development in the South Asian region given the price rises, the shortage of supplies and stoppage of exports. Vital earnings from tourism have taken a jolt, the pandemic already having harmed remittances and overseas opportunities remaining limited. Remittances from overseas workers, economically important across the region, have declined. While Nepal has faced economic crises before, an outflow of workers to regions such as the Gulf had previously served to counter domestic woes. Currently, however, as per central bank data, overseas remittances declined by 5.8% to USD 4.53 billion between July and February.

Nepal is a net importer of rice even though its agriculture contributes 29% of the national GDP and provides employment to about 60% of the labour force. With the rise in prices of food, fuel and fertilizers (export bans have also contributed to the same), palm oil and wheat prices increased by 56% and 100%, respectively, between June 2021

and April 2022.

Economic woes inevitably impact the politics of the nation. Nepal condemned Russia for its acts of aggression and non-acceptance of the UN charter, which Nepal favours. This curtailing of diplomatic relations with a power brings certain repercussions. Realignment of its principles and interests with the US and the EU whilst maintaining existing bilateral relations with non-allies will be challenging.

The trust of Nepal's population in its leaders now rapidly dwindles, bringing about a political and financial crisis like that seen in Sri Lanka. Nepal's recently concluded national elections will further highlight the deficiencies in its political parties to the people.

It is time for the government to formulate monetary and fiscal policies to counter external threats and shield the vulnerable. A focus on establishing the groundwork for green, resilient and inclusive growth should prevail. Also, the government ought to strategize for long-term ramifications of shortages that may occur due to political, man-made or natural disasters.

4.1. Policy recommendations

- Nepal, a land-locked country, needs to develop strategies, plans and policies to address shortages of essentials
- Identify national strengths and weaknesses in countering shortages and inflation
- Increase the use of its water resources for agriculture and power production to insulate the country from the oil and food crisis
- Use the diplomatic approach to secure strategic communication networks from the sea to the interior
- Address dependence by investing in clean energy

5 Conclusion

The Russian invasion of Ukraine is far from being merely a Russian and Ukrainian affair. It has the potential to fundamentally reshape the global landscape. In some ways, it already has done so: Germany is rearming, NATO has awakened, prices of commodities prices have skyrocketed, and Russia is increasingly disconnected. South Asia and Nepal are feeling diplomatic pressures and nations grapple with their own political and economic concerns.

The extent to which the global order changes will depend largely on how long the conflict drags on. The 35 countries that abstained hold two-thirds of the world's population, and China, Pakistan, Bangladesh and India (with 4 billion people) have almost half of the same. The latter four nations decided not to side with the US and NATO.

The reaction from Nepal is understandable, as the country gives precedence to its national interests; its response is an outcome of its geographical setting and apprehensions, being at the center of a power dispute between China and India. The smaller economies of Nepal, Bhutan, the Maldives and Sri Lanka are susceptible to peripheral dynamics and could experience short-term growth inconsistencies.

Nepal, now contending with mounting commodity prices, supply holdups and susceptibilities in its financial quarters, has three priorities: 1) To review its reliance on oil and fuel with improved energy security 2) To ensure food security with a greener economy, and 3) To secure a line of supply from the ocean to the mountains. The prolonged war in Ukraine will only amplify these challenges. Nepal requires more strategic connections and reduced dependence on fuel imports to shift to a green, vigorous and inclusive growth trajectory.

About the Author

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Binoj Basnyat is highly decorated with the Order of Suprabal Jana Seva Shree, Nepal; Order of the Lion of Finland; and the Order of Cross of Germany. He holds a Master of Philosophy degree in Defense and Strategic Studies with first class from the University of Madras; he graduated from the National Defense College, New Delhi; Command and General Staff Officer's Course from United

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